

## Neuland Laboratories Ltd: TCFD Progress report

### Introduction

Neuland Laboratories Limited (The Company or Our) established in 1984, is a leading Neuland is a leading global API contract development and manufacturing organization (CDMO). The company supports biotechnology and pharmaceutical companies in the design, development and manufacturing of complex active pharmaceutical ingredients (APIs).

The Company develops small molecules and peptides for clinical trials and beyond, with the capacity to scale-up through every stage of the product lifecycle to commercial manufacturing. global active pharmaceutical ingredient (API) manufacturer and development organization with 40 years of experience, offering solutions from pre-clinical chemical synthesis to the supply of New Chemical Entities (NCEs) and advanced intermediates. Operating three state-of-the-art manufacturing facilities near Hyderabad, India, compliant with stringent regulatory standards, Neuland serves over 500 customers in more than 80 countries, with significant exports to the US and Europe. The company emphasizes innovation in complex chemistry and contract manufacturing, focusing on disease prevention and rare diseases while adhering to sustainability practices aligned with global standards like the Global Reporting Initiative (GRI). Recent fiscal years have seen significant growth driven by increased demand for APIs, with continued expansion of its product portfolio and operational efficiencies. Guided by principles of integrity, transparency, and quality, Neuland is committed to enhancing access to affordable medicines and maintaining strong client relationships.

### About TCFD

The Company has adopted the Task Force on Climate-Related Financial Disclosures (TCFD) framework to identify and assess the potential risks linked to climate on its business operations.

The Financial Stability Board (FSB) is an international body that monitors and makes recommendations about the global financial system. FSB has established the industry-led Task Force on Climate-related Financial Disclosures (TCFD) to develop climate-related disclosures that would enable stakeholders to better understand the financial impacts of climate related risks and opportunities.

Climate risks typically refer to the physical impacts resulting due to extreme weather, and climatic events, and the impact associated with a shift to a low carbon economy. The Company is assessing climate risks to the organisation based on 4 pillars as recommended by the TCFD. They are governance, strategy, risk management, and metrics and targets.



**Governance:** The organization's governance around climate-related risks and opportunities

**Strategy:** The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning

**Risk Management:** The processes used by the organization to identify, assess, and manage climate-related risks.

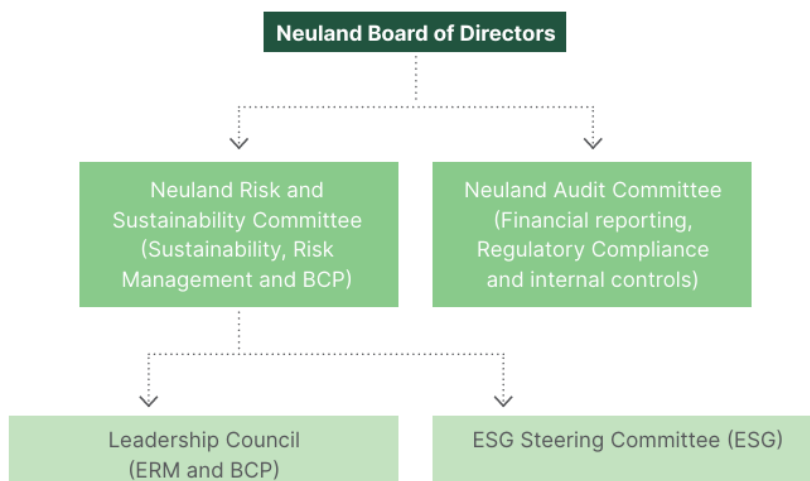
**Metrics and Targets:** The metrics and targets used to assess and manage relevant climate-related risks and opportunities

## Climate Change Governance

### Summary

The company's Sustainability and Risk Governance also oversees climate-related risks and opportunities. The governance framework is led by the Risk and Sustainability Committee of the Board, which meets quarterly to oversee the management of climate-related risks and ensure alignment with the company's sustainability strategy. The committee reviews climate risks, monitors compliance with regulatory standards, and evaluates the effectiveness of mitigation strategies.

The company has integrated sustainability parameters into the key performance indicators (KPIs) of leadership, with a specific focus on carbon reduction goals. This governance system ensures accountability and reinforces the company's commitment to reducing its carbon footprint.



## **Integrating Sustainability, Climate Change and risk management**

The Chief Executive Officer (CEO) and the Sustainability and Risk Committee play pivotal roles in overseeing these initiatives. The CEO monitors Environmental, Social, and Governance (ESG) goals and the ESG Steering Committee assesses environmental dependencies, impacts, risks, and opportunities while managing public policy engagement and supplier compliance.

The Head of Operations is responsible for implementing the climate transition plan and executing the business strategy related to environmental issues. This role includes briefing the board on Environment, Safety and Health (EHS), and sustainability initiatives. The Head of EHS and Sustainability reports to the Head of Operations and is accountable for climate action efforts across the organization.

The Risk and Sustainability Committee also plays a crucial role in overseeing environmental issues. It assesses environmental dependencies and risks, monitors compliance with corporate policies, sets corporate targets, develops business strategies that consider environmental issues, and reports directly to the board quarterly.

The Chief Financial Officer (CFO) is responsible for supporting climate change-related initiatives in making suitable timely capex and opex investments considering environmental dependencies, impacts, risks, and opportunities. The Corporate ESG team also review progress toward key ESG KPIs that also include progress on science-based environmental targets. Climate risks and opportunities are reviewed by the Corporate Strategy and Risk team who for this purpose report to the CEO via the Leadership Council, the Risk function provides updates on climate-related matters.

Sustainability is integral to Neuland's corporate strategy; the ESG team serves as secretary of the Risk Management Committee to ensure effective integration of water-related issues into risk management frameworks. By prioritizing climate management within financial strategies, the CFO supports Neuland's commitment to sustainable practices and long-term growth objectives.

The AVP of EHS & Sustainability plays a critical role in assessing climate-related risks and managing engagement with suppliers and stakeholders. This position involves monitoring compliance with corporate environmental policies, measuring progress toward environmental targets, implementing a climate transition plan, and managing major capital expenditures related to environmental issues.

Neuland adheres to external standards such as the Global Reporting Initiative (GRI) and the Greenhouse Gas Protocol (GHGP), ensuring transparency in its sustainability reporting. The company has successfully maintained a zero effluent discharge system for over three years and achieved notable reductions in greenhouse gas emissions and water intensity. Regular ESG awareness programs are conducted for employees, senior management and stakeholders to foster a culture of sustainability throughout the organization.

### **Time Horizons for Environmental Management:**

Neuland Laboratories defines its time horizons for identifying, assessing, and managing environmental dependencies, impacts, risks, and opportunities as follows:

**Short-term (1 to 3 years):** This period focuses on operational objectives such as implementing sustainability programs and ensuring regulatory compliance. It is linked to strategic and financial planning through the tracking of key performance indicators (KPIs) related to emissions reduction and climate resilience, with allocated resources for achieving these objectives.

**Medium-term (3 to 5 years):** This horizon aligns with strategic goals that emphasize increasing renewable energy usage and improving operational efficiency. These actions are essential for meeting financial targets and enhancing competitive positioning. Neuland has committed to Science-Based Targets Initiative (SBTi) goals, with plans to submit action plans for achieving net zero by 2025, supported by appropriate budgeting.

**Long-term (5 to 10 years):** This timeframe addresses broader environmental threats and market opportunities, integrating sustainability efforts with global standards to mitigate climate change risks. It ensures strategic and financial decisions are informed by environmental implications and macro-economic trends that may impact the business. The long-term plan also aims to meet SBTi deadlines through planned decarbonization measures.

## Climate Change risk management

### Summary:

In line with our commitment to stakeholder trust and governance, we recognise our business practices, opportunities and risks are intricately connected with our environment and communities.

Since FY23, Neuland Laboratories has adopted the Task Force on Climate-Related Financial Disclosures (TCFD) framework to identify and assess potential climate-related risks to its business operations.

### Scenario Analysis

Neuland evaluates climate risks and opportunities across three timelines—short-term (up to 2030), medium-term (up to 2040), and long-term (up to 2050)—under two climate scenarios: the International Energy Agency's Announced Pledge Scenario (IEA APS) and the Network for Greening the Financial System's Divergent Net Zero Scenario (NGFS-DNZ).

The analysis highlights several key areas of concern, including enhanced emissions reporting obligations, increased capital and operational expenditures due to the transition toward low-emission technologies, potential negative stakeholder feedback regarding climate impacts in the pharmaceutical sector, and exposure to litigation as customer awareness increases. The assessment enables Neuland to identify vulnerabilities in its operations, informing its business continuity plans and enhancing overall risk management strategies.

Neuland recognizes that transitioning to a low-carbon economy introduces new transition risks, such as carbon pricing mechanisms that may have financial implications. The company emphasizes proactive budgeting and planning to facilitate a seamless transition while regularly disclosing non-financial key performance indicators (KPIs) to mitigate stakeholder concerns.

The scenario analysis considers both qualitative and quantitative approaches, focusing on physical climate scenarios and the interactions between local ecosystems and climate change. The TCFD recommendations guide Neuland in disclosing governance structures, strategic impacts, risk management processes, and metrics used to assess climate-related risks.

### Physical Risk Scenarios

Neuland Laboratories has adopted the Task Force on Climate-Related Financial Disclosures (TCFD) framework to recognize and evaluate possible climate-related risks affecting its business operations. The assessment of climate risks is based on four key pillars suggested by the TCFD: governance,

strategy, risk management, and metrics and targets. The risks and opportunities related to climate change are assessed over three specific periods: short-term (until 2030), medium-term (until 2040), and long-term (until 2050) using three varied climate scenarios: RCP 4.5, RCP 6.0, and RCP 8.5. RCP 4.5 predicts that temperatures will increase by 2° -3° C compared to pre-industrial levels by the end of the century. It shows a moderate level of emissions, with greenhouse gas emissions peaking around 2040 and then decreasing due to a mix of policies, technological advancements, and market-driven solutions. The Company aims to improve its understanding of potential climate impacts on its activities while coordinating its sustainability efforts with worldwide climate goals. The results of the study and the associated action plans will be part of the ESG disclosure in the subsequent reporting periods.

### **Integrated climate related risk assessment and management framework**

Neuland Laboratories has established a comprehensive framework to integrate the assessment of various environmental dependencies, impacts, risks, and opportunities into a unified process, aligning with reporting requirements from the Global Reporting Initiative (GRI) and the Task Force on Climate-related Financial Disclosures (TCFD). Aligned to the Enterprise Risk Management (ERM) program, this methodology allows for the assessment of climate risks alongside operational and strategic issues, with oversight from the Board's Risk and Sustainability Committee.

The company conducts scenario assessments using the TCFD framework to evaluate potential climate change impacts under different emission scenarios, helping to understand effects on supply chains and financial performance.

A materiality assessment involving internal and external stakeholders identifies critical environmental topics that could significantly affect the organization, prioritizing risks and opportunities based on their relevance. Engaging stakeholders is vital for recognizing synergies and trade-offs among dependencies, impacts, risks, and opportunities, with their feedback informing strategic decisions. The framework also acknowledges potential climate-related risks, including rising sea levels and extreme weather events that could impact logistics and supply chains over the medium term. Challenges include obtaining accurate data on the environmental impacts of suppliers, which Neuland is addressing through a dedicated supplier information management system.

During the year extreme heat was one of the risks that has been actively considered for risk modelling.

### **Substantive risks and opportunities**

The Company defines substantive effects on the organization through qualitative and quantitative measures, primarily using EBITDA as an indicator. A substantive effect is marked by an absolute decrease of INR 10 Cr in EBITDA, considering metrics such as frequency, likelihood, time horizon, and severity.

The company employs a comprehensive Enterprise Risk Management framework that categorizes substantive impacts as high-velocity events with severe adverse effects on operations and financial performance, classified into five categories: minor, low, moderate, high, and severe. Substantive financial impacts include incremental environmental management costs and reputational risks due to regulatory changes.

In terms of opportunities, Neuland also utilizes qualitative and quantitative definitions with EBITDA as the key indicator, identifying a substantive opportunity as an absolute increase of INR 10 Crores in EBITDA.

The company capitalizes on opportunities through new product launches in targeted markets and by leveraging relationships with key customers for raw materials addressing climate-related diseases. Neuland focuses on resource efficiency to reduce operating costs through energy efficiency gains while validating its Scope 1 and 2 greenhouse gas reduction targets with the Science Based Targets Initiative (SBTi). The company is increasing renewable energy adoption and revising its Scope 3 inventory while developing investment models for climate action and water conservation initiatives. Neuland has adopted advanced technologies to minimize energy wastage and promote responsible resource utilization as part of its transition risk management strategy.

## Climate transition plan

### Key assumptions and dependencies on which the transition plan relies:

The transition is planned based on these factors: 1) Emission reduction pathways based on Business scenarios. 2) Life of existing assets related to energy generation and consumption 3) Availability of green power / Policies and systems needed to clean the electricity supply. 4) Growth projections and other macro trends in the sector.

### Strategy elements

Our strategy has been influenced by climate-related risks and opportunities, and we are developing a climate transition plan within two years. Currently, we have target to reduce carbon emissions by 30% by 2035 and Net zero 2050. We are also in the process of aligning our reporting and monitoring practices with the requirements of the SBTi (Science-Based Targets initiative). As part of this endeavour, we have started detailed study of our scope 3 emissions for FY 24 through a third party and are developing systems to monitor and track scope 3 emissions internally as well, reiterating our commitment to responsible environmental stewardship. We have been actively monitoring climate risks and opportunities, assessing physical and transitional risks, as well as identifying potential opportunities associated with adapting to climate change. Hence, we have tried to consider the business risk and accordingly designed our transition plan to become net zero by 2050.

Our approach to developing a sustainable and expanding business includes launching new products and enhancing our core operations in strategic regions. We will also strengthen our partnerships with key customers by providing materials that offer added value compared to standard APIs. Our goal is to become the preferred partner for global Pharma innovator and generic manufacturers and attain leadership in the market through competitive pricing and exceptional service.

This year, we published our ESG strategy (Pg 50 of the Company's Integrated Annual report F24) which emphasizes our commitment to making our products accessible and affordable for patients.

Due to the varied geographical distribution and nature of our suppliers, we will conduct a detailed climate risk assessment of some strategic suppliers' manufacturing locations and logistics. The major shift in our strategy is the engagement of suppliers for adopting targets for climate-related impacts. We are in the process of engaging all our strategic suppliers in supply chain sustainability and compliance with our internal ESG framework. We are working with strategic suppliers on an ESG capability, building programme, sustainable procurement processes and conducting an onsite assessment as per our ESG framework. Based on the results of the evaluation, we will identify potential high-risk suppliers and develop a mitigation plan based on the strategic suppliers' risk classification. These aspects will help us reach our climate change and water related targets at Neuland.

## **Environmental Sustainability and Policy Engagement:**

The Company's EHS, Climate change and Biodiversity Policies comprehensively cover matters related to climate change, emissions, waste, water, and biodiversity. These policies are organization-wide (other than Biodiversity) and cover all stages of the Company's value chain, including direct operations, upstream, and downstream activities, encompassing manufacturing units, R&D centres, offices, and distribution activities. The company's environmental commitments include a dedication to achieving Net Zero, Biodiversity conservation, Water neutrality, complying with regulations, and acting beyond regulatory requirements. Specific commitments related to climate include achieving net-zero emissions by 2050, while water-specific commitments focus on reducing hazardous substances, controlling water pollution, and minimizing water withdrawal volumes. Neuland also acknowledges the human right to water and sanitation.

The company is a signatory to several environmental collaborative frameworks, including the Carbon Disclosure Project (CDP) and the Science-Based Targets Initiative (SBTi). Neuland is committed to becoming a net-zero emission company by 2050 and is currently establishing science-based targets aligned with SBTi requirements. In FY 25, the company plans to baseline its Scope 1-3 emissions and refine its targets using FY24 as the baseline year. Neuland follows GRI guidelines to disclose its sustainability-related performance through an annual integrated report.

Neuland's environmental policies align with global treaties and goals, including the Paris Agreement and Sustainable Development Goals. These policies are publicly available for stakeholders to review. The Senior Management Balance Scorecard includes ESG KPIs.

In terms of external engagement, Neuland actively participates in activities that could influence policy or regulation impacting the environment. The organization has a public commitment to conduct these activities in line with global environmental treaties such as the Paris Agreement and the United Nations Global Compact. A structured system ensures that Neuland's public policy positions align with its internal KPIs, overseen at the board level by the Risk and Sustainability Committee.

Neuland engages with policymakers on three primary vectors of natural capital: reducing waste, water usage, and emissions through carbon neutrality initiatives and sustainable R&D. The organization supports national policies in India that emphasize transparency requirements, verification and audits, and mandatory environmental reporting. The Company is committed to these policies as it seeks to improve environmental conditions while contributing to overall sustainability.

## **Climate risk management: Metrics and Targets**

### **Summary**

Neuland Laboratories tracks and reports progress towards its sustainability goals, reporting on Scope 1, 2 and 3 emissions both absolute and intensity.

Ongoing energy efficiency initiatives, waste management programs, and water conservation efforts. The company has committed to science-based targets through the Science-Based Targets Initiative (SBTi), ensuring that its carbon reduction efforts are scientifically validated.

In the short-term, Neuland aims to reduce its Scope 1 and 2 emissions on an average by 1% annually, building towards its medium and long-term net-zero goal.

In the medium and long-term there are clear goals for Scope 1-3 emission reductions.

**Long term goals and KPIs associated with Climate change (Pg 51 of our Integrated AR FY24)**

| Goal Area         | KPI                             | FY35                                                              | FY50*                                                          | Enablers                                                                                                                                        |
|-------------------|---------------------------------|-------------------------------------------------------------------|----------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------|
| Emissions         | Scope 1 & 2<br>(Base Year FY24) | Carbon neutrality:<br>35%* reduction                              | Net Zero in absolute emissions (subject to residual emissions) | Ongoing efforts:<br>Energy conservation and switch to renewables<br><br>+ Carbon credits/offsets<br><br>+KPIs for ESG goals including Emissions |
|                   | Scope 3<br>(Base year FY24)     | 10%* reduction in indirect carbon emissions (including logistics) | -                                                              | +Create a roadmap for sustainable supply chain with key milestones (by FY25)<br><br>+KPIs for Supplier ESG Goals including emissions.           |
| <b>Governance</b> | TCFD                            | Evaluate and deploy TCFD framework in a phased manner             |                                                                | TCFD complete assessment v1.0 by FY25                                                                                                           |

\*To be recalibrated with SBTi in early 2025

## Conclusion

Neuland Laboratories is committed to integrating climate resilience into its business strategy, risk management, and operational framework. The company is actively addressing both physical and transition risks (Pg 44 of the Company's Integrated Annual report F24), and sustainability efforts are guided by robust governance, strategic foresight, and clear metrics and targets. This proactive approach positions the Company to mitigate the impacts of climate change while maintaining operational and financial resilience.