Independent Auditors' Report to the members of Devro plc

Opinions and conclusions arising from our audit

1 Our opinion is unmodified

We have audited the financial statements of Devro plc ("the company") for the year ended 31 December 2017 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the group and parent company Balance Sheets, the group and parent company Cash Flow Statements, the group and parent company Statements of Changes in Equity and the related notes, including the accounting policies in Note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2017 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the directors on 29 April 2015. The period of total uninterrupted engagement is for the three financial years ended 31 December 2017. We have fulfilled our ethical responsibilities under, and we remain independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview

Materiality: Group financial statements as a whole	£1.25m (2016: £1.1m) 5% (2016: 4%) of group profit before tax and exceptional items
Coverage	97% (2016: 97%) of total profits and losses that made up group profit before tax

Risks of material misstatement		**vs 2016**
Recurring risks	Inventory valuation	◀▶
	Presentation of exceptionals	▼
	Parent company – recoverability of investment in subsidiaries and intra-group receivables	◀▶

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

2 Key audit matters: our assessment of risks of material misstatement continued

	The risk	Our response
Carrying value of inventory (£32.3m; 2016: £33.8) *Refer to page 46 (Audit Committee Report), pages 73, 76 (accounting policy) and page 94 (financial disclosures).*	**Subjective estimate:** The carrying value of inventory may exceed its net realisable value due to the perishable nature of inventory held and the quality of finished goods. The group adopts a policy of providing for inventory when it reaches a certain age, and also for any inventory where there are specific quality concerns. Establishing a provision for slow-moving, obsolete and damaged inventory involves estimation and judgment, taking into account forecast sales and product quality issues based on history.	Our procedures included: • **Control observation:** We attended stock-counts close to the year end to understand the procedures for identifying obsolete inventory and we observed such inventories at the count; • **Reperformance:** We compared the inventory provision with the group's policy for aged, obsolete and slow moving inventory; • **Challenging assumptions:** Where forecast sales did not support inventory balances we compared the year end inventory balance to the forecast sales to consider the appropriateness of the provision. We also checked whether the balance included provision for current quality issues; • **Historical comparisons:** We assessed the accuracy of previous provisions for inventory loss against historical trends to obtain evidence of the group's ability to provide appropriately; • **Tests of details:** We tested a sample of inventory to sales subsequent to the year end to assess whether they were sold at more than net book value; • **Assessing transparency:** We assessed the group's disclosures for inventory in the annual report including those relating to estimation uncertainty. **Our results:** • We found the assessment of the carrying value of inventory to be acceptable (2016: acceptable).
Presentation of exceptional items (£5.1 m; 2016: £22.7m) *Refer to pages 45, 46 (Audit Committee Report), pages 72, 80 (accounting policy) and page 82 (financial disclosures).*	**Presentation appropriateness:** Exceptional is not a term defined under IFRS and the classification of income and expenditure as exceptional is an area of judgement. There is a risk that items are inappropriately described as exceptional, thus the pre-exceptional performance measures, used by the group within both the narrative sections of annual report and within the financial statements, are misstated. The risk has decreased this year as the nature of exceptional items is narrower and the amount lower.	Our procedures included: • **Assessing principles:** We have considered the group's accounting policies and principles for recognising elements of income and expenditure as exceptional against the relevant accounting standards; • **Assessing application:** We challenged the directors over the inclusion of costs and expenses within the exceptional categorisation by comparing those included to our own expectations based on our knowledge of the group and its operations, with particular focus on the non-recurring nature of any amounts; • **Test of detail:** We performed testing on a sample basis by agreeing amounts to supporting documentation such as invoices, and have considered the appropriateness of recognising these items as exceptional through gaining an understanding of the nature of the expenditure and whether the classification was in line with aforementioned group accounting policies.

Independent Auditors' Report to the members of Devro plc continued

Opinions and conclusions arising from our audit continued

2 Key audit matters: our assessment of risks of material misstatement continued

	The risk	Our response
		• **Assessing balance:** We assessed the consistency of the items classified as exceptional year on year and in accordance with the group's accounting policy; • **Assessing transparency:** We assessed the group's disclosures for exceptional items in the narrative sections of annual report in light of the ESMA guidance on the reporting of Alternative Performance Measures. We also assessed that amounts classified as exceptional are described within the financial statements with reference to either their nature or function as appropriate; **Our results:** • We found the presentation of exceptional items to be acceptable (2016: acceptable).
Parent company – Recoverability of investment in subsidiaries and intra-group receivables (Investments £205.7m; 2016: £204.0m) (Intra-group receivables £144.9m; 2016: £127.1m) *Refer to page 74 (accounting policy), page 92 (financial disclosures).*	**Low risk, high value:** The carrying amount of the company's investments in subsidiaries and intra-group receivables balances, held at cost less impairment, represents 98% of the company's total assets. We do not consider the recoverable amount of these investments/receivables to be at a high risk of significant misstatement, or to be subject to a significant level of judgement. However, due to their materiality in the context of the company financial statements as a whole, this is considered to be one of the areas which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our parent company audit.	Our procedures included: • **Tests of detail:** Comparing the carrying amount of the highest value investments in subsidiaries and receivables balances with the respective net asset values to identify whether the net asset values of the subsidiaries, being an approximation of their minimum recoverable amount, were in excess of their carrying amount; • **Assessing subsidiary audits:** Assessing the work performed by the subsidiary audit teams on that sample of those subsidiaries and considering the results of that work, on those subsidiaries' profits and net assets. **Our results:** • We found the assessment of the recoverability of the carrying amount of the cost of investment in subsidiaries and intra-group receivables to be acceptable (2016: acceptable).

3 Our application of materiality and an overview of the scope of our audit

Materiality for the group financial statements as a whole was set at £1.25m (2016: £1.1m), determined with reference to a benchmark of group profit before tax and exceptional items (as detailed in Note 3) of which it represents 5% (2016: 4%). For exceptional items excluded from normalised group profit before tax, the component teams performed procedures on items relating to their components. The group team performed procedures on the remaining excluded items. The increase in the materiality percentage from prior year is due to more stable group performance following the major group transformation project in the prior year.

Materiality for the parent company financial statements as a whole was set at £1.1m (2016: £1.0m), determined with reference to a benchmark of total assets, of which it represents 0.3% (2016: 0.3%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.06m (2016: £0.06m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

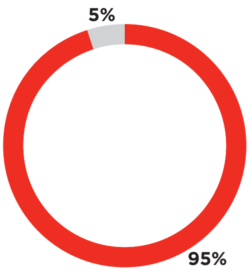
Of the group's ten (2016: eleven) reporting components, we subjected six (2016: six) to full scope audits for group purposes and none (2016: 1) to specified risk-focused audit procedures. In 2016 the latter was not individually financially significant enough to require a full scope audit for group purposes, but did present specific individual risks that needed to be addressed. The components within the scope of our work accounted for the percentages illustrated below.

The remaining 21% of total group revenue, 3% of group profit before tax and 5% of total group assets is represented by 4 of reporting components. For the residual components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The work on 4 of the 6 components (2016: 5 of the 6 components) was performed by component auditors and the rest, including the audit of the parent company, was performed by the Group team. The group team approved the component materialities, which ranged from £0.3m to £1.1m (2016: £0.3m to £1.0m), having regard to the mix of size and risk profile of the group across the components.

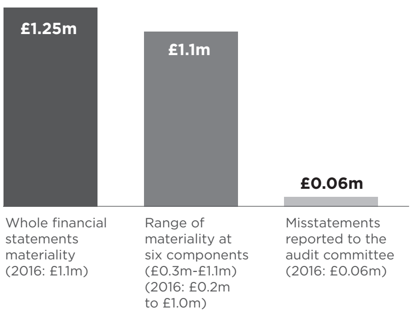
Telephone conferences were held with all component auditors, the group team visited component locations in Czech Republic and USA. At these meetings, the audit risks and strategy as well as findings reported to the group team were discussed in detail, and any further work required by the group team was then performed by the component auditor. In addition, for the current year's audit the group team inspected key working papers in the audit files of all components.

Group profit before tax and exceptional items
£26.7m (2016: £28.9m)

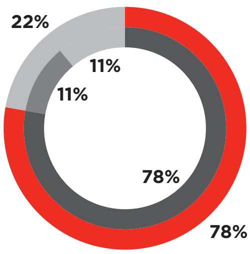


- Group profit before tax and exceptional items
- Group materiality

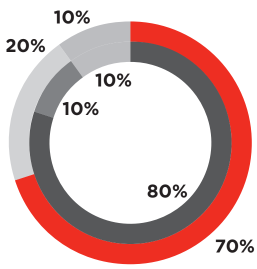
Group materiality
£1.25m (2016: £1.1m)



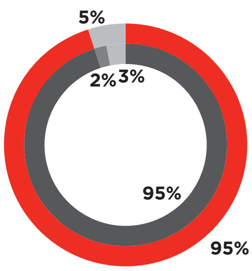
Group revenue



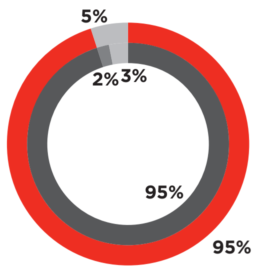
Group profit before tax



Group total assets



Total profits and losses that make up group profit before exceptional items and tax



- Full scope for group audit purposes 2017
- Full scope for group audit purposes 2016
- Specified risk-focused audit procedures 2016
- Residual components

Independent Auditors' Report to the members of Devro plc continued

Opinions and conclusions arising from our audit continued

4 We have nothing to report on going concern

We are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement in Note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the group and company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 44 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

5 We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within Viability Statement page 27 that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the Viability Statement of how they have assessed the prospects of the group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the Viability Statement. We have nothing to report in this respect.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy; or
- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- a corporate governance statement has not been prepared by the company.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

Based solely on our work on the other information described above:

- with respect to the Corporate Governance Statement disclosures about internal control and risk management systems in relation to financial reporting processes and about share capital structures:
  - we have not identified material misstatements therein; and
  - the information therein is consistent with the financial statements; and
- in our opinion, the Corporate Governance Statement has been prepared in accordance with relevant rules of the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority.

6 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on pages 64 and 65, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud, other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

Our audit aimed to detect non-compliance with relevant laws and regulations (irregularities) that could have a material effect on the financial statements. In planning and performing our audit we considered the impact of laws and regulations in core areas such as financial reporting, and company and taxation legislation

As with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

8 The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Anthony Sykes (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square,
London
14 March 2018