

# How the Business Manages Risk

## Risk Management Process

Our strategy informs the setting of objectives across the business and is widely communicated. Strategic risks and opportunities are identified as an integral part of our strategy setting process, whilst operational, financial, compliance and emerging risks are identified as an integral part of our functional planning and budget setting processes.

The Board oversees the risk management and internal control framework and the Audit Committee reviews the effectiveness of the risk management process and the internal control framework.

Our Senior Executive Team (SET) owns the risk management process and is responsible for managing specific Group risks. The SET members are also responsible for embedding sound risk management in strategy, planning, budgeting, performance management, and operational processes within their respective Operating Segments and business units.

The Board and the SET together set the tone and decide the level of risk and control to be taken in achieving the Group's objectives.

SET members present their risks, controls and mitigation plans to the Board for review on a rolling programme throughout the year, whilst the Board undertakes a full review of the risk management process biannually. The SET is responsible for conducting self-assessments of their risks and the effectiveness of their control processes. Where control weaknesses are identified, remedial action plans are developed, and these are included in the risk reports presented to the Board.

Internal Audit coordinates the ongoing risk reporting process and provide independent assurance on the internal control framework.

## Emerging Risks

Emerging risks are new risks that are unlikely to impact the business in the next year but have the potential to evolve 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.

As part of our risk management process, both the Board and SET are tasked with identifying and assessing our emerging risks. These are then monitored on an ongoing basis and reviewed alongside existing risks.

## Ukraine

Russia's invasion of Ukraine has had some impact on our business, with increased energy costs and additional supply chain uncertainty. Our sales to Russia, which were not material, have also ceased. We will continue to monitor the situation in Ukraine and the associated impacts this may have on our principal risks, with regard to our markets, supply chain and people.

## Dechra Culture

The Dechra Values are the foundation of our entire business culture including our approach to risk management and control. The Board expects these Values to drive the behaviours and actions of all employees. We encourage an open communication style where it is normal practice to escalate issues promptly so that appropriate action can be taken quickly to minimise any impact on the business.

## Internal Control Framework

Our internal control framework is designed to ensure:

- proper financial records are maintained;
- the Group's assets are safeguarded;
- compliance with laws and regulations; and
- effective and efficient operation of business processes.

The key elements of the control framework are described below:

### Management Structure

Our management structure has clearly defined reporting lines, accountabilities and authority levels. The Group is organised into business units. Each business unit is led by a SET member and has its own management team.

### Policies and Procedures

Our key financial, legal and compliance policies that apply across the Group are:

- Code of Business Conduct and How to Raise a Concern;
- Delegation of Authorities;
- Dechra Finance Manual, including Tax and Treasury policies;
- Anti-Bribery and Anti-Corruption;
- Data Protection;
- Health and Safety;
- Sanctions; and
- Charitable Donations.

### Strategy and Business Planning

We have a five-year strategic plan which is developed by the SET and endorsed by the Board annually. Business objectives and performance measures are defined annually, together with budgets and forecasts. Monthly business performance reviews are conducted at both Group and business unit levels.

### Operational Controls

Our key operational control processes are as follows:

- **Product Pipeline Reviews:** We review our pipeline regularly to identify new product ideas and assess the fit with our product portfolio, prioritise development projects, review whether products in development are progressing according to schedule, and assess the expected commercial return on new products.
- **Lifecycle Management:** We manage and monitor lifecycle management activities for our key products to meet evolving customer needs.
- **Pricing Policies:** We manage and monitor our national and European pricing policies to deliver equitable pricing for each customer group.
- **Product Supply:** We continue to develop our demand forecasting and supply planning processes, with monthly reviews of demand and production forecasts, inventory controls, and remediation plans for products that are out of supply.
- **Quality Assurance:** Each of our manufacturing sites has an established Quality Management System. These systems are designed to ensure that our products are manufactured to a high standard and in compliance with the relevant regulatory requirements.

- **Pharmacovigilance:** Our regulatory team operates a robust system with a view to ensuring that any adverse reactions and product complaints related to the use of our products are reported and dealt with promptly.
- **Financial Controls:** Our controls are designed to prevent and detect financial misstatement or fraud and operate at three levels:
  - Entity Level Controls performed by senior managers at Group and business unit level;
  - Month end and year end procedures performed as part of our regular financial reporting and management processes; and
  - Transactional Level Controls operated on a day-to-day basis.

The key controls in place to manage our principal risks are described in further detail on pages 78 to 80. Internal Audit provides independent and objective assurance and advice on the design and operation of the Group’s internal control framework. The internal audit plan seeks to provide balanced coverage of the Group’s material financial, operational and compliance control processes.

**Improvements in 2022**

We have continued to strengthen and improve our governance and control processes and the following changes have been implemented:

- New governance and oversight processes to provide transparency of performance, decisions and actions across the manufacturing and supply network.
- We have continued to make improvements to our manufacturing, quality and supply processes, with additional investments in people and production facilities.

- Recruitment of a new Head of Good Distribution Practices and Head of Good Practices to further strengthen the Quality team.
- Launched an independent hotline to enable employees to submit confidential reports using our How to Report a Concern Procedure.
- Roll out of an enhanced Financial Control Framework in response to the BEIS white paper on Restoring Trust in Audit and Corporate Governance. This will put the business in a strong position to comply with the potential requirements of the BEIS proposals.
- Our Environmental, Social and Governance (ESG) strategy has been further enhanced. We continue to execute our 'Making a Difference' plan as well as working towards our commitment of setting verifiable targets across the entire value chain through the Science Based Targets initiative.

**Plans for 2023**

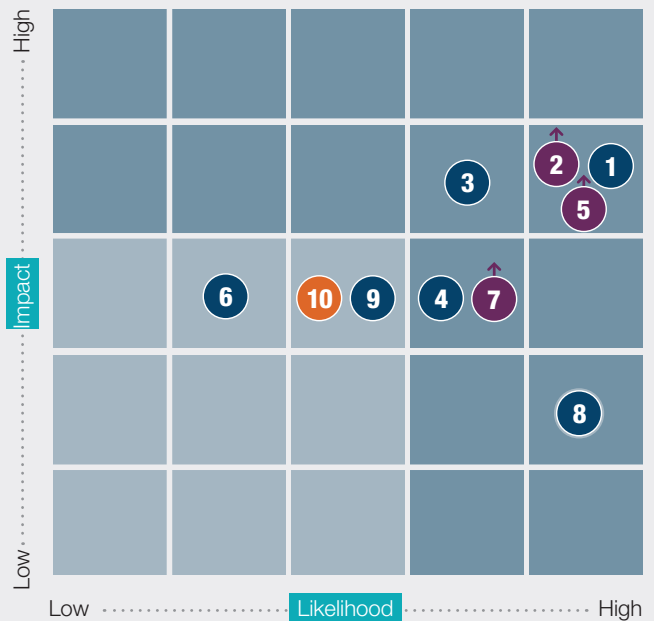
We will continue to refine and strengthen our internal control framework where required in response to changes in our risk profile and improvement opportunities identified by business management, quality assurance and internal audit. Our Manufacturing and Supply processes continue to be the primary focus area for 2023.

We also plan to make further improvements and enhancements to our Sustainability strategy, financial control framework and Group policies.

**Principal Risks**






The SET has identified and agreed key risks with the Board. Of these, a number are deemed to be generic risks facing every business including failure to comply with financial reporting regulation, foreign exchange and non-compliance with legislation. The risk profile below therefore details the ten principal risks that are specific to our business and provides information on:

- their prioritisation;
- how they link to Group strategy;
- their potential impact on the business; and
- what controls are in place to mitigate them.







# Understanding Our Key Risks




Link to Strategic Growth Driver and Enabler

Link to Strategic Growth Driver and Enabler	Risk	Potential Impact	Control and Mitigating Actions	Trends
	<p><b>1 Market Risk:</b></p> <p>The growth of veterinary buying groups and corporate customers impacts the distribution landscape.</p> <p>We sell and promote primarily to veterinary practices and distribute our products through wholesaler and distributor networks in most markets.</p> <p>In a number of mature markets, veterinarians have established buying groups to consolidate their purchasing, and corporate customers are continuing to expand.</p>	<p>The growth of corporate customers and buying groups represents an opportunity to increase sales volumes and revenue but may result in reduced margins.</p>	<p>We manage and monitor our national and European pricing policies to deliver equitable pricing for each customer group.</p> <p>Our relationships with larger customers are managed by key account managers.</p> <p>Our marketing strategy is designed to support veterinarians in retaining customers by promoting the benefits of our product portfolio in our major therapeutic areas.</p>	→
  	<p><b>2 Competitor Risk:</b></p> <p>Competitor products launched against one of our leading brands (e.g. generics or a superior product profile).</p> <p>We depend on data exclusivity periods or patents to have exclusive marketing rights for some of our products.</p> <p>Although we maintain a broad portfolio of products, our unique products like <i>Vetoryl</i> and <i>Zycortal</i> have built a market which continues to be attractive to competitors.</p>	<p>Revenues and margins may be adversely affected should competitors launch a novel or generic product that competes with one of our unique products upon the expiry or early loss of patents.</p> <p>Costs may increase due to defensive marketing activity.</p>	<p>We focus on lifecycle management strategies for our key products such that they can fulfil evolving customer requirements.</p> <p>Product patents are monitored, and defensive strategies are developed towards the end of the patent life or the data exclusivity period.</p> <p>We monitor market activity prior to competitor products being launched and develop a marketing response strategy to mitigate competitor impact.</p>	↑
	<p><b>3 Product Development and Launch Risk:</b></p> <p>Failure to deliver major products either due to pipeline delays or newly launched products not meeting revenue expectations.</p> <p>The development of pharmaceutical products is a complex, risky and lengthy process involving significant financial, R&amp;D and other resources.</p> <p>Products that initially appear promising may be delayed or fail to meet expected clinical or commercial expectations or face delays in regulatory approval.</p> <p>It can also be difficult to predict whether newly launched products will meet commercial expectations.</p>	<p>A succession of clinical trial failures could adversely affect our ability to deliver shareholder expectations and could also damage our reputation and relationship with veterinarians.</p> <p>Our market position in key therapeutic areas could be affected, resulting in reduced revenues and profits.</p> <p>Where we are unable to recoup the costs incurred in developing and launching a product this would result in impairment of any intangible assets recognised.</p>	<p>Potential new development opportunities are assessed from a commercial, financial and scientific perspective by a multi-functional team to allow senior management to make decisions as to which ones to progress.</p> <p>The pipeline is discussed regularly by senior management, including the Chief Executive Officer and Chief Financial Officer. Regular updates are also provided to the Board.</p> <p>Each development project is managed by project leaders who chair project team meetings.</p> <p>Before costly pivotal studies are initiated, smaller proof of concept pilot studies are conducted to assess the effects of the drug on target species and for the target indication.</p> <p>In respect of all new product launches a detailed marketing plan is established and progress against that plan is regularly monitored by a new product launch team.</p> <p>The Group has detailed market knowledge and retains close contact with customers through its management and sales teams which are trained to a high standard.</p>	→

## Key to Strategic Growth Drivers:

-  Pipeline Delivery
-  Portfolio Focus
-  Geographical Expansion
-  Acquisition

## Key to Strategic Enablers:

-  Technology
-  People
-  Manufacturing and Supply Chain
-  ESG

## Key to Risk Trend:

- ↑ Increased Risk
- ↓ Decreased Risk
- No Change
- N New

Link to  
Strategic  
Growth  
Driver and  
Enabler

	Risk	Potential Impact	Control and Mitigating Actions	Trends
  	<p><b>4 Supply Chain Risk:</b></p> <p>Inability to maintain supply of key products due to manufacturing, quality or product supply problems in our own facilities or those of third party suppliers.</p> <p>We rely on third parties for the supply of all raw materials for products that we manufacture in-house. We also purchase many of our finished products from third party manufacturers.</p>	<p>Raw material supply failures may cause:</p> <ul style="list-style-type: none"> <li>increased product costs due to difficulties in obtaining scarce materials on commercially acceptable terms;</li> <li>product shortages due to manufacturing delays; or</li> <li>delays in clinical trials due to shortage of trial products.</li> </ul> <p>Shortages in manufactured products and third party supply failures on finished products may result in lost sales.</p> <p>Whilst the impact of COVID-19 on the supply chain is receding, materials price inflation and the Russian invasion of Ukraine have created new supply chain challenges. However our robust response to recent developments has seen the supply chain risk remain stable.</p>	<p>We monitor the performance of our key suppliers and act promptly to source from alternative suppliers where potential issues are identified.</p> <p>The Group's top products are regularly reviewed in order to identify the key suppliers of materials or finished products.</p> <p>A dedicated external network team exists to manage and support our CMOs to deliver quality products to our regulatory specifications.</p> <p>Demand forecasting and supply planning processes are in place, with monthly reviews of demand and production forecasts, inventory levels, and remediation plans for products that are out of supply.</p> <p>Processes are in place to monitor and improve product robustness, including quality and technical analyses of key products and engagement with internal and external regulatory stakeholders.</p> <p>Business continuity plans are in place at our key manufacturing sites.</p> <p>A new procurement structure and performance measures are being implemented to improve supplier performance management and implement a second source strategy.</p>	→
  	<p><b>5 Regulatory Risk:</b></p> <p>Failure to meet regulatory requirements.</p> <p>We conduct our business in a highly regulated environment, which is designed to ensure the safety, efficacy, quality, and ethical promotion of pharmaceutical products.</p> <p>Failure to adhere to regulatory standards or to implement changes in those standards could affect our ability to register, manufacture or promote our products.</p>	<p>Delays in regulatory reviews and approvals could impact the timing of a product launch and have a material effect on sales and margins.</p> <p>Any changes made to the manufacturing, distribution, marketing and safety surveillance processes of our products may require additional regulatory approvals, resulting in additional costs and/or delays.</p> <p>Non-compliance with regulatory requirements may result in delays to production or lost sales.</p> <p>Regulatory risk is increasing due to a lack of clarity around Regulation 2019/6; with the new veterinary regulation that legislates for the authorisation, use and monitoring of veterinary medicinal products in the European Union. The Regulation was applied in all EU Member States from January 2022.</p>	<p>The Group strives to exceed regulatory requirements and ensure that its employees have detailed experience and knowledge of the regulations.</p> <p>Manufacturing and Regulatory teams have established quality systems and standard operating procedures in place.</p> <p>A dedicated External Network Quality Director supports our CMOs in complying with our regulatory specifications.</p> <p>Regular contact is maintained with all relevant regulatory bodies in order to build and strengthen relationships and facilitate good communication lines.</p> <p>The Regulatory and Quality teams update their knowledge of regulatory developments and implement changes in business procedures to comply with new requirements.</p> <p>Where changes are identified which could affect our ability to market and sell any of our products, a response team is created in order to mitigate the risk.</p> <p>External consultants are used to audit our manufacturing quality systems.</p> <p>Our Regulatory team operates a robust Pharmacovigilance (PV) process to report any adverse reactions and product complaints related to the use of our products.</p>	↑
	<p><b>6 Acquisition Risk:</b></p> <p>Identification of acquisition opportunities and their potential integration.</p> <p>Identification of suitable opportunities and securing a successful approach involves a high degree of uncertainty.</p> <p>Acquired products or businesses may fail to deliver expected returns due to over-valuation or integration challenges.</p>	<p>Failure to identify or secure suitable targets could slow the pace at which we can expand into new markets or grow our portfolio.</p> <p>Acquisitions could deliver lower profits than expected or result in intangible assets impairment.</p>	<p>We have defined criteria for screening acquisition targets, and we conduct commercial, clinical, financial, environmental and legal due diligence.</p> <p>The Board reviews acquisition plans and progress regularly and approves all potential transactions.</p> <p>The SET manages post acquisition integration and monitors the delivery of benefits and returns through a defined process.</p>	→

# Understanding Our Key Risks

Link to Strategic Growth Driver and Enabler

Enabler	Risk	Potential Impact	Control and Mitigating Actions	Trends
	<p><b>7 People Risk:</b></p> <p>Failure to resource the business to achieve our strategic ambitions, particularly on geographical expansion and acquisition.</p> <p>As Dechra expands into new markets and acquires new businesses or science, we recognise that we may need additional people with different skills, experience and cultural knowledge to execute our strategy successfully in those markets and business areas.</p> <p>Our growth plans and future success are also dependent on retaining knowledgeable and experienced senior managers and key staff.</p> <p>Post COVID-19, recruitment has been challenging with increased competition for the best talent.</p>	<p>Failure to recruit, develop and retain quality people could result in:</p> <ul style="list-style-type: none"> <li>• overstretched resources;</li> <li>• weakened succession planning;</li> <li>• capability gaps in new markets; or</li> <li>• challenges in integrating new acquisitions.</li> </ul> <p>This could lead to erosion of our competitive advantage, and delay implementation of our strategy.</p> <p>Recent wage inflation has the potential to impact workforce stability.</p>	<p>The Group HR Director reviews the organisational structure with the SET and the Board twice a year to confirm that the organisation is fit for purpose and to assess the resourcing implications of planned changes or strategic imperatives.</p> <p>A development programme is in place to identify opportunities to recruit new talent and develop existing potential. A talent acquisition team and applicant tracking software are in place.</p> <p>The Nomination Committee oversees succession planning for the Board and the SET.</p> <p>Succession plans are in place for the SET together with development plans for key senior managers.</p> <p>Remuneration packages are reviewed on an annual basis in order to help ensure that the Group can continue to retain, incentivise and motivate its employees.</p>	<p>↑</p>
	<p><b>8 Antimicrobials Regulatory Risk:</b></p> <p>Continuing pressure on reducing antimicrobial use.</p> <p>The issue of the potential transfer of antibacterial resistance from animals to humans is subject to regulatory discussions globally.</p> <p>Whilst new EU regulations restricting antimicrobial use in animals were not implemented in 2022, there remains continuing pressure on reducing antibiotic risk. This is driven by market &amp; cultural trends.</p>	<p>Reduction in sales of our antimicrobial product range.</p> <p>Our reputation could be adversely impacted if we do not respond appropriately to government regulations and recommendations.</p>	<p>Regular contact is maintained with relevant veterinary authorities to enable us to have a comprehensive understanding of regulatory changes.</p> <p>We strive to develop new products and minimise antimicrobial resistance concerns.</p> <p>We communicate appropriate antimicrobial use in line with best practice.</p>	<p>→</p>
	<p><b>9 Climate:</b></p> <p>Severe weather patterns caused by climate change or natural disaster cause damage to manufacturing or distribution facilities impacting our ability to meet customer demand. In addition, the business will face transition risk, such as carbon pricing, change in raw material pricing and movement to renewable energy sources.</p>	<p>Damage to our facilities as a result of climate change could impact our abilities both to supply and manufacture product, which may weaken customer confidence and impact performance, both over a shorter and longer term. Natural disaster could impact on local employability and the communities in which our sites are based.</p> <p> Please read about TCFD on pages 70 to 73</p>	<p>Dechra has committed to setting verifiable targets across the entire value chain through the Science Based Target initiative (SBTi), with a Letter of Intention already submitted. Dechra has also joined the UNFCCC Race to Zero.</p> <p>Scenario planning has been conducted for both physical and transition risks to enable us to mitigate climate related risks.</p> <p>The share of key products manufactured by Dechra, as opposed to CMOs, will be increased in order to manage physical risks better.</p> <p>Dechra is preparing to implement an internal shadow carbon price to bring clarity and to identify climate-related opportunities and the best areas to reduce emissions.</p> <p>Renewable electricity is generated from an existing solar plant at our Zagreb site. We are investigating other renewable energy sources across the Group.</p>	<p>→</p>
	<p><b>10 Cybersecurity and IT Failure Risk</b></p> <p>Information security breach or significant disruption to our IT systems, resulting from a cyber-attack or failure of key IT software or infrastructure.</p>	<p>Failure to prevent or adequately respond to a data breach or cyber-attack could result in business disruption, fines, loss of personal data or loss of intellectual property/ commercially sensitive information. Software or infrastructure failure could result in significant disruption to operations and management decision making.</p>	<p>Regular information security and data protection training for employees.</p> <p>Key systems are replicated across dual servers and backed-up. Disaster and data recovery plans are in place and tested regularly.</p> <p>Data encryption and multi-factor authentication is employed on mobile devices.</p> <p>Business interruption and cyber insurance is in place.</p>	<p>N</p>