

## Directors' Report

The Directors present their report and audited financial statements for the year ended 30 June 2023.

### Principal activities

This have been detailed within the Strategic Report on page 1.

### Future developments

These have been detailed within the Strategic Report on page 5.

### Post balance sheet events

These have been detailed within the Strategic Report on page 1.

### Directors

The directors who were in office during the year and up to the date of signing the financial statements were:

ID Page  
PN Sandland  
AG Griffin (resigned 27 November 2023)

### Employees

We recognise that the success of the Company is dependent on our ability to attract, develop, motivate and retain skilled employees. The Company reports labour turnover as a non-financial KPI and this is measured using the standard formula:

$$\frac{\text{Total number of leavers over year}}{\text{Average total number employed over year}} \times 100$$

It is the Company's policy to provide equal recruitment and other opportunities for all employees, regardless of age, sex, sexual orientation, religion, race or disability. The Company gives full consideration to applications from disabled people, where they adequately fulfil the requirements of the role. Where existing employees become disabled, it is the Company's policy whenever practicable to provide continuing employment under the Company's terms and conditions and to provide training and career development whenever appropriate.

Informing and engaging our employees through internal channels of communication is of utmost importance to the Company. We have multiple channels of communication to provide both formal and informal updates including a Dechra Group newsletter that is issued twice a year (following the half-yearly results and the year end results), intranets, management and team meetings. These ensure that our employees are informed of the financial performance of the Company and the Group, as well as the sharing of updates which are relevant to all Company employees such as the introduction of new technology, updates on corporate social responsibility activities, and progress in relation to the Company's strategic objectives. Wherever possible, we seek to engage our employees in change projects. We also have a small number of Works Councils we regularly meet with. Our intranet, OneDechra, includes two way communication encouraging comments, sharing and community participation.

All employees are able to participate in the SAYE Share Option Scheme allowing employees to purchase shares in the ultimate holding company, Dechra Pharmaceuticals PLC. Certain executives and employees can benefit from options granted under the Unapproved Share Option Scheme, the Approved Share Option Scheme and the Long Term Incentive Plan.

### Section 172 Statement

The Directors are responsible under section 172 of the Companies Act 2006 for promoting the long term success of the Company for the benefit of its shareholders, and acknowledges that its decisions have a long term impact on other stakeholders, the environment and the Company's reputation for high standards of business conduct. The Directors appreciate that wider engagement with stakeholders is an important component of long term sustainability and success and believes that by engaging with all important stakeholders in a fair manner, the business is made stronger and more resilient.

The section addressing the key risks and uncertainties includes the potential impacts, controls and mitigating actions in connections with our key stakeholders. Our Sustainability strategy is centred around the four pillars of Business, Environment, People and Community, and we believe that effective engagement drives sustainable value for all stakeholders. Further details on the Group's Sustainability strategy can be found in the consolidated accounts of the ultimate parent company, Dechra Pharmaceuticals PLC.

## Directors' Report (continued)

### Section 172 Statement (continued)

The table below shows who the Directors have identified as important stakeholders, why they feel it is important to engage, and how they have engaged.

Stakeholder	Why it is important to engage	How we engage	Material interests
<b>Employees</b>	To make Dechra a great and safe place to work, and attract, retain and develop talent	<ul style="list-style-type: none"> <li>• Group intranet</li> <li>• Town Hall meetings</li> <li>• Engagement surveys</li> <li>• Employee Engagement Designated Non-Executive Director</li> <li>• Performance Development Reviews, and employee development and training</li> </ul>	<ul style="list-style-type: none"> <li>• Development opportunities</li> <li>• Making a difference</li> <li>• Agile and friendly place to work</li> </ul>
<b>Veterinary Professionals</b>	To improve animal health and welfare	<ul style="list-style-type: none"> <li>• Technical support via product information</li> </ul>	<ul style="list-style-type: none"> <li>• Innovative and effective products</li> <li>• Information on correct use of products</li> </ul>
<b>Communities</b>	To give back to the communities in which we operate	<ul style="list-style-type: none"> <li>• Community activities</li> <li>• Donations</li> <li>• Product and local donations</li> <li>• Development and education of young people</li> </ul>	<ul style="list-style-type: none"> <li>• Prosperity within our communities</li> <li>• Community projects and initiatives</li> </ul>
<b>Suppliers</b>	To trade with honesty and integrity, and to source quality raw materials, finished products and services	<ul style="list-style-type: none"> <li>• Quality audits</li> <li>• Due diligence</li> <li>• ABC training</li> <li>• Third Party Code of Conduct</li> </ul>	<ul style="list-style-type: none"> <li>• Fair Payment Terms</li> <li>• Long term relationships</li> </ul>
<b>Environment</b>	To minimise our impact on the environment	<ul style="list-style-type: none"> <li>• Climate impact assessments</li> </ul>	<ul style="list-style-type: none"> <li>• Integrated Group Climate Strategy</li> <li>• Waste management</li> </ul>
<b>Regulatory Authorities</b>	To meet high standards of product safety and efficacy	<ul style="list-style-type: none"> <li>• Regulatory training for employees</li> <li>• Manufacturing facility inspections</li> <li>• Market authorisation applications</li> <li>• Product safety update reports (PSURs)</li> </ul>	<ul style="list-style-type: none"> <li>• Safety</li> <li>• Efficacy</li> <li>• Responsible marketing of regulated pharmaceuticals</li> </ul>

The following examples gives an insight on how Directors have considered section 172 factors in their decision making in relation to material transactions during the year:

## Directors' Report (continued)

### Section 172 Statement (continued)

#### Capital Projects

In 2021 the Board approved the first of a three phase development plan at Skipton, and the site has recently embarked on its implementation. The investment of £5.7 million included the expansion of the site footprint through the acquisition and refurbishment of a neighbouring building. This has enabled the site to increase volumes by transferring product previously manufactured at third party contract manufacturers and the introduction of new products. The Group Board considered their section 172 duties in approving the capex, noting that the Skipton site master plan phase 1 project was in line with the manufacturing and supply chain enabler and would affect the following:

- Employees: enable the right flow of traffic and movement of goods on site making employees feel safer, providing an improved environment to perform their roles, in particular the QC department, a better training environment, a better canteen facility, and allows the next step of building the potency suite to further protect our employees from any potential harmful substances;
- Customers: allows the next steps of increasing capacity of the solid dose facility and maintaining the quality of the products through new equipment, improving supply reliability from the Skipton site, particularly with higher throughput testing in the QC laboratory, and creates additional space to bring in more products and be in control of the supply of these products to our customers;
- Shareholders: the improvement in supply reliability will enhance shareholder value through better financial performance and a better reputation in the markets that we operate; and
- Community: improves the traffic flow in the immediate area and provides long term security of the site to the local community.

Spending on this project has continued in the current year and is expected to complete during the year ended 30 June 2024.

#### Payment to Suppliers

The Company seeks to agree the terms of payment with suppliers prior to the placing of business and it is the Company's policy to settle liabilities by the due date. At 30 June 2023, the Company had an average of 85 days (2022: 51 days) purchases outstanding in creditors.

#### Research and Development

The Company has a structured development programme with the aim of identifying and bringing to market new pharmaceutical products. Investment in development is seen as key to further strengthen the Company's competitive position. The expense on this activity for the year ended 30 June 2023 was £41,953,000 (2022: £24,650,000).

#### Political donations and expenditure

No political donations were made during the year ended 30 June 2023 (2022: £nil). The Company has a policy of not making any donations to political organisations or independent election candidates or incurring political expenditure anywhere in the world as defined in the Political Parties, Elections and Referendums Act 2000.

#### Dividends

An interim dividend of £10,000,000 (2022: £30,000,000) was declared and paid during the year. Management does not recommend payment of a final dividend.

#### Financial risk management

The Company uses various financial instruments to manage its financial risk.

##### Interest rate risk

The Company finances its operations through a mixture of retained profits and where necessary intercompany loans and facilities, and external borrowings. The Company's exposure to interest rate fluctuations on its borrowings is managed by the use of both fixed and floating facilities.

##### Liquidity risk

The Company seeks to manage liquidity risk by ensuring sufficient liquidity is available to meet its foreseeable needs and to invest cash assets safely and profitably. The Directors review the cash projections on a regular basis to ensure the business has adequate liquidity and working capital.

##### Credit risk

Credit limits are reviewed by the credit controller on a regular basis in conjunction with debt ageing and collection history.

## **Directors' Report** *(continued)*

### **Financial risk management** *(continued)*

#### *Foreign exchange risk*

Foreign currency transaction exposure arising on normal trade flows is not hedged. The Company matches receipts and payments in the relevant foreign currencies as far as practicable. To this end, bank accounts are maintained for all the major currencies in which the Company trades.

### **Statement of Directors' responsibilities in respect of the financial statements**

The directors are responsible for preparing the Annual Report and financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

### **Directors' confirmations**

In the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

### **Directors' and officers' liability**

The Company maintains an appropriate level of directors' and officers' insurance whereby directors are indemnified against liabilities to third parties to the extent permitted by the Companies Act 2006. The Directors also benefitted from qualifying third party indemnity provisions in place during the financial year and at the date of this report. A copy of the indemnity provisions will be available for inspection at the Company's ultimate parent's registered office (see note 27 for further details).

### **Going concern**

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements. In reaching this conclusion, the Directors have given due regard to post balance sheet events, the particulars of which can be found in the Strategic report.

## Directors' Report *(continued)*

### Going concern *(continued)*

On 2 June 2023, the boards of directors of Dechra (the Company's Parent Company) and Freya Bidco Limited (Bidco) announced that they had reached agreement on the terms and conditions of a recommended cash acquisition by Bidco of the entire issued, and to be issued, ordinary share capital of Dechra (the Acquisition). As announced by Dechra on 20 July 2023, the acquisition and its implementation were approved on 20 July 2023 and the Acquisition is expected to complete in early 2024, after the date of approval of these Financial Statements.

The going concern assessment of the Company is therefore subject to uncertainties relating to the potential change in ownership of Dechra and the actual funding requirements and financing arrangements that will be available to the Company post completion. For this reason, the Directors cannot reasonably predict the financial position of the Company post-completion, including the details of any financing arrangements related to the transaction that could affect the Company. This indicates the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern. As noted above, the financial statements do however not include the adjustments that would result if the Company were unable to continue as a going concern.

Notwithstanding this uncertainty, based on the circumstances described above, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and the financial statements are prepared on the assumption that the Company is a going concern.

### Post balance sheet events

On 20 July 2023, the shareholders of the Dechra Pharmaceuticals PLC (ultimate parent company) voted in favour of the proposed cash offer by Freya Bidco Limited. The pending acquisition of the ultimate parent company is conditional upon respective antitrust approvals or the expiry of the applicable waiting periods in the relevant jurisdictions.

### Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment was approved at the Annual General Meeting.

On behalf of the board



**PN Sandland**  
*Director*

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