

Directors' Report

Introduction

The directors of Devro plc (the "company") are pleased to present this Directors' Report for the year ended 31 December 2017 which sets out certain disclosures about the Devro group of companies (including the company) (the "group"), required under the Companies Act 2006 (the "Act") and under the Financial Conduct Authority's Listing Rules ("LRs") and Disclosure and Transparency Rules ("DTRs").

The Corporate Governance Report, which can be found on pages 38 to 44 also forms part of this Directors' Report as do other disclosures elsewhere in the Annual Report and Accounts, incorporated by cross reference in this Directors' Report.

In accordance with the Act, we have chosen to set out information about the following items in the discrete Strategic Report section of this Annual Report on pages 2 to 35:

- principal activities of the group during the year;
- an indication of future developments in the business of the group;
- its activities in the field of research and development;
- greenhouse gas emissions; and
- employee equality, diversity and involvement.

The information required to be included in the Annual Report under LR9.8.4R which is applicable to the company is set out as follows:

| Section | Topic | Location |
|------------|---|--|
| 9.8.4R(12) | Shareholder waivers of dividends | Directors' Report (Shareholders' Rights) |
| 9.8.4R(13) | Shareholder waivers of future dividends | Directors' Report (Shareholders' Rights) and Note 11 to the financial statements |

The company

The company is a public limited company and is incorporated in Scotland under number SC129785.

The company's principal subsidiary undertakings and branches, including those located outside the UK, as at 31 December 2017, are listed in Note 15 to the financial statements.

Amendment of the company's Articles of Association (the "Articles")

Any amendments to the company's Articles must be made in accordance with the provisions of the Act by way of special resolution.

Directors

The names and biographical details of the directors of the company at the date of this Directors' Report, having also been directors during the year ended 31 December 2017, are set out on page 36.

Under the Articles, directors shall be no less than two and no more than 11 in number. Directors may be appointed by the company by ordinary resolution or by the Board. A director appointed by the Board holds office only until the next Annual General Meeting of the company ("AGM") and is then eligible for election by the shareholders.

In line with the recommendations of the Code, the company requires every director to stand for election or re-election by the shareholders at each AGM, if he or she wishes to continue being a director.

The company may, by ordinary resolution, remove any director before the expiration of his or her term of office. The office of director shall also be vacated if: (i) he or she resigns; (ii) where he or she has been appointed for a fixed term, the term expires; (iii) he or she ceases to be a director by virtue of a provision of the Act, is removed from office pursuant to the company's Articles or becomes prohibited by law from being a director (including circumstances in which a director is declared bankrupt or, suffering from mental ill health, the Board resolves that the director's office should be vacated); (iv) he or she is absent, without the permission of the Board, from Board meetings for six consecutive months and the Board resolves that his or her office be vacated; or (v) he or she is removed from office by notice addressed to him or her at his or her last-known address and signed by all his or her co-directors.

The company maintains directors' and officers' liability insurance for the benefit of personnel throughout the group, including its directors and the directors of its subsidiary undertakings, in respect of their duties as directors. Following shareholder approval, the company has also provided an indemnity for its directors and the Company Secretary, which is a qualifying third-party indemnity provision for the purposes of the Act. This indemnity was in force throughout the year and remains in place at the date of this Directors' Report.

None of the directors had, during the year ended 31 December 2017, or has an interest in any material contract relating to the business of the company or of any of its subsidiary undertakings.

The interests of the directors in the share capital of the company as at 31 December 2017 are shown on page 61.

Share capital

The share capital of the company consists entirely of Ordinary Shares of 10 pence each. The company had 166,949,022 shares in issue at 31 December 2017 (2016: 166,949,022) as shown in Note 27 to the financial statements.

Dividends

The Board is recommending a final dividend in respect of 2017 of 6.1 pence per share (2016: 6.1 pence), making a total dividend for the year of 8.8 pence per share (2016: 8.8 pence). If approved, the final dividend will be payable to shareholders on the register as at 3 April 2018.

Shareholders' rights

Subject to applicable laws and the Articles, each registered holder of Ordinary Shares is entitled to receive all communications that the company sends to its members generally, including the Annual Report and notice of any general meeting; to attend, speak and exercise voting rights at general meetings, either in person or by proxy; and to participate in any distribution of income or capital.

The company's Articles specify a deadline for receipt of electronic and paper proxy forms of not less than 48 hours before a general meeting.

Subject to applicable laws and regulations, there are no restrictions on transfer or limitations on the holding of shares and no requirements for prior approval of any transfers.

None of the shares carries any special rights with regard to control of the company.

The company is also not aware of any agreements between its shareholders which may restrict the transfer of their shares or the exercise of their voting rights.

Shares acquired through company share schemes and plans rank pari passu with the shares in issue and have no special rights. They are held on trust and a dividend waiver applies to them. During the year no shares were issued under any of the company's share schemes.

Powers of the directors

The business of the company is managed by the Board who may exercise all the powers of the company, subject to the provisions of the company's Articles and applicable legislation.

At the company's AGM on 26 April 2017, shareholders renewed the authority for the directors to exercise all powers of the company to allot relevant securities up to an aggregate nominal amount of £5,500,000. At the same AGM, shareholders granted the company authority to make market purchases of up to 16,600,000 of its issued Ordinary Shares, provided that: the minimum price which may be paid for any such Ordinary Share is 10 pence (exclusive of expenses), its par value; the maximum price (exclusive of expenses) which may be paid for an Ordinary Share is an amount equal to not more than 5% above the average of the middle market quotations for an Ordinary Share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the date on which that Ordinary Share is purchased. Except in relation to a purchase of Ordinary Shares, the contract for which was concluded before this authority expires and which will or may be executed wholly or partly after the expiry of such authority, the authority granted shall expire at the conclusion of this year's AGM.

Political contributions

The group made no political donations and incurred no political expenditure in 2017 (2016: Nil).

Post balance sheet events

There have been no material events from 31 December 2017 to the date of this Directors' Report.

Financial instruments

Details of the group's financial risk management policies and objectives in respect of its use of financial instruments are included in Note 23 to the financial statements together with a description of its exposure, including its exposure to market risk, credit risk, liquidity risk and capital risk of the group, in connection with such financial instruments.

Directors' Report continued

Change of control

The company has a number of financial agreements which it considers significant, with major banks containing certain termination rights for those banks upon a change of control of the company.

The company does not have agreements with any director or employee that would provide compensation for loss of office or employment resulting from a takeover, except that provisions of the company's share plans may cause options and awards granted to directors and employees under such plans to become exercisable on takeover.

Substantial shareholdings

As at 31 December 2017, the company had been notified of the following material interests in the issued Ordinary Share capital of the company under DTR5:

| | Notified number of Ordinary Shares | Notified percentage (%) of issued share capital |
|---------------------------------------|------------------------------------|---|
| Neptune Investment Management Limited | 24,677,744 | 14.78 |
| NN Group N.V. | 21,890,708 | 13.11 |
| Marathon Asset Management | 11,492,268 | 7.06 |
| Sterling Strategic Value Fund | 11,657,602 | 6.98 |
| Standard Life Aberdeen plc | 11,379,896 | 6.81 |
| Aberdeen Asset Managers Limited | 8,350,475 | 5.01 |

During the period 1 January 2018 to 2 March 2018 the company has received a notification from Sterling Strategic Value Fund that they had decreased their holding in the company to 9,595,773 Ordinary Shares equating to 5.75% of issued share capital, and also from Neptune Investment Management Limited advising that they had increased their holding in the company to 25,268,361 Ordinary Shares equating to 15.14% of issued share capital before then decreasing their holding in the company to 24,986,614 Ordinary Shares equating to 14.97% of issued share capital.

Annual General Meeting

The AGM of the company will be held on 25 April 2018 at 11am at the Devro site, Gartferry Road, Moodiesburn, Chryston G69 0JE. The notice of meeting and explanatory notes are available on the company's website (www.devro.com). Shareholders will be asked for their approval of the items of business which are explained in the notes.

Disclosure of information to auditors

So far as each person who is a director at the date of approval of this Annual Report is aware, there is no relevant audit information of which the auditors are unaware. Each of the directors has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the company's statutory auditors are aware of that information.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have prepared the group and company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the 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 the group and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; 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 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 the group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Act and, as regards the group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of corporate and financial information published on the company's website (www.devro.com). Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' statement pursuant to the Disclosure and Transparency Rule 4.1

Each of the directors, whose names and functions are listed on page 36, confirms that, to the best of his or her knowledge and belief:

- the financial statements, prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the company and of the group included in the consolidation taken as a whole; and
- the management report required by DTR4.1.8R (set out in the Strategic Report and this Directors' Report) includes a fair review of the development and performance of the business and the position of the company and group included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

In addition, each of the directors considers that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position, performance, business model and strategy.

By order of the Board

John Meredith
Company Secretary
14 March 2018