

# Commitment to climate change

This TCFD Report sets out the Company's climate-related financial disclosures consistent with the recommendations of the Task Force on Climate-related Financial Disclosures ('TCFD') and with the TCFD recommended disclosures, in line with the current UK Listing Rules requirements. Specifically this TCFD Report takes account of the 2017 guidance issued by the TCFD on the implementation of its recommendations (the '2017 TCFD Annex'). In October 2021, the TCFD released additional guidance implementing its recommendations ('2021 TCFD Annex'), which supersedes the 2017 TCFD Annex. We have also considered the 2021 TCFD Annex and applied it where possible.

## Governance

Devro's Board of Directors is responsible for the oversight of climate-related risks and opportunities, as with all matters which impact the strategy and risk management of the Group. The Board is responsible for the oversight of the Group's climate change policy and monitors and oversees progress of the Group's sustainability targets against our recorded emissions (Scope 1 & 2), water use (m<sup>3</sup>) and waste (tonnes). As climate-related issues are fundamental to the Group's business Purpose, the CEO has overall responsibility for their oversight, ensuring climate-related issues are considered in the review of Devro's strategy, budget and business. The Group's Audit Committee supports the Board in ensuring climate-related issues are integrated into the Group's risk management process. The climate-related risk and opportunities register is reviewed by the Audit Committee every six months at meetings scheduled to approve the Group's overall risk controls. The Audit Committee is also responsible for approving the content of the Group's TCFD disclosures.

Executive management level oversight of climate-related issues at Devro is performed by the CEO and the EMT, who monitor progress to climate-related targets, achievements, barriers to be resolved and report to the Board. Our Sustainability Committee supports the EMT on delivery of the climate-related strategy and performance of the business. Further details are outlined on page 52, Sustainability Governance Structure, and details, including specific actions, relating to our management of emissions, energy use, water and waste can be found in the Responsible Business section of this 2021 Annual Report.

## Risk management

Risks and opportunities relevant to Devro were identified with the help of external consultants and refined through consultation with the Sustainability Committee and senior management. Devro considers climate-related risks and opportunities in all physical and transition risk categories, current and emerging, whether they occur within our own operations, or upstream and downstream of the Group and whether they occur within the short, medium or long-term time horizons.

Climate-related risks and opportunities are evaluated for likelihood (intuitive assessment) and impact (£'m impact on Group EBIT) with a threshold of £1 million EBIT impact over the rolling three-year period. The completed climate-related risk and opportunity register was reviewed and approved by the Audit Committee during the financial year such that the significance of climate-related risks is considered in relation to risks identified in the standard risk management process. This ensures the management of climate-related risks is integrated into Devro's overall risk management framework. The climate-related register is reviewed every six months to incorporate ongoing refinement and quantification of risks and to ensure the register reflects any material changes in the operating environment and business strategy.

Once identified, further details related to each key risk and opportunity, such as a quantification of the financial impact, the appropriate strategic response and cost of response and the variance of key risks in relation to climate-related scenarios are developed where possible. These details help to determine the materiality of each risk and alongside the magnitude and likelihood assessment outlined above, this allows Devro to prioritise resources in managing the most material climate-related impacts, determine the best management response or highlight areas requiring further investigation. Further details of the Group's risk assessment process are on page 38, Principal Risks & Uncertainties.

## Strategy

Through our process, the following key risks and opportunities that could have a material financial impact on the organisation have been identified. These are incorporated into our strategic thinking.

Risk	Carbon (fossil fuel) tax	Carbon (fossil fuel) tax	Water scarcity
<b>Type</b>	Transition	Transition	Physical
<b>Area</b>	Own operations	Upstream	Own operations
<b>Primary potential financial impact</b>	Higher energy costs	Higher raw materials costs	Higher costs/disruption
<b>Time horizon</b>	Medium-term	Medium-term	Medium-term
<b>Likelihood</b>	Very likely	Very likely	Evens
<b>Magnitude of impact</b>	Medium	High	Low
<b>Impact on the business and strategy</b>	<p>Devro uses an energy intensive production process. The prevalence of carbon pricing (applied directly or indirectly) is expected to expand, and the price of carbon is expected to rise. The International Energy Agency ('IEA') forecasts that carbon prices (US\$/tCO<sub>2</sub>e) relevant to Devro under SDS<sup>1</sup> and STEPS<sup>2</sup> are projected to increase which would lead to an increase in the costs to the Group either in the cost of power, carbon offsets or carbon taxes based on our Scope 1 and 2 emissions.</p> <p>The Group is investigating efficiency measures, renewable self-generation, and renewable electricity supply (see Opportunities). The Group targets 25% reduction in Scope 1 and 2 emissions by 2030 and net-zero by 2050, which would materially limit the direct impact of carbon prices.</p>	<p>Carbon price increases and introduction of carbon pricing in the value chain would increase the cost of transportation and increase in the cost of carbon-intensive raw material inputs. The final cost implications to Devro would be dependent on where in the value chain the responsibility for the cost increase lies and whether price increases can be passed on. The Group is undertaking a Scope 3 carbon footprint and lifecycle analysis to understand where its upstream carbon impacts lie and to quantify its value chain carbon footprint. This will help us determine what actions we can take with e.g., suppliers and logistics, that will reduce our Scope 3 emissions and any exposure to upstream carbon pricing risks. We would expect that the largest portion of the upstream carbon footprint to be related to raw material for casings, with more limited carbon footprint associated with the inbound transport, outbound distribution, and packaging.</p>	<p>Our site in Australia (Bathurst) operates in a region where the risk of water stress (scarcity) is expected to rise (identified with AWARE &amp; WRI Aqueduct). The region is currently classed as Low Risk for water stress, but the basin is predicted to rise to High Risk by 2030 under the RCP 8.5<sup>3</sup> scenario. Notably, drought in multiple years led to regional water restrictions in 2019, but as a key local business, the plant faced no restriction to supply and there was no additional cost of water. Nevertheless, the Group investigated drilling boreholes to source alternative water supply and reduce reliance on municipal water. The capital cost of boreholes and water cleaning was under £1 million. There is also a Company-wide water reduction opportunity from production efficiency.</p>

1. Sustainable Development Scenario (SDS)\* outlining a global low carbon transition which limits the global temperatures rise to 1.65 °C by 2100, with 50% probability.  
 2. Stated Policies Scenario (STEPS)\* outlining a combination of physical and transitions risk impacts as temperatures rise by 2.6°C by 2100, with 50% probability.  
 3. RCP 8.5\*\* an extreme physical risk scenario, where global temperatures rise between 4.1-4.8°C by 2100.

Opportunity	Innovating low carbon alternatives	Water, energy, waste savings	Green generation
<b>Type</b>	Products and services	Resource efficiency	Energy source
<b>Area</b>	Own operations/downstream	Own operations	Own operations
<b>Primary potential financial impact</b>	Increased sales	Decreased costs	Decreased costs
<b>Time horizon</b>	Medium-term	Medium-term	Medium-term
<b>Likelihood</b>	Likely	Likely	Likely
<b>Magnitude of impact</b>	Medium	High	Low
<b>Impact on the business and strategy</b>	<p>Subject to customer acceptance, the Group would be able to lower Scope 3 emissions via a shift in the raw material of casings through the development of the consumer market and the required technologies to produce alternative casings in economic quantities. The carbon footprint of porcine and poultry-based casings is materially lower than bovine casings. Plant-based solutions may also offer substantially lower emissions. The Group already offers porcine in all formats, and poultry in gel. However, there is no meaningful shift in customer demand trends at this point. Plant-based casings would need further technological development which would be a normal R&amp;D cost for the business. It is too early to determine the financial impact and the lifecycle analysis will contribute to our analysis of this opportunity.</p>	<p>There is a large opportunity for the Group in resource efficiency, reducing energy, water and waste. The Group is targeting a 25% reduction in intensity of energy, a 20% reduction in water and a 30% reduction in product waste to 2025. An absolute reduction of 25% and 20% in energy and water respectively and reduction of product waste to zero is targeted to 2030. Reduction targets do not assume any significant step-change in technology. This will be derived from upgrading and improving manufacturing processes, increasing water re-use in process, and through the elimination of non-organic contamination in production waste, which will allow most production waste to be sent to anaerobic digestion for third party energy generation.</p>	<p>Our focus on our 2025 targets is efficiency improvements, modular solar investments, and purchase of renewable sourced electricity via Power Purchase Agreements (PPAs). The 2030 target will be delivered through improved efficiency, reduced energy demand, further renewable procurement, and the decarbonisation of heat. Increased on-site self-generation and increasing the purchase of renewable sourced electricity will reduce Scope 2 emissions. After initial capex payback, renewable energy generation becomes cash generative by removing cost. We aim for PPAs for 100% of demand in the Czech Republic and Scotland by 2025 and 100% for all sites by 2030. Reduction targets do not assume any significant step-change in technology. This will reduce our emissions and exposure to carbon price risks outlined above.</p>

We explored three additional risks and one additional opportunity, which we do not believe to be material, or which currently do not impact our businesses, strategy, and financial planning:

- **Severe weather (risk):** whilst the incidence of severe weather is expected to increase, this is expected to be below the materiality threshold. The Group has experienced minor weather-related disruption to date. Our most vulnerable site is Sandy Run (hurricanes), where a well-rehearsed storm forecast and response system is in place. The impact of any weather-related issue at plants would be a function of how long a site is offline, any material asset damage and any related insurance monies.
- **Physical risks on our supply chain:** these are likely to be localised rather than universal, and Devro has high level of resilience in supply chain, with proven ability to source raw materials from alternative suppliers. The Group is moving towards global raw material specifications to allow all plants to accept each other's supplies, increasing our operational resilience.
- **Reduced meat consumption (risk):** studies indicate that whilst consumer preferences may result in changes in regional demand, there is limited risk of overall global demand contraction in the forecast period.
- **Collagen market share (opportunity):** the collagen to gut ratio globally means there is potential for further market share gains for collagen. Collagen provides customers manufacturing efficiency, thereby reducing their energy costs and emissions.

In consideration of the longer time horizons for climate-related issues and in keeping with the interim target dates set for the business in line with its 2050 net-zero aspiration, the time horizons for our risk assessment analysis have been determined as follows:

- Short-term: to 2025
- Medium-term: 2025 to 2030
- Long-term: 2030 to 2050

We use climate-related scenario analysis to improve our understanding of how different climate outcomes impact certain risks. We employed three public climate-related scenarios which help us better understand the resilience of the business to climate change:

- Sustainable Development Scenario (SDS)\* outlining a global low carbon transition which limits the global temperatures rise to 1.65°C by 2100, with 50% probability.
- Stated Policies Scenario (STEPS)\* outlining a combination of physical and transitions risk impacts as temperatures rise by 2.6°C by 2100, with 50% probability.
- RCP 8.5\*\* an extreme physical risk scenario, where global temperatures rise between 4.1-4.8°C by 2100.

\* IEA (2021). World Energy Model, IEA, Paris <https://www.iea.org/reports/world-energy-model>

\*\* IPCC, 2014: Climate Change 2014: Synthesis Report. Contribution of Working Groups I, II and III to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change.

The scenarios we use have been supplemented with additional sources specific to each risk to inform our assumptions. Much of our scenario analysis remains qualitative at this stage, but against certain risks, we have begun to develop quantified impacts internally where the underlying data is available and where the current understanding of the risks is robust. Our initial assessment is that the business remains resilient in all three scenarios and our strategic planning is aligned to meeting the transition risks detailed in SDS and STEPS. There will be opportunities in future years to increase the sophistication of modelling as new data is made available both internally and externally to support a meaningful quantitative assessment.

#### Metrics and targets

Devro monitors Scope 1 and 2 greenhouse gas emissions, measured under ISO14001, energy use, freshwater withdrawal and waste management, as reported on page 53. We are developing our understanding of our Scope 3 emissions. Our targets are outlined on page 51 and Devro has made the public commitment to be net-zero by 2050.