Task Force on Climate-related Financial Disclosures

Our response to climate change

Task Force on Climate-related Financial Disclosures (TCFD)
We believe that companies should be transparent about how they plan to mitigate and be resilient in the face of climate change. Therefore, we support efforts, such as the TCFD to increase transparency and to promote stakeholders' understanding of companies' strategies to respond to the risks and opportunities presented by climate change.

During the year, we have worked to achieve alignment to TCFD and are pleased to confirm that the disclosures included in the Annual Report are consistent with the TCFD recommendations, except for the completion of our review into all material Scope 3 emission categories, which will be concluded in the 2023 financial year. We acknowledge that the disclosures around the metrics used to assess our climate risks and opportunities can, and will, be improved following submission and verification of our targets to the Science Based Targets initiative (SBTi). This is an evolving process that we hope to conclude in 2023.

Governance

Climate change presents various economic, business and social risks which will affect our business over the short, medium and longer term. Given its importance, climate change is overseen at the highest level of the Company and integrated into business processes.

The Dechra Board is accountable for approving our Sustainability strategy and overseeing the delivery of our climate-related objectives, with Executive responsibility belonging to the Chief Financial Officer with support provided by the Group Sustainability Director. Our Senior Executive Team (SET) is responsible for delivering on these objectives within their functional areas and business units.

At an operational level the Board and SET are supported by a cross-functional ESG Committee and associated sub committees (see the governance diagram in our Sustainability Report) who work with them to define our Sustainability strategy, and set objectives and targets which are aligned with the United Nations Sustainable Development Goals and SBTi.

The Board formally discusses climate change-related updates at least biannually, and the Chief Financial Officer updates the Board on any significant matters arising as and when required.

Given the importance of managing climate risk, factors relevant to it are considered as part of the remuneration of the Executive Directors and SET. Specifically each senior leader will have an ESG objective as part of their personal objectives within the annual bonus plan (introduced in 2021) and constitutes 5% of Executive Directors' and 5% of SET annual salary under the terms of the plan, increasing to 10% for Executive Directors in the 2023 financial year.

Strategy

Understanding the potential impact of future climate scenarios, together with proactive mitigation, intervention plans and targeted investment, will help future proof our business and build resilience to protect our long term financial sustainability and continued supply of products to customers.

We have assessed the impact of climate risk to our business using the Intergovernmental Panel on Climate Change (IPCC) data under two transition scenarios over a 30-year time horizon; the first modelled a 1.5°C temperature rise in accordance with the Paris Agreement and the second a 4°C temperature rise deemed to be a worst case. These assessments have enabled us to identify climate risks, strategies to mitigate risk and any climate opportunities. The impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning is included in the table on the following pages.

To respond to the identified climate risks and opportunities we have developed our 'Making a Difference' plan. As part of this plan we have committed to a long term target to reach net zero emissions by no later than 2050. We will continue to transition to a low carbon business and by setting greenhouse gas (GHG) emissions targets verified through the SBTi. We also support the UN-backed Race to Zero. For further information please refer to our Sustainability Report.

Risk

During the previous financial year, in response to developing climate science, government action and the concerns of our stakeholders, the Board classified climate risk as a principal risk to the Group. To understand fully the implications of climate change, the Board instigated a review of the key risks and opportunities to the Group's business model, considering both the physical effects of changing weather and the economic and regulatory transitions required either to mitigate climate change or adapt to a new environment. This involved consulting with external experts and senior management representing disciplines from across the Group to determine possible climate outcomes.

Key

● Low Risk
● High Risk
● Medium Risk
● Opportunity

Time Horizons for Impact

Short term: 1 to 2 years
Mid term: 2 to 5 years
Long term: 5 to 25 years

Risk or Opportunity	Time Horizon			Potential impact	How it is managed
	Short	Mid	Long		
Key Physical Risks					
Increased frequency of extreme weather and climate-related natural disasters	●	●	●	Detailed manufacturing site-level climate risk assessments have been completed. Outcomes indicate potential for: • increased exposure to extreme heat events. This risk has the potential to impact our manufacturing and logistic sites in North America, Croatia and Australia; • heavy rainfall causing local flooding. This risk has the potential to impact our manufacturing and logistics sites in Florida, Northern Europe and Australia; and • increased risk of storms that can damage site structures. This risk has the potential to impact our manufacturing site in Florida. Risks relate primarily to disruption or delays at a site, along with potential for higher energy consumption and cost for cooling to maintain GMP compliance, delays and/or losses in distribution and damage to site infrastructure resulting in increased insurance premiums and reputational damage. We do not foresee a material business impact arising from these short term events.	Identified risks have been addressed in site continuity plans and/or incorporated into the site master plans. Any investments required are integrated into our financial planning process. For example to improve business resilience our site in Zagreb, Croatia produces approximately 30% of its energy requirement via on-site solar panels complemented by emergency generators. We also aim to mitigate risk by reducing the number of contract manufacturers we engage with and produce more of our own products in-house. **Metrics:** Please refer to our Environmental pillar on page 69.
Transition Risks and Opportunities					
Increased demand for low carbon products	●	●	●	Our customers will increasingly look to select suppliers based on their GHG footprint to reduce their own Scope 3 footprint, as part of their net-zero targets. Future revenue from our generic portfolio could be at risk should substitution become widespread before we are able to transition. We have an opportunity to gain market share if we can transition in the short term. The risks are currently deemed to be low and more likely to occur in a medium term timeframe on products which are 'me too' in nature.	As part of our Making a Difference plan we have committed to reach net zero emissions by no later than 2050, backed by science based targets. All new products to market will include a sustainability review pre-launch by 2023 (initiated 2021). This review will focus on utilising sustainable ingredients and packaging. In 2022 we have initiated a project utilising an IT system to review the GHG footprint for existing products to help assess and manage risks and target interventions to reduce the environmental footprint of our products. **Metrics:** Please refer to our Environmental pillar on page 69.

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Risk or Opportunity	Time Horizon			Potential impact	How it is managed
	Short	Mid	Long		
Transition Risks and Opportunities					
Carbon pricing and future environmental taxation	●	●	●	There is uncertainty over the future environmental policy and fiscal landscape of many countries in which we operate. We anticipate increased regulation and other developments related to carbon pricing and broader environmental taxation over the medium to long term. We do not foresee a material impact.	Our Making a Difference plan and associated net zero commitments will help to mitigate some exposure to future carbon pricing and environmental taxation for our operations and our wider value chain. Managed correctly, this may actually present a commercial opportunity where peers have yet to establish a path to decarbonisation and net zero. As part of our 2023 budget process we have incorporated an internal carbon price on emissions at all of our manufacturing facilities which will support our transition to net zero. **Metrics:** Please refer to our Environmental pillar on page 69.
Supply-demand of renewable energy (power and heat)	●	●	●	Competition for renewable energy due to increased demand. Security of renewable energy supply due to impact of climate change. Opportunity to adopt energy efficiency measures to reduce operating costs and exposure to future fossil fuel price/ carbon price increases. We do not foresee a material impact.	Energy efficiency reviews are conducted across our sites and incorporated into our capital expenditure and financial planning processes and are a primary metric alongside return on investment. • Our management team at Zagreb successfully gained accreditation to ISO 50001, the international standard for Energy Management and are currently exploring the potential viability of geothermal energy at the site. • Our Brazilian team reduced refrigerant gas losses in 2022 by 91.0% through collaboration with our European engineering and maintenance team. Transition to renewable power at all sites as quickly as possible including exploring the viability of solar panel utilisation at manufacturing sites beyond our existing installation at the Zagreb site. **Metrics:** Please refer to our Environmental pillar on page 69.
Change in raw material or sourcing cost	●	●	●	Costs and availability associated with low carbon products from core sectors, particularly in areas such as raw materials and packaging. There could be a significant risk associated with increased costs for using high carbon transport modes. Use of lower-emission sources of energy will reduce costs and will reduce exposure to fossil fuel and carbon price changes. Use of more efficient production and distribution processes will reduce operational and logistical costs We do not believe the net impact to be material as we envisage being able to pass on any increased costs to customers.	We have identified four key industries that are crucial to Dechra's value chain; chemicals/plastic, aluminium, pulp, and paper and glass. Risk assessments have been performed on each and we have started collaborating with key suppliers to mitigate transition risks and maximise transition opportunities. Commencing engagement with upstream and downstream partners to recognise sustainable performance during contract renewal processes. Many of the risks associated with incremental cost exposure are not unique to Dechra. They will also be faced by our peers and the wider animal health sector, which should encourage collaboration. **Metric:** Please refer to our Business pillar on page 69.

Metrics and targets

We are committed to mitigating our impact on climate change. We have committed to SBTi, continued to work towards a net-zero ambition by 2050 and released our first separate Sustainability Report this year. Our GHG emissions (Scope 1, Scope 2 and Scope 3) can be found on page 65 and a number of our key metrics and targets are set out below:

Near term targets

- submission and verification of Science Based Targets;
- all paper and wood material to be FSC by June 2023;
- zero waste to landfill by 30 June 2025; and
- sustainability review of all products by June 2023.

Long term target

- net-zero by no later than 2050.

These metrics and targets will help us to track our progress and ability to mitigate the risks to our business, safeguarding our ability to improve animal health and welfare sustainably over the longer term (see page 69 and our separate Sustainability Report).

TCFD Compliance

The below provides an explanation of where in this Annual Report (or other relevant document or location in respect of supplementary information) the various TCFD recommended disclosures can be found:

	Annual Report	Sustainability Report
Governance: The Company's governance around climate-related risks and opportunities		
The Board's oversight of climate-related risks and opportunities	70, 104 and 106	12 and 23
Management's role in assessing and managing climate-related risks and opportunities	70, 76 and 106	12 and 23
Strategy: The actual and potential impact of climate-related risks and opportunities on the Company's business, strategy, and financial planning where such information is material		
The climate-related risks and opportunities which have been identified over the short, medium, and long term	71 to 73 and 80	10
The impact of climate-related risks and opportunities on the businesses, strategy, and financial planning	69, 70 to 73 and 80	
The resilience of the strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	70 and 80	12
Risk: How the Company identifies, assesses, and manages climate-related risks		
The processes for identifying and assessing climate-related risks	70 to 73 and 80	12
The processes for managing climate-related risks	70 to 73 and 80	
How processes for identifying, assessing, and managing climate-related risks are integrated into the overall risk management	70 to 73 and 80	12, 23 to 24
Metrics and Targets: The metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material		
The metrics used to assess climate-related risks and opportunities in line with the strategy and risk management process	64 to 67 and 69	10 and 12
Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks	65, 69, 71 and 72	10 and 16
The targets used to manage climate-related risks and opportunities and performance against targets.	69 and 73	10 and 12