

Directors' Remuneration Report

continued

Directors' Remuneration Policy

The Remuneration Policy was approved by shareholders at the 2020 Annual General Meeting held on 27 October 2020, and became effective from this date. The full Remuneration Policy as approved by shareholders is available at www.dechra.com. We have set out a summary below of those parts of the Remuneration Policy which we consider shareholders will find most useful.

Policy Table for Executive Directors:

Element: Base Salary	
<p>Purpose and link to strategy: Core element of fixed remuneration reflecting the individual's role and experience.</p>	
Operation	Performance Measure
<p>The Committee ordinarily reviews base salaries annually taking into account a number of factors including (but not limited to) the value of the individual, their skills and experience and performance.</p> <p>The Committee also takes into consideration:</p> <ul style="list-style-type: none"> • pay increases within the Group more generally; and • Group organisation, profitability and prevailing market conditions. 	<p>Whilst no formal performance conditions apply, an individual's performance in role is taken into account in determining any salary increase.</p>
Maximum Opportunity	
<p>Whilst there is no maximum salary, increases will normally be within the range of salary increases awarded (in percentage of salary terms) to other employees in the Group. However, higher increases may be awarded in appropriate circumstances, such as:</p> <ul style="list-style-type: none"> • on promotion or in the event of an increase in scope of the role or the individual's responsibilities; • where an individual has been appointed to the Board at a salary set at a level that is lower than the Committee's view of a market salary to allow for growth in the role, in which case larger increases may be awarded to move salary positioning to a market level as the individual gains experience; • change in size and/or complexity of the Group; and/or • significant market movement. <p>Such increases may be implemented over such time period as the Committee deems appropriate.</p>	
Element: Retirement Benefits	
<p>Purpose and link to strategy: Provide a competitive means of saving to deliver appropriate income in retirement.</p>	
Operation	Performance Measure
<p>Executive Directors are eligible to participate in defined contribution pension arrangements. In appropriate circumstances, an Executive Director may receive a salary supplement in lieu of contributions to a pension scheme.</p> <p>Executive Directors outside the UK may also participate in non-UK pension arrangements (including the defined benefit pension scheme in the Netherlands, benefits under which are based on career average pay).</p>	<p>Not applicable.</p>
Maximum Opportunity	
<p>For Executive Directors appointed on or after 1 July 2019, a Company contribution not exceeding the contribution available to the majority of the Group's workforce (currently 4% of salary).</p> <p>For Executive Directors appointed before 1 July 2019, 14% of salary. However, the Company contribution will be aligned with the rate available to the wider workforce by the end of 2022 (this will include enhancing the wider UK workforce rate alongside a reduction in the rate for Executive Directors).</p> <p>A salary supplement may be paid in lieu of some or all of the pension contributions otherwise payable.</p> <p>Benefits under any non-UK pension arrangement may be provided in accordance with the terms of the applicable scheme.</p>	

Element: Benefits**Purpose and link to strategy:**

Provided on a market competitive basis.

Operation

The Company provides benefits in line with market practice and includes the use of a fully expensed car (or car allowance), medical cover and life assurance scheme.

Other benefits may be provided based on individual circumstances, which may include relocation costs and expatriate allowances.

Performance Measure

Not applicable.

Maximum Opportunity

Whilst the Committee has not set an absolute maximum on the level of benefits Executive Directors may receive, the value is set at a level which the Committee considers to be appropriately positioned taking into account relevant market levels based on the nature and location of the role and individual circumstances.

Element: Annual Bonus**Purpose and link to strategy:**

The executive bonus scheme rewards Executive Directors for achieving financial and strategic targets in the relevant year by reference to operational targets and individual objectives.

Operation

Targets are reviewed annually and any pay-out is determined by the Committee after the year end based on targets set for the financial period.

The Committee has discretion to amend the pay-out should any formulaic output not reflect the Committee's assessment of overall business performance or if the Committee considers the formulaic outcome is not appropriate in the context of other factors considered by the Committee to be relevant.

If a bonus opportunity in excess of 100% of salary is awarded, up to 33% of any bonus earned will be deferred into shares for a period of two years.

Deferred bonus awards may take the form of nil cost options, conditional awards of shares or such other form as has a similar economic effect.

Additional shares may be delivered in respect of shares subject to deferred bonus awards to reflect the value of dividends paid during the period beginning with the date of grant and ending with the date of release (this payment may assume that dividends had been reinvested in Dechra shares on a cumulative basis).

Recovery provisions apply, as referred to below.

Performance Measure

Operational targets (which may be based on financial or strategic measures) and individual objectives are determined to reflect the Group's strategy.

The personal objectives for the Chief Executive Officer are set by the Chairman. The personal objectives for other Executive Directors are set by the Chief Executive Officer. The personal objectives are reviewed and endorsed by the Committee.

At least 50% of the bonus opportunity is based on financial measures (which may include profit before tax).

Subject to the Committee's discretion to override formulaic outcomes, for financial measures, up to 15% of the maximum for the financial element is earned for threshold performance, rising to up to 50% of the maximum for the financial element for on target performance and 100% of the maximum for the financial element for maximum performance.

Subject to the Committee's discretion to override formulaic outcomes, vesting of the bonus in respect of strategic measures or individual objectives will be between 0% and 100% based on the Committee's assessment of the extent to which the relevant metric or objective has been met.

Maximum Opportunity

The maximum bonus opportunity for Executive Directors is 150% of base salary.

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Element: Long Term Incentive Plan (LTIP)

Purpose and link to strategy:

The LTIP provides a clear link between the remuneration of the Executive Directors and the creation of value for shareholders by rewarding the Executive Directors for the achievement of longer term objectives aligned to shareholders' interests.

Operation

The Committee may grant awards as conditional shares, as nil (or nominal) cost options, as forfeitable shares or as market value share options with a per share exercise price equal to the market value of a share at the date of grant. Other than in the case of 'Qualifying LTIP awards' as referred to below, market value share options will not be granted to Executive Directors. Awards will usually vest following the assessment of the applicable performance conditions, which will usually be assessed over three years, but will not be released (so that the participant is entitled to acquire shares) until the end of a holding period of two years beginning on the vesting date. Alternatively, awards may be granted on the basis that the participant is entitled to acquire shares following the assessment of the applicable performance conditions but that (other than as regards sales to cover tax liabilities and any applicable exercise price) the award is not released (so that the participant is able to dispose of those shares) until the end of the holding period.

The Committee has discretion to vary the formulaic vesting outturn if it considers that the outturn does not reflect the Committee's assessment of performance or is not appropriate in the context of other factors considered by the Committee to be relevant.

Additional shares may be delivered in respect of shares which vest under the LTIP to reflect the value of dividends which would have been paid on those shares during the period beginning with the date of grant and ending with the release date (this payment may assume that dividends had been reinvested in Dechra shares on a cumulative basis).

Market value options may be granted under the LTIP as tax-advantaged Company Share Option Plan (CSOP) options, offering tax savings to the Group and the participant.

The Committee may at its discretion structure awards as Qualifying LTIP Awards, consisting of a CSOP option and an ordinary nil-cost LTIP award, with the ordinary award scaled back at exercise to take account of any gain made on exercise of the CSOP option.

Recovery provisions apply, as referred to below.

Performance Measure

Performance measures under the LTIP will be based on financial measures (which may include, but are not limited to, earnings per share growth, relative total shareholder return, return on capital employed and free cash flow).

Subject to the Committee's discretion to override formulaic outturns, awards will vest as to 25% for threshold performance, increasing to 100% for maximum performance.

Maximum Opportunity

The maximum award level under the LTIP in respect of any financial year is 200% of salary.

If a Qualifying LTIP award is granted, the value of shares subject to the CSOP option will not count towards the limits referred to above, reflecting the provisions for the scale back of the ordinary LTIP award.

Element: All Employee Share Plans

Purpose and link to strategy:

Provision of the Save As You Earn Scheme (SAYE), including the Employee Stock Purchase Plan (ESPP) in the United States of America, to Executive Directors creates staff alignment with the Group and provides a sense of ownership. Executive Directors may participate in such other all employee share plans as may be introduced from time to time.

Operation

SAYE and ESPP: Tax qualifying monthly savings scheme facilitating the purchase of shares at a discount.

Any other all employee share plan would be operated for Executive Directors in accordance with its rules and on the same basis as for other qualifying employees.

Performance Measure

Not subject to performance conditions in line with typical market practice.

Maximum Opportunity

The limit on participation and the permitted discount under the SAYE scheme and ESPP will be those set in accordance with the applicable tax legislation from time to time. The limit on participation under and other relevant terms of any other all employee share plan would be determined in accordance with the plan rules (and, where relevant, applicable legislation) and would be the same for the Executive Directors as for other relevant employees.

Recovery Provisions (Malus and Clawback)

The annual bonus and LTIP are subject to recovery provisions as set out below.

Malus provisions apply which enable the Committee to determine before the payment of an annual bonus or the vesting of an LTIP award, that the bonus opportunity or LTIP award may be cancelled or reduced.

Clawback provisions apply which enable the Committee to determine for up to two years following the payment of a cash bonus or the vesting of an LTIP award, that the amount of the bonus paid may be recovered (and any deferred bonus award may be reduced or cancelled, or recovery may be applied to it if it has been exercised) and the LTIP award may be cancelled or reduced (if it has not been exercised) or recovery may be applied to it (if it has been exercised).

The malus and clawback provisions may be applied in the event of material misstatement of Dechra's financial statements, serious reputational damage to Dechra, material corporate failure, gross misconduct on the part of the Executive Director, or if an annual bonus award has paid out at a higher level than would have been the case but for a material misstatement or serious reputational damage.

Malus and clawback may be applied to any CSOP option granted under the LTIP to the extent permitted by the applicable tax legislation.

Shareholding Guidelines

To align the interests of Executive Directors with those of shareholders, the Committee has adopted formal shareholding guidelines.

Shareholding guidelines during employment

During employment, Executive Directors are required to retain half of any shares acquired under the LTIP, any deferred bonus award and, if relevant, any recruitment award (after sales to cover tax) until such time as their holding has a value equal to 200% of salary.

Shares subject to LTIP awards which have vested but not been released (that is which are in a holding period), deferred bonus awards, or LTIP awards which are exercisable but have not been exercised count towards the guidelines on a net of assumed tax basis.

Shareholding requirement after employment

The Committee has adopted a post-employment shareholding requirement. Shares are subject to this requirement only if they are acquired from share plan awards (LTIPs, deferred bonus awards and, if relevant, any recruitment award) granted after 1 July 2020. Following employment, an Executive Director must retain:

- for the first year after employment, such of their shares which are subject to the post-employment requirement as have a value for these purposes equal to the shareholding guideline that applies during employment (currently 200% of salary); and
- for the second year after employment, such of those shares as have a value for these purposes equal to 50% of the in shareholding guideline that applies during employment, or in either case and if fewer, all of those shares.

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Policy Table for Non-Executive Directors

Element	Purpose and link to strategy	Operation	Opportunity
Fees and benefits	To provide fees within a market competitive range reflecting the experience of the individual, responsibilities of the role and the expected time commitment.	<p>The fees of the Chairman are determined by the Committee, and the fees of the Non-Executive Directors are determined by the Board following a recommendation from both the Chief Executive Officer and the Chairman.</p> <p>Non-Executive Directors are not eligible to participate in any of the Company's share schemes, incentive schemes or pension schemes.</p> <p>Non-Executive Directors may be eligible to receive benefits such as travel and other reasonable expenses.</p>	<p>Fees are set taking into account the responsibilities of the role and expected time commitment.</p> <p>Non-Executive Directors are paid a basic fee with additional fees paid for the chairing of Committees. An additional fee is also paid for the role of Senior Independent Director and may be paid for other responsibilities or time commitments.</p> <p>Where benefits are provided to Non-Executive Directors they will be provided at a level considered to be appropriate taking into account the individual circumstances.</p>

Recruitment Remuneration Policy

When hiring a new Executive Director, the Committee will typically align the remuneration package with the above Policy.

When determining appropriate remuneration arrangements, the Committee may include other elements of pay which it considers are appropriate. However, this discretion is capped and is subject to the limits referred to below.

- Base salary will be set at a level appropriate to the role and the experience of the Executive Director being appointed. This may include agreement on future increases up to a market rate, in line with increased experience and/or responsibilities, subject to good performance, where it is considered appropriate.
- Pension will only be provided in line with the above Policy.
- The Committee will not offer non-performance related incentive payments (for example a 'guaranteed sign-on bonus').
- Other elements may be included in the following circumstances:
 - an interim appointment being made to fill an Executive Director role on a short term basis;
 - if exceptional circumstances require that the Chairman or a Non-Executive Director takes on an executive function on a short term basis;
 - if an Executive Director is recruited at a time in the year when it would be inappropriate to provide a bonus or long term incentive award for that year as there would not be sufficient time to assess performance. Subject to the limit on variable remuneration set out below, the quantum in respect of the months employed during the year may be transferred to the subsequent year so that reward is provided on a fair and appropriate basis; and
 - if the Director will be required to relocate in order to take up the position, it is the Company's policy to allow reasonable relocation, travel and subsistence payments. Any such payments will be at the discretion of the Committee.
- The Committee may also alter the performance measures, performance period, vesting period, holding period and deferral period of the annual bonus or LTIP, subject to the rules of the LTIP, if the Committee determines that the circumstances of the recruitment merit such alteration. The rationale will be clearly explained in the next Directors' Remuneration Report.
- The maximum level of variable remuneration which may be granted (excluding 'buyout' awards as referred to below) is 350% of salary.

The Committee may make payments or awards in respect of hiring an employee to 'buyout' remuneration arrangements forfeited on leaving a previous employer. In doing so, the Committee will take account of relevant factors including any performance conditions attached to the forfeited arrangements and the time over which they would have vested. The Committee will generally seek to structure 'buyout' awards or payments on a comparable basis to the remuneration arrangements forfeited. Any such payments or awards are excluded from the maximum level of variable remuneration referred to above. 'Buyout' awards will ordinarily be granted on the basis that they are subject to forfeiture or 'clawback' in the event of departure within 12 months of joining Dechra, although the Committee will retain discretion not to apply forfeiture or clawback in appropriate circumstances.

Any share awards referred to in this section will be granted as far as possible under Dechra's ordinary share plans. If necessary and subject to the limits referred to above, recruitment awards may be granted outside of these plans as permitted under the Listing Rules which allow for the grant of awards to facilitate, in unusual circumstances, the recruitment of an Executive Director.

Where a position is filled internally, any ongoing remuneration obligations or outstanding variable pay elements shall be allowed to continue in accordance with their terms.

Fees payable to a newly appointed Chairman or Non-Executive Director will be in line with the policy in place at the time of appointment.

Ishbel Macpherson

Remuneration Committee Chairman

6 September 2021