Eco Animal Health Group PLC

Tax policy

Contents

Overview

ECO Animal Health Group PLC ("ECO" or "the Group") strives to provide best in class, scientifically proven ethical solutions to optimise the health, productivity and wellbeing of pigs and poultry. Our vision is to achieve this responsibly, working in partnership with veterinarians, animal health professionals and livestock producers bringing value to all by improving animal health around the world.

The business strategy is to generate shareholder value by achieving the maximum sales potential and profit from the existing product portfolio whilst investing in Research and Development (R&D) for new products, particularly vaccines, and seeking to in-license new products. We also seek to diversify by acquisition. The Group will continue to invest in skilled people.

The Group approaches its tax obligations in the same spirit.

Corporate governance and tax management

ECO's Chief Financial Officer, Christopher Wilks, has ultimate responsibility for tax within the Group and for ensuring compliance with the tax strategy.

The tax strategy is approved by the Board of Directors and is reviewed annually. At the annual review the board assesses the extent to which the Group has complied with the policy during the year to date. The board may choose to recommend areas in which the policy should be developed.

The ECO Finance team is responsible for implementing the strategy. Team members are encouraged to identify areas where the tax strategy can be more efficiently implemented, or areas where the strategy should be developed.

ECO is a global Group and supports the work of its own finance team by using the services of local third-party tax advisors to ensure it meets any local tax reporting requirements.

Management of tax risks and attitude to tax planning

ECO does not use corporate structures or enter into transactions for which the primary aim is a reduction in tax liability.

The Group takes advantage of any tax saving opportunities or incentives that are specifically promoted by relevant tax authorities, designed to be available in the ordinary course of business and that can be claimed through ordinary compliance with tax reporting rules (the UK's R&D tax credit and patent box being examples of such promoted opportunities).

The Group does not set targets for tax charges or effective tax rates, nor are management incentives set in a way that reflect any particular tax measures.

Management of tax risks and attitude to tax planning (continued)

ECO is a global Group and to ensure that it complies with tax calculation and reporting requirements in the various jurisdictions it which it operates it engages external tax advisors for the following:

- Completion of corporate tax returns;
- To ensure that its financial results are taxed in line with local requirements;
- To ensure that it correctly identified any adjustments in respect of disallowable costs or additional deductions that may apply; and
- To ensure that local returns are accurately completed and appropriately filed.

In order to ensure that the Group does not seek to exploit 'tax loopholes', or apply structures artificially designed to save tax, external advisors are engaged:

- To review the tax consequences of potential or actual commercial transactions; and
- To understand future changes to tax legislation and the resulting compliance requirement.

Analysis of R&D tax credits

The Group invests very heavily in research and development. As such it is able to take advantage of the Research and Development tax credit regime applicable in the UK. Under these arrangements the UK-based companies in the Group are allowed the following enhancements on R&D spend:

- For staff costs incurred on R&D that have been included in the income statement there is an additional deduction of 130% of those costs;
- For subcontractor costs included in the income statement there is an additional deduction of 85% of those costs (being 130% on 65% of subcontractor costs, as set out in the formula to be used in calculating the deduction); and
- An accelerated allowance on any capitalised subcontractor and staff costs, under which the entire cost is set against tax in the year of spend.

R&D tax credits are an advertised, targeted incentive and ECO takes advantage of them on the grounds that they:

- increase the opportunity to develop effective, innovative products, with their wider associated social, economic and environmental benefits.
- promote the development of the 'knowledge economy', and highly skilled employment opportunities in particular; and
- build credibility with tax authorities, demonstrating ECO has sound awareness of tax legislation and confidence in its own financial recording.

Low tax regimes

The ECO Group is based in the UK with trading subsidiaries and joint operations in the following countries:

- China
- Brazil
- Japan
- Mexico
- USA
- Canada
- Ireland

The Group structure is a result of the Group's trading structure. The subsidiaries and joint operations are held for trading purposes; there are no entities set up for financing, royalties or other tax planning purposes. ECO declares its profits in the place where their economic substance arises.

ECO does not exploit any low-tax jurisdictions for a tax benefit. Nor does ECO take advantage of the secrecies provided by certain jurisdictions. Of the countries in which ECO has subsidiaries or joint operations only Ireland is considered to be a low tax jurisdiction. However the subsidiary in Ireland was incorporated shortly before the UK's withdrawal from the European Union as a prudent action to give the Group a corporate presence in the European Union should this prove necessary for ongoing veterinary regulatory compliance; the Irish subsidiary has been dormant since incorporation.

The distribution of the Group's global profit across its various subsidiary entities is broadly similar to the distribution of the tax charge across the Group.

Relations with tax authorities

ECO is open and honest in its dealings with the tax authorities to which it reports. The Group has a commitment to ensuring that relevant tax returns are submitted accurately and on a timely basis.

As a global Group, the support provided by independent external tax advisors plays an important part in ensuring that local tax reporting requirements and liabilities arising are met.

Compliance with tax policy

In the year ended 31 March 2023 the Group was successfully compliant with its tax commitments within this tax policy.

The Group has not entered into any tax structuring arrangements.

The Group qualifies for the UK research and development tax credit regime. The relief helps further the Group's research and development activity and consequently its commercial success.

Appendix: Analysis of group tax charge for year to March 2023

	Eco Animal Health Ltd	Zhejiang ECO Biok Animal Health Products Limited & Zhejiang ECO Animal Health Limited	ECO Animal Health Japan Inc	ECO Animal Health USA Corp	ECO Animal Health do Brasil Comerciao de Produtos Veterinarios Ltda	ECO Animal Health de Mexico S de RL de CV	PLC & con-solidation adjustment Note 1	Total
	UK	China	Japan	USA	Brazil	Mexico	UK	
Profit / (loss) before tax (£000)	5,834	6,597	(22)	237	29	(146)	(8,089)	**4,440**
Current tax								
Marginal corporation tax rate	19%	25%	23%	21%	22%	30%	19%	
Expected tax (charge) / credit at marginal rate (£000)	(1,078)	(1,649)	5	(50)	(6)	44	1,506	**(1,228)**
Adjustments:								
Research & development tax relief (£000)	573	0	0	0	0	0	0	**573**
Timing adjustments (£000)	432	0	0	0	0	(69)	(205)	**158**
Differences between accounting and tax treatment of intragroup dividends (£000)	1,174	0	0	0	0	0	(1,174)	**0**
Other differences between accounting and tax treatment (£000)	275	(223)	(6)	26	(83)	(2)	(876)	**(888)**
Current tax (charge) / credit (£000)	1,377	(1,872)	(1)	(24)	(89)	(27)	(749)	**(1,385)**
Deferred tax (charge) / credit (£000)	(377)	0	0	0	0	0	413	**36**
Profit / (loss) after tax (£000)	6,834	4,725	(23)	213	(60)	(173)	(8,425)	**3,091**
Headcount	81	131	3	5	5	9	0	**234**

Note 1: This column mainly reflects the tax-taxability of intragroup dividends.