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

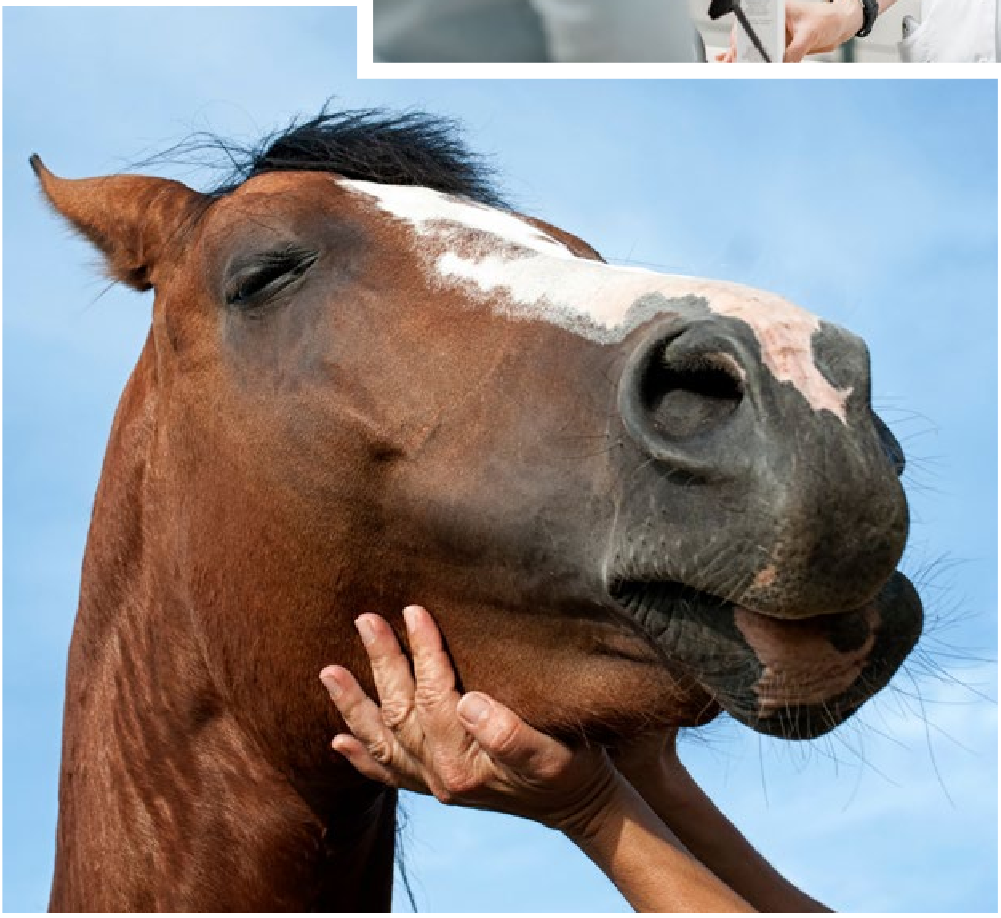
Revenue growth

Basic underlying earnings per share ("EPS")

New product revenue

Risks key

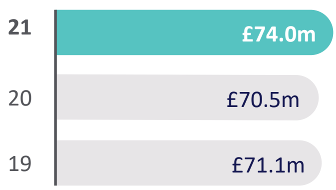
- **A** Market risk
- **B** Competitor risk
- **C** Portfolio risk
- **D** Product development risk
- **E** Financing/Treasury risk
- **F** Foreign exchange translation risk
- **G** Supply chain risk
- **H** IT systems and cyber security risk
- **I** Regulatory risk
- **J** People risk



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

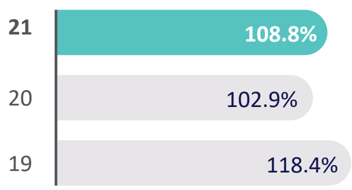
Why we measure this

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

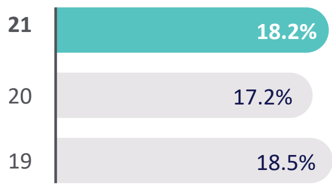
Why we measure this

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

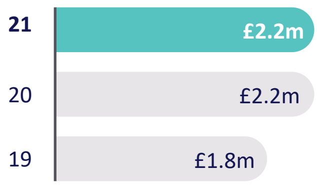
Why we measure this

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

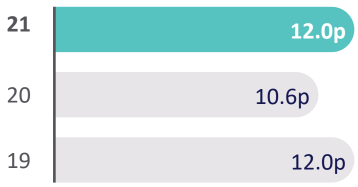
Why we measure this

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

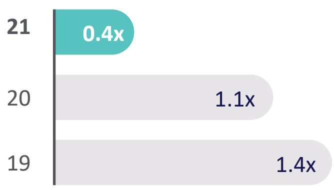
Why we measure this

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

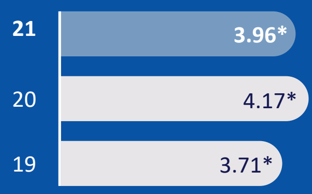
We seek to maintain a strong balance sheet with EBITDA leverage in the range of 1 to 2 times to allow capacity for investment in future growth

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.

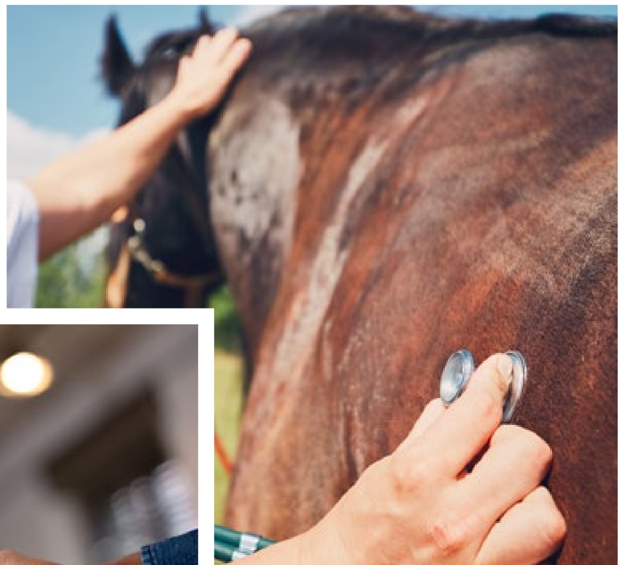
OUR PEOPLE REPRESENT A COMPETITIVE ADVANTAGE

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.

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.

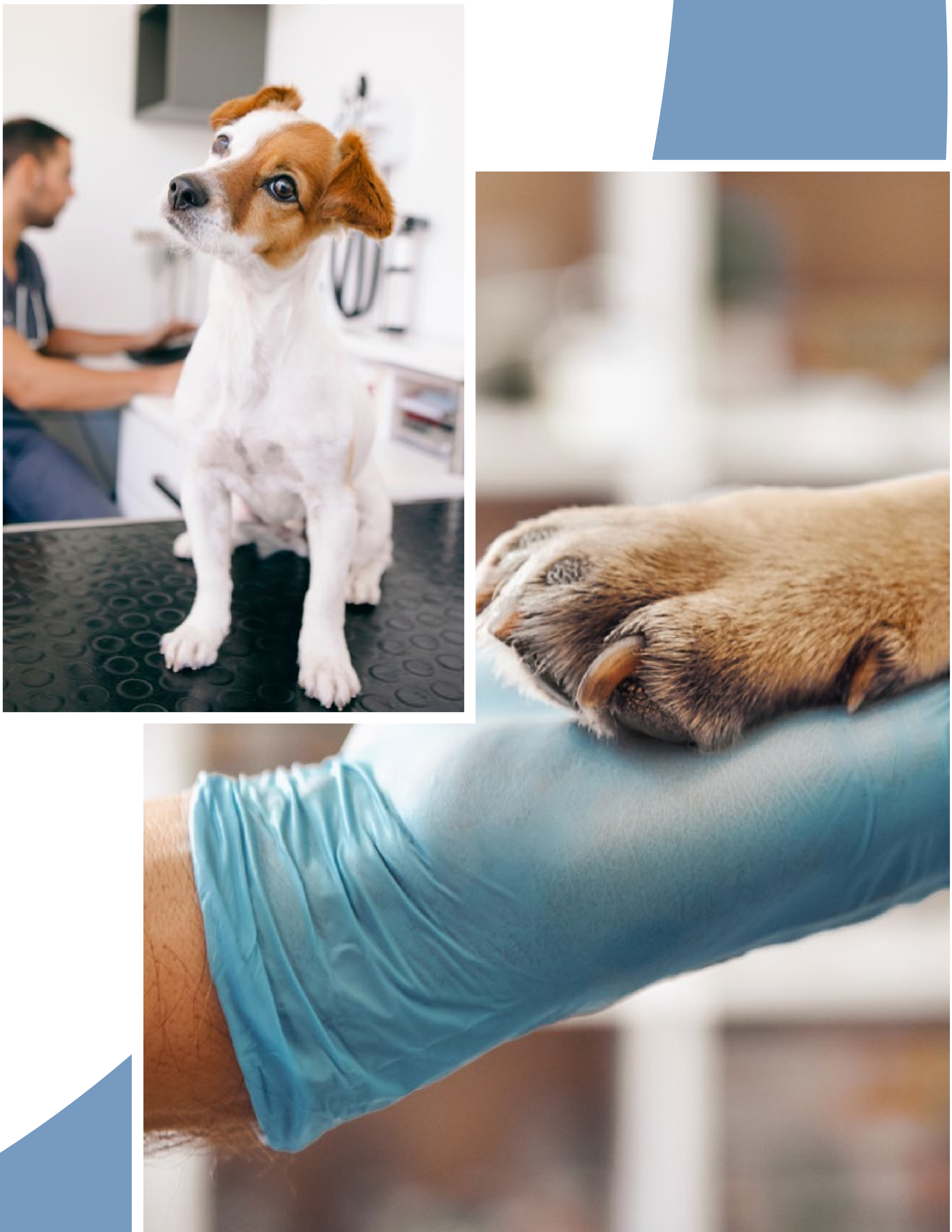
SUMMARY AND OUTLOOK

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.

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.

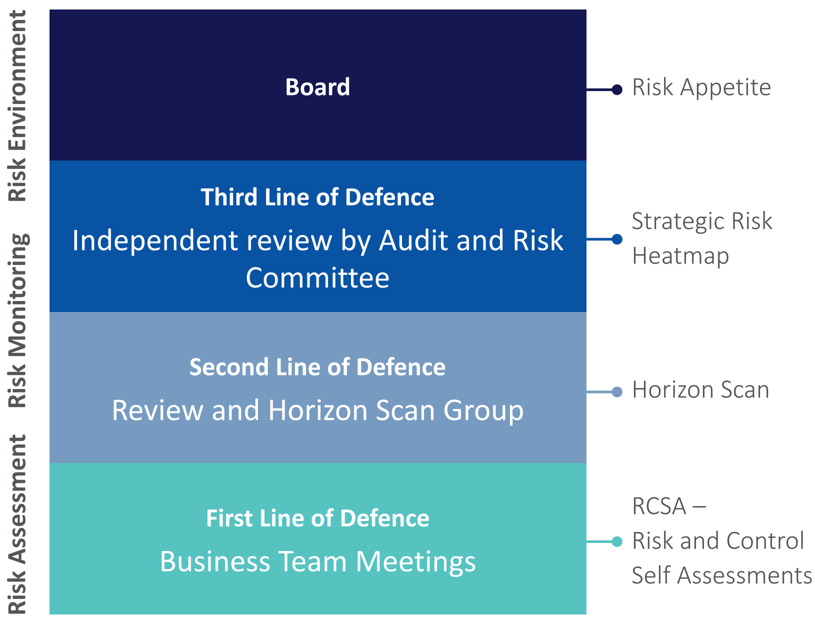
To be effective, risk management relies on the engagement of all parts of the business, which, as mentioned, is an integral part of our framework and culture. The RMF has been built in support of our newly regionalised organisational structure – Northern and Southern Europe. Within that structure, our 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.



Our principal risks

CONTINUED

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

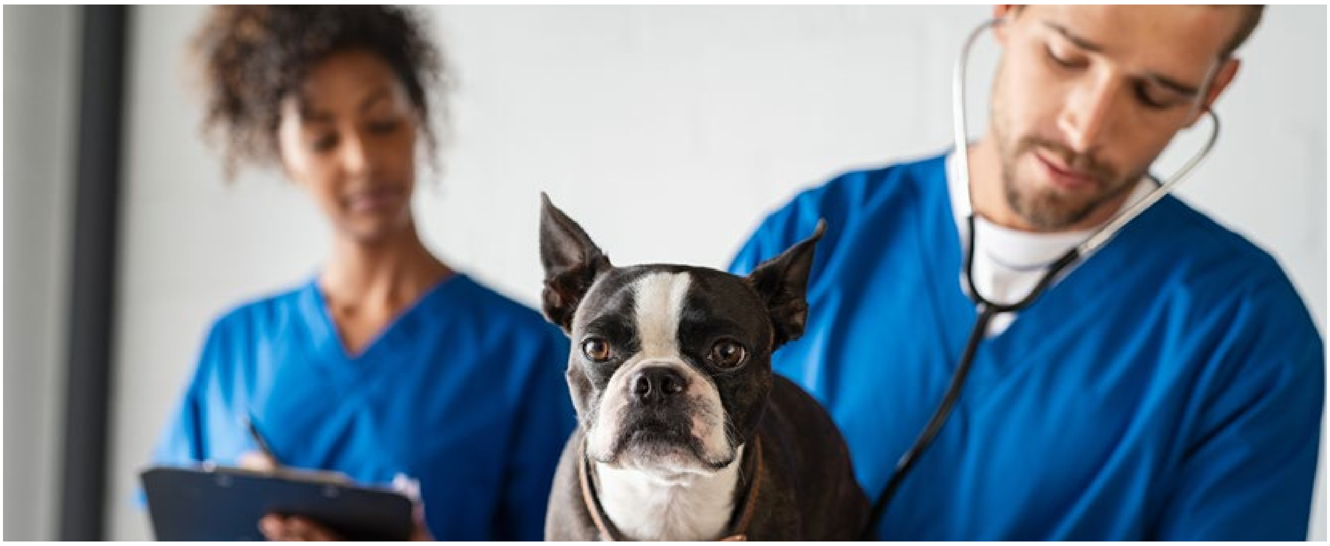
Risk key

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



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.

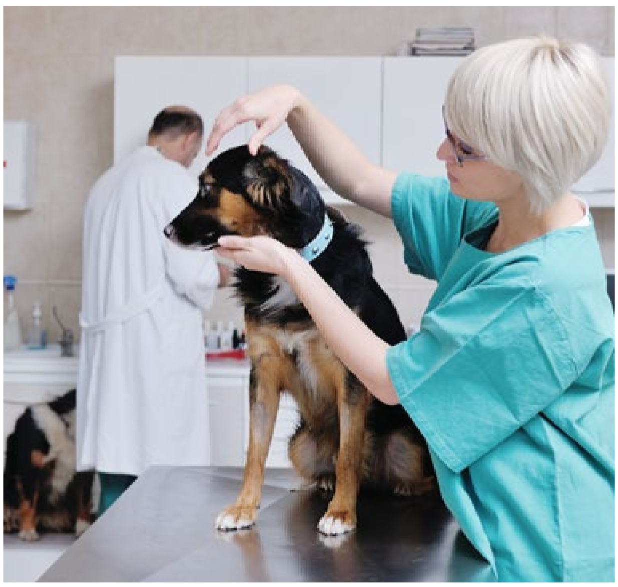
Risk	Link to strategy	Potential impact	Mitigation	Risk level	Trend
SUPPLY CHAIN RISK As the Group does not own any manufacturing assets, it relies extensively on a large base of third-party manufacturers for supply of finished products, whether our own brands or those sold on behalf of our partners via distribution arrangements.	Growth portfolio; Strong finances	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	Flat
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.	Strong finances	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	Up

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.

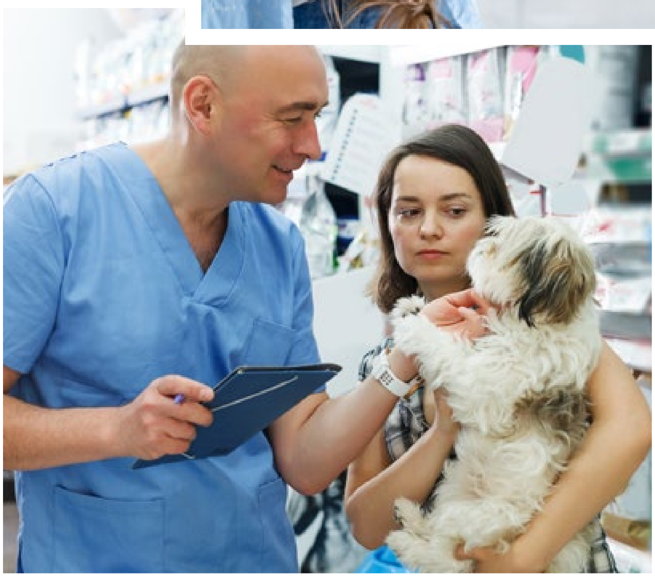
DECEMBER

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

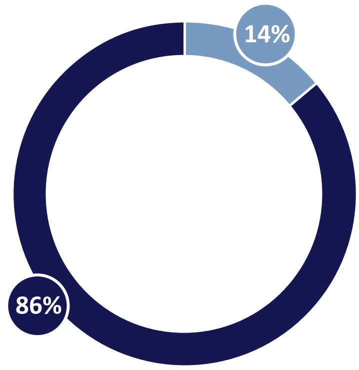
Wellbeing:

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.

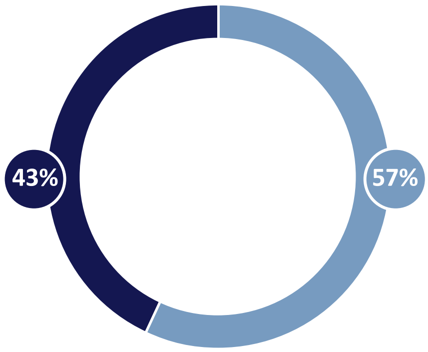
Diversity and inclusion:

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

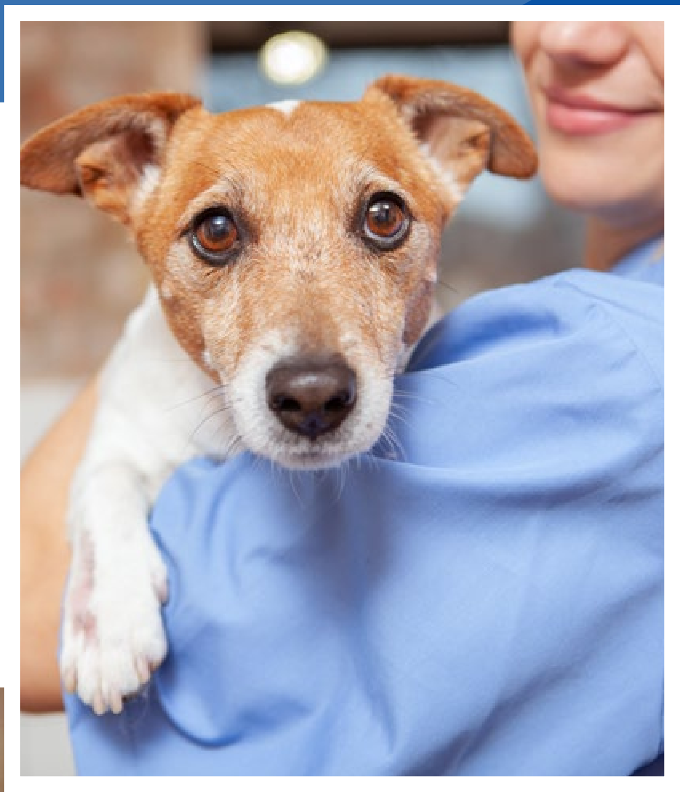


Senior Executive Team



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.