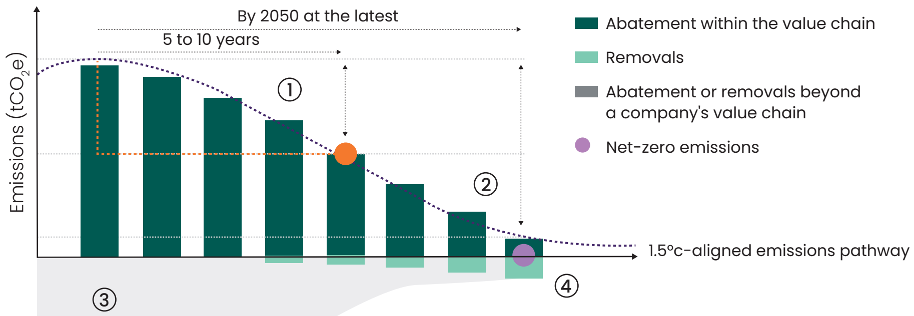
Case Study

Beyond the Value Chain

The Science Based Targets initiative (SBTi) set out four key elements of the net zero standards:



① **To set near term SBTs:** 5 to 10 year emission reduction targets in line with 1.5°c pathways

② **To set long term SBTs:** Target to reduce emissions to a residual level in line with 1.5°c scenarios by no later than 2050

③ **Beyond value chain mitigation:** In the transition to net zero, companies should take action to mitigate emissions beyond their value chains

④ **Neutralization of residual emissions:** GHGs released into the atmosphere when the company has achieved their long term SBT must be counterbalanced through the permanent removal and storage of carbon from the atmosphere

Source: Science Based Targets, SBTi Corporate Net-Zero Standard, April 2023.

As previously reported, we have been working towards the first two elements in the chart above. We have now submitted our science based targets to SBTi and they are currently being verified (further details can be found in the 2023 Annual Report).

In addition, during the year we were presented with an opportunity to accelerate the third element, Beyond Value Chain Mitigation (BVCM).

When reviewing BVCM opportunities the best projects are considered to be those that feature the following as mandatory requirements:

- inclusive of local stakeholders;
- deliver and verify sustainable development impacts;
- ensure best practice environmental and social safeguards;
- select sustainable development impacts relevant to business objectives and stakeholder concerns;
- focus on countries relevant to your supply chain, or consider projects in countries most vulnerable to climate change with lowest means to combat it; and
- activities that can avoid or reduce greenhouse gas emissions, or remove and store greenhouse gasses from the atmosphere.

The AgCo Tech Opportunity

The opportunity was to invest in AgCo Tech Ltd, an Australian private limited company who provide practical help to livestock owners in developing countries. The investment of AUD 6.0 million (£3.3 million) will be paid in two equal tranches over the next 12 months to fund the building of the first manufacturing unit in Kenya and a second unit in Laos.

The investment will take the form of a loan which will be repayable, following a one year repayment holiday, over a six year period in the form of verified carbon credits (calculated at market value), which will be retired through our income statement upon receipt, as we do not intend to use these credits to offset our own emissions. The loan will attract interest, and Dechra will also take a 5% minority interest holding in AgCo Tech in return for the investment.

This opportunity is rare as it meets all of the above requirements. It provides practical help to livestock owners in developing countries to improve community wellbeing, the product improves cattle welfare and productivity and reduces methane intensity and emissions as well as generating verified carbon offsets, and the offsets created provide a potential income stream for AgCo Tech which allow them to deliver the product for free to farmers in need, generating social and environmental benefits.

It is also aligned to the recent output from COP 27, which stated the need to reduce carbon and methane emissions simultaneously whilst also supporting those on the front line of climate change. Methane has more than 80 times the warming power of carbon dioxide over the first 20 years after it reaches the atmosphere, meaning even though CO2 has a longer lasting effect, methane sets the pace for warming in the near term.

AgCo Tech's verified carbon credits meet United Nations Framework Convention on Climate Change (UNFCC) guidelines and each Certified Emission Reduction (CER) is equivalent to one metric tonne of carbon dioxide avoided or removed from the atmosphere from Clean Development Mechanisms (CDM). CDM projects are set out to achieve two goals:

- to reduce greenhouse gas emissions; and
- to support sustainable development in developing countries.

In addition to the environmental benefit of this investment, it is also strongly aligned with our Sustainability target to donate £5 million over a ten year period to 30 June 2030. Due to the philanthropic nature of the investment we will not look to profit from this investment, with any income being reinvested in other climate stewardship projects.