Animalcare
GROUP

Annual Report for the year ended
31 December 2021

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

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

Why Animalcare?

Well positioned in attractive markets: The market for animal pharmaceuticals has enjoyed robust global growth in recent years. While the Production Animals segment continues to benefit from increasing demand for protein, Companion Animals is growing at a faster rate, largely driven by higher levels of pet ownership and a greater willingness to spend on health and wellbeing. In 2021, we derived around 70% of Group revenues from Companion Animals and Equine. Consequently, Animalcare is structurally well positioned to benefit from this fast-growing and attractive market with strong long-term fundamentals.

Pipeline of novel products: We have shifted our R&D and business development focus from branded generics to novel, differentiated products with higher margin and growth potential. Daxocox, our COX-2 inhibitor pain product for dogs, received marketing authorisation for the EU and the UK in April 2021 and launched in the second half of the year. In 2020, we in-licensed two novel Companion Animal products from Kane Biotech as well as establishing a joint venture for the development of future products. The Group's pipeline was further strengthened in March 2022 through a long-term licensing and collaboration agreement with Orthros Medical to develop innovative antibody-based therapies.

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

One team

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

Passion

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

Integrity

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

Taking ownership

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

FINANCIAL HIGHLIGHTS

Positive trading performance helped by resurgent Companion Animals demand further strengthens financial position in pursuit of Group's growth strategy.

Revenue

£74.0m ↑ 5.0%

Underlying* EBITDA

£13.5m ↑ 11.3%

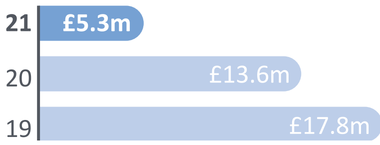
Underlying* EPS

12.0p ↑ 13.2%

Net debt

£5.3m ↓ £8.3m

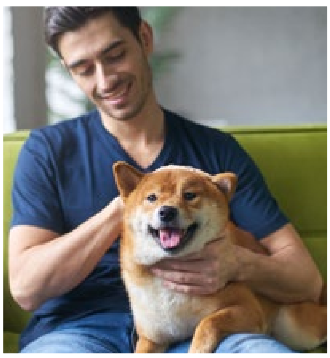
Underlying EBITDA leverage ratio approximately 0.4 times



Strategic and operational highlights

- Daxocox approved in EU and UK and launched successfully across all markets, generating £1.2m in second half sales
- 8.3% increase in revenues generated by top 40 brands through continuing focus on optimisation of portfolio
- Sandra Single joins Senior Executive Team in new role of Strategic Product and Portfolio Director
- Roll out of Group-wide leadership development programme
- Continuing investment in people with focus on sales and marketing excellence
- Pipeline strengthened post year end through early-stage licensing and collaboration deal with Orthros Medical for innovative antibody therapy

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



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Our Governance

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Our Group at a glance

WHAT WE DO

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

OUR MARKETPLACE

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

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

Companion Animals

69%

Production Animals

23%

Equine

8%

OUR PRODUCT PORTFOLIO

Introduce new differentiated products

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

We intend to increase investment in our pipeline in 2022 compared to the prior year.

Maintain the competitiveness of our existing portfolio

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

Revenues generated by the top 40 products grew by 8.3% in 2021.

In 2017, the portfolio consisted of approximately 330 brands. By the end of 2021 we had succeeded in reducing the total number of brands in our portfolio to around 150, close to our target figure.

Our geographic presence

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

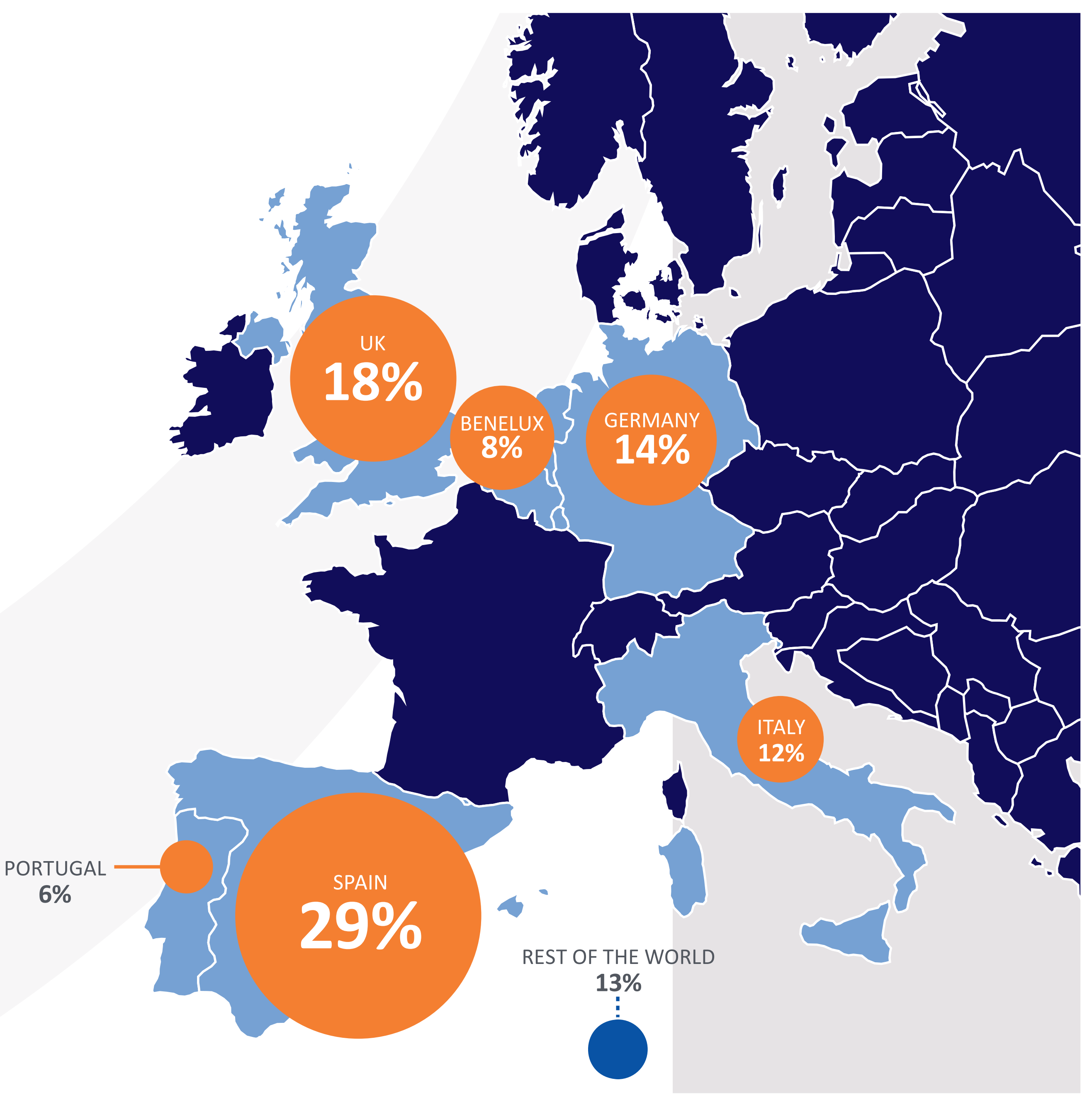
This map depicts the revenue percentage by country:

87%

Our operations

13%

Our network partners



Chairman's Statement

JAN BOONE
Non-Executive Chairman

> Positive trading performance and significant progress against our strategic priorities – 2021 was a year of delivery for Animalcare."

I am delighted to report that 2021 was a year of delivery for Animalcare. Positive trading performance on the back of resurgent demand further strengthened our financial platform as we continued to make significant progress against our strategic priorities.

After a particularly challenging 2020, in which the Animalcare team demonstrated resilience and agility in the face of the COVID-19 pandemic, we delivered a healthy level of growth across the year.

At £74.0m, total revenues were 5.0% ahead of the prior year, an increase of 8.0% at constant exchange rates. The principal driver of growth was the recovery in the Companion Animals market with demand boosted by positive fundamentals such as increased pet ownership and the relative relaxation of pandemic controls on the operation of veterinary practices. Our Companion Animals segment, which also benefited from newly introduced products, grew by 14.6% over the period.

Underlying EBITDA, a key measure of profit, increased at a double-digit percentage rate to £13.5m as margins benefited from a favourable product mix, even accounting for an increase in SG&A-related investment in our people. The ongoing management of our product portfolio is also having a positive impact; efforts to retire smaller "tail" products continue, concentrating management attention on bigger selling brands with higher returns and higher potential. After underlying adjustments totalling £8.6m (2020: £7.8m), the profit before tax on a reported basis was £0.9m (2020: £0.2m).

Cash generation was again a feature of our performance with a particularly strong cash conversion rate of 108.8% helping to reduce net debt to £5.3m by year end. This represents a 60% improvement for the year (2020: £13.6m), placing us well below our target leverage range and further equipping us with the financial muscle to invest in pipeline and commercial growth opportunities.

The Group's positive trading performance, robust financial position and confident outlook have supported the Board's decision to propose a final dividend of 2.4 pence per share (2020: 2.0 pence per share).

Organisationally, the move to a regional management structure

at the beginning of the year has had a positive impact, enabling a more focused Senior Executive Team to concentrate decision-making on performance and growth opportunities. Investment in our people remains a priority so the roll out of a new leadership development programme that will provide a consistent approach is an important step for the Group.

This has been a significant year for our internal pipeline with the launch of Daxocox, our novel COX-2 inhibitor for the treatment of osteoarthritis-related pain in dogs. We received marketing approval in the EU and the UK in April and commenced launch activities across our markets in the second half of the year. We're still at an early stage with Daxocox but are encouraged by progress to date and remain confident that this product can have a growing, positive impact on animals and their owners for years to come. Life cycle management projects are under way to extend the potential of Daxocox into new indications and new territories.

Consistent with our strategy, we continue to focus on external business development opportunities: from pipeline partnerships with long-term potential to commercial deals that deliver earnings growth in the nearer term. STEM Animal Health Inc., the joint venture we established with Kane Biotech in September 2020, is soon to reach our markets with the launch of the first Plaqtiv+ range of dental treatment products that exploit the benefits of anti-biofilm technology to combat oral infections. Additionally, in a post-period event, we reached a research and development partnership with Netherlands-based Orthros Medical to explore the promising therapeutic potential of novel antibodies in a veterinary setting. This collaboration and R&D agreement give us access to innovative VHH antibody technology, thereby substantially strengthening our early-stage pipeline, a key building block of our long-term growth strategy.

Animalcare has always strived to be a good corporate citizen wherever we operate. Historically, we have viewed this through a local lens. But as we grow, so do the expectations of a widening set of stakeholders. In our Annual Report we lay out the steps we will take to create a meaningful, achievable and measurable Group-wide plan that ensures we operate sustainably across our markets in a co-ordinated manner.

Looking to the future, we believe the attractive fundamentals that helped fuel demand during 2021 will continue to support growth in 2022; sales in the early part of the year provide grounds for optimism on that score while we navigate and manage headwinds, notably in the form of inflation and foreign exchange. Overall, however, the long-term positives of the animal health market and the strong position of the Group continue to give us confidence to invest in value-creating growth opportunities.

I'd like to take this opportunity to welcome Dr Douglas Hutchens to the Board of Animalcare Group plc whose appointment as Non-Executive Director was announced on 10 February 2022. Douglas's expertise in veterinary medicine and R&D combined with his extensive network will prove invaluable as we pursue our long-term growth strategy.

On behalf of the Board, I'd also like to recognise our employees for delivering such a positive performance in 2021 and thank our shareholders for their continuing support.

JAN BOONE
Non-Executive Chairman

Our marketplace

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

Trend	What's happening?	What this means for Animalcare	How we are responding
The market for animal health continues to grow	With many countries emerging from the economic slowdown caused by the pandemic, the sector continues to expand with estimated growth rates of between 4% and 8%.	A stable and robust veterinary market provides confidence to invest in new products and technology.	Investment in new product launches, including Daxocox and Plaqtiv+, and development projects in high growth areas such as dental, dermatology and disease prevention. **Link to strategic priority:**
Lasting effect of COVID-19 on operation of veterinary practices, suppliers and distributors across Europe	Increased number of stakeholders are working remotely or in different ways using digital tools.	Veterinary practices, suppliers, distributors and other stakeholders less willing to meet face-to-face, reducing opportunities to promote novel products.	Increased adoption of digital tools and other remote promotional techniques to maintain information flow with stakeholders. **Link to strategic priority:**
Customers are consolidating across Europe	Established corporate vet practices are expanding across Europe. Consolidation is also seen among wholesalers who are offering additional services.	Fewer and larger veterinary practices in key markets with specific demands beyond the provision of products.	Established dedicated group to support needs of pan-European corporate vet practices and provide internal best practice. **Link to strategic priority:**
Increasing focus on health and wellbeing; new technologies prolonging and increasing quality of life	"Humanisation" of animals with pets increasingly seen as part of the family. Greater awareness of wellbeing and health while improved medication and veterinary care are helping animals live longer.	We are well placed with an attractive veterinary product mix for surgery, geriatric pets and wellbeing.	Increased focus on wellbeing and preventative brands related to the growing Companion Animal dental and microbiome markets. **Link to strategic priority:**
Increase in diagnostic and digital technology	COVID-19 has sped up adoption of digital technologies; at least five major industry initiatives in telemedicine gained pace in 2020. Remote diagnostics and online supply of veterinary medicines using vet-to-owner or alternative channels of supply for all classes of medicines.	Diagnostics improve accuracy and speed of diagnosis while telemedicine increases availability of veterinary support. Increased adoption of technology by both vets and pet owners.	Identicare pet reunification business carved out under new leadership to maximise potential of our database and direct communication with pet owners. **Link to strategic priority:**
Changes in the use of antibiotics	Sales of antimicrobials have decreased by 43% between 2011 and 2020 in Europe with this trend expected to continue due to the focus on drug resistance.[1,2]	Decreasing demand for antibiotics in the Animalcare portfolio, especially in Production Animals.	Increase focus on prevention and new technologies including Procanicare for gut health and investment in biofilm-targeting technology through STEM joint venture. **Link to strategic priority:**
Competitive landscape	Continued consolidation of big animal pharma, increase in number of companies selling generic products and the move to white label for veterinary corporates.	Pricing pressure in traditional non-differentiated generic market.	Investment in business development to support move to novel and differentiated products and focus on niche segments such as dental. **Link to strategic priority:**

THERAPEUTIC MARKETS

Pain management

The global market for animal pain control products in 2020 was estimated to be approximately $750m and comprises three key segments: acute pain control, chronic pain control and acute/chronic pain control combined. The acute/chronic segment accounts for around 60% of the market while the remaining 40% is equally split between chronic and acute only products.

The pain product market is forecast to grow by nearly 8%, above the animal health average of 5%. The single largest category in this segment is Non-Steroidal Anti-Inflammatory Drugs (NSAIDs) with a mix of generics and newer, more innovative, patent protected products. The 2021 registration in Europe of Nerve Growth Factors (NGF1) inhibiting monoclonal antibody therapies for dogs and cats is a notable development in the category.

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

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

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

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

Dermatology

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

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

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

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

Anti-infectives

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

Sales of veterinary antimicrobials have decreased by 43% between 2011 and 2020[1,2] in Europe, with this trend expected to continue due to the focus on reducing drug resistance. Infections caused by gram-negative bacteria are widely seen as one of the biggest threats to global health[3] as their cell structure and ability to develop resistance to commonly used antibiotics make them hard to treat.

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

Biofilms can form a protective barrier making bacteria up to 1,000 times more resistant to antibiotics, antimicrobial agents, disinfectants and the host immune system.

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

Longer term, opportunities exist for more sustainable use of antibiotics in association with other technologies.

Strategic priority

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

Our marketplace

CONTINUED

Companion Animals

Approximately 42% of sales in Europe are Companion Animals and include dog, cat, small mammals, aquatics and non-food producing avian[4].

Growth drivers

- Increasing number of pets
- Higher life expectancy
- Humanisation of pets

Production Animals

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

Growth drivers

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

Equine

Equine accounts for just under 3% of animal health spend.

Growth drivers

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

Overview of our geographic markets

Our primary market is Europe, the second largest animal medicines market in the world. Europe represents around one-third of the global market with a value in 2021 estimated at €7.4bn[5]. Around 88 million households in Europe are estimated to own at least one pet with 26% of households owning a cat and 24% owning a dog.

Vaccines and parasiticides continue to dominate the market and accounted for over 61% of sales in Europe[5] in 2021. Antimicrobials continue to decline as a share of the overall market and now account for around 11% of sales, a drop from 17% in the space of nine years.

Trends in the animal health market:

1. Increasing pet ownership, especially among millennials, accelerated due to COVID-19 with an estimated 2.1m people collecting a new pet in the UK alone during lockdown[6]. This trend has been mirrored across Europe with the VDH estimating 20% more dogs were purchased in 2020 in Germany[7]. Outside of the developing economies pet ownership is also increasing. Direct correlations between rising GDP per head and pet ownership are recorded, led by cats and smaller dog breeds.

2. The percentage of household income spent on animals and animal health continues to rise with the launches of newer innovative medicines and new technologies[8].

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

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

5. Telemedicine and digital health enjoyed significant activity in recent years. This is predicted to continue in the post-pandemic era with a focus on new forms of engagement

with vets, suppliers and owners. This will change the nature of supply to the industry, diagnosis by the veterinarian, engagement with the animal owner and supply and prescription of medicines and services. This trend is being led from North America and is expected to be part of a global shift through the mid-term.

How we are responding

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

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

3. Animalcare has launched Daxocox, a new therapeutic medicine in the key market area of osteoarthritis-related pain in dogs. And we continue to deliver innovation in other important areas of veterinary health, such as the $1.6bn global dental health market for dogs and cats.

[1] https://fve.org/publications/antimicrobial-use-in-animals-in-the-eu-almost-halved-in-last-10-years-due-to-strong-commitment-of-the-animal-health-sector/

[2] https://www.ema.europa.eu/en/documents/report/sales-veterinary-antimicrobial-agents-31-european-countries-2019-2020-trends-2010-2020-eleventh_en.pdf

[3] Schaalje J. Medical terminology: Gram positive vs. Gram negative bacteria. American College of Healthcare Sciences. April 12 2013. Available at: http://info.achs.edu/blog/bid/282924/Medical-Terminology-Gram-Positive-vs-Gram-Negative-Bacteria

[4] https://annual-report.animalhealtheurope.eu/about-us/2021-2/key-figures/

[5] Animalhealth Europe Report 2021

[6] https://www.pfma.org.uk/news/pfma-confirms-dramatic-rise-in-pet-acquisition-among-millennials-

[7] https://www.dw.com/en/covid-demand-for-dogs-and-cats-surges-in-germany/a-56318208

[8] Animal Health New and Animal Health Economics 2020

MARKET GROWTH OPPORTUNITIES

1. Innovation in immunotherapy within Companion Animals (for example pain and osteoarthritis, pain management and dermatology)

2. Non-antibiotic anti-infectives including microbiome and anti-biofilm

3. Veterinary ophthalmology, bringing human eye care options to veterinary medicine

4. Anti-zoonotic disease control, intervention and bio-protection

5. Complementary diagnostics and therapy monitoring, for example in pain and anaesthesia

Our strategy

We continue to pursue our strategic ambition of becoming a leading player in all our chosen markets. 2021 proved to be a very positive year for Animalcare with strong revenue and profit growth and progress against our short-term and long-term priorities as set out in the five pillars of our growth strategy.

STRONG FINANCES

Financial sustainability through revenue growth, strong cash conversion, EPS growth and EBITDA margin growth

Revenue growth

Key initiatives

- Focus on segments and products with highest potential
- New product launches
- Leverage strengths across all our direct markets
- Maximise opportunities in other high growth markets through partnerships or selective acquisition

Progress

- New product sales of £2.2m (2020: £2.2m)
- Successful launch of Daxocox in H2, contributing £1.2m in revenue
- 8.3% growth in revenue generated by top 40 products in portfolio

2022 priorities

- Continue to scale up in fast-growing countries
- Maximise growth potential of Daxocox in dynamic market
- Successful launch of STEM biofilm dental range in H1

Link to risks

A

G

Link to KPIs

Revenue growth

Underlying EBITDA margin

Cash conversion and net debt

Key initiatives

- Maintain net debt to underlying EBITDA leverage ratio between 1 to 2 times
- Optimise inventory
- Tax efficiency

Progress

- Strong underlying cash conversion of 108.8%
- £5.3m net debt at year end; reduced by 60% over course of 2021
- Net debt comfortably below target range

2022 priorities

- Support investment in growth strategy by maintaining strong cash conversion within 90%-100% range
- Maintain EBITDA leverage in the range of 1 to 2 times

Link to risks

C

E

F

Link to KPIs

Underlying EBITDA margin

Underlying cash conversion

Net debt to underlying EBITDA leverage

Underlying EBITDA margin and EPS growth

Key initiatives

- Focus on higher margin products
- Operating efficiency and leverage

Progress

- Total number of brands in portfolio close to steady state target of 150. Reduced from c.330 at time of merger
- Underlying EBITDA margin increased to 18.2% even allowing for absorption of higher SG&A investment in people
- Underlying EPS of 12.0 pence

2022 priorities

- Investment in new product launches, other growth opportunities and capability development while maintaining focus on operational efficiency

Link to risks

C

E

F

Link to KPIs

Underlying EBITDA margin

Basic underlying earnings per share ("EPS")

KEY LEADERSHIP

Organisation for success; leadership strength and core capabilities

Attract, retain and develop talented people

Key initiatives

- Build leadership capabilities
- Align reward to performance
- One-team culture
- Drive effective communication and collaboration
- Improve diversity

Progress

- Well ahead of Gallup's average benchmark of European companies despite slight decline (down 4%) in annual employee engagement score
- Strengthened sales and marketing capabilities
- Wellbeing programme available for all employees
- Launch of leadership development and talent management programme

2022 priorities

- Implement actions from employee engagement survey
- Continue to improve two-way employee communication
- Embed leadership development "high challenge, high support" principles

Link to risks	Link to KPIs
C	Employee engagement
D	
J	

Organisation for growth

Key initiatives

- Reorganisation to drive growth agenda with clear leadership accountabilities

Progress

- Regional structure and Senior Executive Team (SET) supporting focus on performance and growth opportunities
- Sandra Single appointed Strategic Product and Portfolio Director and joined SET (February 2022)

2022 priorities

- Continue adoption of regional and Group model

Link to risks	Link to KPIs
B	Employee engagement
G	
I	

Risks key

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

Our strategy

CONTINUED

GROWTH PORTFOLIO

Focused portfolio in key therapy areas in growing market segments

Focus on existing core brands that generate sustainable growth and margins

Key initiatives

- Improve quality of portfolio; focus on smaller number of bigger-selling, higher-margin brands

Progress

- Increased management focus on top 40 products; tail further reduced
- £2.2m of new product sales supported by launches such as Daxocox
- Strengthened sales and marketing excellence

2022 priorities

- Drive growth in Companion Animals and maintain strong presence in Production Animals
- Continued focus on bigger-selling, higher-margin products
- Further investment in product launch capability

Link to risks

C

D

Link to KPIs

Revenue growth

Underlying EBITDA margin

Basic underlying earnings per share ("EPS")

BUSINESS DEVELOPMENT

Work with partners to build a pipeline of products that meets our criteria for growth

In-license or acquire products and develop network partnerships

Key initiatives

- In-license or acquire innovative pipeline or market-ready products
- Establish Animalcare as partner of choice, especially for companies selling into Europe
- Build partnerships to exploit growing global markets

Progress

- Secured distribution partnership with Virbac for Daxocox in most European countries outside Group's direct markets
- UK Identibase business carved out to facilitate growth opportunities. Entrepreneurial leader appointed

2022 priorities

- Continue to pursue value-creating partnerships and in-licensing opportunities

Link to risks

B

G

I

Link to KPIs

Revenue growth

New product revenue

INNOVATIVE PIPELINE

Building a pipeline of novel and differentiated products

Launch new products and develop differentiated and innovative pipeline of products for the future

Key initiatives

- Strengthen internal pipeline of differentiated products through partnerships, in-licensing and acquisitions
- Prioritise and accelerate in-house R&D projects

Progress

- EU and UK authorities approve Daxocox for canine OA-related pain
- Early-stage pipeline licence and collaboration deal signed with Orthros Medical to develop innovative therapies using VHH antibodies (March 2022)
- Advancement of life cycle management (LCM) programmes for Daxocox and STEM biofilm technology

2022 priorities

- Increase investment in pipeline versus 2021 (as percentage of revenues)
- Execute clinical and regulatory programme for Daxocox LCM
- Identify potential development opportunities from STEM joint venture

Link to risks

A

E

Link to KPIs

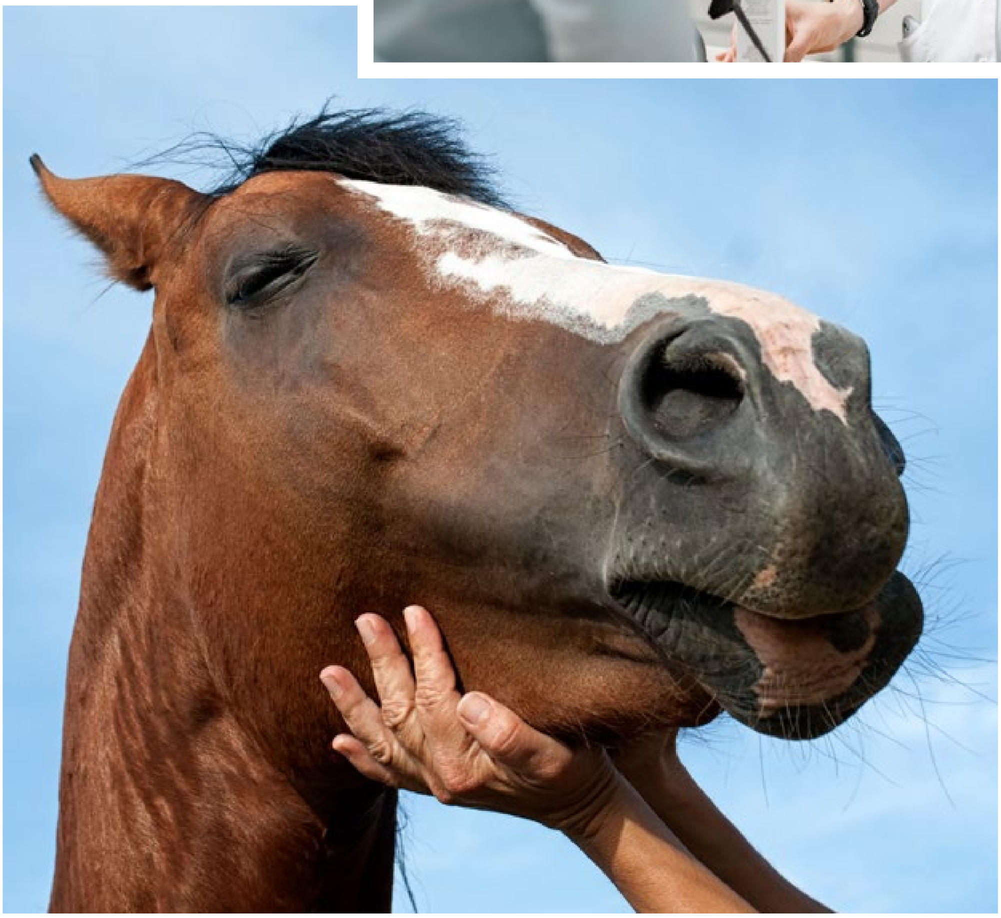
Revenue growth

Basic underlying earnings per share ("EPS")

New product revenue

Risks key

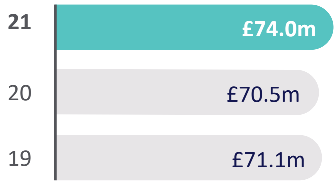
- **A** Market risk
- **B** Competitor risk
- **C** Portfolio risk
- **D** Product development risk
- **E** Financing/Treasury risk
- **F** Foreign exchange translation risk
- **G** Supply chain risk
- **H** IT systems and cyber security risk
- **I** Regulatory risk
- **J** People risk



Our Key Performance Indicators

FINANCIAL KPIS

REVENUE GROWTH



£74.0m

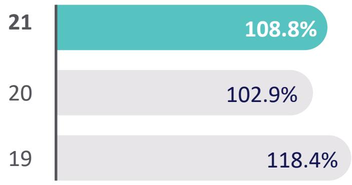
Link to Strategy

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

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

Commentary on performance
Revenue for the year was £74.0m (2020: £70.5m), an increase of 5% (8% at CER). Sales from new products launched in the year was £2.2m (2020: £2.2m)

UNDERLYING CASH CONVERSION



108.8%

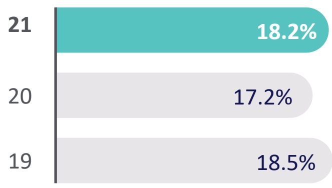
Link to Strategy

Definition
Underlying cash generated from operations as a percentage of underlying EBITDA

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

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

UNDERLYING EBITDA MARGIN



18.2%

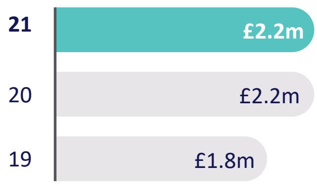
Link to Strategy

Definition
Underlying EBITDA as a percentage of sales

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

Commentary on performance
Underlying EBITDA margin increased to 18.2% reflecting strong revenue growth, improved gross margins and increased investment in people, and sales and marketing activities

NEW PRODUCT REVENUE



£2.2m

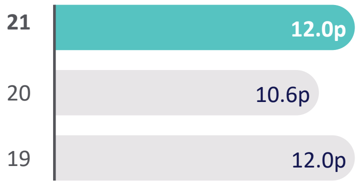
Link to Strategy

Definition
Revenue from new products launched in the last financial year

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

Commentary on performance
Growth from newly introduced products contributed £2.2m of sales principally driven by Daxocox

BASIC UNDERLYING EARNINGS PER SHARE ("EPS")



12.0p

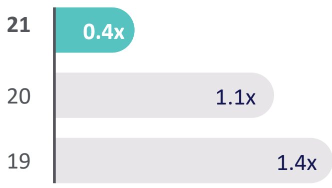
Link to Strategy

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

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

Commentary on performance
Underlying EPS increased to 12.0 pence reflecting the strong trading performance and higher effective tax rate

NET DEBT TO UNDERLYING EBITDA LEVERAGE



0.4x

Link to Strategy

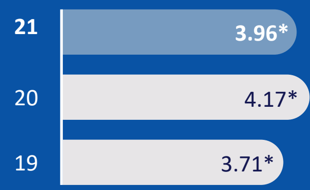
Definition
Leverage is net debt (total debt less cash balances) divided by underlying EBITDA

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

Commentary on performance
Net debt to underlying EBITDA leverage ratio significantly reduced during 2021 to 0.4 times, strengthening our capacity to invest in our long-term growth strategy

NON-FINANCIAL KPIS

EMPLOYEE ENGAGEMENT



3.96*

Link to Strategy

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

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

Commentary on performance
Following on from an exceptionally positive survey result in 2020, the overall engagement measure for 2021 was down 5%. Animalcare continues to be well ahead of Gallup's average engagement benchmark for European companies.

*Gallup Q12 engagement score

Strategic priorities

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

Business Model

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

KEY RESOURCES

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

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

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

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

Balanced portfolio
Animalcare operates a portfolio of around 150 brands with particular strengths in our core therapy areas of pain management, dermatology and non-antibiotic anti-infectives. We continue to increase the quality of our portfolio through the development of novel differentiated products and a focus on a smaller number of bigger, higher-margin brands with growth potential.

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

OUR KEY ACTIVITIES

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

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

In all our activities we seek to have a positive impact on the world around us and the communities in which we operate. With that aim in mind, we are committed to the environmental, social and governance (ESG) pillars of sustainable development.

VALUE CREATED FOR STAKEHOLDERS

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

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

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

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

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

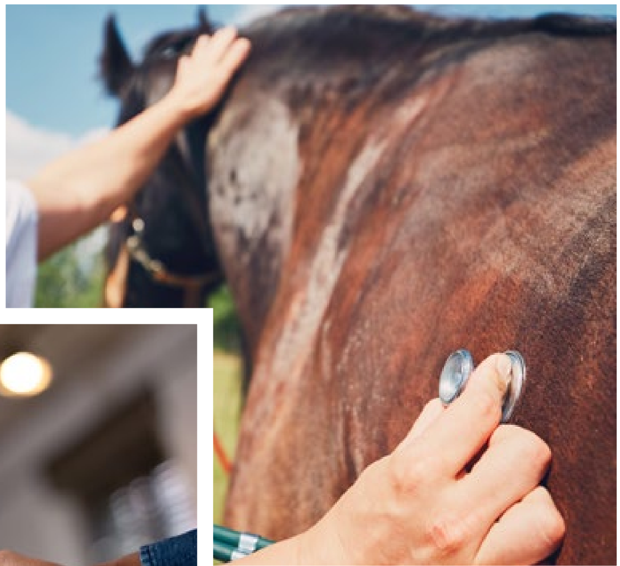
Shareholders
Through execution of our growth strategy, we aim to consistently deliver a strong financial performance for our shareholders and generate attractive returns over the long term.

OUR PEOPLE REPRESENT A COMPETITIVE ADVANTAGE
Agility: Our agility, expertise and local knowledge mean we know our markets and are able to adapt to evolving needs.

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

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

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



Chief Executive Officer's Review

JENNIFER WINTER
CHIEF EXECUTIVE OFFICER

> Animalcare's positive performance in a dynamic market further strengthened our financial position, enabling us to invest in growth opportunities that are consistent with our strategy."

2021 was a year to celebrate for Animalcare. The continuing evolution of our product portfolio, which saw significant contributions from new products such as Daxocox, helped deliver positive results in a growing and dynamic animal health market. This performance further strengthened the Group's financial position, equipping us with the firepower to invest in opportunities that are consistent with our growth strategy.

Organisationally, we continued to build the scalable and sustainable business platform required to support delivery of our long-term ambitions.

STRONG FINANCES

Pleasingly, we delivered positive results against all our key financial parameters.

Revenues for the year were £74.0m, an increase of 5.0% on the prior year, or 8.0% at constant exchange rates. Group sales performance largely mirrored the strong uptick in demand seen across the Companion Animals market which was propelled by attractive fundamentals such as increased pet ownership and a loosening of COVID-related restrictions on veterinary practices during the year. The rapid recovery in trading conditions was visible in exceptionally strong Q1 revenues compared to the same period in 2020. We expect to see a more normal pattern of sales for the opening months of 2022.

Benefiting from a favourable product mix, our gross margin of 53.3% was ahead of the prior year (2020: 51.9%). This contributed to underlying EBITDA of £13.5m (2020: £12.1m) which grew ahead of revenue even allowing for the absorption of increased SG&A costs chiefly related to investment in our people and sales and marketing excellence. After underlying adjustments totalling £8.6m (2020: £7.8m) the profit before tax on a reported basis was £0.9m (2020: £0.2m).

The Group's very strong cash conversion rate of 108.8% helped drive net debt lower to £5.3m as of 31 December 2021, a remarkable 60% reduction over the 12 months.

This was a significant achievement and an important milestone. After several years of concerted effort to improve our balance sheet, we are now comfortably below our stated target leverage range of 1 to 2 times underlying EBITDA. This increases our investment capacity and flexibility in the continued pursuit of pipeline and business development opportunities that support our long-term growth strategy.

KEY LEADERSHIP

In 2021 we made important strides to further align our capabilities and structure with our growth strategy.

At the beginning of the year, we adopted a regional model overseen by a slimmed down Senior Executive Team (SET). Built around the South Region (Spain, Portugal and Italy) and North Region (UK, Germany, Belgium and Netherlands), the new structure has increased management focus on performance and growth opportunities while streamlining decision-making.

To help embed this approach we have deployed a number of our key people to regional or Group roles. That has the effect of improving operational efficiency and consistency as we continue to build a scalable organisation that can adapt and flex as we grow. We are also investing in Company-wide skills development, most notably in the area of sales and marketing excellence. It's vital that we continue to forge capability in this space as we introduce innovative new products in increasingly competitive and dynamic veterinary markets that have seen changes in ways of working, often accelerated by the pandemic.

More broadly, we are implementing a Company-wide initiative to develop the cadre of leaders that will steer Animalcare to a successful future. Built around the proven principles of "high challenge, high support", this programme will help us to nurture the strong talent that exists at all levels across the Group.

Our annual Gallup employee survey is a valuable management tool that helps us pinpoint opportunities to maintain and build levels of engagement across the business. Following on from an exceptionally positive survey result in 2020, we saw a slight (5%) decrease in the overall engagement measure for 2021. Naturally, we would like to see that score improve year on year. But we also recognise that this rating keeps us well ahead of Gallup's European average benchmark of companies.

Through the survey, employees told us that they felt more of a "One Team" spirit, noticed an improvement in communication and cross-country collaboration and appreciated increased training and development opportunities.

They have also helped us set priorities for 2022 including better understanding of our strategic pillars in a changing marketplace, improved internal communication process and associated use of digital tools and the roll out of our leadership programme.

GROWTH PORTFOLIO

Maintaining a high quality and competitive portfolio is key to our future success. It serves as both a solid foundation and an engine of growth. In 2021, we continued with our efforts to rationalise the number of smaller "tail" products, thereby concentrating management and sales and marketing attention on bigger-selling, higher-margin products. Collectively, our top 40 selling brands accounted for approximately 75% of total revenue, an increase of 8.3% compared with the prior year.

In 2021 we were delighted to see Daxocox enter that top 40 category. Our novel treatment for osteoarthritis-related pain in dogs was introduced in the second half and generated £1.2m in sales. Though we are launching into a vigorous marketplace, increasingly characterised by large corporate veterinary groups, we remain confident Daxocox will be our biggest-selling product within the next five to ten years.

STRATEGIC PRODUCT AND PORTFOLIO DIRECTOR

We're delighted to welcome Sandra Single to the Animalcare team who has joined us as Strategic Product and Portfolio Director and as a member of the Group's Senior Executive Team. In the newly created role Sandra is accountable for the alignment of internally and externally sourced products to drive future growth. She leads the Technical, R&D, Quality, Regulatory and Project Management teams and works alongside the Group's specialist Business Development resource on potential deals. Sandra brings a wealth of research, development, portfolio management and licensing experience to the Group.

Chief Executive Officer's Review

CONTINUED

We continue to see the greatest growth potential in the Companion Animals and Equine segments of our business, particularly over the longer term. Consequently, that's where we direct most of our investment. However, our retained Production Animals business continues to enjoy positive fundamentals and generate attractive returns. Indeed, while the revenues derived from this product category declined by 13.9% versus 2020, adjusting for the previously mentioned discontinuation of a legacy distribution agreement in Belgium at the beginning of 2021, our Production Animals business grew sales and margins over the year.

BUSINESS DEVELOPMENT

Seeking out pipeline and business development opportunities through partnerships or acquisitions is a central element of our growth strategy. It's never an easy task, but there are attractive opportunities. Indeed, I don't recall many occasions during the last year when we were not involved in talks over one or more promising agreements.

Animalcare's strong balance sheet, backed by an experienced business development team, equips us with the financial resources and skills to convert these opportunities into reality. It's particularly satisfying, therefore, to have struck an early-stage research and development agreement with Netherlands-based Orthros Medical. Announced on 24 March 2022, the licensing and collaboration deal seeks to unlock the exciting therapeutic potential of VHH antibodies, initially for the treatment of canine osteoarthritis. This agreement represents a key building block in our long-term growth strategy in an area of therapeutic focus and significant market growth.

In addition, the first products from STEM Animal Health Inc. – our joint venture with Kane Biotech signed in September 2020 – are soon to hit the market following completion of manufacturing transfer and the start of listing negotiations with key customers. We have also extended our commercial reach through a distribution agreement with Virbac to market and sell Daxocox in most European countries outside Animalcare's direct territories.

INNOVATIVE PIPELINE

Daxocox received marketing authorisation for EU countries and the UK in April 2021. Launch activities kicked off at the end of the first half of the financial year and are under way across all our markets. R&D life cycle management programmes for Daxocox have been initiated to target new indications, new formulations and geographic expansion. For the STEM joint venture, coactive+ biofilm and Dispersin B pipeline projects have been initiated, with a particular focus on otitis.

Our early-stage agreement with Orthros Medical provides an important new dimension to our growing pipeline as we pursue the potential for novel VHH antibody technology that we believe will become an increasing feature of veterinary treatment.

To support delivery of pipeline opportunities, total R&D investment reached £1.3m. We expect this to increase in 2022 as we invest in our VHH antibodies partnership with Orthros Medical and other future growth opportunities.

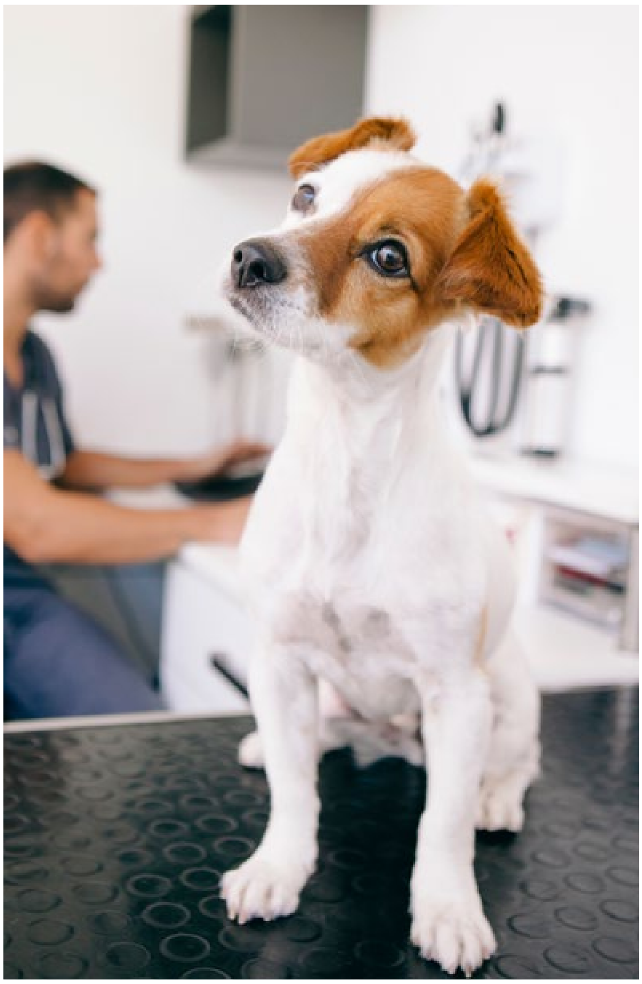
SUMMARY AND OUTLOOK

We entered 2021 at pace with exceptional revenue and profit growth rates in the first quarter driven by a post-pandemic recovery in Companion Animals demand. And while we saw a return to more normal trading levels across the rest of the year, we delivered a very positive overall performance and a further significant improvement in the Group's financial position, enabling us to continue investing in our long-term growth strategy.

Early sales activity in 2022 is in line with management expectations, although compared to 2021 we anticipate a more even balance between the first and second halves as the grip of COVID-19 loosens over time. Across the full year, we expect our revenue and growth momentum to continue while we navigate inflationary and foreign exchange headwinds. Whatever conditions we encounter, I know that we can continue to call on the commitment, agility, focus and professionalism of the Animalcare team on our journey to become a leading company in our chosen markets.

I'd like to thank each of our employees for their hard work and dedication. It's hugely appreciated by all members of the senior management team.

JENNY WINTER
Chief Executive Officer



Chief Financial Officer's Review

CHRIS BREWSTER
CHIEF FINANCIAL OFFICER

"We are pleased to report a positive trading performance in 2021. The further strengthening of our balance sheet provides us with increased capacity to invest in long-term growth."

UNDERLYING AND STATUTORY RESULTS

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

OVERVIEW OF UNDERLYING FINANCIAL RESULTS

	2021 £'000	2020 £'000	% Change at AER
Revenue	**74,024**	70,494	5.0%
Gross Profit	**39,418**	36,559	7.8%
Gross Margin %	**53.3%**	51.9%	1.4%
Underlying Operating Profit	**10,593**	8,561	23.7%
Underlying EBITDA	**13,455**	12,091	11.3%
Underlying EBITDA margin %	**18.2%**	17.2%	1.0%
Underlying Basic EPS (p)	**12.0p**	10.6p	13.2%

We are pleased to report a positive trading performance with revenue growth and improved gross margins leading to a double-digit increase in underlying EBITDA. The Group delivered very strong cash conversion which drove a significant reduction in net debt during the year, further strengthening our capacity to invest in our long-term growth strategy.

Revenues grew to £74.0m (2020: £70.5m), up 5.0% on the prior year (8.0% at CER). As anticipated, revenue growth was weighted towards the first half as a result of exceptional veterinary demand in Q1 and markets returning to more normal levels over the course of the financial year.

Revenue by product category is shown in the table below:

	2021 £'000	2020 £'000	% Change at AER
Companion Animals	**51,326**	44,808	14.5%
Production Animals	**16,980**	19,720	(13.9%)
Equine & other	**5,718**	5,966	(4.1%)
Total	**74,024**	70,494	5.0%

Companion Animals revenue, which represented approximately 69% of Group turnover, is the key driver of our overall revenue growth, increasing by 14.5% to £51.3m. This growth can be attributed to strong in-year market dynamics across Europe, in particular during the first half of the year, newly introduced products, which contributed £2.2m (2020: £1.9m) and continued focus on driving value from our key (top 40) brands. Daxocox, our novel COX-2 inhibitor pain treatment for dogs, added £1.2m to revenue, predominantly during the second half.

In contrast, Production Animals revenue declined by 13.9% versus the prior year to £17.0m. This is primarily driven by the discontinuation of a legacy distribution contract of several antibiotics and other lower-margin products within the Group's Belgium subsidiary. Production Animals remains an important part of our South Region business, accounting for approximately 40% of regional revenues. Within this region, Production Animals sales increased by 3.0% compared to 2020.

As expected, Equine and other sales decreased by 4.1% to £5.7m primarily due to prior year stock build within our international partner channel in advance of the manufacturing transfer of Danilon, which was completed during the year.

During 2021, we maintained our emphasis on optimising our portfolio to reduce fragmentation and drive commercial focus towards our larger-selling, higher-margin brands. As a result, we entered 2022 with a portfolio that is close to our target of approximately 150 brands. Revenues from the top 40 brands grew by 8.3%, predominantly driven by new product launches during 2021 and 2020, while improving our gross margins.

The strong revenue growth and higher-margin product mix drove a significant improvement in our operating profitability with underlying EBITDA at £13.5m (2020: £12.1m), an increase of 11.3% versus prior year. SG&A costs increased during the year to £26.0m (2020: £24.5m) principally driven by investments in sales and marketing activities and our people. As a result, SG&A expenses as a percentage of revenue increased to 35.1% (2020: 34.7%).

The underlying effective tax rate of 24.4% (2020: 20.1%) has increased versus prior year primarily reflecting the geographic mix of profits and the one-off impact of the substantively enacted increase in corporate tax rates in the UK (from 19% to 25% effective 1 April 2023) on deferred tax balances. We continue to optimise research and development tax credits.

Reflecting the points noted above, underlying basic EPS increased by 13.2% to 12.0 pence (2020: 10.6 pence).

OVERVIEW OF REPORTED FINANCIAL RESULTS

Reported Group loss after tax for the year (after accounting for the non-underlying items shown in the table and discussed below) was £0.1m (2020: £0.2m profit), with reported loss per share at 0.1 pence (2020: 0.4 pence earnings per share).

	2021 Underlying results £'000	Amortisation and impairment of intangibles £'000	Acquisition, restructuring, integration and other costs £'000	2021 Reported results £'000	2020 Reported results £'000
Revenue	**74,024**	-	-	**74,024**	70,494
Gross profit	**39,418**	-	-	**39,418**	36,559
Selling, general & administrative expenses	**(26,759)**	(4,580)	-	**(31,339)**	(30,427)
Research & development expenses	**(2,181)**	(951)	-	**(3,132)**	(3,486)
Net other operating income/(expense)	**115**	(2,761)	(312)	**(2,958)**	(1,843)
Operating profit/(loss)	**10,593**	(8,292)	(312)	**1,989**	803
Net finance expenses	**(856)**	-	-	**(856)**	(511)
Share in net loss of joint ventures	**(188)**	-	-	**(188)**	(93)
Profit/(loss) before tax	**9,542**	(8,292)	(312)	**945**	199
Taxation	**(2,325)**	1,256	47	**(1,022)**	35
Profit/(loss) for the year	**7,224**	(7,036)	(265)	**(77)**	234
Basic earnings/(loss) per share (p)	**12.0p**	-	-	**(0.1p)**	0.4p

Non-underlying items totalling £8.6m (2020: £7.8m) relating to profit before tax have been incurred in the year, as set out in Note 4. These principally comprise:

1. Amortisation and impairment of acquisition-related intangibles of £8.3m (2020: £5.9m). This charge primarily comprises amortisation in relation to the reverse acquisition of Ecuphar NV and previous acquisitions made by Ecuphar NV. The increase versus 2020 primarily reflects the non-cash impairment of four projects that formed part of the acquired development pipeline, the principal drivers for which are:
   - the recall and suspension of all products containing ranitidine for human use by European and US authorities. Consequently, Animalcare has ceased development of ranitidine for animal use; and
   - technical and manufacturing issues that have significantly impacted the timing of supply and expected commercial returns of an equine product.
2. Expenses relating to acquisition, business development, integration, restructuring and other costs of £0.8m (2020: £1.5m) including the carve out and partnership of Identicare Ltd, our microchipping and database services business, with effect from 1 January 2022, reorganisation and restructuring of our Belgium and UK logistic operations and relocation of our Spanish office.
3. £0.5m income in respect of product divestments as we continue to focus on our core higher margin brands.

DIVIDENDS

An interim dividend of 2.0 pence per share was paid in November 2021.

The Board is proposing a final dividend of 2.4 pence per share (2020: 2.0 pence per share) in line with pre-COVID levels. Subject to shareholder approval at the Annual General Meeting to be held on 7 June 2022, the final dividend will be paid on 8 July 2022 to shareholders whose names are on the Register of Members at close of business on 10 June 2022. The ordinary shares will become ex-dividend on 9 June 2022.

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

CASH FLOW AND NET DEBT

We have made significant progress during 2021 in reducing our debt and increasing our financial capacity for M&A and pipeline opportunities that support our long-term growth. The main driver for this was our very strong cash conversion performance as set out in the table below:

	2021 £'000	2020 £'000
Underlying EBITDA	**13,455**	12,091
Net cash flow from operations	**14,023**	11,117
Non-underlying items	**611**	1,324
Underlying net cash flow from operations	**14,634**	12,441
Underlying cash conversion %	**108.8%**	102.9%

Net cash flow generated by our operations increased to £14.0m (2020: £11.2m). Net working capital reduced by £2.2m primarily due to lower than expected receivables as a result of phasing of trading towards year end. Inventories reduced by £1.4m driven by delayed supply, a large proportion of which came into stock during Q1. The reduction in net working capital was in part offset by a £1.8m increase in cash taxes mainly due to a combination of geographic mix of profits, phasing of payments, settlement of prior year taxes and reduced cash receipts in respect of R&D tax credits.

As we expect trading and inventory patterns to be more balanced over the current financial year ending 31 December 2022, we anticipate cash conversion to be lower in 2022, but remain on average within the target 90-100% range over 2021 and 2022.

Net debt reduced by £8.3m over the full year and stood at £5.3m on 31 December 2021. This significant improvement was largely driven by the very strong cash conversion noted above. Exchange rate variations benefited the net debt position by £1.1m.

	£'000
Net debt at 1 January 2021	(13,618)
Net cash generated from operations	14,023
Net capital expenditure	(2,675)
Investments in joint venture	(289)
Net finance expenses	(1,684)
Issue of share options	76
Dividends paid	(2,403)
Foreign exchange on cash and borrowings	1,148
Movement in IFRS 16 lease liabilities	92
Net debt at 31 December 2021	(5,330)

Net capital expenditure of £2.7m (2020: £1.5m) largely comprises investment in our product development pipeline of £1.3m, the most significant components of which relate to Daxocox and milestone licence payments to STEM Animal Health Inc., together with £1.0m of expenditure relating to continuing investment in our IT infrastructure, including new regulatory and quality management systems and website and platform development relating to Identicare Ltd.

The net debt to underlying EBITDA leverage ratio was approximately 0.4 times (FY20: 1.1 times), comfortably below the Group's stated target range of 1 to 2 times underlying EBITDA.

Chief Financial Officer's Review

CONTINUED

BORROWING FACILITIES

During the first half of the year, we completed an exercise with our four syndicate banks to extend our existing banking facilities from 31 March 2022 to 31 March 2025.

The Group's financing arrangements consist of a committed revolving credit facility of €41.5m and a €10m acquisition line, which cannot be utilised to fund our operations. The investment loan facility was repaid in full at the time of renewal.

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

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

As at 31 December 2021 and throughout the financial year, all covenant requirements were met with significant headroom across all three measures.

At 31 December 2021, total facilities were £43.3m, of which £3.6m, net of cash balances, was utilised, leaving headroom of £39.7m.

GOING CONCERN

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

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

SUMMARY AND OUTLOOK

We delivered a strong set of results driven by growing demand in our Companion Animals segment, underpinned by strong market fundamentals which have moderated as we progressed through the financial year. Demand levels in the early part of 2022 are encouraging and in line with expectations that revenue and profit delivery will be more balanced over the current financial year compared to 2021.

Our very strong underlying cash conversion led to a significant reduction in net debt and the net debt to underlying EBITDA leverage ratio. Hence, we enter 2022 with increased capacity and flexibility to pursue business and product development opportunities. Our licensing and collaboration agreement with Orthros Medical, announced on 24 March 2022, is the first step towards increasing investment in our product development pipeline.

CHRIS BREWSTER
Chief Financial Officer

Our principal risks

MANAGING OUR RISKS

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

As part of our commitment to strong governance and risk management, during 2020 the Board requested a review of its governance structure with a focus on risk reporting. We completed that exercise and in 2021 rolled out our enhanced Risk Management Framework (RMF). In order to ensure the new RMF was fully embedded, the exercise involved the Board, the Audit and Risk Committee (A&RC) and senior management from all countries and disciplines. In conjunction with this, we created the Risk and Compliance Manager role, with resource allocated from within the Group. This role is designed to provide independent assurance over the operation of risk management processes, serving as part of Risk Monitoring within our RMF.

The RMF is based on an industry standard three lines of defence model (3LoD) and includes updated risk inventory, metrics and thresholds. The 3LoD model is combined with an approach to Assess, Monitor, Manage, Respond and Communicate the Company's critical risks.

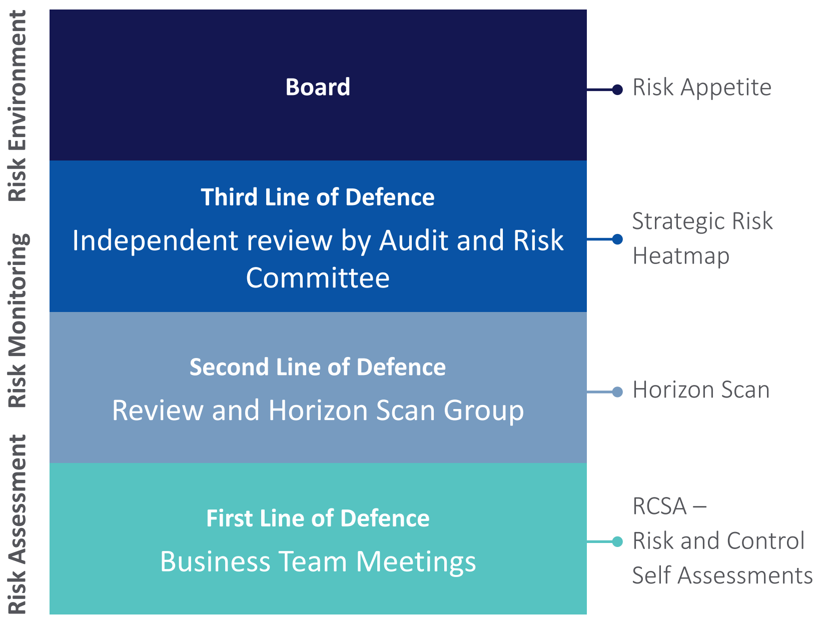
To be effective, risk management relies on the engagement of all parts of the business, which, as mentioned, is an integral part of our framework and culture. The RMF has been built in support of our newly regionalised organisational structure – Northern and Southern Europe. Within that structure, our regional leaders, their country managers as well as Group function heads are expected to identify, manage and mitigate risks in their part of the business. They manage this process through a consistently applied Risk and Control Self Assessment (RCSA). This process includes assessing each risk for its impact and likelihood, scored both before and after applying key controls. A standardised risk-scoring methodology and template is now used to ensure a consistent approach across the Group. This part of our framework represents the First Line of Defence.

In rolling out the RMF, we identified the need for dedicated, skilled risk management resources to lead our risk assessments, maintain the RMF and liaise with business leaders across the Group. As a result, we created a small team to work alongside local finance managers and Group functions to lead the assessment and validation of all RCSAs from the business. This team prepares consolidated risk reporting in the form of a Horizon Scan across the organisation which, in turn, ensures independent oversight and consistency. This stage of assessment represents our Second Line of Defence.

The Horizon Scan is reviewed by the Executive team and mapped against the five core components of the Group's strategy in the form of a Strategic Risk Heatmap.

In accordance with our governance practices, oversight of risk management and risk assessment is undertaken by the A&RC which, in turn, provides reports to the Board three times per annum to make sure the Board is fully cognisant of critical and emerging risks. The A&RC bases its reports on both the Horizon Scan and Strategic Risk Heatmap thus forming our Third Line of Defence in order to provide assurance to the Board.

We believe the developments made during 2021 strengthen our RMF and our ability to monitor, manage and mitigate the most critical risks inherent in our strategic plan, to the benefit of our stakeholders.



EMERGING RISKS

Emerging risks are new risks that are unlikely to impact the business in the next year but have the potential to evolve rapidly over a longer term and could have a significant impact on our ability to achieve our objectives. They may develop into key risks or may not arise at all.

During 2020, we designated climate change as a global issue that has implications for our customers, employees, suppliers, partners and, therefore, the Group. This year, while we recognise that we are at the early stages of our sustainability journey, we have begun work to identify associated material issues of importance to our stakeholders and their potential impact on our business in the coming years.

COVID-19

We have continued to monitor the operational impact of COVID-19 on the business during the financial year. While the virus has had an impact on how we conduct our day-to-day activities, our trading performance during 2021 has been strong. Economic and market uncertainty remain due to COVID-19 and we will continue to monitor and respond to further changes where required.

PRINCIPAL RISKS

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

We believe that our most significant challenges are strategic in nature. Our strategic plans for the business are based on organic and inorganic growth as we continue to seek geographical expansion and new product opportunities. The table below describes the current principal strategic and other risks and uncertainties facing the Group. In addition to summarising the strategic risks and uncertainties, the table below gives examples of how we mitigate those risks.

Risk	Link to strategy	Potential impact	Mitigation	Risk level	Trend
MARKET RISK In certain territories, the veterinary market continues to see the emergence and growth of corporate customers and buying groups who are looking for value from the products and services we provide.		The emergence and growth of corporate customers and buying groups represents an opportunity for sales volume growth but may result in reduced margins.	We continue to develop and strengthen our sales and marketing teams in respect of key account support to better serve our changing customer base, both on a national and a European basis.	L	⟷
COMPETITOR RISK Launch of competitor products against our key brands, for example other generic or more innovative products. Although our product portfolio is broad, the Top 40 products include a mix of some strong brands and well-established mature products, for which the market may be attractive to competitors.		Revenues and gross margins may be adversely affected should competitors launch competing generic or superior (novel) products. Operating costs may increase to protect market share.	We are increasing focus on life cycle management strategies for our key brands. We monitor new product registrations and competitor launches and develop commercial and marketing responses accordingly to mitigate competitor impact. We are continuing to seek to strengthen our product portfolio through strategic partnerships and we are exploring a number of opportunities, including novel pharmaceuticals.	M	↑

Strategic priorities

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

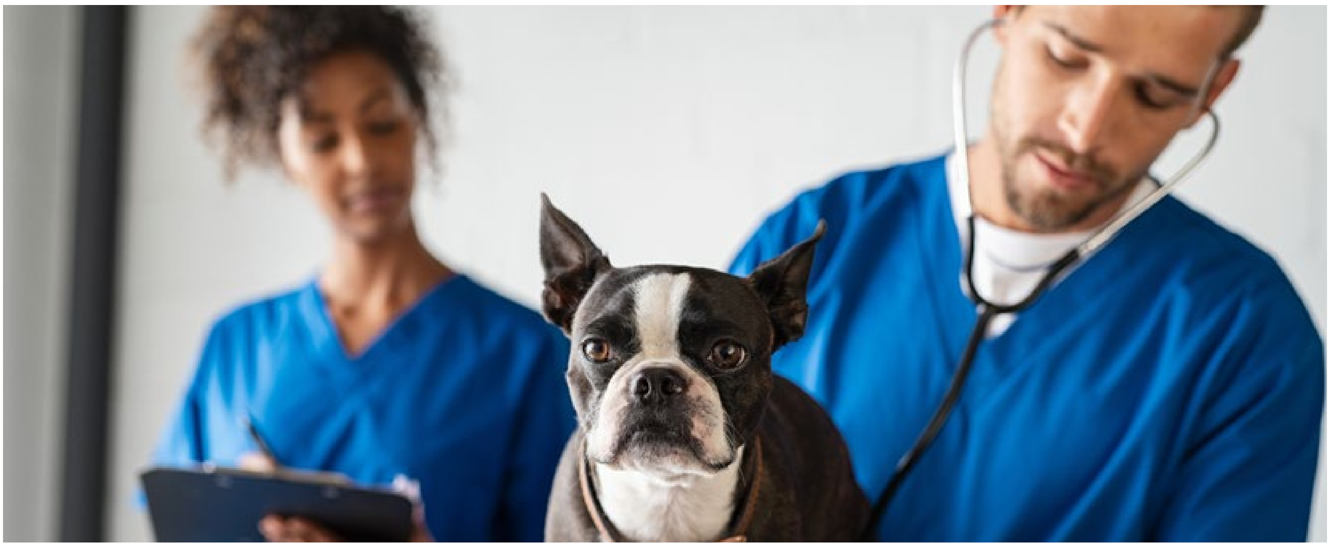
Risk key

L Low | M Medium | H High

Trend key

Up | Flat | Down

Risk	Link to strategy	Potential impact	Mitigation	Risk level	Trend
PORTFOLIO RISK Approximately 44% of the Group's revenues are derived from products sourced from our distribution partners, which are heavily driven by the associated contractual terms.	Strong finances, Growth portfolio, Business development	Loss of one or more distribution contracts may reduce overall sales. Where we are successful in developing and growing the market, the distribution partner may terminate the contract, resulting in lost sales. Distribution may cease due to change of control of the contracting parties.	A New Product Opportunity process is in place to provide robust commercial and contractual assessment of new partner products. Low quality distribution products remain subject to the portfolio optimisation. Significant contracts are reviewed to assess and mitigate business continuity risks.	M	Flat
PRODUCT DEVELOPMENT RISK Failure to successfully register and launch products from our pipeline. Projects that initially appear promising may be delayed or fail to meet expected clinical or commercial expectations or face delays in regulatory approval.	Strong finances, Innovative pipeline	Significant delay or failure in launching a product from our own pipeline could adversely affect our ability to deliver revenue expectations. Failure of a development project would result in impairment of intangible assets.	Robust pipeline monitoring processes are in place. The pipeline is discussed regularly by senior management, including the CEO and CFO. The Group's objective is to create a balanced pipeline in terms of risk and reward and to establish a broader investment approach to launching new products other than from our own pipeline. Product development risk was subject to a detailed review as part of our enhanced RMF.	M	Flat



Our principal risks

CONTINUED

OTHER RISKS

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

Financial strength

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

Risk	Link to strategy	Potential impact	Mitigation	Risk level	Trend
FINANCING/ TREASURY RISK Debt facilities are committed for a finite period and we need to plan to renew our facilities before they mature and guard against default. Our loan agreements also contain various covenants with which we must comply.	£	Investing for growth constrained by lack of access to capital/ financial resource and/ or reduced profitability.	We continue to focus on maintaining both strong cash conversion and a strong balance sheet with a target net debt to underlying EBITDA leverage within the 1 to 2 times range. During the first half of the year, we completed an exercise with our four syndicate banks to extend our existing banking facilities from 31 March 2022 to 31 March 2025.	L	⟷
FOREIGN EXCHANGE TRANSLATION RISK The majority of the Group's revenues are denominated in euros. However, the Group's presentational currency is sterling and therefore the reported revenues, profits and net debt levels will be impacted by exchange rates prevailing during the relevant financial period.	£	There may be variability in our reported results caused by significant fluctuations in the GBP:EUR exchange rate. This may impact our net debt to EBITDA leverage covenant depending on volatility and timing as the income statement and balance sheet may be translated at different rates.	We carry out a central review of foreign currency exposures and we assess possible hedging strategies to mitigate risk via derivatives. Matching currency flows and financing will limit the covenant exposure. The Group presents key financial measures on a CER basis to enable shareholders to assess performance with the impact of foreign exchange eliminated.	M	⟷

Strategic priorities

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

Risk key

L Low — M Medium — H High

Trend key

↑ Up — ↔ Flat — ↓ Down

OPERATIONAL PERFORMANCE

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

Risk	Link to strategy	Potential impact	Mitigation	Risk level	Trend
SUPPLY CHAIN RISK As the Group does not own any manufacturing assets, it relies extensively on a large base of third-party manufacturers for supply of finished products, whether our own brands or those sold on behalf of our partners via distribution arrangements.		Any disruption, interruption or failure of supply from our third-party suppliers, whether COVID-19 related or otherwise, could result in lost sales and damage the Group's reputation with its customers. Manufacturing transfers to resolve longer-term supply issues may require additional regulatory approvals, which could result in additional costs and/or delays.	In 2021 we restructured the supply chain function to include dedicated demand planning resource for the regions. This is supported by investment in SAP. Our supplier base has continually been reduced, consolidating our key products with reliable suppliers. We work with these suppliers to gain mutual understanding and develop risk mitigation strategies end to end. We also continue to invest in "Partner Management" which will strengthen ties with our existing supplier base.	H	↔
IT SYSTEMS AND CYBER SECURITY RISK The Group relies heavily on information technology and key systems to support the business. The risk of cyber attacks that cause system disruption and the potential for data and financial fraud, is increasing.		A general outage of our IT systems may cause disruption to, or prevention of, normal operations, and/or additional costs. Cyber attacks could result in system and business disruption and/or availability of data. Failure to adequately protect customer (and others') data may result in a breach of GDPR legislation and/or financial fraud.	The Group has maintained focus on mitigating the increasing cyber threat while accommodating remote working practices, including: • Continued investment in our cloud-based IT systems and security tools to safeguard the IT infrastructure. • Engagement with security-aware, reliable and certified IT service global providers. • Internal policies surrounding security, user access, change control and the ability to download and install software. • We hold global cyber insurance which provides specialist technical and legal support in the event of a cyber incident. During 2021 we have conducted wide-scale security testing to reduce our risk to phishing attacks. We have also implemented a critical data task-force to categorise our data and recommend appropriate safeguards.	H	↑

Our principal risks
CONTINUED

REGULATORY COMPLIANCE

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

Risk	Link to strategy	Potential impact	Mitigation	Risk level	Trend
REGULATORY RISK We operate in a highly regulated animal health environment which is designed to ensure the safety, efficacy, quality and ethical promotion of pharmaceutical products. Failure to meet or adhere to regulatory standards could affect our ability to register, manufacture or promote our products.		Non-compliance with regulatory requirements may result in delays to supply and/or lost sales. Delays in regulatory reviews and approvals could impact the timing of a product launch and impact sales. Brexit has resulted in additional regulatory and quality control requirements and associated costs.	The Group Technical and Regulatory team have established systems, which were upgraded during 2021, and procedures to monitor and maintain compliance which are subject to regular internal and external audits. Regular dialogue is maintained with relevant authorities in each country to ensure we maintain a thorough understanding of regulatory changes.	M	

Strategic priorities

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

Risk key

L Low · M Medium · H High

Trend key

Up · Flat · Down

PEOPLE

In order to successfully deliver our growth strategy in a highly regulated business, we need to attract and retain a high-calibre and diverse pool of talent. Our people risk is managed, monitored and mitigated as follows:

Risk	Link to strategy	Potential impact	Mitigation	Risk level	Trend
PEOPLE RISK Failure to structure and resource the business properly to deliver our strategy. We may not be able to attract, develop and retain high-calibre, diverse and experienced individuals in key roles.	Key leadership	Failure to structure and resource our business properly could result in: • Loss of expertise. • Potential business disruption. • Insufficient resources to deliver strategy. • High cost of organisational restructuring in certain countries.	We want to focus on key areas that will maximise individual potential and increase organisational capability so that we can position Animalcare as an "Employer of choice". This includes: • A strong performance management process. • A competitive rewards strategy with a consistent and objective benchmarking process. • Personal and team development programmes. • A global leadership mindset "High Challenge High Support" model and programme. • Use of highly skilled contract staff to bridge short-term gaps in key resource areas. Recognising the impact of COVID-19 on the workforce, we rolled out a Global Employee Assistance Programme to support mental and physical wellbeing as well as personal development. With the finalisation of a global recruitment and onboarding policy we take diversity and inclusion into account.	M	Flat

Our stakeholders

OUR KEY STAKEHOLDERS AND HOW WE ENGAGE WITH THEM

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

OUR PEOPLE

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

Stakeholder key interests

- Career development
- Reward and recognition
- Engagement
- Training and development
- Wellbeing
- Health and safety

How we engage

- Leadership development programmes
- Financial incentives related to performances in the form of annual bonuses
- Employee incentive plans
- Annual employee engagement survey
- Enhanced internal communications via our "People Portal"
- Wellbeing programme – Smile@ Animalcare
- Global employee assistance programme – 24/7 confidential counselling and information service
- Online teambuilding activities
- Insights Discovery sessions to receive local feedback
- Personal and team development sessions
- Workplace ambassador programme
- Mentoring programme

CUSTOMERS

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

Stakeholder key interests

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

How we engage

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

SUPPLIERS AND PARTNERS

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

Stakeholder key interests

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

How we engage

- Implementation of key partner management programme
- Meetings with specialist veterinary wholesalers and distributors
- Meetings with key suppliers that represent 70% of purchasing spend
- Supplier forums and networking meetings
- Quality management reviews

SHAREHOLDERS

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

Stakeholder key interests

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

How we engage

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

COMMUNITIES AND ENVIRONMENT

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

Stakeholder key interests

- Sustainability
- Animal welfare
- Community

How we engage

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

Our stakeholders
CONTINUED

S172 STATEMENT

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

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

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

Key Board discussions and decisions

The Board received trading, financial and operational updates from the CEO and CFO and updates on team wellbeing, engagement and interactions with the Group's customers, suppliers and investors. An update was received from the Remuneration and Nomination Committee on progress with the selection of a new Non-Executive Director. The Audit and Risk Committee provided an update on changes to the Group's risk management framework with the inclusion of climate change as an evolving risk and an outline of the Group's plan for its sustainability journey. Key discussions, decisions and considerations during the year to 31 December 2021 are set out below:

MARCH

The Board reviewed the results of the employee engagement survey and implemented initiatives to be carried out in response to the survey findings.

Considerations
Consideration of the feedback provided by employees who completed the survey and taking appropriate actions is critical for employees to engage in the process and for positive changes to be implemented. When determining which actions would be implemented, the Board considered the financial consequences and the impact on long-term value and growth for the shareholders.

The Board received a report on new product opportunities.

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

The Board approved the release of the 2020 Full Year Results.
Considerations
The need to provide transparent and accurate information to the market.

The Board agreed the final dividend for 2020 of 2.0 pence per share.

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

JULY

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

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

SEPTEMBER

The Board approved release of the Interim Results for the six months ended 30 June 2021.

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

The Board agreed the interim dividend of 2.0 pence per share.

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

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

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

The Board considered Board composition following the resignation of a Non-Executive Director.

Considerations
The need to ensure an appropriate balance between Executive and Non-Executive Directors.

NOVEMBER

The Board approved the grant of options to Executive Directors and other members of the Senior Executive Team under the LTIP, subject to agreed performance criteria.

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

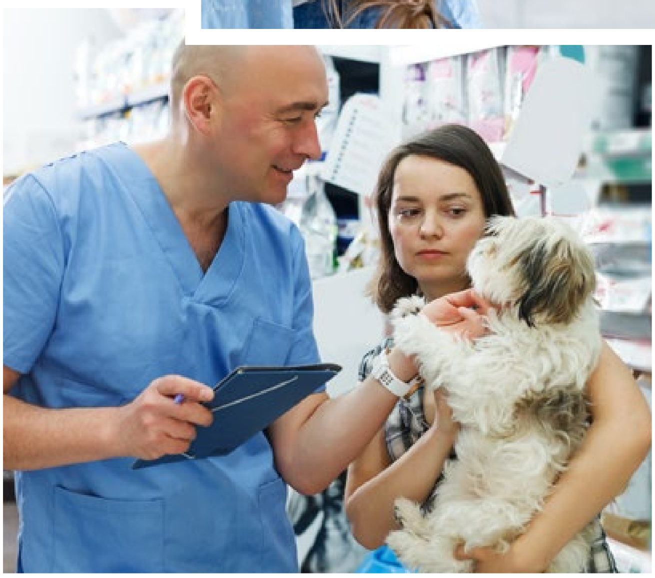
DECEMBER

The Board considered the Budget for FY 2022.

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

The Board received a report on the business plan and strategy to accelerate growth of the Identichip and Identibase brands.

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



Animalcare GROUP

Sustainability

Animalcare Group is committed to the environmental, social and governance (ESG) pillars of sustainable development.

In 2020, under the umbrella of our strengthened Risk Management Framework, we designated climate change as a global issue that has potential implications for the Group. Our initial work in this area has addressed the carbon footprint of our UK operations.

From a Group perspective, we recognise that we are at the early stages of our sustainability journey. With that in mind, a small team, led by the Chief Financial Officer, met in November 2021 to discuss the broader issue of sustainability and relevant Company-wide ESG issues. Subsequently, we have begun work to identify these material issues of importance to our stakeholders and their potential impact on our business. This will help guide our approach in the coming years.

To provide a useful baseline, we have categorised current activities under each of the three pillars of sustainability.

ENVIRONMENT

Climate change and greenhouse gas emissions

In the UK, Animalcare Ltd has achieved carbon neutral status as part of a commitment to run our business sustainably. We undertook a detailed assessment of our carbon emissions (UK-based operations) in 2020 and have worked to reduce them, while also instituting offsetting measures.

Carbon footprint UK operations

Greenhouse gas emissions and kWh consumption

		2021		**2020**	
Scope	Activity	**CO_2e**	**kWh**	CO_2e	kWh
Scope 1	Company car travel	**14.0**	**59,260**	20.2	83,998
Scope 2	Grid-supplied electricity	**16.0**	**75,259**	10.3	44,127

Energy intensity measure
Tonnes CO_2 per £m revenue

Tonnes CO_2e	
2021	**2.0**
2020	2.1

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

Carbon offset

To help offset emissions, we participated in the Brazil Verified Carbon Standard REED project. In April 2021, Animalcare planted more than 200 native British broad-leaved trees at a primary school close to our UK headquarters.

Supply chain and greenhouse gas emissions

The Group works with third parties to manufacture finished products while engaging with other partners to fully enable our international supply chain. Upstream emissions include those generated by a supplier's distribution activities and the production of raw materials or components bought by the Company. Downstream covers emissions generated by the use or disposal of end product, as well as business travel.

Value chain emissions (Scope 3) represent a much greater proportion of our carbon footprint than operational emissions (Scope 1 and Scope 2). Calculating then eliminating these emissions is a challenging undertaking that requires effective partnerships built on trust. As we move forward and develop our sustainability strategy we will consider further efforts to estimate and reduce our value chain emissions.

Packaging and plastic offsetting

Flexible packaging keeps pharmaceuticals and medicinal products sterile and protected while safeguarding against tampering and counterfeiting. But, though useful and resource-efficient in many ways, its low volume and low weight properties present a challenge once this packaging becomes waste.

We recognise the environmental impact caused by use of plastics in our business and supply chain and are taking steps to develop more sustainable packaging. We are also exploring plastic offsetting as an interim solution while we explore opportunities to move away from virgin plastic and mitigate plastic waste, where plastic remains the most viable packaging solution.

Antimicrobial resistance

Antimicrobial resistance (AMR) occurs when bacteria, viruses, fungi, and parasites evolve over time and learn to dodge the effect of medicines. As a result, treatments become ineffective and infections persist, increasing the risk of spread to others. The overuse and misuse of antibiotics in both humans and animals have accelerated the process by which bacteria become resistant to antibiotics, threatening the ability to treat common infections.

AMR is a systemic risk that will impact multiple sectors including food and agriculture, pharmaceuticals, healthcare, and insurance industries. According to the World Bank, by 2050 AMR could shrink global GDP by as much as 3.8% while global animal production could decline by between 2.6% and 7.5% per year. Within the Europe animal health market, antimicrobials now account for 11% of sales compared to 19% in 2010.

Reducing our portfolio reliance on antibiotics is a key focus which led to the recent investment in STEM Animal Health Inc. to exploit biofilm-targeting technologies in anti-infective roles. A glue-like substance that provides protection from the environment, biofilms can make bacteria up to 1,000 times more resistant to antibiotics, antimicrobial agents, disinfectants, and the host immune system. Anti-biofilm technology can overcome these barriers, making conventional treatments more effective, potentially at more sparing doses.

Sustainability in Animalcare Group

SOCIAL

Our people

Talent attraction:

We aim to attract, develop, and retain talented people, building leadership capabilities, creating a one-team culture, driving effective communication and collaboration, and improving diversity.

After an exceptionally positive employee engagement survey in 2020, the Group saw a slight decrease in the overall measure in 2021. Nevertheless, our 2021 rating still puts Animalcare well ahead of Gallup's European average benchmark of companies.

During 2021 we continued to build a skilled and high performing team driven by a shared sense of purpose and values. The Group further expanded our employee engagement efforts by conducting focus groups to identify what a "Great place to work" means to our teams and how best to achieve that goal.

We are also positioning Animalcare as an "Employer of choice" by:

- A strong performance management process
- A competitive rewards strategy
- Personal and team development programmes
- A global leadership mindset: "High challenge High support" model

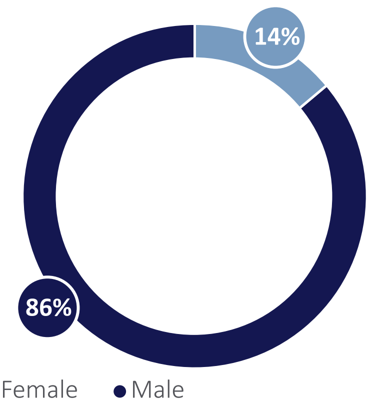
Wellbeing:

To support our teams, the Group has launched an employee assistance programme: *Smile@Animalcare*. This includes a confidential around-the-clock counselling and information service to assist employees with personal or work-related challenges that may affect health, wellbeing, or performance.

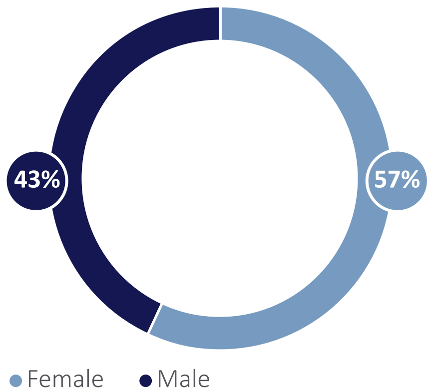
Diversity and inclusion:

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

Board gender diversity

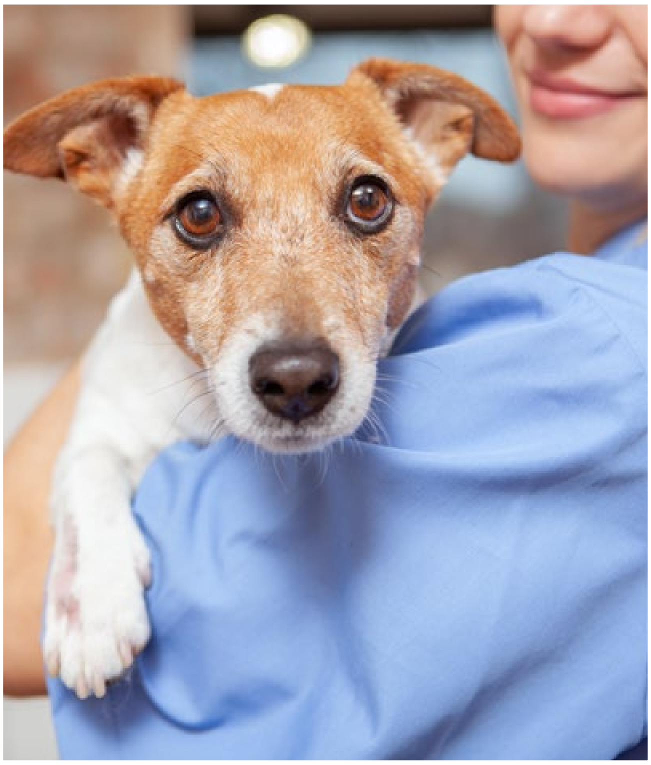


Senior Executive Team



The Board currently consists of 86% (six) male and 14% (one) female members. The Senior Executive Team currently consists of 43% (three) male and 57% (four) female members.

Future appointments will continue to be made on merit, with due consideration given to the need for diversity, and to complement the existing balance of skills and experience on the Board.



GOVERNANCE

Our evolving approach to sustainability is led by the Chief Financial Officer and sponsored by the Chief Executive Officer. A cross functional "Sustainability Task Force" is in the early stages of formation and will participate in a materiality assessment.

Sales and Marketing:
Our values and behaviours *(one team, integrity, passion, taking ownership)* guide employee conduct along with the Group's Code of Conduct and supporting policies which help us ensure we do business in the right way.

Supply chain and responsible procurement:
We work with key suppliers to understand and develop risk mitigation strategies end to end. We are also investing in *"Partner Management"* to strengthen ties with our existing supplier base and we hold regular engagement meetings with key suppliers that represent 70% of purchasing spend.

Board of Directors

"We continue to develop our Board structure and remain committed to evolving our governance structure to support the Group's long-term success and strategy for growth."

JAN BOONE
Non-Executive Chairman

Non-Executive Chairman

Appointment:
Jan has been Non-Executive Chairman of the Group since 2017 following the acquisition of Ecuphar NV.

Committee membership:
Member of the Audit and Risk Committee and the Remuneration and Nomination Committee.

Responsibilities, relevant skills and experience:
As Chairman, Jan provides leadership of the Board, promoting a culture of openness and debate.

He is Chief Executive Officer of Lotus Bakeries which is listed on Euronext Brussels and brings significant experience of M&A, strategic development and change management.

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

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

Chief Executive Officer

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

Committee membership:
N/A; attends some Committee meetings by invitation.

Responsibilities, relevant skills and experience:
As CEO, Jennifer has responsibility for developing and executing Group strategy as approved by the Board and drives the performance and results of the Group. She manages Group operations in conjunction with the Leadership Team. With her background in the healthcare sector, including senior commercial roles at AstraZeneca and GlaxoSmithKline, she brings significant experience of product development, change management, marketing and communications. On 1 February 2022, she was appointed as a Non-Executive Director of EKF Diagnostics Holdings plc, an AIM listed point-of-care, central lab devices and chemistry reagents business.

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

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

CHRIS BREWSTER

Chief Financial Officer and Company Secretary

Appointment:
Chris was appointed Chief Financial Officer in 2012.

Committee membership:
N/A; attends the Audit and Risk Committee by invitation.

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

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

MARC COUCKE

Non-Executive Director

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

Committee membership:
Member of the Remuneration and Nomination Committee.

Relevant skills and experience:
As a Non-Executive Director, Marc brings significant experience of maximising value creation and developing strategy. Marc founded Omega Pharma NV in 1987, developing the company into a leading pan-European OTC health and personal care business and serving as both Chairman and Chief Executive Officer. Following the sale of Omega Pharma in 2015, he invested, via his private investment firm Alychlo NV, in several listed and non-listed companies. He currently serves as Non-Executive Director of Fagron, Greenyard and Smartphoto Group, all Belgian companies, in addition to a number of private companies. Marc was awarded the EY Flemish Entrepreneur of the Year in 2002.

Committee membership

Audit and Risk Committee

Remuneration and Nomination Committee

Chair of committee

By invitation

Board of Directors

CONTINUED

NICK DOWNSHIRE

Independent Non-Executive Director

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

Committee membership:
Chairman of the Audit and Risk Committee.

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

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

DR DOUG HUTCHENS

Independent Non-Executive Director

Appointment:
Doug was appointed to the Board of Animalcare Group plc as an independent Non-Executive Director on 10 February 2022.

Committee membership:
To be confirmed; the Board will review the composition of the Committees in conjunction with the appointment of another Non-Executive Director.

Relevant skills and experience:
Doug has held several senior positions in research and development (R&D) and regulatory affairs at leading global animal health companies. As part of the executive team at Bayer Animal Health, he was an Executive Vice President and Chief Veterinary Officer where he led both drug discovery and product development on a global basis. He holds positions on several R&D advisory boards and is a director of Crenae Therapeutics, Inc.

Before joining the animal health pharmaceutical industry, Doug was an Assistant Professor at the University of Illinois College of Veterinary Medicine where he conducted studies for most of the major animal health companies and participated in the development of multiple new products for companion and production animals. Early in his career, he was a practising veterinarian. He holds a Doctor of Veterinary Medicine degree and a PhD in pathobiology with an emphasis in immuno-parasitology from the University of Illinois.

ED TORR

Independent Non-Executive Director
Senior Independent Director

Appointment:
Ed was appointed to the Board in 2017.

Committee membership:
Chairman of the Remuneration and Nomination Committee and member of the Audit and Risk Committee.

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

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

He is a Non-Executive Director of Intervacc AB, a Swedish biotechnology company listed on Nasdaq Stockholm.

Committee membership

Audit and Risk Committee

Remuneration and Nomination Committee

Chair of committee

By invitation

Corporate Governance Statement

JAN BOONE
NON-EXECUTIVE CHAIRMAN

"The Board provides effective leadership in promoting the sustainable long-term success of the Group."

Dear shareholder,

I am pleased to present the Corporate Governance Report for 2021. The Board values strong governance and recognises its importance in building a successful business. We have developed our governance structure to promote sustainable long-term growth and to assist in delivering against the Group's strategy, as set by the Board.

THE PRINCIPLES OF CORPORATE GOVERNANCE

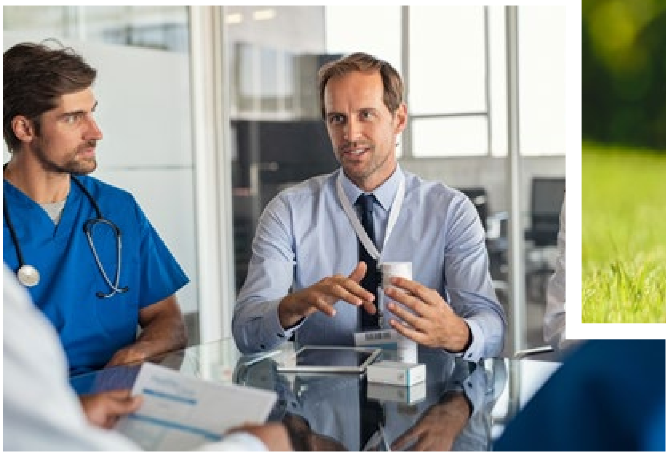
Compliance with the QCA Corporate Governance Code (the "QCA Code")

We continued to apply the principles of the QCA Code during the year under review and the Board believes that we apply all ten principles of the QCA Code. We recognise the need for our governance practices and disclosures to evolve in order to ensure that they continue to support the growth and strategic progress of the Group and the effective application of the principles. Our governance structure provides a framework of clearly established roles, policies and procedures designed to support our compliance with the QCA Code, the AIM Rules and other legal, regulatory and compliance requirements which apply to the Group. The Board regularly reviews the structure to ensure that it develops in line with the growth and strategic plans of the Group. Further details of our corporate governance structure and activities are set out in our Corporate Governance Report on pages 49 to 55.

Supporting strategy through effective governance

The Board has collective responsibility for setting the strategic aims and objectives of the Group and our strategy is articulated on pages 10 to 12 of this report and on our website, along with our business model on pages 16 and 17. In the course of implementing our strategic aims, the Board considers expectations of the Company's shareholder base and its wider stakeholder and corporate social responsibilities.

The Board also has responsibility for the Group's internal control and risk management systems. The Board regularly considers and reviews the business' principal and emerging risks as well as opportunities and ensures that the mitigation strategies in place are the most effective and appropriate to the Group's operations.



During the year, we have continued to develop the Group's risk management framework and details of our framework are set out in our Principal Risks section on pages 27 to 33.

Stakeholder engagement and corporate culture

The Board highly values effective engagement with its key stakeholders and strives to understand their views and interests so that these can be appropriately reflected in its decision-making.

Our statement setting out how the Directors have discharged their duty under s172 of the Companies Act 2006, which includes a description of how the Company has engaged with its key stakeholders and how their views were incorporated into decision-making, is set out on page 34 of the Strategic Report. The challenges presented by the COVID-19 pandemic continued to affect the business and the activities of the Board throughout the year, with travel restrictions and the requirement for COVID-19 safe working environments. However, our positive culture and robust governance framework have enabled the Board to act quickly and support the Executive team in making important decisions.

The Company operates an open and inclusive culture, and this is reflected in the way that the Board conducts itself. Prior to the COVID-19 pandemic, the Non-Executive Directors attended the Group's offices and other Group events. Since the lifting of COVID-19-related restrictions, I am pleased to report that the Board has now been able to meet in person at the Group's offices and we will continue to do this when practical, using video conferencing facilities for some meetings when that is more appropriate. With a relatively small employee base, such interactions are important and enable the Board to promote and assess the desired corporate culture. The Board recognises the importance of promoting an ethical culture by leading from the top. The Group's Code of Conduct, which is applicable to the Board and all employees, is our guide to doing business in the right way. It is complemented by more detailed rules and guidelines which are included in policies that cover the following areas: Good Business Practice, Respecting People, Safeguarding Information and Use of Information Technology. The Board also recognises the need to maintain a proactive focus on culture as the Group grows and we will continue our focus on corporate culture in the coming year. A more detailed explanation of the Board's monitoring of culture is explained on page 54.

Board appointments and succession planning

Chris Cardon stepped down from the Board on 8 July 2021 and subsequently sold his indirect shareholding in the Company via a secondary placing. On behalf of the Board, I would like to thank Chris for his contributions during his four-year tenure and wish him all the best for the future.

I am very pleased to welcome Dr Doug Hutchens who was appointed to the Board on 10 February 2022 following a formal selection process. The current balance of skills, experience and expertise on the Board was considered extensively as part of the process. There is also a selection process currently underway to recruit a Non-Executive Director to replace Nick Downshire who will stand down from the Board during 2022. Future appointments will continue to be on merit, with due consideration

Corporate Governance Statement

CONTINUED

given to the need for diversity, and to complement the existing balance of skills and experience on the Board.

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

Build trust

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

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

Board capabilities

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

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

Board evaluation

The Board underwent a formal internal evaluation process during the year, which aimed to identify strengths and development opportunities for the Board and its Committees, as well as an action plan to be implemented by the Board during the year ahead. Further details on the evaluation process can be found on page 53.

JAN BOONE

Non-Executive Chair

29 March 2022

Corporate Governance Report

COMPOSITION OF THE BOARD AND ITS COMMITTEES

Board composition

The Company maintains a robust framework of corporate governance, with clearly defined roles and responsibilities on the Board and formally constituted Board Committees, as detailed below. This ensures the safeguarding of long-term shareholder value as well as the provision of a robust platform upon which to deliver the Group's strategy.

Board

Board of Directors Responsible for establishing the Company's strategic direction and overseeing a robust framework of governance.	Jan Boone	Independent Non-Executive Chair
Executive Directors Responsible for day-to-day management of the Company's operations and delivery of Group strategy.	Jennifer Winter	Chief Executive Officer
	Chris Brewster	Chief Financial Officer and Company Secretary
Non-Executive Directors Providing independent challenge to, and oversight of, the performance of the Executive Directors.	Marc Coucke	Non-Independent Non-Executive Director
	Nick Downshire	Independent Non-Executive Director
	Ed Torr	Senior Independent Director/ Independent Non-Executive Director
	Doug Hutchens	Independent Non-Executive Director

Board Committees

Audit and Risk Committee	Remuneration and Nomination Committee
Responsible for monitoring the integrity of the Company's financial statements and overseeing the effectiveness of the Company's systems of risk management and internal control. The Audit and Risk Committee Report can be found on pages 56 to 59.	Responsible for the structure, size, composition and succession planning of the Board, as well as setting fixed and variable Executive Director remuneration and monitoring senior management remuneration levels. The Remuneration and Nomination Committee Report can be found on pages 60 to 61.

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

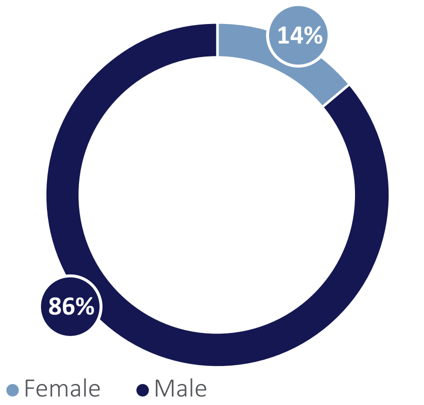
The Board currently comprises two Executive Directors and five Non-Executive Directors. Director biographies can be found on pages 42 to 44.

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

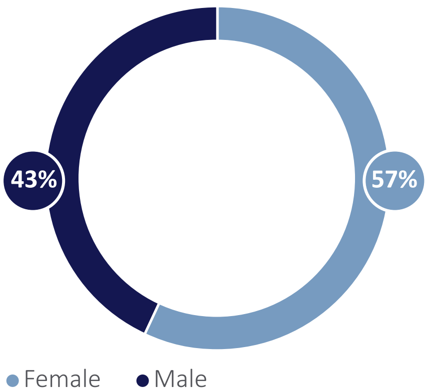
The Board also recognises that, as the Group evolves, the mix of experience and skills on the Board may change and the Board composition will need to reflect that change. The Remuneration and Nomination Committee has responsibility for succession planning for Board Directors and other Senior Executives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

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

Board gender diversity



Senior Executive Team



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

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

Independence

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

Following the acquisition of Ecuphar NV in July 2017, 23.1% of the issued share capital of the Company was held by Ecuphar Invest NV, an entity controlled by Chris Cardon, who served as a non-independent Non-Executive Director of the Company. Chris stepped down from the Board on 8 July 2021 and sold his 23.1% indirect shareholding in the Company via placement.

A further 24.2% of the issued share capital is still held by Alychlo NV, an entity wholly owned by Marc Coucke, non-independent Non-Executive Director.

Appointments to the Board and re-election

The Board has delegated to the combined Remuneration and Nomination Committee the tasks of reviewing Board composition, searching for appropriate candidates and making recommendations to the Board on candidates to be appointed as Directors.

Dr Doug Hutchens was appointed to the Board on 10 February 2022 following a formal selection process. A selection process is currently underway to recruit a Non-Executive Director to replace Nick Downshire who will stand down from the Board during 2022. Further details on the role of the Remuneration and Nomination Committee and its activities during the year are set out in its report on pages 60 to 61.

The Directors have the power to appoint Directors during the year but any person so appointed must stand for election at the next Annual General Meeting (“AGM”), as required by the Company’s Articles of Association (“Articles”).

In accordance with corporate governance best practice, all Directors retire and offer themselves for re-election at the AGM each year. The Board considers that each of the Directors continues to make a valuable contribution to the Board and to demonstrate commitment to the Group.

How the Board operates

The Board is responsible for the Group’s strategy and for its overall management. The operation of the Board is documented in a formal schedule of matters reserved for its approval, which sets out the Board’s responsibilities.

These include matters relating to:

- The Group’s strategic aims and objectives
- The structure and capital of the Group financial reporting, financial controls and dividend policy
- Internal control, risk and the Group’s risk appetite
- The approval of significant contracts and expenditure
- Effective communication with shareholders
- Changes to Board membership or structure

Board meetings

The Board met formally four times during the year. Non-Executive Directors maintain a direct and regular line of communication with Executive Directors and senior management between formal Board meetings and Board members are also invited to a budget review meeting with senior management held in November each year.

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

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

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

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

Director	Board	Audit and Risk Committee	Remuneration and Nomination Committee
Jan Boone	4/4	3/3	2/2
Chris Brewster[1]	4/4	–	–
Chris Cardon[2]	2/4	–	–
Marc Coucke[3]	4/4	–	1/2
Nick Downshire	4/4	3/3	–
Ed Torr	4/4	3/3	2/2
Jennifer Winter	4/4	–	–

1 Chris Brewster attends the Audit and Risk Committee by invitation.

2 Chris Cardon stepped down from the Board on 8 July 2021.

3 Marc Coucke was unable to attend a Remuneration and Nomination Committee meeting in December 2021 due to other business commitments.

Board decisions and activity during the year

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

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

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

Strategy	New product development and opportunities
	Dedicated half-day strategy session
Performance	Trading updates
	Review of budgets and forecasts
	Going concern and cash flow
	Presentations from members of the Senior Executive Team
	Approval of annual and half-year report and financial statements
Governance	Internal Board performance evaluation
	Review of conflicts of interest
	Share Dealing Code
Stakeholders	Investor relations and share register analysis
	Review of AGM business

Details of the Board's key discussions and stakeholder considerations are set out in the Strategic Report on pages 34 to 37.

The Board Committees

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

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

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

Leadership / Senior Executive Team

As detailed in last year's Annual Report, in January 2021, we unveiled a new organisation structure designed to support delivery of our growth strategy, resulting in the move to a smaller and highly experienced Senior Executive Team (SET) comprising the CEO, CFO, North and South Region Directors, Group HR Director, Group Commercial Director and the newly created role of Strategic Product and Portfolio Director, for which an appointment was made after the year end. The team meets weekly, monthly and quarterly and its responsibilities include tracking financial performance, progress against our strategic and operational objectives, leadership development, improving employee engagement and all aspects of the operational leadership of the organisation.

External advisers

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

Development, information and support

The Company Secretary ensures that all Directors are kept abreast of changes in relevant legislation and regulations, with the assistance of the Company's advisers where appropriate. Executive Directors are subject to the Company's performance development review process through which their performance against predetermined objectives is reviewed and their personal and professional development needs considered. Non-Executive Directors are encouraged to raise any personal development or training needs with the Chair or Company Secretary.

Risk management

The Board has ultimate responsibility for setting the Group's risk appetite and risk management strategy and for reviewing the effectiveness of the Group's framework for risk management and internal control. Oversight of risk management is undertaken by the Audit and Risk Committee which reports to the Board three times a year. In 2020, the Audit and Risk Committee recommended a review of the risk management structure with a focus on risk reporting and oversaw its continued implementation during 2021. Further details regarding the implementation are set out in the Audit and Risk Committee Report on page 56 and in Our Principal Risks in the Strategic Report on pages 27 to 33.

Internal controls

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

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

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

- Close management of the day-to-day activities and financial performance of the Group by the Senior Executive Team and other senior management
- An organisational and IT systems structure with defined levels of responsibility and user access

- Specified contract approval levels and financial authority limits
- An annual budgeting process which is approved by the Board
- A monthly and quarterly reforecasting process which forms part of the financial performance review cycle
- Controls to ensure that the assets of the Group are safeguarded and that appropriate accounting records are maintained

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

Board evaluation

The Board conducted a formal internal performance evaluation process during the year, by way of a detailed questionnaire completed by each member of the Board to obtain the Directors' views on the effectiveness of the Board, its committees and on key governance areas. The responses were collated and reviewed by the Chair and Senior Independent Director and a summary of the key themes were presented to the Board. A number of actions were agreed including:

- Strengthening Board composition with the appointment of two new independent, Non-Executive Directors to improve independence, gender diversity and international and new product development experience on the Board
- Re-instating Board visits to European offices in the annual Board calendar, as pandemic-related restrictions are lifted
- Further interaction between the Non-Executive Directors and members of the Senior Leadership Team
- Enhancements to the Board's oversight of the Group's risk management framework

The Board has made progress with these actions with the appointment of Dr Doug Hutchens and a selection process for a new independent Non-Executive Director, a visit to the Company's Belgian office, and management presentations to the Board and Audit and Risk Committee with a focus on the improved risk management framework and processes. Progress will continue to be monitored during 2022.

Succession planning

The Remuneration and Nomination Committee considers the issue of succession planning. Further details can be found in the Committee's report on page 60.

Conflicts of interest

At each meeting of the Board or its Committees, the Directors are required to declare any interests in the matters to be discussed and are regularly reminded of their duty to notify any actual or potential conflicts of interest. The Company's Articles provide for the Board to authorise any actual or potential conflicts of interest if deemed appropriate to do so.

Independent professional advice

Directors have access to independent professional advice at the Company's expense. In addition, they have access to the advice and services of the Company Secretary who is responsible for advice on corporate governance matters to the Board and the Group's corporate governance and company secretarial adviser, Prism Cosec.

Directors' and officers' liability insurance

The Company has Directors' and officers' liability insurance in place, as permitted by the Company's Articles.

Culture

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

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

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

Board meetings take place at the offices of different business units at various times during the year, which gives the Board the opportunity to engage with members of the management team and the wider employee base both formally and informally, at meetings, lunches and dinners. This practice continued to be impacted by COVID-19 restrictions during 2021, however, it is intended to resume meetings at the Group's offices at certain times of the year. The Board will continue to utilise opportunities to engage with managers and the wider team as such interactions provide an invaluable opportunity to engage with, and ascertain the views and interests of, a key stakeholder, the workforce. It also allows a valuable insight into our corporate culture and assists the Board in monitoring and promoting a healthy culture throughout the business by setting a positive tone from the top.

The Board also received a report on key people initiatives being undertaken during the year which included updates to the performance management process, compensation and benefits benchmarking, the introduction of personal and team development sessions, the launch of a leadership development programme and employee engagement and wellbeing support provided via the Group's global employee assistance programme. The report also covers the results of the annual employee engagement survey and the actions planned to address any issues raised and the focus for the following year.

We recognise the need to maintain a proactive focus on culture as the Group grows and it will remain a focus during the coming year.

Relations with shareholders

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

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

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

Due to the Company's relatively small employee base, the Non-Executive Directors are able to engage directly with employees. Pre-COVID-19 restrictions, they attended meetings and dinners with members of the team and while this practice continued to be hindered during 2021 due to continuing restrictions, it is intended that this will resume in 2022.

Employee engagement

After an exceptionally positive score in 2020, the Group's 2021 employee survey, carried out using the Gallup Q12 methodology, showed a slight decline of 4% in overall engagement. Nevertheless, the overall rating for 2021 keeps Animalcare well ahead of Gallup's European average engagement benchmark of companies. In particular, positive results were recorded for our "One Team" spirit, improving communication and cross-country collaboration as well as opportunities for training and development.

To aid personal and team development, Insights Discovery sessions are arranged to facilitate and develop an environment of trust where people speak up and give honest feedback and learn about self-awareness and team awareness, helping to improve team communication and performance.

The Group has a global employee assistance programme to assist team wellbeing, which includes a confidential counselling and information service to assist employees with personal or work-related challenges that may affect health, wellbeing or performance. This service offers employees 24 hours a day, 365 days a year access to telephone counselling, information services and free access to short-term face-to-face counselling with a professional counsellor. Regular communications are also shared with teams providing advice and guidance on how to support individuals' physical and mental wellbeing.

Key focus areas for 2022 include the development of our talent management programme including the launch of a talent mapping process, the roll out of the leadership development programme to develop senior leaders and role model leadership excellence, further rollout of our Insights Discovery sessions and further supporting employee wellbeing and engagement of our teams through our global employee assistance programme, with regular keynotes and webinars around wellbeing, our annual survey and in-country focus groups to provide an insight into what motivates our employees.

AGM

The Company's AGM is scheduled to be held on Tuesday 7 June 2022. Further details of the arrangements for the AGM can be found in the Notice of 2022 AGM which is available on the Company's website www.animalcaregroup.com/investors/shareholder-centre/agm/

Audit and Risk Committee Report

NICK DOWNSHIRE
CHAIRMAN OF THE AUDIT AND RISK COMMITTEE

"As Chair of the Audit and Risk Committee, I am pleased to present the Committee's report for the year ended 31 December 2021."

I am pleased to present the Audit and Risk Committee's report for the year ended 31 December 2021.

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

MEMBERS OF THE AUDIT AND RISK COMMITTEE

The Committee comprises three independent Non-Executive Directors:

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

The Board is satisfied that Nick Downshire, as Chairman of the Committee, who is a qualified Chartered Accountant having worked in corporate finance and venture capital and is an experienced Non-Executive Director and Audit and Risk Committee chair, has recent and relevant financial experience. A selection process is currently underway to recruit a Non-Executive Director with suitable experience to replace Nick as he intends to stand down from the Board during 2022.

DUTIES

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

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

The Committee reviews its Terms of Reference annually and the Board approved the current Terms of Reference on 15 December 2021.

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

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

ACTIVITIES UNDERTAKEN BY THE COMMITTEE DURING THE YEAR

The Committee met three times during the year and on one occasion since the year end and will continue to meet at appropriate times in the reporting and audit cycle and at such other times as is necessary to discharge its duties. Although only members of the Committee have the right to attend meetings, the Chief Executive Officer, Chief Financial Officer, members of the finance and other internal teams and external advisers are invited to attend some meetings for all or part of the meeting. Attendance at the meetings held during the year is set out in the Corporate Governance Report on page 51.

The main activities of the Committee during the year are set out below:

ANNUAL AND INTERIM FINANCIAL STATEMENTS

The Committee has reviewed the full year and interim financial statements including consideration of significant audit risks identified by the external auditor, and the key accounting judgements and estimates (the Committee's response to the significant accounting judgements and estimates in respect of the 2021 financial statements is set out below). The Committee also reviewed the principal risks and uncertainties disclosures.

REVIEW OF AND MONITORING OF THE GROUP RISK MANAGEMENT FRAMEWORK

Following the successful implementation of a robust Enterprise Risk Management Framework across the Group, with advice from The Value Circle, an advisory firm specialising in risk, the Committee continued to review and monitor the development of the Group's enhanced risk management framework. At each meeting, the Committee received a report on the development and implementation of a Risk and Control Self-Assessment process across the Group, and details of key risks identified and mitigating actions put in place. At their December meeting, the Committee received a report on progress during the year from the recently appointed Group Risk and Compliance Manager whose role is designed to provide independent assurance over the operation of risk management processes. Further details of the approach and how the framework has been strengthened are set out in Our Principal Risks on pages 27 to 33. The Committee reviews the Strategic Risk Heatmap and Horizon Scan and reports to the Board on its review three times a year. The Committee is satisfied that the strengthened risk management framework will enable the Board to monitor, manage and mitigate the critical risks in our strategic plan to the benefit of our stakeholders.

GOING CONCERN AND LIQUIDITY

The Committee is responsible for reviewing statements and disclosures made in respect of Going Concern, as outlined in the Chief Financial Officer's review and Note 3 Summary of Significant Accounting Policies. In considering such disclosures, the Committee paid particular attention to the robustness of stress testing scenarios, the cash flows forecast by the Group, bank covenant compliance and the committed bank facilities available in the period under review and beyond. The external auditor reviewed management's assessment and discussed this review with the Committee.

ROLE OF THE EXTERNAL AUDITOR

The Committee oversees the relationship with the external auditor, PricewaterhouseCoopers LLP, to ensure that auditor independence and objectivity are maintained. As part of its review, the Committee monitors the provision of non-audit services by the external auditor. The breakdown of fees between audit and non-audit services is provided in Note 25 to the Group's Consolidated Financial Statements.

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

AUDIT PROCESS

At the outset of the audit process, the Committee receives from the auditors a detailed audit plan, identifying their assessment of the key audit matters and their intended areas of focus. This plan is reviewed and agreed in advance by the Committee. Following the audit, the external auditor presented its findings to the Committee for discussion. No major areas of concern were highlighted by the external auditor during the year; however, areas of significant risk and other matters of audit relevance are regularly communicated. The Committee met with the external auditor without management present.

The Committee also reviews the effectiveness of the external process on an annual basis, with the review including considering the views of both the external audit team, and the CFO, as well as assessing the Committee's own interactions with the external auditor. The Committee reviewed the effectiveness of the 2020 year-end audit process during the year, and concluded that it was effective. It will review the 2021 year-end audit process during the course of 2022.

INTERNAL AUDIT

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

SIGNIFICANT ISSUES CONSIDERED IN RELATION TO THE FINANCIAL STATEMENTS

As part of the monitoring of the integrity of the financial statements, significant issues and accounting judgements identified by the finance team, and the external audit process, are reviewed by the Committee and reported to the Board. The key matters considered by the Committee in respect of the year ended 31 December 2021 are set out below:

Carrying value of goodwill and intangible assets and carrying value of investments (Company only)	Consideration of the carrying value of goodwill and intangibles assets and the assumptions underlying the impairment review. The judgements in relation to the valuation primarily relate to the assumptions underlying the cash flows of the long-term business plans, including revenues from the R&D pipeline, the discount rate and the long-term growth rate. The assumptions are sensitised to demonstrate there is adequate headroom between the recoverable amount and the carrying value of the asset being tested for impairment.
Recognition and valuation of judgemental provisions	Determining the appropriateness of the assumptions used in the recognition and valuation of judgemental provisions which relate mainly to inventory and customer rebates.
Presentation of underlying profit adjustments	A review of the appropriateness of items disclosed as non-recurring items, including amortisation and impairment of acquired intangibles, acquisition and integration costs.

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

RISK MANAGEMENT AND INTERNAL CONTROLS

The Committee is responsible for reviewing the risk management and internal control framework and ensuring that it operates effectively. As explained above, the Group has continued to strengthen its risk management framework and procedures during the year. Further details of the Group's system of internal controls can be found in the Corporate Governance Report on page 52. The Committee is satisfied that the risk management framework and internal control systems are operating effectively.

SHARE DEALING

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

WHISTLEBLOWING

The Group has in place whistleblowing procedures under which staff may report any suspicion of fraud, financial irregularity or other malpractice; these were reviewed and updated during the year.

ANTI-BRIBERY AND CORRUPTION POLICY

The Committee has also reviewed the Group's anti-bribery and corruption policy (which states the Company's commitment to open and transparent conduct of business, and zero-tolerance approach towards bribery) and agreed that no changes to the policy were required.

NICK DOWNSHIRE
Chairman of the Audit and Risk Committee

29 March 2022

Remuneration and Nomination Committee Report

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

MEMBERS OF THE REMUNERATION AND NOMINATION COMMITTEE

The Committee comprises three Directors, two of which are independent:

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

Committee membership will be reviewed when a new independent Non-Executive Director has been appointed and it is anticipated that Marc Coucke will stand down from the Committee during 2022.

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

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

DUTIES

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

NOMINATION

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

REMUNERATION

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

The Committee reviews its Terms of Reference annually and the Board approved the current Terms of Reference on 15 December 2021.

PRINCIPAL ACTIVITIES DURING THE YEAR

The Committee approved the appointment of an executive search advisory firm, Ridgeway Partners, to assist the Committee with the selection of two new Non-Executive Directors. It was agreed that one role would require specialist healthcare sector expertise and the other role would require expertise in financial management and audit, with candidates having the potential to step into the Chair of the Audit and Risk Committee role when Nick Downshire steps down from the Board. After a detailed selection process, involving consideration of a short list of candidates, interviews and due diligence checks, the Committee recommended the appointment of Dr Doug Hutchens to the Board and he was appointed with effect from 10 February 2022. An induction process for Doug has been agreed and is underway. Further details are set out on page 61. The search for a suitable candidate with appropriate financial and audit experience is continuing and an appointment will be announced in due course.

The Committee considered the results of a benchmarking exercise and review of the remuneration of members of the newly formed Senior Executive Team conducted by the Group HR Director with the Chair of the Committee. The Committee considered the proposals put forward and recommended adjustments to salary and bonus awards for some members of the Senior Executive Team.

Later in the year, the Committee conducted a review of the remuneration of the Executive Directors with input from an external adviser and reference to current guidance in respect of executive remuneration for AIM listed companies. The Committee was mindful to consider a proposed increase against the average increase for the wider workforce and noted that it was in line with the average increase approved earlier in the year for certain members of the Senior Executive Team. The Committee agreed that it was important to maintain competitive remuneration packages to retain and incentivise key members of the Executive team to drive the growth of the business, and after careful consideration, approved salary increases for the Executive Directors, Jennifer Winter and Chris Brewster, with effect from 1 January 2022. Further details are set out in the Directors' Remuneration Report on page 62.

The Committee also considered the following matters:

- Consideration of Non-Executive Directors' fees
- Performance criteria for the Long Term Incentive Plan ("LTIP") and awards under the LTIP
- Review of performance of the Executive Directors
- Succession planning for the Executive Directors
- Review of Group pension arrangements
- Board evaluation
- Re-election of Directors at the AGM
- Review of the Committee's Terms of Reference
- Training and development requirements of Directors
- Review of Non-Executive Directors' time commitment
- Review of Committee plan for 2022

ACTIVITIES IN 2022

The Committee has considered the FY21 bonus awards for the Executive Directors and reviewed performance against Group financial performance targets (75% weighting) and personal objectives (25% weighting) relevant to their own areas of responsibility. The Committee noted that financial performance criteria and personal objectives had been met in full and agreed to award 100% of the bonus award for FY21. Further details on the annual bonus are set out in the Directors' Remuneration Report on page 62.

Further consideration will be given to succession planning for the Executive Directors and Senior Executive Team and the Committee will conduct a review of Non-Executive Directors' fees during the year.

INDUCTION AND DEVELOPMENT

On his appointment, an induction programme was agreed for Doug Hutchens including meetings with each of the Directors and members of the Senior Executive Team to be briefed on Animalcare's operations.

In addition, the Company's nominated adviser and joint broker, Stifel Nicolaus Europe Limited, provided briefings for the Directors on their legal duties and responsibilities as directors of an AIM company.

We are confident that Board members have the knowledge, ability and experience to perform the functions required of a director of a listed company.

DIVERSITY AND INCLUSION

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

The Board recognises the benefits of diversity, including gender diversity, on the Board. Appointments will be made on merit but with due consideration to the need for diversity and to ensure there is an appropriate balance of skills and experience within the Board. The Board currently consists of 86% (six) male and 14% (one) female members. The Senior Executive Team currently consists of 43% (three) male and 57% (four) female members.

ED TORR

Chairman of the Remuneration and Nomination Committee

29 March 2022

Directors' Remuneration Report

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

This report covers the financial year ended 31 December 2021.

THE REMUNERATION AND NOMINATION COMMITTEE

The Board has delegated certain responsibilities for executive remuneration to the Remuneration and Nomination Committee ("the Committee"). Details of the Committee, its remit and its activities are set out on page 60.

The Committee is, among other things, responsible for setting the remuneration policy for Executive Directors and the Chairman, and recommending and monitoring the level and structure of remuneration for senior management.

REMUNERATION POLICY

The objective of the remuneration policy is to promote the long-term success of the Company, having regard to the views of shareholders and stakeholders.

In formulating remuneration policy for the Executive Directors, the Committee considers a number of factors designed to:

- Have regard to the Director's experience and the nature and complexity of their work in order to pay a competitive salary, in line with comparable companies, that attracts and retains Directors of the highest quality;
- Reflect the Director's personal performance; and
- Link individual remuneration packages to the Group's long-term performance and continued success of the Group through the award of annual bonuses and share-based incentive schemes.

EXECUTIVE DIRECTORS

Current components of the Executive Directors' remuneration are base salary, annual bonus and share-based incentive schemes.

BASE SALARY

Base salary is reviewed annually by the Committee. There were no changes in base salary during the year.

As reported in the Remuneration and Nomination Committee Report on page 61, following benchmarking and review of executive remuneration in 2021, the CEO's salary was increased from £306,000 to £336,000 and the CFO's salary was increased from £209,000 to £230,000 with effect from 1 January 2022.

ANNUAL BONUS

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

For the CEO, 75% of the bonus award is aligned to achievement of Group financial performance targets (budgeted revenue (37.5 %) and EBITDA (37.5 %)) and 25% is dependent on achievement of personal objectives. The maximum bonus opportunity is 50% of salary.

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

Malus and clawback provisions will apply to enable the Company to recover sums paid or withhold the payment of any sum in the event of a material misstatement resulting in an adjustment to the audited consolidated accounts of the Group or action or conduct which, in the reasonable opinion of the Board, amounts to employee misbehaviour, fraud or gross misconduct.

LONG TERM INCENTIVE PLAN

A Long Term Incentive Plan, the Animalcare Group plc Long Term Incentive Plan 2017 ("the LTIP"), was approved by the Board in June 2017. A summary of the LTIP was set out in the circular sent to shareholders on 24 June 2017 which is available on the Company's website (www.animalcaregroup.com).

On 5 November 2021, the Board approved the grant of nil-cost options under the LTIP over a total of 264,981 ordinary shares with a nominal value of 20.0 pence per share ("the Options") awarded to certain members of the Senior Executive Team and to members of the Leadership Team. Details of the nil-cost options granted to the Executive Directors are set out on page 65. The LTIP awards will vest three years after the date of grant subject to the following performance criteria being met over the three-year financial period ending 31 December 2024. 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%
10%	100%
Between 3% and 10%	Between 25% and 100% on a straight-line basis

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

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

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

OTHER BENEFITS

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

SERVICE AGREEMENTS AND TERMINATION PAYMENTS

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

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

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

LETTERS OF APPOINTMENTS

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

Director	Date of contract	Renewed on	Term expires	Notice period by Company	Notice period by Director
Jan Boone	17 June 2017	30 June 2020	2023 AGM	3 months	3 months
Nick Downshire	17 June 2017	30 June 2020	2023 AGM	3 months	3 months
Ed Torr	17 June 2017	30 June 2020	2023 AGM	3 months	3 months
Marc Coucke	17 June 2017	30 June 2020	2023 AGM	3 months	3 months
Doug Hutchens	10 February 2022	-	2025 AGM	3 months	3 months

EMPLOYEES' PAY

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

NON-EXECUTIVE DIRECTORS

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

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

Directors' Remuneration Report

CONTINUED

REMUNERATION POLICY FOR 2022

The remuneration policy for 2022 will operate as follows:

	Role	Basic salary/fee £'000s	Maximum bonus potential
Executive			
Jennifer Winter[1]	Chief Executive Officer	337	50%
Chris Brewster[2]	Chief Financial Officer	230	40%
Non-Executive			
Jan Boone	Chair	70	–
Nick Downshire	Chair of Audit and Risk Committee	40	–
Ed Torr	Chair of Remuneration and Nomination Committee	45	–
Marc Coucke	Non-Executive Director	40	–
Doug Hutchens	Non-Executive Director	40	–

STATUTORY INFORMATION

The following information includes disclosures required by the AIM Rules and UK company law in respect of Directors who served during the year to 31 December 2021.

DIRECTORS' REMUNERATION

The following table summarises the gross aggregate remuneration of the Directors who served during the year to 31 December 2021:

£'000		Salary and fees	Annual bonus	Benefits	Pension	Total
Executive						
Jennifer Winter[1]	**2021**	**306**	**153**	**14**	**–**	**473**
	2020	300	94	14	–	408
Chris Brewster[2]	**2021**	**209**	**84**	**12**	**23**	**328**
	2020	205	51	13	25	294
Non-Executive						
Jan Boone	**2021**	**70**	**–**	**–**	**–**	**70**
	2020	70	–	–	–	70
Chris Cardon[3]	**2021**	**18**	**–**	**–**	**–**	**18**
	2020	35	–	–	–	35
Marc Coucke	**2021**	**40**	**–**	**–**	**–**	**40**
	2020	40	–	–	–	40
Nick Downshire	**2021**	**40**	**–**	**–**	**–**	**40**
	2020	40	–	–	–	40
Ed Torr[4]	**2021**	**45**	**–**	**–**	**–**	**45**
	2020	43	–	–	–	43
Total	**2021**	**728**	**237**	**26**	**23**	**1,014**
	2020	733	145	27	25	930

1 Jennifer Winter's benefits comprise a car allowance (£10k) and private medical insurance (£4k).

2 Chris Brewster's benefits comprise a car allowance (£10k) and private medical insurance (£2k).

3 Chris Cardon resigned as a Director on 8 July 2021. His annual fee of £35,000 was pro-rated to his date of resignation; the pro-rated fee was £18,356. This fee was calculated in GBP and, as previous practice, paid in euros at a rate fixed at the time of his appointment as Non-Executive Director.

4 Ed Torr receives an annual fee of £40,000 and an additional fee of £5,000 for his chairmanship of the Remuneration and Nomination Committee.

SHARE OPTIONS

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

	Date of grant	First exercise date	Number of LTIP nil cost options awarded	Total options held
Jennifer Winter	06/06/19	06/06/22	177,750	
	17/11/20	31/12/23	165,761	
	05/11/21	31/12/24	106,844	450,175
Chris Brewster	06/06/19	06/06/22	76,636	
	17/11/20	31/12/23	66,848	
	05/11/21	31/12/24	43,806	187,290

During the year, a total of 114,331 options over ordinary shares were also granted to members of the Senior Executive Team and other members of the Leadership Team.

DIRECTORS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

The Directors' interests in the share capital of the Company as at 31 December 2021 and the movements during the year are set out below:

Director	Number of shares held as at 1 January 2021	Acquired/ (disposed) during the period	Number of shares held as at 31 December 2021	Percentage of ISC as at 31 December 2021
Jan Boone	50,171	87,719	137,890	0.23
Chris Brewster	280,513	–	280,513	0.47
Chris Cardon	13,857,213	(13,857,213)	–	–
Marc Coucke	13,857,213	701,761	14,558,974	24.23
Nick Downshire	1,050,029	38,409	1,011,620	1.68
Edwin Torr	107,455	–	107,455	0.18
Jennifer Winter	–	7,000	7,000	0.01

As at 1 January 2021, Nick Downshire had a non-beneficial interest of 190,446 shares; during the year, he sold 38,409 shares and as at 31 December 2021, he had a non-beneficial interest of 152,037 shares.

Doug Hutchens does not have an interest in the share capital of the Company.

There were no changes in the Directors' interests in shares between 31 December 2021 and 29 March 2022.

ED TORR

Chairman of the Remuneration and Nomination Committee

29 March 2022

Directors' Report

The Directors present their report, together with the audited financial statements of the Group and the Company for the year ended 31 December 2021.

PRINCIPAL ACTIVITIES

Animalcare Group plc is a public limited company incorporated in England and Wales with registered number 01058015, which is listed on AIM, London Stock Exchange.

The principal activity of the Group during the period was the development, sale and distribution of licensed veterinary pharmaceuticals and identification products and services to Companion Animal, Production Animal and Equine veterinary markets.

STATUTORY INFORMATION CONTAINED ELSEWHERE IN THE ANNUAL REPORT

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

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

The Corporate Governance statement on page 46.

The Group's financial risk management objectives in the Corporate Governance Report on pages 49 to 55.

The Directors' Remuneration Report can be found on pages 62 to 65.

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

Details of the salaries, bonuses, benefits and share interests of Directors in the Directors' Remuneration Report on pages 62 to 65.

Environmental disclosures can be found under Sustainability on pages 38 to 41.

Section 172 statement, the key issues and stakeholder considerations discussed by the Board during the year and how the Company engages with its stakeholders are set out on page 47 of the Strategic Report.

Directors' responsibility statements on page 70.

Likely future events are disclosed within the Strategic Report on pages 10 to 41.

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

DIVIDEND

An interim dividend of 2.0 pence per share was paid on 19 November 2021 to shareholders whose names were on the Register of Members at close of business on 22 October 2021.

Reflecting its continued confidence in the Group, as well as the positive performance for the year ended 31 December 2021, the Board is recommending a final dividend of 2.4 pence per share (2020: 2.0 pence per share), giving a total dividend for the year of 4.4 pence (2020: 4.0 pence per share) which is in line with pre-COVID levels. Subject to shareholder approval at the Annual General Meeting to be held on Tuesday 7 June 2022, the final dividend will be paid on Friday 8 July 2022 to shareholders whose names are on the Register of Members at close of business on Monday 6 June 2022. The ordinary shares will become ex-dividend on Wednesday 1 June 2022, due to the Jubilee Bank Holiday on Thursday 2 and Friday 3 June 2022.

DIRECTORS

The names of the current Directors of the Company and their biographical details are shown on pages 42 to 44. There were no changes to directorships during the reporting period. Dr Doug Hutchens was appointed on 10 February 2022.

SHARE CAPITAL STRUCTURE

The Company's issued share capital as at 31 December 2021 was £12,018,432.20 divided into 60,092,161 ordinary shares of 20.0 pence each. Following the exercise of options by employees, there were two share allotments during the year, on 17 June 2021 and 30 June 2021. Full details relating to the Company's issued share capital and allotments during the year can be found in Note 22 to the Consolidated Financial Statements on page 117.

The Company's ordinary shares rank pari passu in all respects with each other, including for voting purposes and for all dividends. Ordinary shareholders are entitled to receive notice of, and to attend and speak at, any general meeting of the Company. On a show of hands, every shareholder present in person or by proxy (or being a corporation represented by a duly authorised representative) shall have one vote, and on a poll, every shareholder who is present in person or by proxy shall have one vote for every share they hold. The Notice of Annual General Meeting specifies deadlines for exercising voting rights and appointing a proxy or proxies. Further information on the voting and other rights of shareholders are set out in the Company's Articles of Association, which are available on the Company's website (www.animalcaregroup.com).

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

AUTHORITY FOR THE COMPANY TO PURCHASE ITS OWN SHARES

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

At the AGM on 9 June 2021, the Company was generally and unconditionally authorised by its shareholders to make market purchases (within the meaning of section 693 of the Companies Act 2006) of up to a maximum of 6,005,716 of its ordinary shares. The Company has not repurchased any of its ordinary shares under this authority, which is due to expire on the date of this year's AGM.

RESEARCH AND DEVELOPMENT

Our new product development programme is key to the future long-term growth and success of the Group and we are committed to the development of new and innovative products to meet the needs of our customers. Further information in relation to product development can be found in the Chief Executive Officer's Review on pages 18 to 20. During the period under review, the Group incurred research and development expenditure, including additions to intangibles of £4.5m (2020: £4.0m).

ARTICLES OF ASSOCIATION

The rules governing the appointment and replacement of Directors are set out in the Company's Articles of Association. Amendments to the Articles of Association of the Company may be made by Special Resolution of the shareholders.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Disclosures regarding risk management and financial instruments are provided within the Strategic Report and in Note 24 to the Consolidated Financial Statements on page 120.

DIRECTORS' INDEMNITIES AND LIABILITY INSURANCE

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

The Group purchases and maintains directors' and officers' liability insurance for the benefit of its Directors, which was in place throughout the year ended 31 December 2021 and remains in place at the date of this report. The Company reviews its level of cover annually.

POLITICAL DONATIONS

No political donations were made during the year (2020: £nil).

MODERN SLAVERY

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

STAKEHOLDER ENGAGEMENT AND KEY DECISIONS

Details of the key decisions and discussions of the Board during the year and the main stakeholder inputs into those decisions are set out in the Strategic Report on pages 34 to 37.

EMPLOYEES

The Board recognises that the Group's performance and success are directly related to our ability to attract, retain and motivate high-calibre employees. We are committed to linking reward to business and individual performance, thereby giving employees the opportunity to share in the financial success of the Group. Employees are typically provided with financial incentives related to the performance of the Group in the form of annual bonuses. The Board also recognises senior management contribution through the use of long-term incentive plans within overall remuneration.

Applications for employment by disabled persons are given full and fair consideration. When existing employees become disabled, every effort is made to provide continuing employment wherever possible.

SIGNIFICANT SHAREHOLDINGS

The Company has been notified of the following interests or is otherwise aware of the following interests, representing 3% or more of the issued share capital of the Company as at 28 February 2022:

Name of holder	No. of ordinary shares	% Holding[1]
Alychlo NV	14,558,974	24.23
Liontrust Asset Management	7,301,724	12.15
SEB Investment Management AB	5,120,740	8.52
BlackRock Investment Management	4,347,312	7.23
BGF Investment Management Limited	3,556,839	5.92
Octopus Investments Nominees Limited	2,740,498	4.56
Canaccord Genuity Wealth Management	2,519,131	4.19

1 Please note that percentage holdings are shown to two decimal places; full details of holdings can be found on the Animalcare Group page on the London Stock Exchange website.

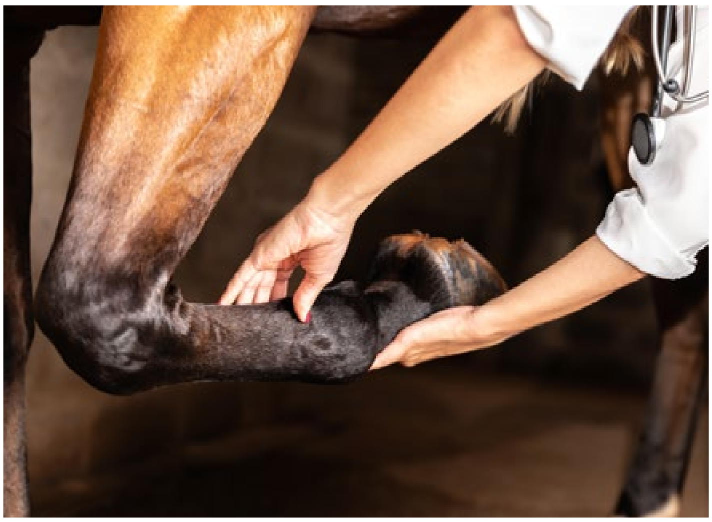
RELATIONSHIP AGREEMENT

On 23 June 2017, on the announcement of the proposed acquisition of Ecuphar NV, the Company entered into a relationship agreement ("the Relationship Agreement") with Panmure Gordon, the Company's nominated adviser and broker as at the date of the agreement and Alychlo NV and Ecuphar Invest NV ("the Substantial Shareholders"). The Substantial Shareholders together owned more than 40% of the Group's total issued share capital, with 23.1% held by Ecuphar Invest NV, an entity controlled by Chris Cardon, who served as a non-independent Non-Executive Director of the Company. Chris stepped down from the Board on 8 July 2021 and sold his 23.1% indirect shareholding in the Company via placement. The Substantial Shareholders as defined in the Relationship Agreement therefore no longer own more than 40% of the issued share capital of the Company and, instead, Alychlo NV owns 24.2% as at 8 July 2021 and therefore the Relationship Agreement terminated.

GOING CONCERN

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

In reaching this conclusion the Directors have undertaken an assessment of the future prospects of the Group, taking into account the Group's current financial position and principal risks. This review considered forecasts of future trading, including working capital and investment requirements for 12 months from the reporting date that take into account reasonably possible changes in trading performance, in particular a "severe but plausible" downside scenario to factor in a range of downside revenue estimates, including further unexpected COVID disruptions, and higher than expected inflation across our cost base, with corresponding mitigating actions. Further details are included in the statement on going concern in Note 3 on page 86.



DISCLOSURE OF INFORMATION TO THE AUDITOR

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

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

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

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

ANNUAL GENERAL MEETING

The Company's Annual General Meeting is scheduled to be held on Tuesday 7 June 2022. The Notice of 2022 Annual General Meeting, including the resolutions to be proposed, is set out in a separate Notice of Meeting which accompanies this report and is available on the Company's website www.animalcaregroup.com/investors/shareholder-centre/agm/

APPROVAL

The Strategic Report on pages 10 to 41 and this Directors' Report on pages 66 to 69 were approved by the Board on 29 March 2022 and signed on its behalf by

CHRIS BREWSTER

Chief Financial Officer and Company Secretary

29 March 2022

Statement of Directors' Responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and the company financial statements in accordance with UK-adopted international accounting standards.

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group for that period.

In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

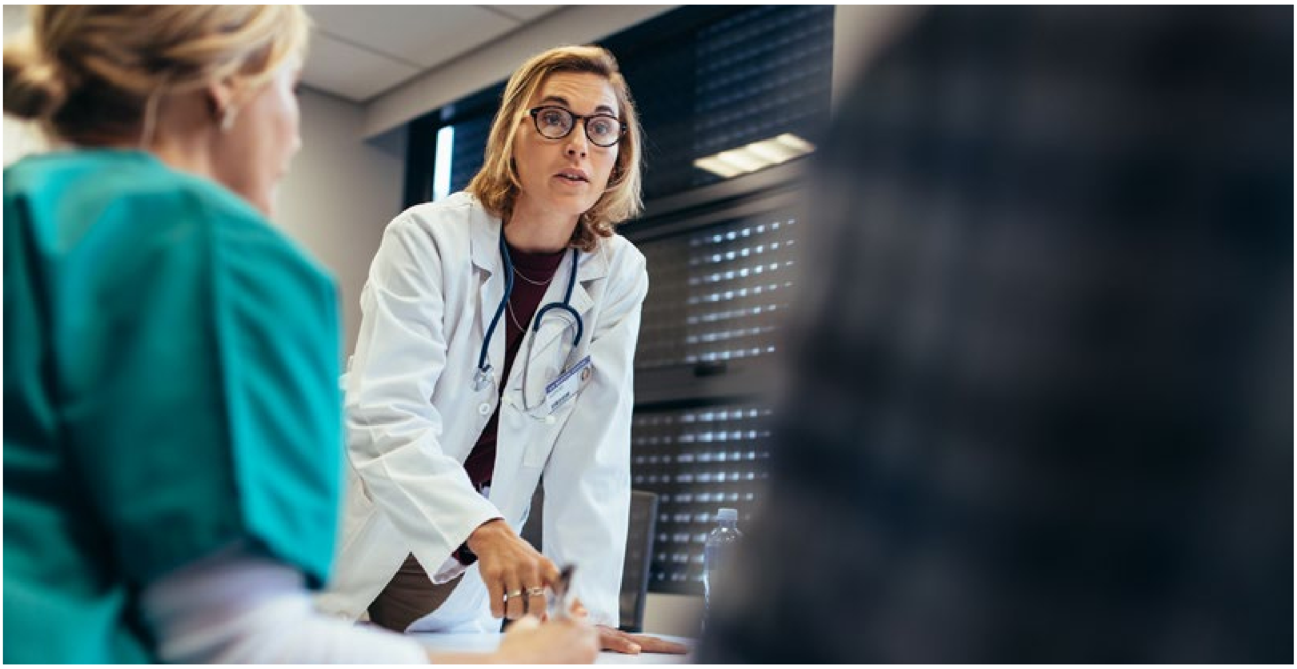
The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the group's and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006.

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

CHRIS BREWSTER

Chief Financial Officer and Company Secretary

29 March 2022



Independent Auditors’ Report to the members of Animalcare Group plc

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion, Animalcare Group plc’s Group financial statements and Company financial statements (the “financial statements”):

- give a true and fair view of the state of the Group’s and of the Company’s affairs as at 31 December 2021 and of the Group’s loss and the Group’s and Company’s cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the consolidated and Company statements of financial position as at 31 December 2021; the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and Company statements of changes in equity and the consolidated and Company cash flow statements for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Our audit approach

Overview

Audit scope

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

Key audit matters

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

Materiality

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

The scope of our audit

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

Key audit matters

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

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

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

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

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

How we tailored the audit scope

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

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

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

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

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

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

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

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

Materiality

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

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

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

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was £70,000 to £280,000. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2020: 75%) of overall materiality, amounting to £252,000 (2020: £226,500) for the Group financial statements and £157,500 (2020: £157,500) for the Company financial statements.

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

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

Conclusions relating to going concern

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

- We assessed management's base case forecast, as well as their severe but plausible downside scenario, which have formed the basis for the Group's assessment and conclusions with respect to their ability to continue as a going concern;
- We evaluated the historical accuracy of the budgeting process to assess the reliability of the data;
- We held discussions with management to understand and challenge the rationale behind the assumptions made, using our knowledge of the business and industry;
- We compared the latest trading results for the year to date in 2022 to management's budget; and
- We reviewed the disclosures within the Annual Report with respect to going concern.

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

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

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

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

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Independent Auditors’ Report to the members of Animalcare Group plc

CONTINUED

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

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

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

Auditors’ responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

Use of this report

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

OTHER REQUIRED REPORTING

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

IAN MORRISON
(Senior Statutory Auditor)

for and on behalf of
PricewaterhouseCoopers LLP

Chartered Accountants and
Statutory Auditors
Leeds

29 March 2022

Consolidated Income Statement

YEAR ENDED 31 DECEMBER 2021

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

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

Consolidated Statement of Comprehensive Income

YEAR ENDED 31 DECEMBER 2021

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

* May be reclassified subsequently to profit and loss

Consolidated Statement of Financial Position

YEAR ENDED 31 DECEMBER 2021

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

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

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

JENNIFER WINTER
Chief Executive Officer

CHRIS BREWSTER
Chief Financial Officer

Consolidated Statement of Changes in Equity

YEAR ENDED 31 DECEMBER 2021

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

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

Reverse acquisition reserve

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

Other reserve

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

Consolidated Cash Flow Statement

YEAR ENDED 31 DECEMBER 2021

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

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

Notes to the Consolidated Financial Statements

YEAR ENDED 31 DECEMBER 2021

1 FINANCIAL INFORMATION

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

2 BASIS OF PREPARATION

The Group financial statements have been prepared and approved by the Directors, except for the revaluation of certain financial instruments, as explained in Note 10, in accordance with UK-adopted international accounting standards ("IFRS") and the applicable legal requirements of the Companies Act 2006. They have also been prepared in accordance with the requirements of the AIM Rules.

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

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

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

Changes to significant accounting policies are described in Note 3.

The consolidated financial statements cover the year ended 31 December 2021 and compromise the consolidated results of the Group described in Note 1.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Going concern

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

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

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

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

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

Basis for consolidation

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

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

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

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

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

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

Non-underlying items

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

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

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

Segment reporting

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

Foreign currency translation

Functional and presentation currency

The Group's consolidated financial statements are presented in Pounds Sterling (GBP) which is the Group's presentational currency. For each entity, the Group determines the functional currency, and items included in the financial statements of each entity are measured using the functional currency. The functional currency of most subsidiaries of the Group is Euros. The statement of financial position is translated into GBP at the closing rate on the reporting date and their income statement is translated at the average exchange rate at month-end for both the years ended December 2020 and 2021. Differences resulting from the translation of the financial statements of the parent and the subsidiaries are recognised in other comprehensive income as "cumulative translation differences".

Foreign currency transactions

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

Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the income statement as incurred.

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

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

Land is not depreciated.

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

Leases

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

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

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

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

To determine the incremental borrowing rate, the Group:

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

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

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

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

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

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

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. The term varies between 4 to 5 years. While the Group revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the Group.

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

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

Intangible assets

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

The useful life of the intangible assets is as follows:

- Capitalised software 5 years
- Patents, distribution rights and licenses 7-12 years
- Product portfolios and product development 7-15 years
- In-process research and development not amortised
- Goodwill not amortised

Intangible assets acquired separately

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

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

Goodwill

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

Internally generated intangible assets – research and development expenditures

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial assets

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

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

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

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

Financial assets measured at amortised cost

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

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

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

Financial instruments measured at fair value through profit or loss

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

- A call option on an additional stake in STEM as disclosed in Note 4 on investments in joint ventures.

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

Derecognition

A financial asset is derecognised when:

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

Impairment of financial assets

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

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

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

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

Financial liabilities

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

Financial liabilities at amortised cost

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

Derivative financial liabilities

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

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

Derecognition

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

Offsetting of financial instruments

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

Share capital

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

Dividends

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

Share-based payments

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

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

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

Provisions

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

Employee benefits

Short-term employee benefits

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

Management incentive plans

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

Post-employment benefits

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

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

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

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

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

Revenue recognition

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

Sales of goods and services
Revenue is recognised when the performance obligation (the promise to transfer a good or service to a customer) is satisfied. In case of product sales, satisfaction of performance obligations and related revenues recognition takes place at a point in time which takes place when the control of these goods are transferred to the customer, generally on delivery of the goods.

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

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

Interest income

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

Financing costs

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

Other financial income and expenses

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

Taxes

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

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

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

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

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

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

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

Fair value measurements

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

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

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

Events after balance sheet date

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

New standards adopted as of 2021

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

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2 (applicable for annual periods beginning on or after 1 January 2021)
- Amendments to IFRS 4 Insurance Contracts – deferral of IFRS 9, effective 1 January 2021
- Amendment to IFRS 16 Leases COVID-19-Related Rent Concessions , effective 1 June 2020, with early application permitted

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

Standards and interpretations published, but not yet applicable for the annual period beginning on 1 January 2021

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

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

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

Significant accounting judgements, estimates and assumptions

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

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

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

Internally-developed intangible assets

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

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

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

Income taxes

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

As at 31 December 2021, the Group had £1,749k (2020: £1,929k) of tax losses carried forward and other tax credits such as investment tax credits and notional interest deduction. These losses relate to the subsidiaries that have a history of losses, do not expire and may not be used to offset taxable income elsewhere in the Group.

Impairment of goodwill

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

Impairment of slow-moving and obsolete inventory

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

Stem Animal Health Inc. – joint control

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

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

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

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

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

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

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

- STEM established during 2020 with a global license over Kane Biotech's existing range of animal health oral care products, where Kane grants STEM an irrevocable, exclusive, fully paid up, royalty-free, right and license in the market and, to develop, manufacture and commercialise the products and to practice the licensed intellectual property.
- Management is of the view that the Group doesn't have control over STEM, exposure, or rights, to variable returns from its involvement with STEM. Management consider that the call option is not substantive and not favourable as of 31 December 2021 in terms of future benefits and the value attached with the option.
- The Group will continuously, and on an annual basis, monitor whether the call option is substantive or not. As such, it is possible that, in the future, management may have to conclude that the potential voting rights become substantive and that the potential voting rights together with the existing voting rights provide the Group control over STEM.
- Management is of the view that, based on the nature of the pre-agreed decisions which require special consent listed in the shareholders' agreement, both the Group and Kane have joint control over STEM.
- It was agreed between both parties that STEM will benefit from predetermined mark-up on the products STEM produce, which will be distributed to both parties through dividends and that the Group doesn't have access to STEM assets or to incur liabilities on behalf of STEM. Accordingly, management is of the view that based on the IFRS 11 Joint Arrangement flow chart, the nature of the arrangement consists of a joint venture rather than joint operations.

4 NON-UNDERLYING ITEMS

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

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

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

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

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

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

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

5 SEGMENT INFORMATION

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

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

The following table summarises the segment reporting from continuing operations for 2021 and 2020. As management's controlling instrument is mainly revenue-based, the reporting information does not include assets and liabilities by segment and is, as such, not presented per segment.

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

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

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

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

	For the year ended 31 December	
	2021 £'000	2020 £'000
Belgium	**8,834**	11,353
Spain	**2,811**	2,476
Portugal	**4,061**	4,276
UK	**62,157**	68,042
Other	**5,881**	6,275
Non-current assets excluding deferred tax assets and financial instruments	**83,744**	92,422

Revenue by product category

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

Revenue by geographical area

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

Revenue by category

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

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

6 INCOME AND EXPENSES

6.1 Cost of sales

Cost of sales includes the following expenses:

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

6.2 Research and development expenses

Research and development expenses include the following:

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

6.3 Selling and marketing expenses

Selling and marketing expenses include the following:

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

6.4 General and administrative expenses

General and administrative expenses include the following:

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

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

6.5 Net other operating expenses

The net other operating expenses can be detailed as follows:

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

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

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

6.6 Expenses by nature

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

6.7 Payroll expenses

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

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

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

6 INCOME AND EXPENSES CONTINUED

6.8 Financial expenses

Financial expenses include the following elements:

	For the year ended 31 December 2021 £'000	2020 £'000
Interest expense	**447**	516
Foreign currency losses	**1,912**	418
Change in fair value – losses on financial instruments	**85**	17
Other financial expenses	**169**	100
Total	**2,613**	1,051

6.9 Financial income

Financial income includes the following elements:

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

6.10 Income tax

Income tax

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

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

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

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

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

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

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

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

Income tax payable

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

6 INCOME AND EXPENSES CONTINUED

Deferred tax

(a) Recognised deferred tax assets and liabilities

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

(b) Movements during the year

Movement of deferred taxes during 2021:

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

Movement of deferred taxes during 2020:

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

Tax losses

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

Deferred tax assets have been recognised on available tax losses carried forward for some legal entities, resulting in amounts recognised of £1,749k (2020: £1,929k). This was based on management's estimate that sufficient positive taxable basis will be generated in the near future for the related legal entities with fiscal losses.

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

7 EARNINGS PER SHARE

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

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

Profit/(loss) before continuing operations

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

Average number of shares (basic and diluted)

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

Basic earnings/(loss) per share

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

Diluted earnings/(loss) per share

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

8 GOODWILL

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

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

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

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

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

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

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

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

Cash flow forecasts are prepared using the current operating budget approved by the Directors, which covers a five-year period and an appropriate extrapolation of cash flows beyond this. The cash flow forecasts assume revenue and profit growth in line with our strategic priorities. Further, we have assessed the potential impact of climate change, with reference to our principal risks and the environmental disclosures made in the Sustainability Report on page 38 and consider that the impact on the valuation of goodwill is limited.

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

A 1% increase in discount rates would cause the value in use of the CGU to reduce by £19.9m but would not give rise to an impairment. A 1% reduction in perpetuity growth rates would cause the value in use of the CGU to reduce by £15.3m, but would not give rise to an impairment.

The CGU is robust to small reductions in short-term cash flows, whether driven by lower sales growth, lower operating profits or lower cash conversion. A 57% reduction in total annual cash flows would give rise to an impairment of £100k. An increase in discount rates to 20.1% or a reduction in perpetuity growth rates to (18.6%) would each give rise to an impairment in the CGU of £100k.

9 INTANGIBLE ASSETS

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

	In-process R&D £'000	Patents, distribution rights and licences £'000	Product portfolios and product development costs £'000	Capitalised software £'000	Total £'000
Acquisition value/ cost					
At 1 January 2020	17,921	18,438	38,606	1,516	76,481
Additions	1,592	39	51	573	2,255
Disposals	(1,104)	–	(1,957)	(14)	(3,075)
Currency translation	246	789	916	74	2,025
At 31 December 2020	18,655	19,266	37,616	2,149	77,686
At 1 January 2021	**18,655**	**19,266**	**37,616**	**2,149**	**77,686**
Additions	**1,247**	**–**	**1,030**	**1,080**	**3,357**
Disposals	**(4,934)**	**(57)**	**(134)**	**(20)**	**(5,145)**
Transfers	**(2,195)**	**–**	**2,195**	**–**	**–**
Currency translation	**(327)**	**(961)**	**(1,140)**	**(119)**	**(2,547)**
At 31 December 2021	**12,446**	**18,248**	**39,567**	**3,090**	**73,351**

9 INTANGIBLE ASSETS CONTINUED

	In-process R&D £'000	Patents, distribution rights and licences £'000	Product portfolios and product development costs £'000	Capitalised software £'000	Total £'000
Amortisation					
At 1 January 2020	(4,813)	(9,969)	(17,769)	(930)	(33,481)
Amortisation	(1,473)	(2,805)	(3,508)	(363)	(8,149)
Disposals	1,080	–	1,958	14	3,052
Impairments	–	(19)	–	–	(19)
Transfers	44	–	–	(44)	–
Currency translation	(93)	(511)	(619)	(54)	(1,277)
At 31 December 2020	(5,255)	(13,304)	(19,938)	(1,377)	(39,874)
At 1 January 2021	**(5,255)**	**(13,304)**	**(19,938)**	**(1,377)**	**(39,874)**
Amortisation	**(1,387)**	**(1,897)**	**(3,303)**	**(630)**	**(7,217)**
Disposals	**4,211**	**57**	**46**	**55**	**4,369**
Impairments	**(2,671)**	**–**	**(77)**	**(13)**	**(2,761)**
Currency translation	**147**	**770**	**855**	**79**	**1,851**
At 31 December 2021	**(4,955)**	**(14,374)**	**(22,417)**	**(1,886)**	**(43,632)**
Net carrying value					
At 31 December 2021	**7,491**	**3,874**	**17,150**	**1,204**	**29,719**
At 31 December 2020	13,400	5,962	17,678	772	37,812

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

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

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

The total amortisation charge for 2021 is £7,217k (2020: £8,149k) which is included in lines cost of sales, research and development expenses, sales and marketing expenses and general and administrative expenses of the consolidated income statement. Included in the total amortisation and impairment charge is £8,292k (2020: £5,900k) relating to acquisition related intangibles.

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

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

10 PROPERTY, PLANT AND EQUIPMENT

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

	Equipment £'000	Office furniture and equipment £'000	Warehouse and office fitting £'000	Leasehold improvements £'000	Fixed assets under construction £'000	Total £'000
Acquisition value/ cost						
At 1 January 2020	393	1,589	184	299	–	2,465
Additions	5	48	–	–	124	177
Disposals	–	(59)	–	–	(81)	(140)
Currency Translation	13	66	–	18	8	105
At 31 December 2020	411	1,644	184	317	51	2,607
Additions	**1**	**51**	**–**	**6**	**499**	**557**
Disposals	**(141)**	**(63)**	**(15)**	**–**	**(43)**	**(262)**
Currency Translation	**(17)**	**(79)**	**–**	**(21)**	**(13)**	**(130)**
At 31 December 2021	**254**	**1,553**	**169**	**302**	**494**	**2,772**
Depreciation						
At 1 January 2020	(338)	(1,439)	(124)	(252)	–	(2,153)
Depreciation charge for the year	(26)	(84)	(19)	(31)	–	(160)
Disposals	–	58	–	–	–	58
Currency Translation	(12)	(60)	–	(15)	–	(87)
At 31 December 2020	(376)	(1,525)	(143)	(298)	–	(2,342)
Depreciation charge for the year	**(19)**	**(75)**	**(19)**	**(6)**	**–**	**(119)**
Disposals	**130**	**62**	**13**	**–**	**–**	**205**
Currency translation	**16**	**72**	**–**	**22**	**–**	**110**
At 31 December 2021	**(249)**	**(1,466)**	**(149)**	**(282)**	**–**	**(2,146)**
Net book value						
At 31 December 2021	**5**	**87**	**20**	**20**	**494**	**626**
At 31 December 2020	35	119	41	19	51	265

The investment in property, plant and equipment in 2021 amounted to £557k (2020: £177k) and mainly related to the acquisitions of IT and office equipment.

The Group realised a net gain on disposals of property, plant and equipment of £396k in 2021 (2020: £ nil). No impairment of property, plant and equipment was recorded in 2020.

Borrowing costs

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

11 INVESTMENTS IN JOINT VENTURES

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

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

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

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

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

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

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

Summarised statement of comprehensive income:

	For the year ended 31 December 2021 £'000	For the year ended 31 December 2020 £'000
Sales	**856**	134
Operating expenses	**(1,338)**	(378)
Financial result, net	**55**	(1)
Net (loss)/profit for the year	**(427)**	(245)
Group share in net (loss)/profit for the year	**(142)**	(82)
Depreciation on fair value adjustments on intangible fixed assets (net of deferred tax)	**(46)**	(11)
Total Group share in net (loss)/profit for the year	**(188)**	(93)
Other comprehensive income	**21**	(18)
Group share in total comprehensive income	**(167)**	(111)

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

As at 1 January	**1,457**	–
Acquisition in joint venture	**–**	1,568
Group share of net (loss)/profit for the year	**(188)**	(93)
Foreign currency translation differences	**21**	(18)
As at 31 December	**1,290**	1,457

12 INVENTORIES

Inventories include the following:

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

The amount of inventory recognised as an expense during 2021 amounts to £33,016k (2020: £33,286k). Inventory write-downs during 2021 amounted to £499k (2020: £573k). These costs are classified as a part of the costs of goods sold.

13 AMOUNTS RECEIVABLE AND OTHER NON-CURRENT ASSETS

Trade receivables include the following:

	For the year ended 31 December	
	2021 £'000	2020 £'000
Trade receivables	**7,212**	10,226
Expected credit loss	**(77)**	(84)
Total	**7,135**	10,142

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

As at 31 December 2021, trade receivables of an initial value of £77k (2020: £84k) were impaired and fully provided for. The table below shows the changes in the allowance of receivables.

13 AMOUNTS RECEIVABLE AND OTHER NON-CURRENT ASSETS CONTINUED

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

Other current assets include the following:

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

Other current assets amount to £1,200k (2020: £1,589k) at the end of the reporting year and mainly include reclaimable taxes and a receivable resulting from the sale of the Wholesaling business. On 3 September 2018, Ecuphar NV sold the wholesale business Medini NV to Vetdis Holding NV (Vetdis) under a Share Purchase Agreement (SPA). In June 2019, Vetdis sent a letter to Ecuphar claiming that Ecuphar had breached the SPA. Ecuphar disputes the majority of the claim, however Ecuphar considers it likely that a part of the claim, amounting to €126,430, may be valid. Following various discussions and correspondence, during which the parties were unable to reach any agreement, Vetdis issued formal court papers on 29 May 2020. A full court hearing to consider the case took place in the Commercial Court in Bruges on 2 March 2021. The court did not decide on the merits of the claim, instead it appointed an expert auditor to examine the documents and advise the court on the claim. The court however ordered Vetdis to pay the current account debt plus interest at 8%, and on 4 May 2021, Vetdis made a payment of €432,762. The process involving the expert auditor is ongoing. Other than the €126,430, which may be valid, no further provision in respect of this matter has been included in the financial statements as the Directors consider this to be a contingent liability.

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

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

14 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following:

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

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less. There were no restrictions on cash during 2021 and 2020.

15 TRADE PAYABLES

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

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

16 BORROWINGS

The loans and borrowings include the following:

			For the year ended 31 December	
	Interest rate	Maturity	**2021 £'000**	2020 £'000
Revolving credit facilities	Euribor +1.50%	March 25	**5,462**	12,227
Rollover investment facility	Euribor +1.50%	March 25	**–**	797
Acquisition loan	Euribor +1.75%	March 25	**3,781**	4,045
Lease liabilities	See Note 22		**1,719**	1,812
Total loans and borrowings			**10,962**	18,881
Of which				
Non-current			**10,239**	17,293
Current			**723**	1,588

Revolving credit facilities and rollover investment facilities

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

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

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

17 PROVISIONS

Provisions consist of the following:

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

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

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

The assessment of the accounting treatment of the Belgian employee benefit contribution plans with a minimal guaranteed return was based on actuarial calculations which resulted in an immaterial impact as only a limited number of individuals can benefit from the plan given the limited fixed amount which is being covered per covered individual. No provision has been recognised as at 31 December 2021 and 2020. As a result no further disclosures have been provided.

Contingent liability relating to the sale of Medini NV

On 3 September 2018, Ecuphar NV sold the wholesale business Medini NV to Vetdis Holding NV (Vetdis) under a Share Purchase Agreement (SPA). In June 2019, Vetdis sent a letter to Ecuphar claiming that Ecuphar had breached the SPA. Ecuphar disputes the majority of the claim, however Ecuphar considers it likely that a part of the claim, amounting to €126,430, may be valid. Following various discussions and correspondence, during which the parties were unable to reach any agreement, Vetdis issued formal court papers on 29 May 2020. A full court hearing to consider the case took place in the Commercial Court in Bruges on 2 March 2021. The court did not decide on the merits of the claim, instead it appointed an expert auditor to examine the documents and advise the court on the claim. The court however ordered Vetdis to pay the current account debt plus interest at 8%, and on 4 May 2021, Vetdis made a payment of €432,762. The process involving the expert auditor is ongoing. Other than the €126,430, which may be valid, no further provision in respect of this matter has been included in the financial statements.

18 OTHER NON-CURRENT LIABILITIES

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

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

19 ACCRUED CHARGES AND CONTRACT LIABILITIES

Accrued charges and contract liabilities consists of the following:

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

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

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

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

Movements in the Group's contract liabilities:

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

The contract liabilities fall due as follows:

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

20 OTHER CURRENT LIABILITIES

Other current liabilities include the following:

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

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

21 FAIR VALUE

Financial assets

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

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

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

- The carrying value of the cash and cash equivalents and the current receivables approximate their fair value due to their short-term character.
- Trade and other receivables are being evaluated on the basis of their credit risk and interest rate. Their fair value is not different from their carrying value on 31 December 2021 and 2020.

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

- The Group has a call option to acquire an additional 18% share in its joint venture Stem Animal Health Inc. exercisable for a period of six years. The call option is valued at fair value through Profit and Loss and has a carrying value of £nil as of 31 December 2021 and will be remeasured every year. The call option is considered at level 3 in the fair value hierarchy. Further disclosure is provided in Note 3 Significant accounting judgements, estimates and assumptions.

Financial liabilities

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

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

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

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

Fair value hierarchy

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

22 EQUITY

Share capital

	For the year ended 31 December	
Number of shares	**2021**	2020
Allotted, called up and fully paid Ordinary Shares of 20p each	**60,092,161**	60,057,161

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

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

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

22 EQUITY CONTINUED

Dividends

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

23 IFRS 16 LEASES

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

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

23 IFRS 16 LEASES CONTINUED

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

	Land and buildings £'000	Vehicles £'000	Other £'000	Total £'000
Acquisition value/ cost				
At 1 January 2020	1,271	1,587	81	2,939
Additions	343	583	–	926
Disposals and contract modifications	(30)	(225)	(2)	(257)
Transfers	(71)	–	–	(71)
Currency Translation	57	84	5	146
Other	–	–	–	–
At 31 December 2020	1,570	2,029	84	3,683
Additions	**336**	**881**	**–**	**1,217**
Disposals and contract modifications	**(286)**	**(425)**	**(63)**	**(774)**
Transfers	**3**	**–**	**(3)**	**–**
Currency Translation	**(84)**	**(134)**	**(2)**	**(220)**
Other	**(12)**	**(61)**	**–**	**(73)**
At 31 December 2021	**1,527**	**2,290**	**16**	**3,833**
Depreciation				
At 1 January 2020	**(378)**	**(598)**	**(46)**	**(1,022)**
Depreciation charge for the year	(433)	(619)	(31)	(1,083)
Disposals	22	181	(3)	200
Transfers	71	–	–	71
Currency translation	(21)	(35)	(3)	(59)
At 31 December 2020	(739)	(1,071)	(83)	(1,893)
Depreciation charge for the year	**(428)**	**(634)**	**(4)**	**(1,066)**
Disposals and contract modifications	**182**	**424**	**63**	**669**
Transfers	**(6)**	**–**	**6**	**–**
Currency translation	**43**	**70**	**2**	**115**
At 31 December 2021	**(948)**	**(1,211)**	**(16)**	**(2,175)**
Net book value				
At 31 December 2021	**579**	**1,079**	**–**	**1,658**

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

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

23 IFRS 16 LEASES CONTINUED

The following amounts are recognised in the income statement:

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

Cash flows relating to leases are presented as follows:

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

24 RISKS

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

Credit risk

As at 31 December 2021 the Group's maximum exposure to credit risk is £7,135k, which is the amount of the trade receivables in the consolidated financial statements (2020: £10,142k).

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

The following is an aging schedule of trade receivables:

	Total £'000	Non-due £'000	< 30 days £'000	31-60 days £'000	61-90 days £'000	91-180 days £'000	> 181 days £'000	Expected loss rate
31 December 2021	**7,135**	**6,725**	**429**	**23**	**13**	**(57)**	**2**	**0%**
31 December 2020	10,142	10,151	(92)	56	5	(50)	72	0%

Liquidity risk

Liquidity risk is the risk that the Company may not be able to meet its financial obligations as they fall due. The Group expects to meet its obligations related to the financing agreements through operating cash flows. Additionally, the Group ensures there is sufficient headroom on the existing credit lines to have an additional working capital buffer. As at 31 December 2021, the Group had the following sources of liquidity available:

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

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

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

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

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

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

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

Foreign exchange risk

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

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

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

At the end of the reporting year, the Group is mainly exposed to the EUR, the USD and the CAD. The following table details the effect of a 10% increase and decrease in the exchange rate of these currencies against the functional currencies GBP and EUR when applied to outstanding monetary items denominated in foreign currency as at 31 December 2021. A positive number indicates that an increase in profit would arise from a 10% change in value of sterling or EUR against these currencies, a negative number indicates that a decrease would arise.

24 RISKS CONTINUED

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

Interest rate risk

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

If the interest rates would have been 100 bp higher/lower, the financial result would have been £108k lower/higher in 2021 and £175k lower/higher in 2020.

Capital management

The primary objective of the Group's shareholders' capital management strategy is to ensure it maintains healthy capital ratios to support its business and maximise shareholder value. Additionally, minimum solvency ratios are agreed upon in the financing agreements. Capital is defined as the Group shareholder's equity which amounts to £78,799k as at 31 December 2021 (2020: £81,592k).

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

25 REMUNERATION PAID TO THE COMPANY'S AUDITORS

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

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

26 SHARE-BASED PAYMENTS

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

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

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

Animalcare Group plc Executive Share Option Scheme

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

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

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

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

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

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

Long Term Incentive Plan ("LTIP")

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

2021 LTIP Options

On 5 November 2021, nil-cost options over a total of 264,981 ordinary shares with a nominal value of 20.0 pence per share were awarded to certain members of the Senior Executive Team and Group Leadership Team. The awards will normally vest three years after the date of grant subject to the following performance criteria being met over the three-year financial period ending 31 December 2024:

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

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

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

26 SHARE-BASED PAYMENTS CONTINUED

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

Inputs into the option pricing models were as follows:

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

2020 LTIP Options

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

The awards will normally vest three years after the date of grant subject to the following performance criteria being met over the three-year financial period ending 31 December 2023:

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

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

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

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

Inputs into the option pricing models were as follows:

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

26 SHARE-BASED PAYMENTS CONTINUED

2019 LTIP Options

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

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

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

Inputs into the option pricing models were as follows:

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

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

27 RELATED PARTY TRANSACTIONS

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

Transactions between the Company and its subsidiaries, which are related parties, are eliminated in the consolidated financial statements and no information is provided hereon in this section. The Group carries an investment in a joint venture (Stem Animal Health Inc.). The Group's investment in its joint venture is accounted for using the equity method.

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

28 OVERVIEW OF CONSOLIDATED ENTITIES

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

29 EVENTS AFTER BALANCE SHEET DATE

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

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

Company Statement of Financial Position

AS AT 31 DECEMBER 2021

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

* Restated as detailed in Note 14

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

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

JENNIFER WINTER
Chief Executive Officer

CHRIS BREWSTER
Chief Financial Officer

Company Statement of Changes in Equity

YEAR ENDED 31 DECEMBER 2021

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

Company Cash Flow Statement

YEAR ENDED 31 DECEMBER 2021

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

* Restated as detailed in Note 14

Notes to the Company Financial Statements

YEAR ENDED 31 DECEMBER 2021

1 SIGNIFICANT ACCOUNTING POLICIES

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

Basis of preparation

The Company financial statements cover the period of 12 months from 1 January 2021 to 31 December 2021.

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

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

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

Going concern

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

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

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

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

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

Employee benefits – pensions

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

Investments in subsidiaries

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

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

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

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

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

Impairment charges are included in profit or loss.

Dividends

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

Share-based payments

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

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

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

Taxation

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

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

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

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

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

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

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

Financial instruments

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

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

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

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

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

Measurement of ECLs

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

Write-offs

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

Cash and cash equivalents

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

Financial liabilities and equity

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

Finance income and expense

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

New standards adopted as of 2021

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

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2 (applicable for annual periods beginning on or after January 1, 2021)
- Amendments to IFRS 4 Insurance Contracts – deferral of IFRS 9, effective January 1, 2021
- Amendment to IFRS 16 Leases COVID-19-Related Rent Concessions , effective June 1, 2020, with early application permitted

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

Significant accounting judgements, estimates and assumptions

Carrying value of investments

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

2 NON-RECURRING ITEMS

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

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

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

3 TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR

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

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

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

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

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

4 DIRECTORS' REMUNERATION AND INTERESTS

Emoluments

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

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

Year ended 31 December 2020	Salary £'000	Bonus £'000	Company pension contributions £'000	Benefits £'000	Compensation for loss of office £'000	Total £'000
J Boone*	70	–	–	–	–	70
C Brewster	205	51	25	13	–	294
C Cardon[1]	35	–	–	–	–	35
M Coucke*	40	–	–	–	–	40
N Downshire*	40	–	–	–	–	40
E Torr*	45	–	–	–	–	45
J Winter	300	94	–	14	–	408
Total	735	145	25	27	–	932

* Indicates Non-Executive Directors

1 Resigned 8 July 2021

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

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

Share options

On 5 November 2021, nil-cost options over a total of 150,650 ordinary shares with a nominal value of 20.0 pence per share ("the Options") were awarded to the Executive Directors of the Company pursuant to the Company's Long Term Incentive Plan ("the LTIP"). Full details of the LTIP are disclosed in Note 12.

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

PDMR	**Options awarded**	**Total Options**
Jennifer Winter	106,844	450,175
Chris Brewster	43,806	187,290

5 DIVIDENDS

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

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

6 INVESTMENTS IN SUBSIDIARIES

Subsidiary undertakings

Cost	2021 £'000
At 1 January 2021 and 31 December 2021	147,743

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

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

7 OTHER FINANCIAL ASSETS

Trade and other receivables

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

* Restatement as described in company statement of financial position

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

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

8 CASH AND CASH EQUIVALENTS

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

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

9 OTHER FINANCIAL LIABILITIES

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

* Restatement as described in company statement of financial position

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

10 DEFERRED TAX

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

	Accelerated tax depreciation £'000	Share-based payments £'000	Other £'000	Total £'000
Balance at 31 December 2020	(1)	–	(2)	(5)
Credit to income	–	–	(41)	(41)
At 31 December 2021	**(1)**	**–**	**(43)**	**(44)**

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

11 SHARE CAPITAL

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

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

12 SHARE-BASED PAYMENTS

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

Animalcare Group plc Executive Share Option Scheme

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

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

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

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

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

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

Long Term Incentive Plan ("LTIP")

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

2021 LTIP Options

On 5 November 2021, nil-cost options over a total of 264,981 ordinary shares with a nominal value of 20.0 pence per share ("the Options") were awarded to certain members of the Senior Executive Team and Group Leadership Team pursuant to the Company's Long Term Incentive Plan. The awards will normally vest three years after the date of grant subject to the following performance criteria being met over the three-year financial period ending 31 December 2024.

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

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

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

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

Inputs into the option pricing models were as follows:

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

2020 LTIP Options

On 17 November 2020, nil-cost options over a total of 377,120 ordinary shares with a nominal value of 20.0 pence per share ("the Options") were awarded to certain Executive Directors and PDMRs of the Company and to members of the Group Leadership Team pursuant to the Company's Long Term Incentive Plan. During the year under review, 16,555 of the options lapsed due to cessation of employment, leaving 360,565 options outstanding.

12 SHARE-BASED PAYMENTS CONTINUED

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

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

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

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

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

Inputs into the option pricing models were as follows:

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

2019 LTIP Options

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

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

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

Inputs into the option pricing models were as follows:

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

The Company recognised a total charge in respect of share-based payments of £235,000 (2020: £148,000).

13 RELATED PARTY TRANSACTIONS

Trading transactions

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

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

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

Remuneration of key management personnel

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

14 RESTATEMENT OF COMPARATIVE FIGURES

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

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

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

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

Directors and Advisers

DIRECTORS
D Hutchens (appointed 10 February 2022)
C J Brewster
E Torr
J Boone
J Winter
Lord N Downshire
M Coucke

SECRETARY
C J Brewster

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