

Directors' Remuneration Report

continued

Directors' Remuneration Policy

This part of the Directors' Remuneration Report sets out Dechra's Directors' Remuneration Policy which, subject to shareholder approval at the 2020 Annual General Meeting, shall take binding effect from the close of that meeting. The Policy has been determined independently by the Committee.

Policy Table for Executive Directors:

Element: Base Salary

Purpose and link to strategy

Core element of fixed remuneration reflecting the individual's role and experience.

Operation

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.

The Committee also takes into consideration:

- pay increases within the Group more generally; and
- Group organisation, profitability and prevailing market conditions.

Performance measure

Whilst no formal performance conditions apply, an individual's performance in role is taken into account in determining any salary increase.

Maximum opportunity

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:

- 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.

Such increases may be implemented over such time period as the Committee deems appropriate.

Element: Retirement Benefits

Purpose and link to strategy

Provide a competitive means of saving to deliver appropriate income in retirement.

Operation

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.

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).

Performance measure

Not applicable.

Maximum opportunity

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).

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).

A salary supplement may be paid in lieu of some or all of the pension contributions otherwise payable.

Benefits under any non-UK pension arrangement may be provided in accordance with the terms of the applicable scheme.

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 outturn 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 outturns, 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 outturns, 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.

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 plan as may be introduced from 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.

Operation of Share Plans

The Committee may amend the terms of awards and options under its share plans in accordance with the plan rules in the event of a variation of Dechra's share capital or a demerger, special dividend or other similar event or otherwise in accordance with the rules of those plans. Awards may be settled, in whole or in part, in cash, although the Committee would only settle an Executive Directors' award in cash in exceptional circumstances, such as where there is a regulatory restriction on the delivery of shares.

Explanation of Performance Metrics

Performance measures for the LTIP and annual bonus are selected to reflect the Group's strategy. Stretching performance targets are set each year by the Committee taking into account a number of different factors.

Annual Bonus

The Committee considers that the underlying profit before tax is closely aligned to the Group's key performance metrics; together with annual personal objectives linked to the achievement of strategic milestones, we consider that this encourages sustainable growth year by year.

LTIP

The application of EPS and TSR targets to the LTIP aligns management's objectives with those of shareholders for the longer term. LTIP awards are subject to an underpin based on Return on Capital Employed; this ROCE underpin focuses executives on using capital efficiently and appropriately to allow the business to capitalise on growth opportunities whilst maintaining returns.

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Variation or Substitution of Performance Measures

The Committee may vary or substitute any performance measure applying to the annual bonus or LTIP if an event occurs which causes it to determine that it would be appropriate to do so (which may include an acquisition), provided that any such variation or substitution is fair and reasonable and (in the opinion of the Committee) the change would not make the measure materially less demanding. If the Committee were to make such a variation, an explanation would be given in the next Directors' Remuneration Report.

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 shareholding guideline that applies during employment,

or in either case and if fewer, all of those shares.

Policy Table for Non-Executive Directors

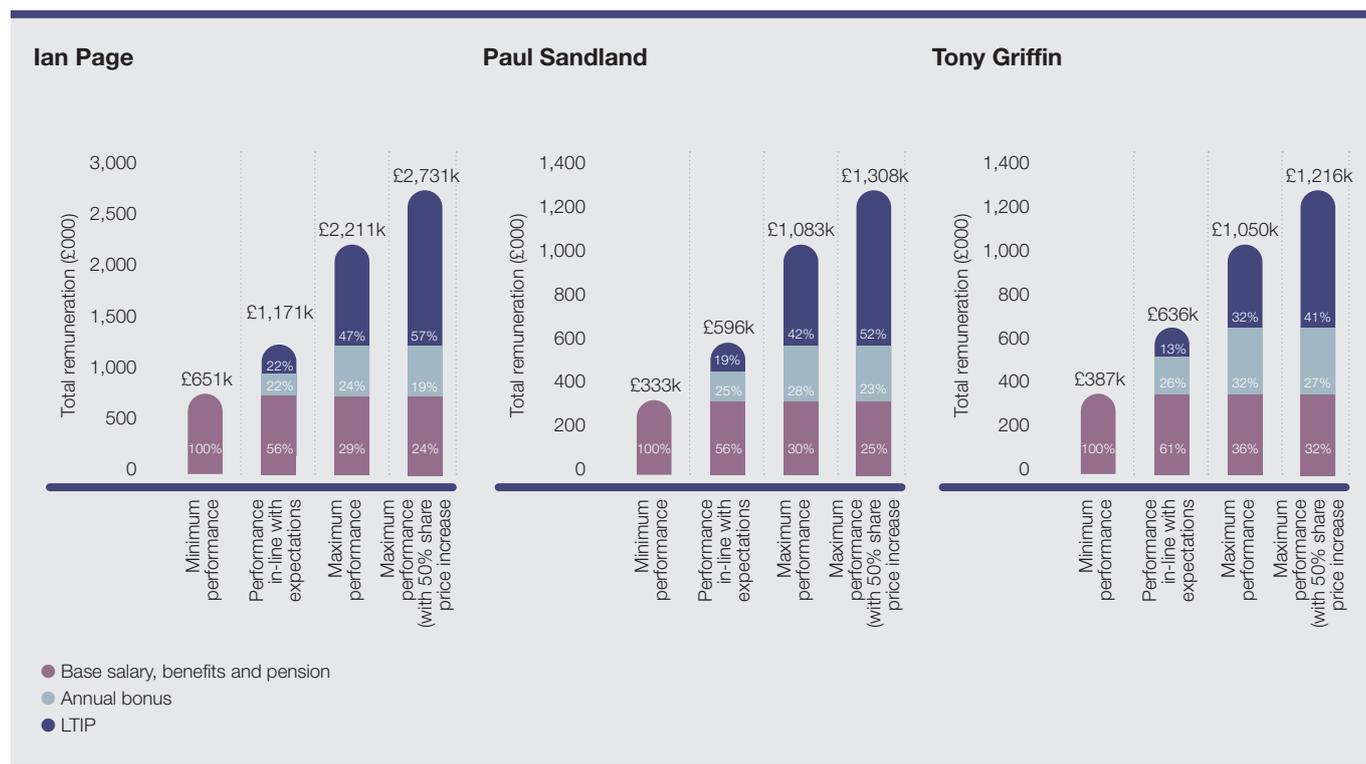
Element	Purpose and link to strategy	Operation	Opportunity
Fees and benefits	To provide fees within a market competitive range reflecting the experience of the individual, responsibilities of the role and the expected time commitment.	<p>The fees of the Chairman are determined by the Committee, and the 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>

Policy for the Remuneration of Employees More Generally

The Group aims to provide a remuneration package that is competitive in an employee's country of employment and which is appropriate to promote the long term success of the Group. The Company intends to apply this policy fairly and consistently and does not intend to pay more than is necessary to attract and motivate staff. In respect of the Executive Directors, a greater proportion of the remuneration package is 'at risk' and determined by reference to performance conditions. The Company's SAYE scheme and ESPP encourage share ownership by qualifying employees and enable them to share in value created for shareholders.

Illustrations of Application of Remuneration Policy

The following charts provide an illustration, for each of the Executive Directors, of the application of the Policy for the 2021 financial year. The charts show the split of remuneration between fixed pay (that is base salary, benefits and employer pension contributions/salary supplement), annual bonus and long term incentive pay on the basis of minimum remuneration, remuneration receivable for performance in line with Dechra's expectations, maximum remuneration, and maximum remuneration also assuming a 50% increase in the Company's share price for the purposes of the LTIP element.



In illustrating the potential reward, the following assumptions have been made.

	Annual bonus	LTIP	Fixed pay
Minimum performance	No bonus.	No LTIP vesting.	Base salary (being the latest known salary as at 1 July 2020), employer pension contributions at an assumed rate of 14% (in the case of Ian Page and Tony Griffin) or 4% of salary (in the case of Paul Sandland) on the latest known salary, and benefits as disclosed in the single figure table on page 129 for the 2020 financial year (adjusted, in the case of Paul Sandland, to give an equivalent annual figure).
Performance in line with expectations	Bonus equal to 50% of salary is earned.	LTIP vests as to 25% of the maximum award (50% of salary for Ian Page, 37.5% of salary for Paul Sandland and 25% of salary for Tony Griffin).	
Maximum performance	Bonus equal to 100% of salary is earned.	LTIP vests in full (200% of salary for Ian Page, 150% of salary for Paul Sandland and 100% of salary for Tony Griffin).	
Maximum performance plus share price increase	Bonus equal to 100% of salary is earned.	LTIP vests in full as above, plus an assumed 50% increase in the share price.	

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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;
 - 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.

Policy on Service Contracts

Details of the Executive Directors' service contracts and Non-Executive Directors' letters of appointment are set out on below.

Name	Commencement date	Notice Period	
		Director	Company
Tony Rice	5 May 2016	3 months	3 months
Ian Page	1 September 2008	6 months	12 months
Paul Sandland	30 October 2019	6 months	12 months
Tony Griffin	1 November 2012	6 months	12 months
Lisa Bright	1 February 2019	3 months	3 months
Julian Heslop	1 January 2013	3 months	3 months
Lawson Macartney	1 December 2016	3 months	3 months
Ishbel Macpherson	1 February 2013	3 months	3 months
Alison Platt	1 March 2020	3 months	3 months

Whilst the Committee's policy is for the service contract of any newly appointed Executive Director to have a notice period of not more than 12 months, the Committee retains discretion to set an initial notice period of up to 24 months, reducing to 12 months over the initial 12 months of employment.

Policy on Payment for Loss of Office

Eligibility for the various elements of compensation is set out below:

Provision	Treatment upon loss of office
Payments in Lieu of Notice	The Company has discretion to make a payment in lieu of notice at any time after notice has been given by either the Company or the Director. Such a payment would consist of basic salary for the unexpired period of notice and may also include benefits (including pension contributions or applicable salary supplement) for that period.
Annual Bonus	This will be reviewed on an individual basis and the decision whether or not to award a bonus in full or in part will be dependent upon a number of factors including the circumstances of their departure and their contribution to the business during the bonus period in question. Any bonus payment would typically be pro-rated for time in service to termination and paid at the usual time (although the Committee retains discretion to pay the bonus earlier in appropriate circumstances).
Deferred Bonus Awards	Awards lapse on the date of termination in the event of dismissal for gross misconduct. In other circumstances, awards will ordinarily continue and be released on the ordinary release date, although the Committee retains discretion to release any such award on the date of termination in appropriate circumstances (such as in the event of cessation due to death or ill-health). In either case, the award will vest in full.
LTIP	If an Executive Director ceases employment with the Group before an award under the LTIP vests as a result of ill-health, injury, death, transfer of his employing entity out of the Group or any other reason, at the discretion of the Committee, the award will usually be released on the normal release date, although the Committee has discretion to permit the award to be released on cessation or at some other time (such as following the end of the performance period). In either case, the award will vest to the extent determined by reference to the relevant performance conditions and as reduced to reflect the period of time from the start of the performance period to the date of cessation as a proportion of the performance period. If an Executive Director ceases employment for any reason after the vesting date of an award under the LTIP but before it is released (that is if he ceases employment during the holding period), that award will continue to subsist in accordance with the rules of the LTIP (unless the cessation is due to summary dismissal, in which case the award will lapse) and will ordinarily be released at the normal release date, although the Remuneration Committee has discretion to release the award at the date of cessation. The award will be released to the extent it vested by reference to the performance conditions. If an Executive Director ceases employment for any reason after the release date of an award under the LTIP, that award will continue to subsist in accordance with the rules of the LTIP (unless the cessation is due to summary dismissal, in which case the award will lapse).
Other Payments	In appropriate circumstances, payments may also be made in respect of accrued holiday pay, and outplacement and legal fees. Options under the Company's SAYE scheme, ESPP and any other all employee share plans will vest on cessation in accordance with the plan rules, which do not allow for discretionary treatment.
Change of Control	In the event of a change of control: <ul style="list-style-type: none"> • unvested awards under the LTIP will be released to the extent determined by the Committee taking into account the relevant performance conditions and, unless the Committee determines otherwise, the extent of vesting so determined shall be reduced to reflect the proportion of the relevant performance period that has elapsed; • awards under the LTIP which are in a holding period will be released to the extent vested by reference to the performance conditions; • deferred bonus awards will be released in full; and • options under the SAYE scheme, ESPP and any other all employee share plan will vest on a change of control. <p>In appropriate circumstances, share plan participants may be invited (or required) to exchange their awards over Dechra shares for equivalent awards over shares in the acquiring company.</p>

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Where appropriate, the Committee would have regard to the departing Executive Director's duty to mitigate loss, except in the event of dismissal following a change of control of the Company. Other than as described above, there are no express provisions within the Directors' service contracts for the payment of compensation or liquidated damages on termination of employment.

Where a 'buyout' or other award is made, the leaver provisions would be determined at the time of the award.

The Committee reserves the right to make additional exit payments where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of settlement or compromise of any claim arising in connection with the termination of a Director's office or employment.

The Non-Executive Directors are entitled to compensation on termination of their appointment confined to three months' remuneration.

Consideration of Employment Conditions Elsewhere in the Group

The Committee does not formally consult with employees as part of its process when determining Executive Director pay. However, as noted in the Policy table on page 120, the level of salary increases of employees within the wider Group is considered when setting base salary for Executive Directors. The Committee is also kept informed of general decisions made in relation to employee pay and related issues.

Consideration of Shareholders' Views

The Committee believes that ongoing dialogue with major shareholders is of key importance. During the 2020 financial year, the Committee consulted with shareholders in relation to the new Policy, and our proposals have been finalised having regard to feedback received.

Legacy Remuneration Arrangements

The Committee reserves the right to make remuneration payments and payments for loss of office notwithstanding that they are not in line with the Policy set out above where the terms of payments were agreed:

- before the Policy came into effect (provided that, in the case of any payments agreed on or after 24 October 2014 they are in line with any applicable shareholder approved directors' remuneration policy in force at the time they were agreed or were otherwise approved by shareholders); or
- at a time when the relevant individual was not a Director of the Company (or other person to whom the Policy set out above applies) and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company (or other such person).

For these purposes, 'payments' includes the satisfaction of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' no later than the time the award is granted.

Ishbel Macpherson

Remuneration Committee Chairman
7 September 2020