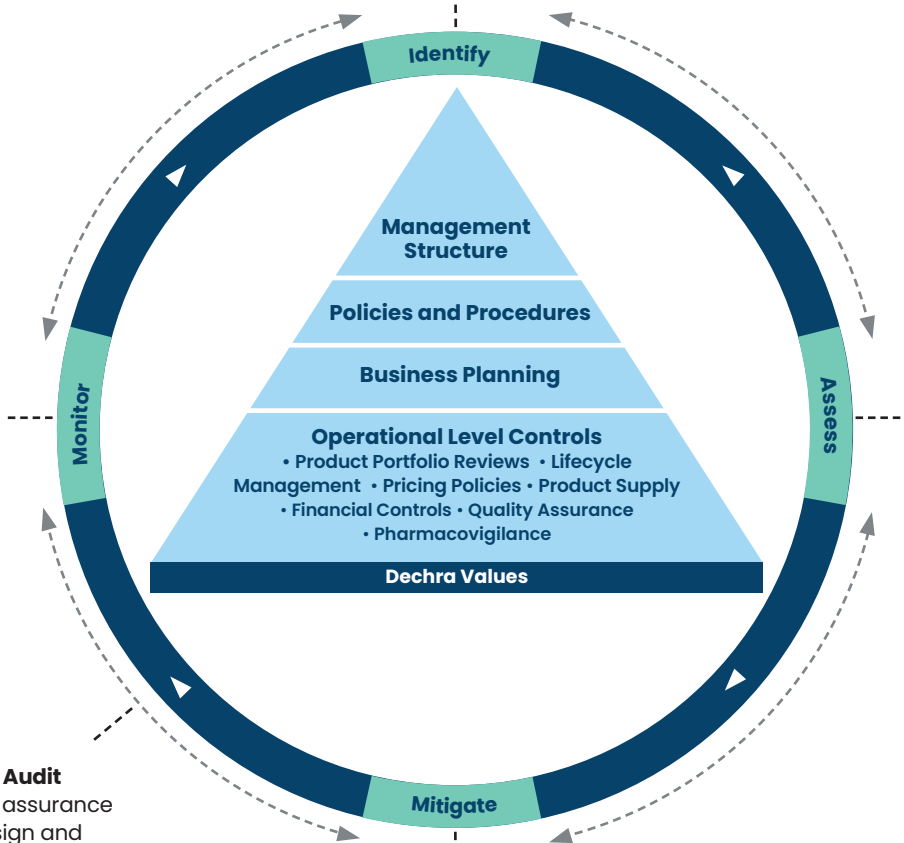
How the Business Manages Risk

Effective risk management and control is key to the delivery of our business strategy and objectives.

Our risk management and control processes are designed to identify, assess, mitigate and monitor significant risks, and provide reasonable, but not absolute, assurance that the Group will be successful in delivering its objectives.

Board
Oversight of the Group's risk management and internal controls



Audit Committee
Review the effectiveness of the risk management and internal audit framework

Senior Executive Team
Owners of the risk management process and responsible for embedding risk management into business units

Internal Audit
Independent assurance on the design and operation of the internal control framework

Business Units
Identification, mitigation and monitoring of risks

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 Audit Committee 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. No material emerging risks were identified in the 2023 financial year.

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-Fraud;
- 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 83 to 87. 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 2023

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

- Recruitment of a Compliance Manager to support Dechra's compliance with key legislation including Data Protection, Anti-Competitive Practices, Anti-Money Laundering, Fraud and Fraud Awareness, Modern Slavery, Anti-Bribery and Anti-Corruption, and Sanctions.
- We have continued to make improvements to our manufacturing, quality and supply processes, with additional investments in people and production facilities.
- We completed the 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 requirements of the BEIS proposals.
- Our Environmental, Social and Governance (ESG) strategy has been further enhanced with the appointment of a Sustainability Project Manager. 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.
- We commenced the roll out of a Global Travel and Expense management and reporting system. This will help to ensure that travel and expenses costs deliver value for the company, and improve the efficiency and accuracy of reporting.
- We continued with our project to upgrade the Manufacturing ERP system to one consolidated cloud-based Oracle platform.

Plans for 2024

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 2024.

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

Viability Statement

Assessment of Prospects

Dechra has consistently delivered on its strategic objectives resulting in a strong track record of growth. The Group's strategy remains unchanged and is set out on pages 32 and 33 of the Strategic Report. The key factors supporting the Group's prospects are explained throughout the Annual Report and are summarised below:

- a clear strategic focus;
- a growing global animal health market;
- a clear portfolio focus with strong market positions in a number of key therapeutic areas;
- a strong development pipeline and a track record of pipeline delivery;
- manufacturing flexibility, with a wide range of dosage forms and small and large scale production batches;
- an entrepreneurial and experienced management team;
- a recognised brand with a strong reputation for providing high quality products with technical support;
- an expanding international focus;
- talented people and expertise; and
- a sound track record of successful acquisitions to expand our product portfolio and geographic reach.

The Board believes that the Group has adequate resilience due to its diversified product portfolio, its geographic footprint, a strong balance sheet, healthy cash generation and access to external financing, which includes committed facilities.

The Assessment Process and Key Assumptions

The Group's prospects are assessed primarily through its strategic and financial planning processes over a five year time period. The strategic plan is supported by a five year financial plan, both of which are updated annually by the SET and reviewed by the Board. The Board also reviews the Group's principal risks on a rolling basis throughout the year, based on updates from SET members. The planning process considers risks to sales and cost forecasts for each part of the Group, the Group's consolidated income and cash flow forecasts, and includes key assumptions to support longer term projections. The financial plans are reviewed to confirm that adequate financing facilities are in place for the period of the plan. Progress against financial budgets, forecasts and key business objectives are reviewed through monthly business performance reviews at both Group and business unit levels. Mitigating actions are taken to address under-performance. The latest updates to the plan were reviewed in June 2023 and considered the Group's current position, its future prospects and reaffirmed the Group's stated strategy.

How the Business Manages Risk

Assessment of Viability and Time Period

The Board has determined that a three year period to 30 June 2026 is an appropriate period over which to provide its viability statement. This time period is supported by the Group's budget process, which includes detailed projections for the next two financial years, and broader projections from the third year of the five year strategic planning process. The Board believes this provides a sound framework for providing reasonable assurance on the Group's viability given the inherent uncertainty associated with longer term forecasts. The Board's assessment has been made with due regard to the Group's current position, its future prospects, adequacy of financing facilities, the strategic plan and the management of the Group's principal risks. The viability assessment takes account of all the committed expenditure of the Group. Although the output of the Group's strategic and financial planning processes reflects the Board's best estimate of the future prospects of the business, the Group has also conducted stress testing to assess the liquidity impact of a range of alternative scenarios. These scenarios have been developed by considering those principal risks that could have a material impact on viability. The potential impact of each principal risk is described on pages 83 to 87 of the Strategic Report. A number of severe but plausible stress tests have been conducted on these areas including a significant pipeline delay, significant profit reduction on top ten products, and loss of key high margin products. A combination of the individual scenarios and an overall reverse stress test on the Group's borrowing facilities and covenant commitments have also been considered. The Board believes the results of the stress testing demonstrate that the Group should be able to withstand the impact in each case due to its strong cash generation, strong balance sheet, and existing financing arrangements.

Viability Statement

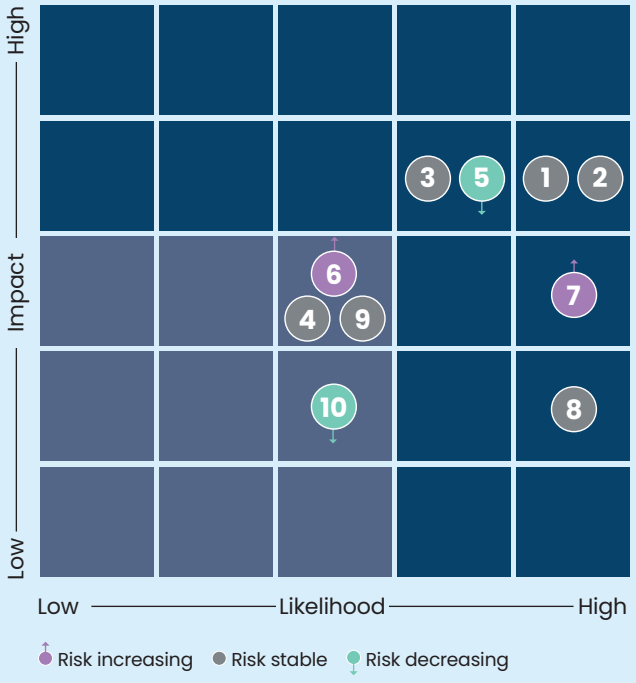
Based on the results of this analysis and the assumptions used in the Group's planning process, the Board has a reasonable expectation that the Group and Company will be able to continue in operational existence for the foreseeable future and meet its liabilities as they fall due over the three year period from 30 June 2023. On 2 June 2023, the Board reached an agreement with Freya Bidco Limited (Bidco) on the cash acquisition by Bidco of the entire issued ordinary share capital of Dechra (the Acquisition). The Acquisition is being implemented by means of a Court-sanctioned scheme of arrangement (the Scheme). On 20 July 2023 the Scheme and its implementation were approved by the Scheme Shareholders and Dechra Shareholders and the Acquisition is expected to complete after the date of approval of the Annual Report and Accounts. The going concern and viability assessments of the Group and Company are therefore subject to uncertainties relating to the potential change in ownership of the Group and the actual funding requirements and financing arrangements post completion. For this reason, the Board cannot reasonably predict the financial position of the Group and Company post-completion, including the details of any financing arrangements related to the transaction that could affect the Group and Company. This indicates the existence of a material uncertainty which may cast significant doubt on the Group and Company's ability to continue as a going concern. The financial statements do however not include the adjustments that would result if the Group and Company were unable to continue as a going concern. Notwithstanding this uncertainty, based on the circumstances described above, the Board has a reasonable expectation that the Group and Company has adequate resources to continue in operational existence for the foreseeable future and is able to meet its liabilities as they fall due over the three year period from 30 June 2023.

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

Risk	Potential Impact	Control and Mitigating Actions	Link to Strategic Growth Driver and Enabler	Trends
1 **Market Risk:** The growth of veterinary buying groups and corporate customers impacts the distribution landscape. We sell and promote primarily to veterinary practices and distribute our products through wholesaler and distributor networks in most markets. In a number of mature markets, veterinarians have established buying groups to consolidate their purchasing, and corporate customers are continuing to expand.	The growth of corporate customers and buying groups represents an opportunity to increase sales volumes and revenue but may result in reduced margins.	We manage and monitor our pricing policies to deliver equitable pricing for each customer group. Our relationships with larger customers are managed by key account managers. Our marketing strategy is designed to support veterinarians in retaining customers by promoting the benefits of our product portfolio in our major therapeutic areas.	Portfolio Focus	→
2 **Competitor Risk:** Competitor products launched against one of our leading brands (e.g. generics or a superior product profile). We depend on data exclusivity periods or patents to have exclusive marketing rights for some of our products. Although we maintain a broad portfolio of products, our unique products like *Vetoryl* and *Zycortal* have built a market which continues to be attractive to competitors.	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. Costs may increase due to defensive marketing activity.	We focus on lifecycle management strategies for our key products such that they can fulfil evolving customer requirements. Product patents are monitored, and defensive strategies are developed towards the end of the patent life or the data exclusivity period. We monitor market activity prior to competitor products being launched and develop a marketing response strategy to mitigate competitor impact.	Pipeline Delivery, Portfolio Focus, Geographical Expansion	→

Strategic Driver/Enabler Key:

- Pipeline Delivery
- Portfolio Focus
- Geographical Expansion
- Acquisition
- Manufacturing & Supply Chain
- Technology
- People

Risk Trend

- ↑ Increased Risk
- ↓ Decreased Risk
- → No Change

Understanding Our Key Risks

Risk	Potential Impact	Control and Mitigating Actions	Link to Strategic Growth Driver and Enabler	Trends
3 **Product Development and Launch Risk:** Failure to deliver major products either due to pipeline delays or newly launched products not meeting revenue expectations. The development of pharmaceutical products is a complex, risky and lengthy process involving significant financial, R&D and other resources. Products that initially appear promising may be delayed or fail to meet expected clinical or commercial expectations or face delays in regulatory approval. It can also be difficult to predict whether newly launched products will meet commercial expectations.	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. Our market position in key therapeutic areas could be affected, resulting in reduced revenues and profits. 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.	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. 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. Each development project is managed by project leaders who chair project team meetings. 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. 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. 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.		→
4 **Supply Chain Risk:** 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. 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.	Raw material supply failures may cause: • increased product costs due to difficulties in obtaining scarce materials on commercially acceptable terms; • product shortages due to manufacturing delays; or • delays in clinical trials due to shortage of trial products. Shortages in manufactured products and third party supply failures on finished products may result in lost sales. Our robust response to recent global supply chain challenges, such as the impact of the Russian invasion of Ukraine, has seen the supply chain risk remain stable.	We monitor the performance of our key suppliers and act promptly to source from alternative suppliers where potential issues are identified. The Group's top products are regularly reviewed in order to identify the key suppliers of materials or finished products. A dedicated external network team exists to manage and support our CMOs to deliver quality products to our regulatory specifications. 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. 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. Business continuity plans are in place at our key manufacturing sites. A new procurement structure and performance measures have been put in place to improve supplier performance management and implement a second source strategy.		→

Risk	Potential Impact	Control and Mitigating Actions	Link to Strategic Growth Driver and Enabler	Trends
5 **Regulatory Risk:** Failure to meet regulatory requirements. We conduct our business in a highly regulated environment, which is designed to ensure the safety, efficacy, quality, and ethical promotion of pharmaceutical products. Failure to adhere to regulatory standards or to implement changes in those standards could affect our ability to register, manufacture or promote our products.	Delays in regulatory reviews and approvals could impact the timing of a product launch and have a material effect on sales and margins. 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. Non-compliance with regulatory requirements may result in delays to production or lost sales. Regulatory risk is high due to the increasing regulatory burden, including compliance with the European Medicines Agency's (EMA) Union Product Database (UPD). However, we have increased resource in our Regulatory Affairs team. Additionally, the proportion of our products manufactured by CMOs, which present higher regulatory compliance risks, has declined.	The Group strives to exceed regulatory requirements and ensure that its employees have detailed experience and knowledge of the regulations. Manufacturing and Regulatory teams have established quality systems and standard operating procedures in place. A dedicated External Network Quality Director supports our CMOs in complying with our regulatory specifications. Regular contact is maintained with all relevant regulatory bodies in order to build and strengthen relationships and facilitate good communication lines. The Regulatory and Quality teams update their knowledge of regulatory developments and implement changes in business procedures to comply with new requirements. 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. External consultants are used to audit our manufacturing quality systems. Our Regulatory team operates a robust Pharmacovigilance (PV) process to report any adverse reactions and product complaints related to the use of our products.		
6 **Acquisition Risk:** Identification of acquisition opportunities and their potential integration. Identification of suitable opportunities and securing a successful approach involves a high degree of uncertainty. Acquired products or businesses may fail to deliver expected returns due to overvaluation or integration challenges. The risk has increased due to the complexity of integrating Piedmont Animal Health, Inc and Med-Pharmex Holdings, Inc.	Failure to identify or secure suitable targets could slow the pace at which we can expand into new markets or grow our portfolio. Acquisitions could deliver lower profits than expected or result in intangible assets impairment.	We have defined criteria for screening acquisition targets, and we conduct commercial, clinical, financial, environmental and legal due diligence. The Board reviews acquisition plans and progress regularly and approves all significant potential transactions. The SET manages post acquisition integration and monitors the delivery of benefits and returns through a defined process.		

Understanding Our Key Risks

Risk	Potential Impact	Control and Mitigating Actions	Link to Strategic Growth Driver and Enabler	Trends
7 **People Risk:** Failure to resource the business to achieve our strategic ambitions, particularly on geographical expansion and acquisition. 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. Our growth plans and future success are also dependent on retaining knowledgeable and experienced senior managers and key staff. Increased competition in the market, particularly in specialist roles, challenges the recruitment and retention of key talent and skills.	Failure to recruit, develop and retain quality people could result in: • overstretched resources; • weakened succession planning; • capability gaps in new markets; or • challenges in integrating new acquisitions. This could lead to erosion of our competitive advantage, and delay implementation of our strategy. Rising cost of living challenges and ongoing wage inflation have the potential to impact workforce stability.	The Chief People Officer 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. 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. The Nomination Committee oversees succession planning for the Board and the SET. Succession plans are in place for the SET together with development plans for key senior managers. 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.		↑
8 **Antimicrobials Regulatory Risk:** Continuing pressure on reducing antimicrobial use. The issue of the potential transfer of antibacterial resistance from animals to humans is subject to regulatory discussions globally. Whilst EU regulations (Regulation (EU) 2019/6) restricting antimicrobial use in animals became effective in 2022, the impact on our FAP antimicrobial portfolio is limited as our products are used for treatment rather than prevention. However, there remains continuing pressure on reducing antimicrobial risk. This is driven by market and cultural trends.	Reduction in sales of our antimicrobial product range. Our reputation could be adversely impacted if we do not respond appropriately to government regulations and recommendations.	Regular contact is maintained with relevant veterinary authorities to enable us to have a comprehensive understanding of regulatory changes. We strive to develop new products and minimise antimicrobial resistance concerns. We communicate appropriate antimicrobial use in line with best practice.		→

Risk	Potential Impact	Control and Mitigating Actions	Link to Strategic Growth Driver and Enabler	Trends
9 **Climate:** 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.	Damage to our facilities as a result of climate change could impact our ability 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. Please read about TCFD on pages 69 to 75	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 United Nations Framework Convention on Climate Change Race to Zero. Scenario planning has been conducted for both physical and transition risks to enable us to mitigate climate related risks. The share of key products manufactured by Dechra, as opposed to CMOs, is being increased in order to manage physical risks better. Dechra has implemented an internal shadow carbon price to bring clarity and to identify climate related opportunities and the best areas to reduce emissions. Renewable electricity is generated from an existing solar plant at our Zagreb site. We are investigating other renewable energy sources across the Group. Site based ESG committees will be established to manage sustainability, including energy efficiency, renewables and effluent.		→
10 **Cybersecurity and IT Failure Risk** Information security breach or significant disruption to our IT systems, resulting from a cyber-attack or failure of key IT software or infrastructure.	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.	Key systems, including email and ERP, are being migrated to cloud based hosting. Remaining on-premise systems are replicated across dual servers and backed-up. Disaster and data recovery plans are in place and tested regularly. Data encryption and multi-factor authentication are employed on mobile devices. Endpoint protection and intrusion prevention/ detection are in place. Regular information security and data protection training for employees. Business interruption and cyber insurance are in place.		↓

The Chief Executive Officer's Statement and the Strategic Report covering pages 03 to 07 and 24 to 87 respectively of the Annual Report and Accounts 2023, has been approved by the Board of Directors in accordance with the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

Melanie Hall
Company Secretary
12 October 2023