DEVRO

Devro plc

Annual Report and Accounts 2017

Devro is one of the world's leading manufacturers of collagen products for the food industry. With new, high-tech facilities now online, we are well placed to deliver on our strategic plan to grow revenue, optimise manufacturing efficiency and promote product differentiation.

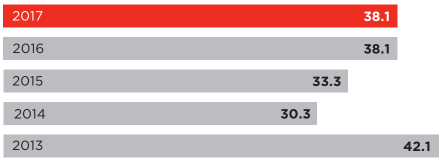
Highlights of the year

Revenue* (£'m)

£256.9m

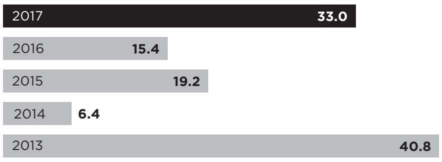
Underlying operating profit* (£'m)

£38.1m



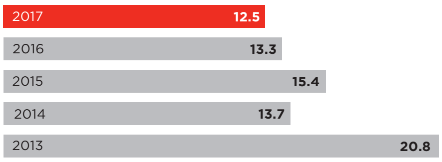
Operating profit* (£'m)

£33.0m



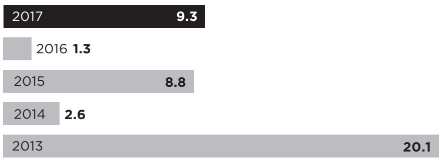
Underlying earnings per share* (pence)

12.5p



Earnings per share* (pence)

9.3p



Dividends per share (pence)

8.8p

* All figures are for continuing operations. Underlying measures are stated before exceptional items and they are defined, explained and reconciled to the equivalent statutory measures in the Financial Review on pages 21 to 23.

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Devro at a glance

Better casing for every sausage

How we do this

Extracting collagen
Collagen used for casing and gel is taken from the hides of carefully selected animals – officially approved for human consumption.

Applied technology
The production of collagen casing is a complex technological process. Devro combines expertise and innovation to produce casings that allow our customers to make better sausage.

Manufacture
Devro is a world leader in the manufacturing technology of this highly sophisticated process. Our casings are consistent, reliable and versatile to suit the needs of both sausage manufacturers and consumer preferences.

Our business model

Why our business exists
Devro's collagen casing is used to manufacture all varieties of sausage. Historically, animal intestines were used as casing for sausage, but over the past 50 years the use of collagen casing has significantly increased, as it enables food manufacturers to automate production and reduce costs. It is better suited to contemporary food hygiene and traceability requirements, and technical specifications can be determined in advance.

What our customers do
Devro's customers manufacture branded and own-label sausage products worldwide, reaching consumers through retail and food service outlets.

How we create value
Devro creates value by converting a basic raw material, collagen, from the inner layer of cattle and sow hides, into a homogeneous gel and extruding it to tightly controlled dimensions, before being compressed and packed for supply to customers. Devro's manufacturing processes are unique and have evolved over many years of technical development.

Who we sell to
Devro's revenue comes primarily from the sale of collagen products directly to food manufacturers and, in some markets, local distributors. Devro sells to over 1,000 customers in more than 100 countries, with a product range in excess of 500 individual items, covering eight principal types of application.

Approximately one-third of Devro's sales are in emerging markets and two-thirds are in developed markets. Over 100 Devro employees work in customer-facing operations as sales and technical advisers.

Our mission

Operating safely, to provide the world's food manufacturers with a safe and secure supply of consistently better collagen products, helping them optimise efficiency and enhancing the value of their offering.

Sales, marketing & distribution

Devro products are sold across all continents in over 100 countries. We sell directly to food manufacturers and via agents and distributors.

Customer products to consumers

Devro's innovation and casing performance allow our customers to produce differentiated products for the consumer. Our casings consistently score highly for appearance, colour, bite and overall acceptance in independent research and consumer testing.

Reinvesting in our business

Devro has a successful track record of applied research and development, and focused capital investment.

The market we are in

Devro is one of five significant producers globally of collagen casing in the world market, with a number of smaller local or regional competitors. Additional value is created for the customer by collaborating with specialist food machinery manufacturers and suppliers of food ingredients to optimise product performance.

What makes us different

Devro differentiates itself from competitors by developing innovative new products, by working closely with customers to enhance manufacturing efficiencies and by providing high-quality technical support to customers.

Why our customers choose Devro

To satisfy our customers' demands, we use our knowledge of how to manipulate the complex chemistry of collagen to balance the requirements of food producers for strength and size stability with consumer preferences for tenderness and bite.

Understanding our markets

A global footprint in changing times

From our creation over 50 years ago, Devro has evolved into an established leading supplier of edible collagen casing throughout the world.

Introduction

There have been many improvements in edible collagen casing over the past 50 years; some as a result of technical developments and others as a result of improved plant manufacturing systems. The continued significant investment over many years by Devro has enabled the provision of a unique, modern, safe and secure edible collagen casing that runs more efficiently on sausage production lines at much higher speeds and produces better sausage products that are widely accepted by consumers.

Today, Devro products are sold by our dedicated commercial teams, in association with our experienced distributor network, to over 100 individual markets and are used in the production of a huge variety of regional and national sausage types.

Maintaining a detailed understanding of our markets and our customers has been, and continues to be, a key aspect of our business philosophy.

Growth

Lower cost opportunities for sausage producers, combined with consumer acceptance, continue to drive the demand for edible collagen casing.

Over the past decade there has been a steady increase in the volume of edible collagen casing used in sausage production.

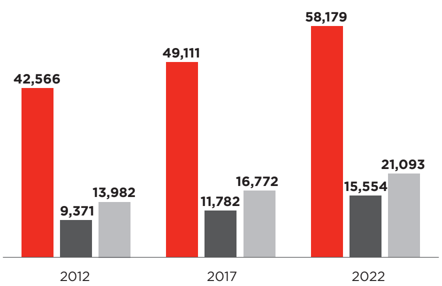
Trends

There are numerous social and demographic factors that are contributing to the growth in the consumption of sausage, and consequently an increased growth in the use of edible collagen casing, across both developed and emerging markets.

The growth in global population continues to be a key driver, particularly in relation to the rapid increase in the rate of urbanisation. Consumers are being exposed to a much wider choice and better availability of sausage within the urban environment, compared to those who are living in rural areas. The global population living in an urban environment has surpassed that of rural and is forecast to continue to rise steeply. This urbanisation trend contributes significantly towards improved living standards and rising incomes which in turn influence the affordability of sausage and processed meat products.

The improvement in the availability of sausage and processed meat products gives rise then to increased average meat consumption across both developed and emerging markets.

GDP
(US$'000 per capita)

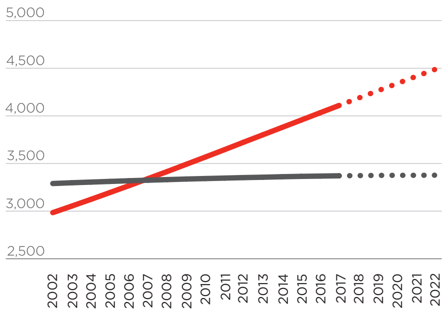


■ Advanced economy markets
■ Emerging & developing markets
■ World

(Source: International Monetary Fund (IMF) – World Economic Outlook Database October 2017).

Global urban population
(millions)

+23% in decade to 2017

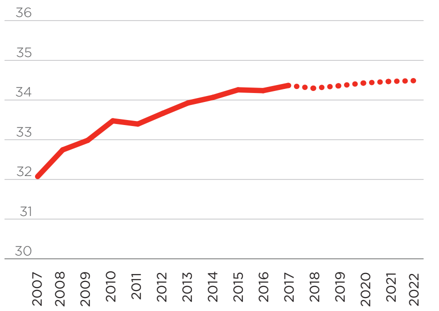


■ Urban population
■ Rural population

(Source: Food and Agriculture Organization of the United Nations (FAO) 2017).

Global meat consumption
(kg per capita per year)

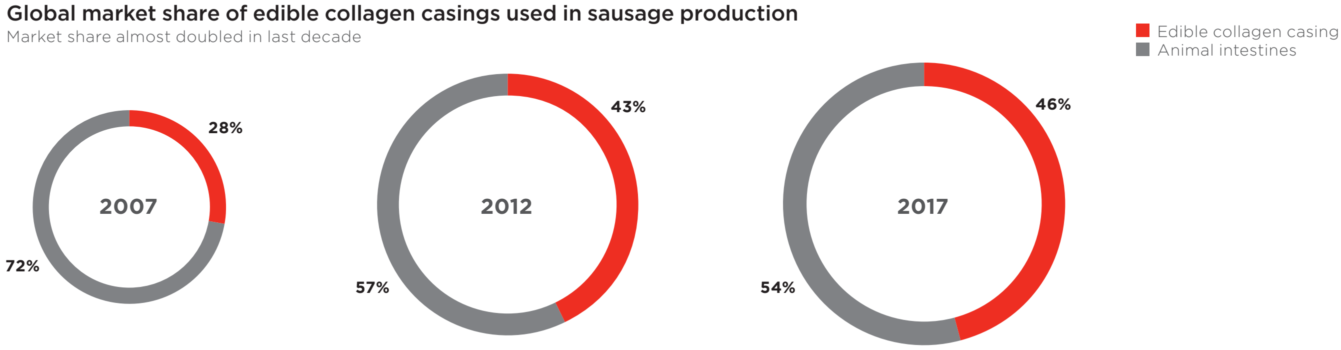
+7% in decade to 2017



(Source: OECD-FAO Agricultural Outlook 2017-2026).

Global market share of edible collagen casings used in sausage production

Market share almost doubled in last decade



(Source: Devro plc/Collagen Casing Trade Association (CCTA) estimates).

Americas

The Americas remains a strong market for edible collagen casing, particularly in the small calibre snack stick sector in North America. Rapid growth in demand in a number of Latin American countries continues, driven by increasing meat consumption and improving economic conditions.

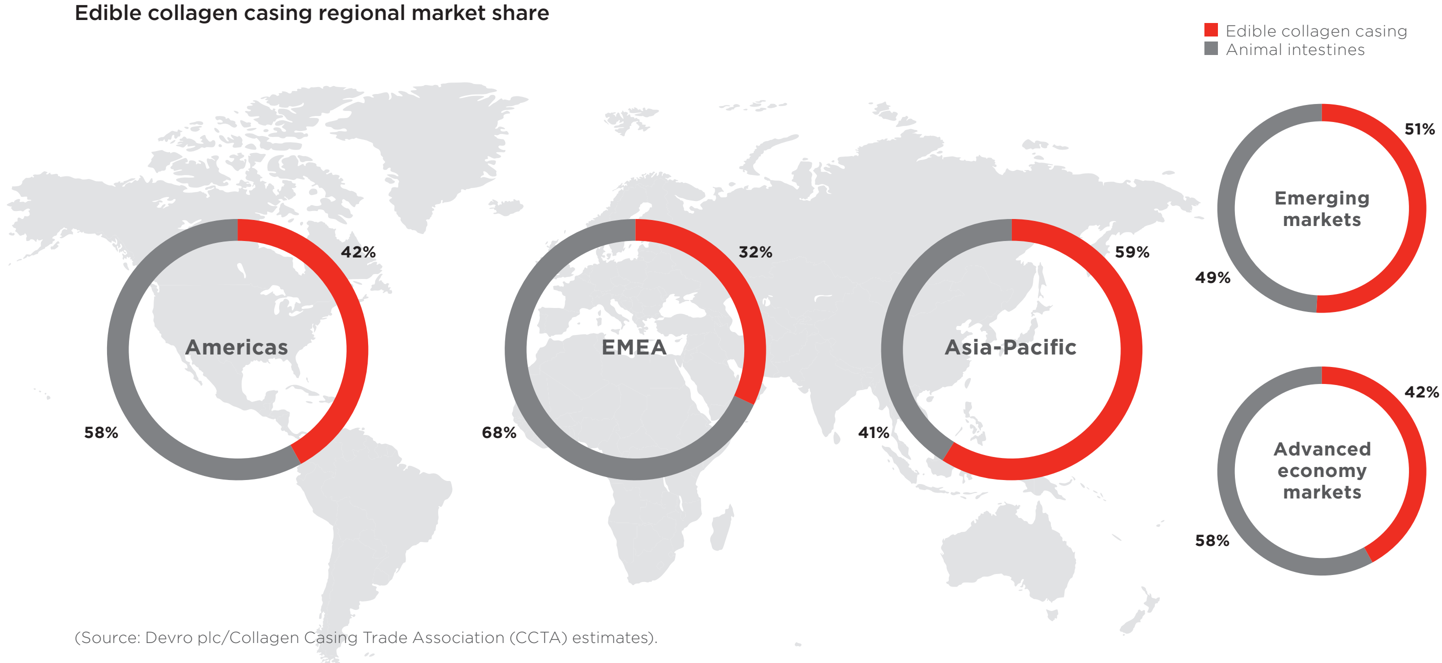
Europe, Middle East & Africa (EMEA)

EMEA continues to be a major market for the use of edible collagen casing and remains a market where there is potential for future growth via further conversion of animal intestines to edible collagen casing. Many markets within Europe, including Germany, are highly developed, sophisticated and mature markets for sausage manufacture. However, traditional techniques are still widely employed and many of the premium products remain in animal intestines. As Devro's new generation of edible collagen products are introduced, more and more producers and retailers are looking closely at the cost savings that can be made by converting to edible collagen casing.

Asia-Pacific

In Asia and the Pacific regions, growth in the use of edible collagen casing continues strongly. China is now the largest single edible collagen casing market in the world. Use of the product has grown considerably, primarily due to the increase in urbanisation, changing demographics and the growing popularity of premium Western-style sausage. The investment in modern manufacturing processes and the need for efficient manufacturing of safe and secure better quality sausage has driven producers to explore more urgently the benefits of edible collagen casing.

Edible collagen casing regional market share



(Source: Devro plc/Collagen Casing Trade Association (CCTA) estimates).

Our strategy

Devro 100

A programme designed to accelerate the next stage of the group's strategic development, focusing on growing revenue through significantly improving our sales capabilities, delivering substantial improvements in manufacturing efficiencies to reduce unit costs and introducing the next generation of differentiated products.

Our three strategic priorities

Revenue growth

Growing in developed and emerging markets

We will achieve this by:

- Growth in developed markets through displacement of gut casing
- Volume growth in emerging markets where demand is rising
- Price and value enhancement

Read more on pages 8-9 →

Manufacturing efficiency

Optimising our use of existing assets and investing in new technology

We will achieve this by:

- Upgrading existing assets to improve efficiency
- Bringing on new capacity using most-efficient technology
- Improving raw material sourcing and cost management

Read more on pages 10-11 →

Product differentiation

Differentiating ourselves through research and development

We will achieve this by:

- Investment in research and development
- Product and process technology development
- Unique collagen science knowledge built up over 50 years

Read more on pages 12-13 →

Our strategy in action

Revenue growth

Growing in developed and emerging markets

In conversation with Jakob Laustsen, Sales Director, South East Asia

In 2017, we have experienced growth rates of almost 30% on average across all markets in South East Asia.

We cover markets that represent more than 650 million consumers. There are still vast opportunities.

Jakob explains:

"It is the growing middle class, the urbanisation and the growth in the food service sector – in particular the expansion of fast-food and street-food outlets – that are the main driving forces behind the growth in both existing and new customers. We have increased our footprint in each market in the region by strengthening long-term partnerships with our distributors and customers by offering them technical support, plant visits and obtaining a deeper understanding of their needs. This enables us to identify and tailor individual solutions for each customer. The markets in South East Asia represent great opportunities but each has unique requirements in terms of customer needs and product performance features – which we are able to meet through our global network of factories.

We offer differentiated solutions through the wide range of products from our Devro plants around the world and, of course, our new plant in China. In this way, we are able to find and supply the right solution for our customers in the region."

Our strategy in action

Manufacturing efficiency

Optimising our use of existing assets and investing in new technology

In conversation with Michael Bradley who was responsible for the commissioning, and then became Operations Director, of Devro Nantong

Now that we have completed our new China factory, we are focused on delivering a return on our investment.

With over 30 years' experience working for Devro in many operational roles, Michael was the ideal candidate to commission and oversee the operation of the new manufacturing facility.

Michael explains:

"I joined Devro in 1986 and, after working in both plants in Scotland in many roles, the chance came up for me to be involved in the planning of the new plant in China. I relocated to Nantong in July 2015 to take up my international secondment.

As no one in Nantong had experience of collagen casing manufacture, a plan was developed to ensure that comprehensive training was professionally delivered to all new colleagues. This meant selecting a group of key people from our Scottish plants to go to Nantong for extended periods of time to carry out this task.

Although the whole process was technically challenging, the new facility has been a huge success and the factory is now 100% Chinese-managed, and running at full capacity."

Bringing on new capacity using most-efficient technology.

The capital investment of £60m in a new manufacturing facility in Nantong, completes the key part of the strategy to transform our global manufacturing footprint.

Our strategy in action

Product differentiation

Differentiating ourselves through research and development

In conversation with Katrina Greenock, Category Manager

In 2017 we restructured the way we manage our Idea Generation and Product Development processes. Devro is now well-placed to lead the market in developing truly differentiated products which meet and anticipate the needs of our customers.

Katrina explains:

"It has been a long journey, but during 2017 we invested in significant recruitment, training and restructuring to improve the way we manage product development. From January 2017 we worked to bring diverse product development systems and teams into alignment under a single comprehensive process and organisation.

At the same time, a new Category Management function has been introduced to deliver a comprehensive product range that addresses the key market requirements whilst reducing duplication. Category Management is shaping the product development pipeline and ensuring that future product innovation delivers on market and customer requirements as well as being future-thinking in terms of macro food trends."

Chairman's Statement

"The Devro 100 programme achieved cost reductions of £7 million in the first year, ahead of the original plan, and provides a strong foundation for further improvements in manufacturing efficiency in 2018 and beyond."

Global consumption of collagen casings and related products grew by an estimated 7% in 2017, with most major markets providing opportunities for growth. Food manufacturers continue to recognise the benefits of using collagen casings, including more efficient production and greater traceability of raw materials supporting brand security and food safety.

Devro's total revenue increased 7% in 2017, with growth in sales volumes of edible collagen casings of 8%. This return to volume growth follows the substantial investments and extensive organisational change of recent years.

The group's manufacturing performance continued to improve as our global supply chain settles into more stable operations. The Devro 100 programme achieved cost reductions of £7 million in the first year, ahead of the original plan, and provides a strong foundation for further improvements in manufacturing efficiency in 2018 and beyond.

Financial highlights

Underlying EBITDA increased 9% to £64.1 million (2016: £58.8 million) as a result of volume growth, planned cost reductions, and exchange rate benefits of £4.2 million (2016: £5.3 million), partially offset by price/mix and the full costs for the new plants that started up in 2016. Underlying operating profit was in line with 2016, after higher depreciation on the new plants.

Operating profit was £33.0 million (2016: £15.4 million), with the improvement mainly due to lower exceptional items in 2017 following the completion of the new plants in 2016. A more detailed explanation of the group financial performance is set out in the Financial Review on pages 18 to 23.

With improved underlying EBITDA and strong cash generation, covenant net debt closed at £135.3 million, down by £20.9 million on prior year, reducing as envisaged in the original capital investment plan. The covenant net debt to underlying EBITDA ratio now stands at 2.1, down from 2.7 a year ago.

During December 2017 the funding review linked to the triennial valuation of the UK pension scheme was completed, with no increase in company contributions required, and with the recovery plan reducing from nine to seven years. This reflects the improved funding position of the scheme and the positive working relationship between scheme trustees and the group.

Board

In December 2017 we announced that Peter Page would be completing his tenure as Chief Executive at the end of February 2018, after more than 10 years leading the company. Peter has been instrumental in making Devro fit for the future through a programme of major capital investments and by transforming a group of regional subsidiaries into a more integrated global business. Following an extensive search process, Rutger Helbing, formerly Group Finance Director, was appointed to succeed Peter as Chief Executive. We have initiated a search for a new Group Finance Director. We are confident that Rutger will lead the company and its Devro 100 strategy forward with a strong focus on delivering value.

From 28 February 2018, Matthew Peacock assumed the role of Interim Group Finance Director. Matthew has been our Group Financial Controller since 2012.

Malcolm Swift joined the Board as Non-Executive Director in April 2017, bringing significant experience of the global food sector, particularly business-to-business sales and marketing in the strategically important Asia-Pacific region.

Paul Neep, Senior Independent Non-Executive Director, retired from the Board in April 2017 after 12 years' service for which we are extremely grateful. Paul Withers succeeded Paul Neep as Senior Independent Non-Executive Director.

Employees

All employees have contributed to the growth and development we have seen in 2017. On behalf of the whole Board, I am most grateful for their commitment and professionalism. We see increasing levels of engagement and involvement in all areas of the business to make Devro an even better global company.

Dividend

The Board is proposing a final dividend of 6.1p per share (2016: 6.1p) bringing the total for the year to 8.8p per share (2016: 8.8p). Subject to shareholder approval at the Annual General Meeting in April, the dividend will be paid on 11 May 2018, to those shareholders on the register at 3 April 2018.

Outlook

Our strategy is unchanged. In 2018, we will focus on maintaining the momentum of the Devro 100 programme to deliver revenue growth and further cost savings across our global operations. The total forecast benefits, associated exceptional costs and capital expenditure over the three year period remain unchanged, although given the accelerated cost savings achieved in 2017, the phasing will differ slightly from our original expectations.

We expect further volume growth in 2018, supported by the introduction of the new Fine Ultra product platform, and continued manufacturing efficiency improvements, in particular at our US plant. We will continue to reduce net debt, building on the good progress made in 2017.

Whilst mindful of ongoing pressures from input cost inflation and exchange rate volatility, at this early stage of the year the Board believes that Devro is well placed to make good progress in 2018.

Gerard Hoetmer
Chairman

Business Review

After 10 years as Chief Executive, Peter Page left the Board on 28 February 2018. In his final Business Review, written just before he stepped down, he reflects on 2017.

Our priorities at the start of 2017 included sales growth to regain market share and cost reduction in operations. We made strong progress on both objectives, with 8% growth in sales volumes of edible collagen casings and a £7 million reduction in the manufacturing cost base, supporting a significant reduction in net debt.

Markets overview

Devro supplies collagen casings, gel and film to customers in over 100 countries worldwide. Demand for collagen casings is estimated to have increased 7% in 2017, with growth in most markets, including China.

The global food manufacturing sector is dynamic with growing demand for specific casing functionality in traditional sausage applications as well as in emerging categories such as protein snacks and confectionery.

Strategy

Devro's three-part strategy involves revenue growth, manufacturing efficiency and product differentiation. In the last quarter of 2016 the Devro 100 programme was launched to accelerate progress in all three elements of the strategy.

Revenue growth

Devro's sales volumes of edible collagen casings, which represent over 80% of the group's sales, increased 8% worldwide, contributing to a reported revenue increase of 7%, reflecting a mix of markets, products, pricing initiatives and exchange rate variances. Of the total price/mix impact (-4%), approximately half is due to mix, primarily related to the significant increase in volumes in China. Our pricing actions continue to reflect the dynamics of the specific markets in which we operate.

US volumes increased 3% as the protein snack stick segment continued to grow at a faster rate than total food consumption. A 5% reduction in average pricing reflects investment in securing valuable long-term relationships with leading brand owners with significant growth potential.

Latin America volumes declined 25%, with final quarter sales recovering to a level comparable to prior year. The year-on-year volume reduction follows the previously-announced changes in product sourcing in 2016, whilst the reduction in the overall average selling price reflects the resulting changes in country mix. Our technical and product development specialists continue to focus on opportunities to regain business in these markets.

Whilst the UK sausage market overall has shown little growth for several years, 2017 volumes of Devro casings increased 2%, along with a similar increase in average prices, reflecting a changing customer mix, particularly the continuing success of Select Fresh casings in the premium sausage market. Continental European sales recovered well, with 13% volume growth in the second half leading to 6% growth overall, accompanied by price movements related to specific market opportunities.

Volumes sold in Russia and surrounding countries grew 21%, recovering Devro's market share and presence following a period in which a number of specific factors, including currency devaluation and restrictions on EU-sourced pork products, had disrupted sales in the region. The movement in overall average selling price reflects changes in product mix.

Following the successful start-up of Devro's new plant in Nantong during the second half of 2016, and strong sales in the final quarter last year, further activity in China during 2017 led to a 69% volume increase at constant prices in most accounts. As the year progressed, a wider base of customers resulted in higher monthly sales volumes and the development of some specialist opportunities for Devro's differentiated products.

South East Asia sales volumes increased 29%, reflecting a higher level of activity in the region following an increase in capacity availability and product introductions.

Japan continued a 10 year period of sales growth, with volumes increasing 5% in 2017.

Australia and New Zealand are mature markets, with a high proportion of collagen casings principally supplied from Devro's plant in New South Wales. Volumes declined 3%, whilst a 5% reduction in average selling price reflected investments to secure long term global relationships, together with some changes in customer and product mix.

Total volumes of collagen gel sold across the group were marginally lower than prior year. Gel provides a low cost alternative for high volume users of cellulose and volumes grew in previous years as new capacity was added. 2017 was a year of consolidation in this sector.

Manufacturing efficiency

Manufacturing performance progressed well during the past year at most locations, with the new single global supply chain organisation structure enabling the business to improve performance through benchmarking, sharing of best practice, and specialist input to technical development opportunities.

2017 was the first full year of operation of the new plants in China and the US, leading to a greater consistency and standardisation of the process technology in use at all manufacturing locations.

The plant in Nantong performed particularly strongly in 2017, achieving high levels of efficiency and productivity across a range of products. This plant is close to achieving the output levels originally envisaged, with sales matching output in the latter part of the year.

Whilst there has been some good progress at the plant in South Carolina, output volumes in 2017 fell short of projections. As a result, productivity and output efficiencies in the US plant continue to be a matter of priority for the management team, as improvements in this area will support growth ambitions.

Devro 100

A key element of the Devro 100 programme has been to enhance Devro's sales capability through a programme of targeted training and individual development. The benefits of this are reflected in the volume and share gains throughout the year, with further advances expected in 2018.

As a result of the Devro 100 programme, the manufacturing cost base has been reduced by £7 million during the year, which is in addition to the cost savings realised in H1 related to the closure of the old US plant. Following the establishment in late 2016 of a single global supply chain and associated management structure, the group has benefitted from the implementation of new and more effective ways of working and procurement in all areas of activity.

During 2017 a single global team established robust processes for product development and bringing these new products to market. In the final quarter, following extensive commercial scale testing, Devro's Fine Ultra casings were introduced to key customers in Asia and Europe, providing the opportunity for volume growth in future years.

Safety

Over the past 10 years, safety has been a priority at Devro. There has been an improvement in overall performance compared to 2016. Whilst there is more to do to ensure we constantly achieve our safety goals, the move to a single supply chain with global responsibilities is leading to a more rigorous implementation of group standards to the benefit of all.

Devro today

Over the past 10 years, Devro has successfully moved from operating as a series of regional subsidiaries to an efficiently managed single global organisation. Revenue from edible collagen has almost doubled, due to a combination of pricing and volume growth in an increasing variety of markets and applications. Numerous excellent and dedicated colleagues have contributed to the development of the business in many ways, for which I am sincerely grateful.

Growth in demand will continue as the global population increases, consumer spending progresses and tastes become more varied. The business is well positioned for the future.

Peter Page

Financial Review

After joining Devro as Group Finance Director in 2016, Rutger Helbing was appointed Chief Executive on 28 February 2018. In this Financial Review, written just before his new appointment, he reflects on 2017.

As in 2016, the financial results in 2017 comprised a number of significant moving parts including, for the first time, the full operational costs of our new manufacturing plants in the US and China. The adverse impact of the additional costs was offset by benefits delivered through the Devro 100 programme, both in terms of revenue growth and manufacturing cost reductions. As a consequence, underlying operating profit for the year was unchanged, but underlying EBITDA increased by 9.0% after adding back the increased depreciation, primarily related to the new plants.

Exceptional items for the year were significantly lower in 2017, resulting in an increase of operating profit of £17.6 million.

In 2017, considerable progress was made in improving the covenant net debt to underlying EBITDA ratio, which reduced from 2.7 times at 31 December 2016 to 2.1 times by the end of 2017. The business continues to deliver strong underlying cash generation, supported by increasing underlying EBITDA in 2017. A significant reduction in capital and exceptional item spend also contributed to the reduction in net debt in the year, together with exchange rate movements, partly offset by higher cash tax payments.

With the completion of the capital investment programme in 2016, the business is now focused on bringing the covenant net debt to underlying EBITDA ratio down nearer to historic levels.

Revenue

	2017 £'m	2016 £'m	Change	Change at constant currency
Revenue	**256.9**	241.1	+6.6%	+2.2%

Revenue for the year was ahead of 2016, with increased volumes and the benefits of exchange rate movements, partially offset by price/mix. Year-on-year revenue growth can be analysed as follows:

	2017 vs 2016	2016 vs 2015
Volume	**+6.5%**	–6.6%
Price/mix	**–4.3%**	–0.3%
Foreign exchange	**+4.4%**	+11.6%
Total	**+6.6%**	+4.7%

The increase in sales volumes represents a return to growth in 2017 across almost all sales areas, with particularly strong growth in China, South East Asia and Russia, together with strong growth in Continental Europe in the second half. The growth in China follows the successful start-up of Devro's new plant in Nantong in 2016, with this ramp up in volumes supported by increased sales activity once the capacity became available. The increase in volumes in South East Asia also reflects capacity becoming available for this region together with successfully matching products with customers' requirements. In Russia, the volume grew through a combination of a recovery in market share and an increase in local sausage production following disruptions in recent years related to import restrictions and currency devaluation.

Approximately half of the price/mix impact was due to country mix, primarily related to the increased volumes in China where market prices are lower than the global average. In addition there was some investment in pricing to secure long term relationships with key customers and also some tactical pricing related to specific market opportunities.

Operating profit

Operating profit for the year can be analysed as follows:

	2017 £'m	2016 £'m	Change
Underlying EBITDA	**64.1**	58.8	+9.0%
Underlying depreciation and amortisation	**(26.0)**	(20.7)	–25.6%
Underlying operating profit	**38.1**	38.1	–
Exceptional items	**(5.1)**	(22.7)	
Operating profit	**33.0**	15.4	

Underlying operating profit was in line with 2016, but there were a number of significant moving parts which are summarised below:

	£'m
Underlying operating profit 2016	38.1
Sales volumes	+6.3
Price/mix	–7.8
Recovery of conversion costs	+7.1
Volume	+5.6
Savings from replacement of old US plant & 2016 pre-operating costs of new plants	+1.4
Start-up of new plants in 2016	–14.8
Impact of new plants	–13.4
Devro 100 cost savings	+7.0
Foreign exchange (translation)	+4.2
Other movements	–3.4
Underlying operating profit 2017	**38.1**

The increased sales volumes and adverse impact of price/mix are explained above. The volumes also contributed to the higher recovery of conversion costs due to the related increase in production volumes.

The construction of new plants in the US and China was completed in early 2016, after which a six month start-up period was required for each plant to bring the plants on-line and build up production. Given that capacity from the new plants was only available for a restricted period during the start-up period, and not available prior to the commencement of operations, the related costs were not reflected in underlying operating profit in 2016. The additional costs in 2017 reflect the fact that both plants were fully operational by the end of 2016, and therefore all related costs were included in underlying operating profit in 2017.

The old US plant was closed at the end of H1 2016, with the related savings benefiting H2 2016 and H1 2017.

The Devro 100 programme realised savings of £7.0 million in 2017, which were ahead of plan. The savings related to areas such as sourcing of raw materials, optimising operational structures at the plants and standardising processes through sharing best practice across our global operations.

Devro has operations around the world in multiple currencies. Movements in exchange rates had a favourable impact on underlying operating profit of £4.2 million, reflecting the weakening of sterling against most other key trading currencies of the group towards the end of H1 2016. Whilst sterling was weaker for the year as a whole in 2017, it did strengthen over the course of the year and if exchange rates remain at current levels this will result in a headwind for operating profit in 2018.

Other movements in underlying operating profit compared with 2016 included wage inflation and bonus payments.

Underlying operating profit for 2017 included an increased depreciation charge of £5.3 million, primarily related to the impact of the new plants but also including foreign exchange movements (£1.3 million). So, whilst underlying operating profit for 2017 was in line with 2016, EBITDA increased by 9.0%.

Reported operating profit for the period was £33.0 million, which was significantly higher than 2016 primarily due to lower exceptional items.

Exceptional items

	2017 £'m	2016 £'m
Devro 100 programme	**5.1**	2.0
Capital investment projects	**–**	20.7
Total exceptional items	**5.1**	22.7

During 2017, exceptional costs incurred related to the Devro 100 and restructuring programmes. An analysis of the nature of these costs is set out in Note 4 to the financial statements. In addition, there was £2.3 million of capital expenditure related to Devro 100.

For the Devro 100 programme, as previously guided, total exceptional items are expected of between £10-12 million over 2017 and 2018, plus capital investments of between £7-8 million, with expected benefits of between £13-16 million by 2019. These expectations of total investments and savings remain unchanged but the phasing is now expected to be different given the accelerated delivery of savings in 2017 and lower level of exceptional items and capital investments in 2017 than originally expected.

Financial Review continued

Operating margin

	2017	2016
Underlying operating margin	**14.8%**	15.8%

The underlying operating margin for the year declined by 1.0 percentage point, reflecting the full costs of the new plants in China and the US, whilst they operated below full capacity in their first full year of production in 2017.

The reported operating margin increased to 12.8% from 6.4%, supported by significantly lower exceptional items in 2017, compared with 2016.

Capital investment

	2017 £'m	2016 £'m
Capital investment	**10.4**	22.2

With the start-up of the new plants in 2016, capital investment in 2017 was significantly lower than in 2016, and was at the lower end of the range of historical maintenance levels.

Working capital

	2017		2016	
	£'m	Number of days	£'m	Number of days
Inventories*	**32**	**50**	34	60
Trade and other receivables	**35**	**38**	35	39
Trade and other payables	**(35)**	**35**	(38)	40
	32		31	

* Inventories days are calculated by dividing the value of finished goods and goods for resale at the end of the reporting period by the value of cost of goods sold in the period multiplied by the number of days in the period.

Working capital increased by £1 million during the year with the benefits of lower inventories offset by lower payables. The lower payables largely reflect the decrease in capital accruals noted above.

The movements in inventories reflected improved working capital management and, combined with the higher revenues, resulted in a reduced number of inventory days compared with 2016. With unchanged trade and other receivables, combined with increased revenue, receivable days also improved.

Cash flow and net debt

Devro continues to be a highly cash generative business. In order to fund the significant investments made as part of the transformation of the manufacturing footprint, new long-term facilities were put in place in 2014 to supplement the shorter-term bank facilities.

With the start up on the new plants in China and the US completed in 2016, and resultant reduction in capital expenditure and exceptional items, significant progress was made in 2017 in reducing net debt, which ended the year at £134.9 million, compared with £153.6 million at the start of the year. This reduction included the effect of the strengthening of sterling during 2017 (given that a part of the group's debt is denominated in US dollars), which reduced the reported net debt figure at 31 December 2017 by £7.4 million. Including the effect on derivative liabilities, covenant net debt ended the year lower at £135.3 million (2016: £156.2 million).

Key financial measures are as follows:

	2017	2016
Net debt	**£134.9m**	£153.6m
Covenant net debt/underlying EBITDA ratio	**2.1 times**	2.7 times
Underlying operating cash flow	**£66.9m**	£64.4m
Return on capital employed (ROCE)	**11.1%**	11.5%

At 31 December 2017 the covenant net debt to underlying EBITDA ratio was 2.1 times. This represented a further reduction from the 2.4 times reported at 30 June 2017. The underlying EBITDA to net interest payable ratio was 7.7 times at 31 December 2017, meaning that both ratios were within their limits.

With the capital investment projects now complete, cash generated from the business will enable net debt levels to reduce further, which will ultimately result in the covenant net debt to underlying EBITDA ratio returning nearer to historic levels.

The group remained within its funding facilities throughout the year, which include the US$100 million US private placement that took place in the first half of 2014, and the £110 million revolving credit facility which was negotiated in December 2014 and will be in place until December 2019.

Underlying operating cash flow (before pension deficit funding) increased during the year to £66.9 million (2016: £64.4 million), with the improvement in EBITDA being partially offset by lower improvements in working capital.

Cash outflow from exceptional items was £5.7 million (2016: £22.9 million), contributing to improved operating cash flow of £58.2 million (2016: £39.0 million).

The reduction in ROCE reflects the lower average capital employed balance in 2016, related to the build up of investments during 2016 as the new plants in the US and China were completed.

Finance costs

	2017 £'m	2016 £'m
Net finance cost	**8.6**	6.9
Net finance cost on pensions	**2.8**	2.3
Total net finance cost	**11.4**	9.2

The net finance cost for the year was higher than 2016 due to higher rates of interest on borrowings drawn down in Chinese renminbi to support our investment in China, and the ceasing of capitalisation of interest during 2016 following completion of the new plants (2016: £0.5 million interest capitalised).

The increase in net finance cost on pensions over 2016 reflects the higher discount rates assumed at the start of 2017 compared with the year before.

Pension schemes

Devro operates a number of defined benefit schemes around the group, although all of these are now closed to new entrants. The net pension liabilities of these schemes can be analysed as follows:

	2017 £'m	2016 £'m
Fair value of scheme assets	**247.6**	254.8
Present value of scheme liabilities	**(329.6)**	(350.8)
Net pension liabilities	**(82.0)**	(96.0)

The decrease in net pension liabilities during the year largely reflects revised assumptions for the UK scheme, following a review of all components of the pension scheme in conjunction with the pension trustees as part of the triennial valuation. This was partially offset by a decrease in discount rate assumptions across the schemes. Further analysis of the movement in net pension liabilities is set out in Note 26 to the financial statements.

Tax

	2017 £'m	2016 £'m
Tax charge on underlying profit before tax	**5.8**	6.7
Tax charge/(credit) on exceptional items & exceptional tax charge	**0.2**	(2.7)
Tax charge in income statement	**6.0**	4.0

The group operates around the world and earns profits which are subject to tax at differing rates in different tax jurisdictions. Tax reforms were enacted in the US on 22 December 2017, and although effective from 1 January 2018 the reforms did have an impact on the tax charge in 2017 due to the revaluation of deferred tax assets and liabilities to reflect the change in federal tax rate. The impact on 2017 was an additional tax charge of £4.2m which was reported as an exceptional item.

The underlying tax charge includes the effect of additional deferred tax assets on previously unrecognised losses. These additional deferred tax assets have been recognised in the year as a result of an increase in the projected taxable profits in the relevant jurisdictions, reflecting the benefit of a review of internal funding structures. To the extent that the additional deferred tax assets related to losses previously charged to exceptional items, the associated tax credit has also been reported as an exceptional item.

Earnings per share

	2017	2016
Underlying basic earnings per share	**12.5p**	13.3p
Basic earnings per share	**9.3p**	1.3p

We have again presented an adjusted earnings per share (EPS) measure, which excludes exceptional items, to provide a better indication of the underlying performance of the group. Underlying basic EPS reduced by 0.8p with the unchanged underlying operating profit and lower effective tax rate (+0.2p), being more than offset by the effects of increased interest (-1.0p).

The increase in basic EPS reflects lower exceptional costs in 2017, more than offsetting the factors resulting in lower underlying basic EPS.

Dividend

	2017	2016
Interim per share	**2.7p**	2.7p
Final per share	**6.1p**	6.1p
Total	**8.8p**	8.8p

The Board is recommending an unchanged dividend in 2017.

Alternative performance measures

In addition to statutory financial measures, management uses certain alternative performance measures (which are not defined by IFRS) to assess the operating performance and financial position of the group. The alternative performance measures that Devro uses are 'constant exchanges rates', 'underlying', 'earnings before interest, tax, depreciation and amortisation (EBITDA)', 'net debt', 'covenant net debt' and 'return on capital employed (ROCE)'.

Constant exchange rates

The group has operations across the world in multiple currencies, and is exposed to translation risk on fluctuations in foreign exchange rates. As a result the group's reported revenue will be impacted by movements in actual exchange rates. The group presents revenue growth on a constant currency basis in order to eliminate the translation effect of foreign exchange rate movements, enabling investors to better understand the operational performance of the group.

Financial Review continued

Revenue growth at constant currency is calculated by translating both the current and prior year local currency amounts using the prior period average exchange rates.

Underlying
Underlying figures are stated before exceptional items. Devro is undergoing a major transformation including the construction and start-up of two new plants in China and the US which completed in 2016, a restructuring of operations in Scotland and Australia initiated in 2014 and the Devro 100 programme with full benefits expected by 2019. The incremental costs associated with this transformation are significant, and as a result have been classified as exceptional items.

A reconciliation from the underlying figures to the equivalent reported figures is presented below:

	2017			2016		
	Underlying	**Exceptional items**	**Reported**	Underlying	Exceptional items	Reported
Operating profit (£'m)	**38.1**	**(5.1)**	**33.0**	38.1	(22.7)	15.4
Operating margin	**14.8%**	**(2.0%)**	**12.8%**	15.8%	(9.4%)	6.4%
Profit before tax (£'m)	**26.7**	**(5.1)**	**21.6**	28.9	(22.7)	6.2
Basic earnings per share	**12.5p**	**(3.2p)**	**9.3p**	13.3p	(12.0p)	1.3p

Earnings before interest, tax, depreciation and amortisation (EBITDA)
EBITDA is defined as operating profit excluding depreciation and amortisation. This measure is used by management to assess operational efficiency and, given that it excludes non-cash depreciation and amortisation, it is a useful approximation for cash generation from operations. This measure is in common use elsewhere and a reconciliation from reported figures is shown below:

	2017			2016		
	Underlying	**Exceptional items**	**Reported**	Underlying	Exceptional items	Reported
Operating profit (£'m)	**38.1**	**(5.1)**	**33.0**	38.1	(22.7)	15.1
Depreciation and amortisation (£'m)	**26.0**	**–**	**26.0**	20.7	2.3	23.0
EBITDA (£'m)	**64.1**	**(5.1)**	**59.0**	58.8	(20.4)	38.4
EBITDA margin	**25.0%**		**23.0%**	24.4%		15.9%

Net debt

Net debt is defined as the excess of total borrowings over cash and cash equivalents. It is a measure that provides additional information on the group's financial position and is a measure in common use elsewhere. A reconciliation from reported figures is presented below:

	2017 £'m	2016 £'m
Current borrowings	**(1.5)**	(1.9)
Non-current borrowings	**(144.2)**	(161.6)
Total borrowings	**(145.7)**	(163.5)
Cash and cash equivalents	**10.8**	9.9
Net debt	**(134.9)**	(153.6)

Furthermore, the definition of net debt used to calculate one of the group's banking covenant ratios also includes derivative financial liabilities, as shown below:

	2017 £'m	2016 £'m
Net debt	**(134.9)**	(153.6)
Derivative financial liabilities	**(0.4)**	(2.6)
Covenant net debt	**(135.3)**	(156.2)

Return on capital employed

Return on capital employed (ROCE) is used as a measure of how well the group is utilising its available capital, and is a measure in common use elsewhere. ROCE is calculated by presenting underlying operating profit as a proportion of average capital employed.

Capital employed for this purpose is defined as net assets excluding interest-bearing assets and liabilities, derivative financial instruments, current and deferred tax balances, pension obligations and provisions for liabilities and other charges.

A reconciliation from reported figures is presented below:

	2017 £'m	2016 £'m	2015 £'m
Intangible assets	**10.4**	10.4	9.2
Property, plant and equipment	**291.1**	308.6	270.1
Inventories	**32.3**	33.8	28.5
Trade and other receivables	**35.1**	35.2	38.4
Trade and other payables	**(34.5)**	(37.8)	(33.7)
Total capital employed	**334.4**	350.2	312.5
Average capital employed*	**342.3**	331.4	
Underlying operating profit	**38.1**	38.1	
Return on capital employed	**11.1%**	11.5%	

* Average capital employed is calculated as the average between the balances as at the start of the year and as at the end of the year.

Going concern

At 31 December 2017 the group was operating within the banking covenants related to its revolving credit facility and US private placement facilities. The group's detailed financial forecasts indicate that there is sufficient headroom in the facilities for the 12 months from the date of approval of this statement and that they can be repaid in line with the expected terms.

After making enquiries, the directors have a reasonable expectation that the group has adequate resources to continue in operation for the 12 months from the date of approval of this statement. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Rutger Helbing
Chief Executive

Principal Risks and Uncertainties

Like any other business, Devro's operations are exposed to risks which could potentially have an adverse impact on the group.

The directors have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity. The main risks identified are set out in the following pages. Additional risks which are not presently known to management could also have an adverse effect on the company.

Broadly speaking, our risk profile is unchanged, although we see a significantly heightened level of risk in the area of cyber-crime. To counter this, we have invested significantly in our defences and will continue to do so as the threat evolves.

The Board has taken into consideration the principal risks when considering the adoption of the going concern basis of accounting and when assessing the prospects of the company for the purpose of the viability statement.

The viability and going concern statements can be found on pages 27 and 44, respectively.

In addressing and overseeing risk, the Board is supported by the Risk Committee. The Committee submits formal reports to the Board in the course of the year.

A report from the Committee can be found on page 42.

The Financial Reporting Council has encouraged companies to consider how Brexit might impact them, so we have separated this out from the list of other risks for a more detailed analysis in the box below.

Brexit

In the course of 2017, the UK Government confirmed that the UK will leave the EU in March 2019. There is then a possibility of a transitional arrangement for a relatively short period. The terms of any transitional period remain unclear and discussions on the trading arrangement between the UK and EU thereafter have barely started. Much uncertainty remains.

This has a number of implications for Devro. For example, while our Scottish factories mainly manufacture for the UK, some product is currently exported to the EU, and our Czech and Dutch plants send small amounts of their product to the UK. Some raw materials used by our UK/Scottish plants come from other EU countries. Our people move freely between our European plants.

All of the above could cease on Brexit, and while the UK Government has stated, with confidence, its intention to negotiate replacement trade agreements with the EU and other countries, it is not possible at this stage to gauge how successful they will be. The risk for UK-based exporters such as Devro Scotland, is that the proposed new international trading arrangements may not be secured before the existing framework is removed, or may be on disadvantageous terms compared to the current conditions. We are therefore preparing contingency plans based on various "worst-case" scenarios.

With six manufacturing operations around the world, Devro is well placed to reconfigure its global routes to market in order to adapt to changing regulatory restrictions. A review of the various potential supply permutations is underway.

Our External & Regulatory Affairs Director has established strong working relationships with Government, and is working to ensure that collagen food products do not get overlooked in future trade discussions.

It is important to keep this in perspective: the great majority of Devro group production and trade is unaffected. The total export volumes which could be impacted amount to no more than 8% of group output.

The potential Brexit-related opportunities both here in the UK and overseas which could offset any downside are also under review.

With our global footprint and contingency planning underway, we are well placed to deal with whatever emerges from the post-Brexit negotiations.

RISK TREND
Significantly increased | Broadly unchanged | Significantly decreased

Key risk	Impact	Mitigation	Movement
LOSS OF MARKET SHARE/PROFIT MARGINS DUE TO INCREASED COMPETITIVE PRESSURES The group operates in competitive markets throughout the world.	Expansion by competitors could lead to overcapacity in the industry and the consequent risk of loss of volume or price pressure.	The group invested £8.5m in research and development activities in 2017, to extend and differentiate the product range and improve the quality of our products. The Devro 100 programme is designed to enhance Devro's sales capability. We also aim to continue expanding the total collagen casings market by developing products which convert animal intestine applications to collagen casing.	=
OPERATIONAL DISRUPTION The group is at risk of disruption to its manufacturing capability from poor operational performance or major disruptive events, such as fire or flooding.	Prolonged operational disruption could result in sustained loss of capacity or capability and could affect our ability to deliver to customers. This, in turn, could adversely affect the group's financial performance.	The group maintains industry-leading operational processes and procedures to ensure effective operational management at each of our plants. With six manufacturing operations in various locations, the group has manufacturing flexibility and this enables effective contingency planning. Our business continuity and disaster recovery plans are regularly tested and continually updated. Appropriate insurance policies are in place.	=
FOREIGN EXCHANGE RISK Almost 90% of the group's revenues are invoiced in currencies other than sterling.	Adverse foreign exchange rate movements could reduce revenues and the sterling value of reported profits.	The financial impact of exchange rate fluctuations within our operating units is mitigated by a policy of hedging a substantial portion of transactional foreign exchange risk for periods of up to 15 months using forward contracts.	=
DOWNTURN IN CONSUMER DEMAND Consumer preferences evolve over time and are influenced by a number of issues outside our control, including economic factors and health considerations.	A decline in consumer demand for sausage could lead to increased competition in the marketplace and reduced sales revenue/profitability.	Devro's wide range of products allows flexibility to respond to customer and market demands. We continue to invest in our products and processes with the aim of producing differentiated products while reducing our cost base to remain competitive.	=
IT SYSTEMS/CYBER RISK IT systems are central to our business operations. Vulnerability to an external attack is a growing worldwide issue.	An outage for a period of time could have an impact on our operations. Loss of commercial or personal data could damage the business or our reputation and result in financial penalties.	We ensure that our systems are appropriately secured and have invested in firewalls and other security features. Regular penetration testing is conducted.	▲

Principal Risks and Uncertainties continued

Key risk	Impact	Mitigation	Movement
FINANCIAL RISKS The main financial risks relate to the availability of short and long-term funding.	Failure to operate within the agreed financial framework could lead to inability to support long-term investment or to raise capital for funding growth. Interest rate increases could impact earnings.	All term debt is arranged and managed centrally and appropriate covenant headroom is maintained.	=
DISRUPTION TO SUPPLY OR INCREASE IN PRICE OF KEY RAW MATERIALS The group's most important raw material is collagen, a naturally occurring animal protein obtained from cattle and sow hides. There is a risk that changes may occur in the supply or demand for food grade collagen, resulting in significant cost increases for the group's business.	Raw collagen represents 17% of the group's total manufacturing costs. Increase in price would adversely impact the group's operating costs. Disruption to supply could adversely affect manufacturing performance.	The group manages the collagen sourcing risk by, where possible, entering into long-term arrangements with specialised suppliers in various parts of the world.	=
POLITICAL AND REGULATORY RISK As a supplier to the food industry, the group complies with all relevant food safety regulations. Regulatory authorities routinely enact changes to food safety legislation. Political uncertainty leaves international trading companies exposed to the risk of restrictions on cross-border sales.	As a global trading company, political change (including, but not limited to, Brexit) could impact our ability to operate internationally. Changes to food safety regulations could result in restrictions on the movement of the group's products or its raw materials between territories, or necessitate changes to the production processes at one or more of the group's manufacturing operations.	Our External & Regulatory Affairs Director actively monitors planned and actual changes to regulations in all relevant jurisdictions in order to minimise disruption to our business. The group is a founder member of the Collagen Casings Trade Association, which represents the industry and promotes its excellent record in regulatory and health issues. Supplier approval and traceability are under constant review. See Brexit analysis on page 24.	=

RISK TREND
Significantly increased | Broadly unchanged | Significantly decreased

Risk	Impact	Mitigation	Movement
PEOPLE Shortage of people with relevant expertise.	There is considerable competition for highly-trained staff in certain areas. Devro's strategy of significant investment in the company's manufacturing base requires the recruitment and retention of highly-skilled technical managers and employees.	We offer a competitive pay package to our employees. A number of internal programmes have been introduced to train and develop key employees.	=
INCREASED FUNDING REQUIREMENTS OF PENSION SCHEMES Estimates of the amount and timing of future funding obligations for the group's defined benefit pension schemes are based on various assumptions, including the projected investment performance of the pension scheme assets, future bond yields, changes to assumptions about the longevity of the schemes' members and statutory requirements.	Any significant deterioration in the schemes' asset values or unforeseen increases in scheme liabilities might increase the group's funding obligations and could adversely affect the group's profits and financial strength.	The position and performance of each of the pension schemes are continually monitored by the group, in conjunction with pension trustees and professional advisers. All defined benefit schemes are closed to new entrants, and the group is actively working to match assets to expected future cash flow.	=
PRODUCT CONTAMINATION Raw materials and ingredients may contain impurities, contamination or disease.	Contamination could lead to a product recall, loss of reputation, or significant costs of compensation.	All of our manufacturing sites have achieved FS22000 approval. This requires a Hazard Analysis and Critical Control Point programme to be implemented with the aim of preventing contamination.	=

Viability statement

In accordance with the 2016 edition of the UK Corporate Governance Code, the directors have assessed the viability of the group over a three-year period, taking into account the group's current position and the potential impact of the principal risks.

The group's strategy is focused on long-term growth through revenue growth in developed and emerging markets, optimising the use of existing manufacturing assets and investment in new technology, and differentiation through product and process research and development. Whilst the directors have no reason to believe the group will not be viable over a longer period, given the inherent uncertainties involved and the higher-level nature of longer-term forecasting, the directors have determined that a three-year period to 31 December 2020 constitutes an appropriate period over which to provide its viability statement. This three-year period aligns with the period focused on by the Board during the strategic planning process.

In making this statement, the Board 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 group's principal risks, and how these are managed, are set out above and the group's capital and financial risk management policies and exposures are set out in Note 23 to the financial statements.

The three-year strategic plan is constructed on a "bottom up" basis and is reviewed by the Board annually. This process involves input from individual group operating companies and includes assumptions regarding expected sales volumes by region, production levels by manufacturing site and the level of targeted cost savings achieved. The plan is updated as circumstances evolve.

The output from this planning is used to perform debt and headroom analysis, which includes a review of sensitivity to "business as usual" risks and also stress testing using "severe but plausible" events. The analysis takes account of the availability and likely effectiveness of the further mitigation actions that could be taken to avoid or reduce the impact or occurrence of the identified risks or events. The current revolving credit facility will be in place until 2019 and is expected to be renegotiated on acceptable commercial terms.

Based on this assessment, the directors confirm that 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 to 31 December 2020.

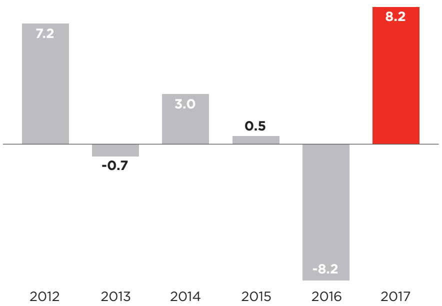
Key Performance Indicators

Measuring our performance

We monitor our performance against our strategic priorities by means of Key Performance Indicators ("KPIs"). The most important of these KPIs at a group level focus on the following areas:

Sales volume growth*

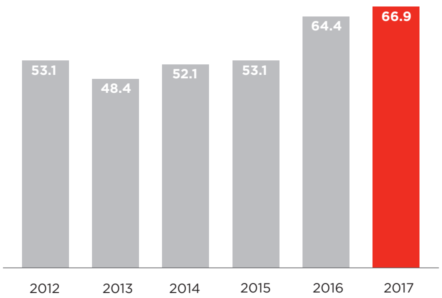
Volume growth of edible collagen casings (%)



A key element underpinning the group's strategy is to deliver growth in sales revenue. There are several components to revenue growth, including changes in sales volumes and in price/mix. As a result, the group monitors sales volume growth separately, and changes in price/mix are monitored through revenue growth. Devro sells to markets around the world from strategically located commercial operations and through an extensive network of distributors and agents.

Underlying operating cash flow***

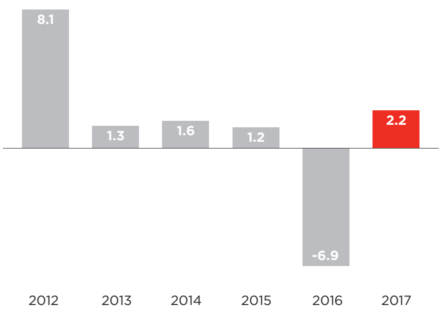
Cash generated from underlying operations before pension deficit funding (£'m)



Underlying operating cash flow is the amount of cash generated by the group through its trading activities and manufacturing operations before exceptional items, investment in capital expenditure and pension deficit funding. This measure is used to evaluate the performance of the business and to assist the management of working capital.

Constant currency revenue growth**

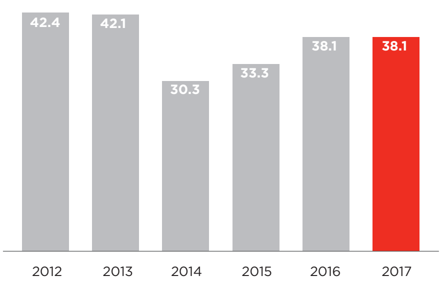
Value growth at constant currency (%)



The group has operations across the world in multiple currencies, and is exposed to translation risk on fluctuations in foreign exchange rates. As a result the group's reported revenue will be impacted by movements in actual exchange rates. The group monitors revenue growth on a constant currency basis** in order to eliminate the translation effect of foreign exchange rate movements, to enable a better understanding of the operational performance of the group.

Underlying operating profit*

Underlying operating profit* (£'m)



While the group aims to take a long-term perspective on shareholder value, it also monitors the financial performance of each of the group in the shorter term. The KPI used in this monitoring process is underlying operating profit. This measure is used to evaluate the performance of the group, including sales price, manufacturing efficiency and overhead and operating cost control.

Underlying operating profit excludes exceptional items and the definition, explanation and reconciliation to equivalent statutory measures is included in the Financial Review on pages 21 to 23.

Revenue growth

Growing in developed and emerging markets

Manufacturing efficiency

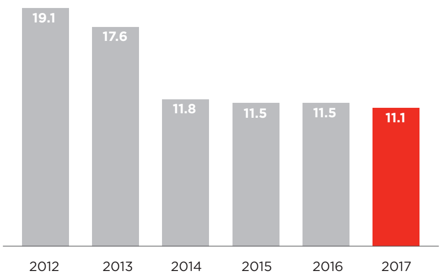
Optimising our use of existing assets and investing in new technology

Product differentiation

Differentiating ourselves through research and development

Return on capital employed

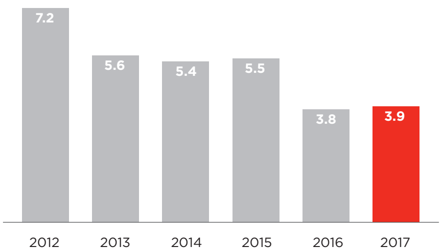
Underlying operating profit*/average capital employed (%)



Return on capital employed (ROCE) represents underlying operating profit as a percentage of average capital employed. Capital employed is defined as fixed assets plus current assets less current liabilities, excluding all balances related to interest-bearing assets and liabilities, any derivative financial instruments, any deferred tax balances, and any pension assets or liabilities. It is a key indicator of how Devro is making use of its available capital, and is a good reflection of the performance of the group in terms of both earnings and cash flow.

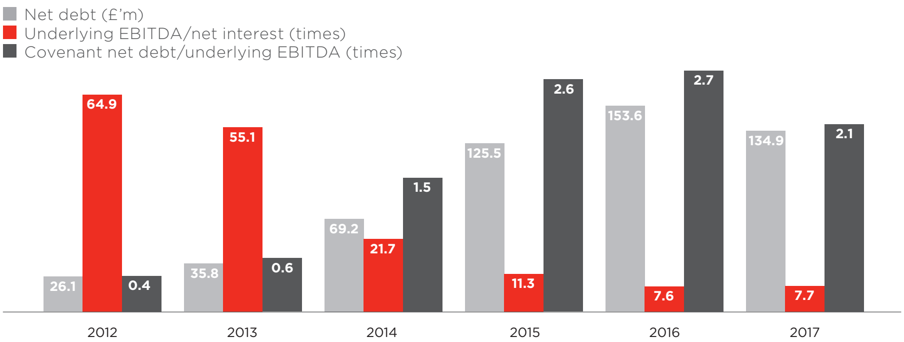
Health and safety

Total recordable injury rate (LWDI and recordable) per million hours worked



Health and safety matters are discussed further on pages 30 and 31. Safety performance is measured in various ways at a local level. At group level, it is measured by the total rate of recordable injuries which is calculated as the number of injuries per million hours worked, comprising both lost working day injuries and recordable injuries.

Debt



Covenant net debt/underlying EBITDA measures the liquidity of the group. Underlying EBITDA/net interest measures our ability to service our net debt.

Underlying EBITDA is defined, explained and reconciled to equivalent statutory measures in the Financial Review on pages 21 to 23.

Covenant net debt/underlying EBITDA and underlying EBITDA/net interest are the two key covenants for the short and long-term funding for the group, and are therefore monitored on an ongoing basis.

Covenant net debt includes derivative financial liabilities and is defined, explained and reconciled to equivalent statutory measures in the Financial Review on pages 21 to 23.

* Continuing operations.

** Constant currency growth rates are calculated by translating both the current year and prior year local currency amounts using the prior period average exchange rates.

*** Before pension deficit funding.

Corporate Social Responsibility Report

Being a responsible business

As a global manufacturing business, we inevitably have an impact on the wider world. We take our responsibilities to society and the environment seriously and make sure they are reflected in all our group policies and statements.

Health and safety

Everywhere, we are committed to guaranteeing the physical and psychological integrity of our employees as we recognise that our employees are our greatest advocates and assets.

In 2017, we created a global health and safety vision "One Devro where everyone is engaged to protect one another". We believe that all work-related injuries and work-related ill health cases can be prevented. We work relentlessly to strengthen our safety culture and leadership: this means caring for people, and includes a focus on learning from incidents within Devro and other companies.

2017 successes

- Three of our manufacturing sites had Lost Working Day Incident free years.
- In the last three years we have reduced our number of injuries by 23% and increased our near miss reporting by 115%.
- In 2015 we tasked all of our manufacturing sites to reduce the number of arm, hand and finger injuries. In 2017, we achieved a 37% reduction through a number of initiatives such as glove use, increased inspection and maintenance and employee awareness.
- Our factory in Sandy Run, US previously had the highest number of lacerations reported across the group. Through the design and commissioning of our new factory, along with improved safe working practices, the site reduced the number of lacerations reported by 88% from 34 in 2015 to four in 2017.
- Another key objective of the design of the new factory in Sandy Run was to reduce fork lift truck movements and incidents. In 2015 six incidents were reported, this reduced to zero in 2017.
- On 1 October 2017 we made a change to the driving policy which now prohibits the use of hands-free mobile phones whilst on company business.

Our aim is to create a Zero Accident community and ensure everyone goes home safely every day. To accomplish this, we focus on three areas of safety: firm foundation, "discipline discipline" and internalised safety behaviours. Safety underpins all our operational procedures with accountability for safety at every level of the organisation.

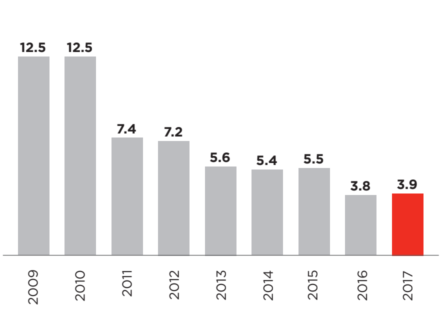
In 2017, we established core safety teams across the business in the following disciplines:

- chemical safety
- electrical safety
- maintenance safety
- mechanical safety
- process safety
- safety best practice

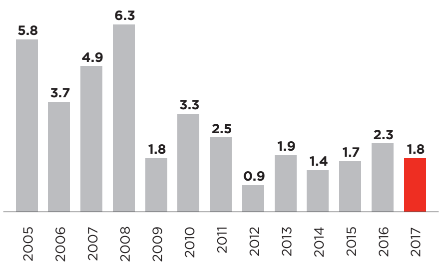
These teams comprise of employees in each of our manufacturing plants who are subject matter experts. In 2017 the teams worked to drive best practice and consistency across the group by identifying, creating and implementing key global health and safety standards.

In May 2017, our Health and Safety Managers across the group met in Jilemnice, Czech Republic to discuss best practices. During this time we created a global health and safety pyramid and roadmap which clearly define our vision, purpose, principles, three to five year aims and annual objectives. We review this annually and update the objectives for the year ahead. The strategy pyramid is communicated across the business and we update our employees on progress throughout the year.

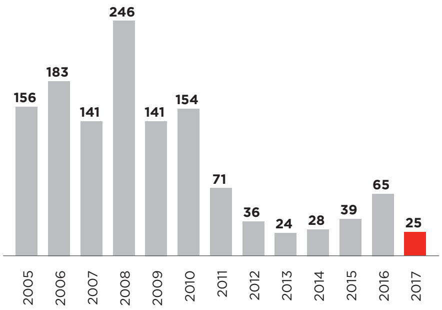
Total recordable injury rate (LWDI and recordable) per million hours worked



Lost working day injury rate per million hours worked



Number of lost working days per million hours worked



Health and safety is our first priority and therefore is one of the first agenda items in meetings of senior management including the Executive Management Team and Board. In addition, the Board reviews the Global Health and Safety Statement annually.

The Board's Health and Safety Committee reviews and monitors safety performance in each of the regions. All sites have an annual safety and training plan in place. These are submitted to the Committee at the start of the year for review.

The Committee met four times in 2017 to review progress and meet with the regional safety committees.

Overall, in 2017, following steady and significant improvements in our safety performance over the past decade, the number of injuries per million working hours – the total recordable case frequency – has increased slightly compared to 2016. However, we achieved a decrease in the level of injuries that led to time off work in 2017 and a significant decrease in the number of working days lost.

2017 safety statistics

We also measure our performance by looking at the number of recordable injuries, those that need more attention than basic first aid and require the attention of a health professional. In 2017, there were 17 recordable incidents reported, a slight decrease from 18 reported in 2016 which included one fatality.

We recorded eight lost working day incidents in 2017 compared to 11 in 2016. The number of working days lost due to injury was 110 which was a significant decrease from 347 in 2016.

Following every serious incident a full report is drafted with all remedial actions put in place as soon as is practical, with the circumstances shared at all sites to ensure the chance of recurrence elsewhere in the group is minimised.

Statistics

	2017	2016
Number of LWDIs	**8**	11
Number of days lost	**110**	347
Number of cases of occupational illness	**2**	3
Number of dangerous incidents	**10**	13
Number of recordable injuries	**17**	18
Number of first aid cases	**75**	83
Number of minor incidents	**79**	85
Number of near misses	**239**	259
Total hours worked	**4,397,546**	4,768,687

Corporate Social Responsibility Report continued

Environment

As a manufacturer of goods operating across a global platform we are committed to the prevention of pollution and reducing our environmental impact. The main environmental impacts of our processes continue to be the emission of carbon dioxide and the generation of solid waste which we send to landfill.

Within four of our major locations, and as a result of local regulatory requirements, we operate our own waste water treatment plants. In the fifth, Scotland, we partially treat our effluent to ensure we meet the outflow parameters before discharging directly into the public sewerage system, where our waste is combined with domestic effluent and treated by Scottish Water.

The environmental concerns differ region by region and thus, as a company with worldwide operations, our business similarly is subject to a variety of regulatory regimes and cultures. As a consequence, we deal with environmental issues through a network of field and regional specialists operating within the business units. There continues to be active global co-operation between our sites, and this ensures that the many country-specific solutions we have implemented across our manufacturing facilities have now been adopted across several business units where common solutions are practical.

While the individual business units measure the relevant environmental impacts aligned to the specific country or regional legislation, we also collectively monitor our group-level performance via three main measures:

- carbon dioxide (CO_2) emissions from the use of fuels and electricity in our factories;
- water consumption; and
- solid waste produced in our processes disposed of via landfill.

All three are important to us but our major focus has been on emissions from the burning of fuels and, as such, it is a main area of commitment. We monitor and maintain our equipment and processes to reduce the impact of fuel consumption and electricity-related CO_2 emissions. Our major capital projects last year in the US and China have incorporated the best available technologies at the design stage to minimise our emissions and energy usage per kilometre of product.

Global targets

In 2015 we met and surpassed the targets we had set in 2011, which was a 10% reduction per km product in carbon dioxide emissions, water use and solid waste to landfill. In effect we achieved double the target we had set.

Having evaluated the legislative requirements in the countries where we operate, and investigated the opportunities presented by technology, new targets were adopted in 2015 that by 2020 we would:

- reduce emissions (tonnes CO_2 per million metres production) by 30%;
- reduce energy usage (GJ per million metres production) by 15%;
- reduce water usage (cubic metres per million metres production) by 10%; and
- reduce landfill (tonnes of solids sent to landfill from process) to zero.

These targets demonstrate our aspirations in making a step-change in environmental performance into the next decade and underline our commitment and resolve to manage our environmental impacts and responsibilities.

Carbon dioxide

Throughout 2017, we also completed the commissioning of our two newest plants in the US and China. Across the group we achieved a 3.54% reduction in emissions levels from 2016 which was an encouraging performance, particularly considering the output constraints which are incumbent with new plant commissioning.

In the established plants in Australia, the Czech Republic and Scotland, we reduced our emissions against the 2015 baseline by just over 26%. This was driven by some positive plant performance and also a reduction in emissions tariff, particularly in Scotland.

Energy consumption

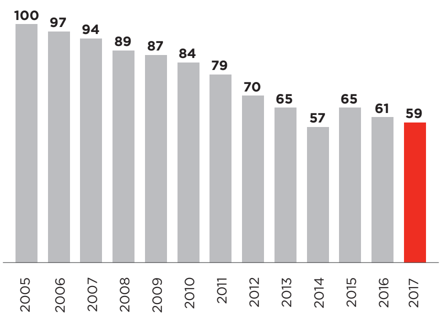
Energy consumption and emissions are closely related, thus our consumption data followed a similar trend to our emissions data with a strong performance in the established plants, delivering a combined improvement of 17.5% in the year (22% against 2015 baseline) which gave an overall global contribution of 1.5%.

This reduction (which is 7% versus baseline year) saw an overall reduction across the business of 24,200 GJ's, which in context would be enough energy to power 1,600 houses per annum. Once again this was against the backdrop of reduced production due to plant commissioning, so a very positive result.

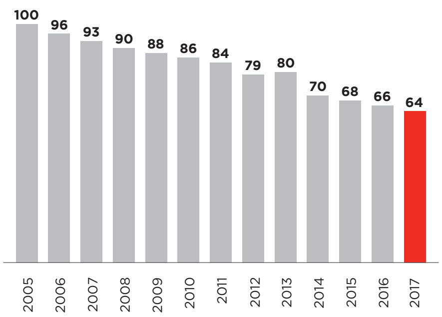
Water

Our water consumption is a mixture of well extracted and mains supply, this being driven both commercially and by the conditions in the regions. We measured water usage for the first time in China with the commissioning of the new Nantong plant and, of course, had water usage in both the existing and new manufacturing facilities in Sandy Run, US. Similar to our energy profile, we made significant reductions per million metre of casing produced in the established plants (circa 18%) which offset some of the usages that can be expected from commissioning of new processes. In total we continued the trend of reducing usage globally, this year by 7% against the 2015 baseline.

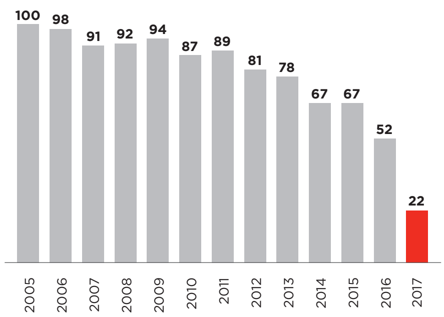
CO_2 emissions
(tonnes CO_2/million metres equivalent casing, shown as % of 2005 performance)



Water use
(m^3 water/million metres equivalent casing as percentage reduction against 2005)



Tonnes waste
(sent to landfill/million metres equivalent casing, shown as % of 2005 figures)



As the graph above shows we have reduced water usage in all but one of the last 12 years and our current rate of water required to produce our products has now been reduced by one-third since 2005.

Solid waste to landfill
In the various regions in which we operate, local legislation governs landfill use and is quite diverse. However, there is a common message to reduce the impact wherever and whenever possible. In most areas, landfill from inert sources (bricks, concrete, building waste) is under less restrictive control.

We remain focused on finding new avenues for our process waste and continue to evaluate new technologies with our business partners. We made some strides forward this year with a new contract in Australia which has seen about 900 tonnes converted from landfill to further processing, which is almost double the 2016 rate. Scotland have completed the trialling of a new waste stream from Q2 2017 which has resulted in the diversion of 2,345 tonnes of process waste from landfill. In total in 2017 we sent 4,265 tonnes less to landfill than in 2016 and 6,104 tonnes since 2015 in a period where our manufactured volumes increased.

GHG emissions data (tonnes of CO_2e)

	2017	2016	2015
Scope 1 emissions (tes)	**75,038**	76,696	79,726
Scope 2 emissions (tes)	**63,277**	68,435	66,235
Scope 1 + 2 emissions (tes)	**138,315**	145,131	145,961
Intensity measure (£m turnover)	**256.9**	241.1	230.2
Normalised emissions (tonnes of CO_2e per £m turnover)	**538**	602	634

This is wholly consistent with our strategic aim to reduce waste from our manufacturing processes in the short-term, and find new avenues for disposal in the longer-term, in order to achieve our stated goal of zero landfill from process waste by 2020.

Environmental management systems
Our main vehicle for compliance and improvement continues to be our environmental management systems. All our manufacturing sites employ environmental management systems based around the ISO 14001 model. Five of the plants have now been accredited with the ISO 14001 Standard with Nantong passing their stage 2 audit in 2017. The plants in the Czech Republic and Australia have been upgrading against the requirements of the new Standard (ISO 14001:2015) and were successfully audited in 2017 against the new variant. Work on this will be ongoing through 2018 at the Scottish plants with accreditation due by May 2018. In the two remaining plants, all systems have been based on the ISO model and this will ease accreditation when the plants seek evaluation against the Standard.

Greenhouse gas emissions
Our greenhouse gas emissions are mainly due to the use of energy in our factories and centre on heat and electricity for our manufacturing processes. In addition, we use HFCs and HCFCs in refrigeration equipment, own a number of vehicles and rent offices. The figures in the table opposite cover all of these activities except where we rent an office where the energy use is not measured separately. The impact of this on our numbers is not material.

We started collecting information in this format in 2012 as part of our responsibilities as a FTSE4Good company.

Methodology
We have reported on all of the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013, and taking account of the new GHG Protocol Scope 2 Guidance (2015).

Corporate Social Responsibility Report continued

People and human rights

The group places considerable value on the active involvement of its employees on matters affecting them locally and on matters that affect the group. This is achieved through visible and regular communications, both formal and informal, from their own management and that of visiting Executive Board members. It is now common practice to bring together multi-cultural teams to work on strategically important projects. This has many benefits, not least of which is creating a more unified and consistent business culture. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests. Particular focus this year has been the training of staff in collaborative working, including both project management and new product introduction methods, as well as embedding the restructuring of the organisation under the new Executive Management Team. We also launched the second phase of Devro Academy modules, our in-house knowledge-sharing initiative, to make technical knowledge share easily available in all regions.

Devro is an equal opportunities employer. Our employees and applicants are treated fairly and equally regardless of their age, colour, creed, disability, full or part-time status, gender, marital status, nationality or ethnic origin, race, religion or sexual orientation. Applications from disabled people are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the group continues and the appropriate training is arranged. It is the policy of the group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

We employed 2,178 people, on average, around the world during 2017 (2016: 2,265). As at 31 December 2017 the group employed 2,166 people (2016: 2,221).

We encourage the development of employees through training by investing both time and money. This provides benefits for both the group, through a more highly-skilled workforce, and the individual employee, who gains both qualifications and experience that they can use to further their careers whilst with the group and in any future roles elsewhere. As at 31 December 2017 we were training 12 apprentices around the world. During the course of the year, six apprenticeships were completed.

As at 31 December 2017, 18 people who had successfully completed apprenticeships with us were still employed by the group.

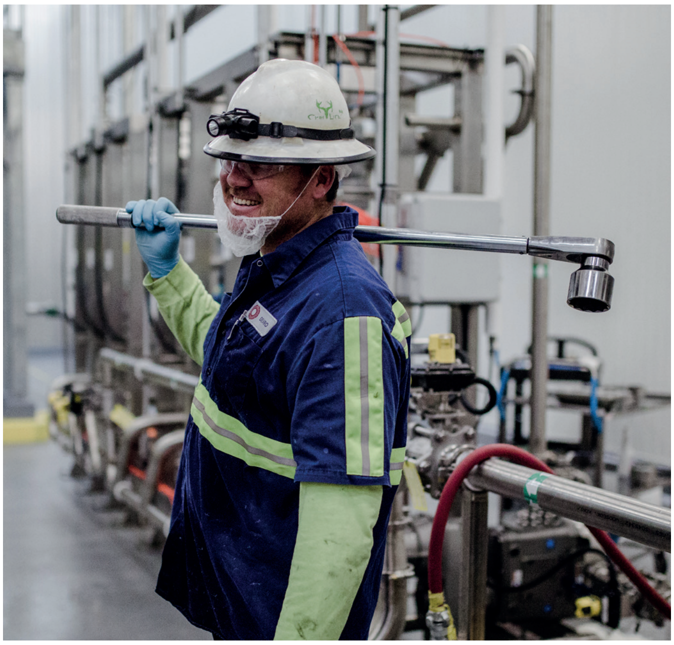
The group continues to support employees in their Professional Certificate in Management accreditation through the Open University Business School, with another intake planned for 2018. This is supplemented with support for professional education in other disciplines.

Devro does not have a specific human rights policy since we consider that we are served in this area by the developed culture of ethical business practice and strong labour regulation present in most of the countries in which the group operates. All the group's plants, wherever located, adhere to our own high-standard labour practices. We run our business responsibly and ensure that all our employees, customers, suppliers and other stakeholders are treated fairly and with respect.

In accordance with the Modern Slavery Act 2015, the group has published a statement on its website setting out the steps taken to prevent modern slavery and human trafficking in its business and supply chains.

The gender breakdown of the workforce as at the end of the year is shown in the table below. We have conducted a gender equal pay review in the UK during 2017, which concluded that there was no imbalance between like roles. This is being extended to a global review in 2018. There is, however, a significant gender pay gap, and we are committed to full disclosure on our website (www.devro.com).

The Strategic Report, comprising pages 2 to 35 inclusive, was approved by the Board of Directors of the company on 14 March 2018.



John Meredith
Company Secretary
14 March 2018

	As at 31 December 2017			As at 31 December 2016		
	Male	Female	Total	Male	Female	Total
Board of Directors	5 83%	1 17%	6	5 83%	1 17%	6
Executive Management Team (excluding Directors)	3 50%	3 50%	6	3 50%	3 50%	6
Other senior managers	44 76%	14 24%	58	57 78%	16 22%	73
Other employees	1,348 64%	748 36%	2,096	1,378 65%	758 35%	2,136
Total	**1,400** **65%**	**766** **35%**	**2,166**	1,443 65%	778 35%	2,221

Directors and Senior Management
Board of Directors

Gerard Hoetmer
Chairman

Gerard joined Devro in July 2013 as a Non-Executive Director and was appointed Chairman of the Board in 2014. Previously Chief Executive of Corbion, an international bio-based products company, Gerard started his career with Unilever in 1980. Gerard holds three other non-executive positions. He has been Chairman (unpaid) of the supervisory board of Feyenoord, the Rotterdam football club since March 2015. He is also Chairman of the supervisory board of Aon Groep Nederland B.V. since June 2015, and in May 2017 he was appointed as Chairman of Evolva Holding SA, a Swiss bio-tech company, having joined as a Non-Executive Director in May 2016.

Gerard is Chairman of the Nomination Committee.

Rutger Helbing
Chief Executive

Rutger joined Devro as Group Finance Director in April 2016 and became Chief Executive on 28 February 2018.

Prior to joining the company, he was Group Chief Financial Officer of Element Six, the global leader in manufacturing synthetic diamond supermaterials. Previously, Rutger held senior positions in finance and general management with ICI/Akzo Nobel and Unilever.

A Dutch national with a postgraduate degree in finance from the Free University, Amsterdam and a degree in economics from Erasmus University, Rutger has been part of management teams both in broad finance roles and as a general manager during periods of significant growth and change at international businesses for over 20 years.

Paul Withers
Non-Executive Director/ Senior Independent Director

Paul joined Devro in April 2011.

Paul was Group Managing Director of BPB plc, leading businesses in the UK, the rest of Europe and the emerging markets as well as bringing leadership to the group's strategy development. He is Senior Independent Director at Keller Group plc, and has served as Senior Independent Director at both Hyder Consulting plc and Premier Farnell plc.

He brings significant experience of international business to Devro's Board.

Paul is the Senior Independent Director and Chairman of the Executive Directors' Remuneration Committee.

Jane Lodge
Non-Executive Director

Jane joined Devro in March 2012.

Jane is a Non-Executive Director and Audit Chairman of Costain Group PLC, DCC plc and Sirius Minerals plc. A Chartered Accountant, Jane was a senior audit partner with Deloitte, where she spent over 25 years advising global manufacturing companies including businesses in the food and automotive sectors. Jane was a member of the CBI Manufacturing Council until 2011. Her extensive experience with manufacturing companies and her strategic work with Deloitte has given her a strong international business perspective.

Jane is Chairman of the Audit Committee.

Malcolm Swift
Non-Executive Director

Malcolm was appointed to the Board at the AGM on 26 April 2017.

Malcolm brings his expertise in the food industry to the Devro Board. He is President of the Global Industrial division of McCormick & Co, Inc. offering flavour solutions for nine of the top ten global food and beverage manufacturers, and President of McCormick International, comprising all retail and industrial operations outside the Americas for the parent company.

Malcolm began his career with Price Waterhouse, before moving to roles with Mars, Diageo, Time Warner and Hero AG, a Swiss-based nutrition company.

Malcolm is Chairman of the Health and Safety Committee.

Executive Management Team

Michael Lauesgaard
Group Business Development Director

Michael joined the company in February 2016 as Group Business Development Director, assuming overall responsibility for end-to-end product management including innovation, research, product development, marketing and business development.

Prior to joining Devro, Michael has spent his career building expertise through marketing, business development and sales functions, latterly in Chr. Hansen and Novozymes.

Bill McGowan
Commercial Director Americas

Bill joined Devro in January 2015 as Business Director with responsibility for all the group's activities in the Americas region. He brings with him over 40 years' experience in both B2B and B2C food-related industries holding senior level positions in sales, marketing and supply chain. His most recent role was President, Americas for Corbion, an international bio-based ingredient company. Prior to that he was Chief Executive Officer, Caravan Ingredients, a $450 million US food ingredient company. Bill has an MBA from DePaul University and a BA in Economics from North Park University, both Chicago, Illinois institutions.

Beverley Munro
Commercial Director Asia-Pacific

Beverley, originally a Chartered Accountant, has worked with Devro for over 20 years in various roles including finance, supply chain and general management. Until 2016, Beverley ran the Devro Pty business in Bathurst, Australia, overseeing major restructuring and expansion. Most recently, she has lead the development of customer relationships in the Asia-Pacific region, leading to significant sales growth.

Sarah Murphy
Group Human Resources Director

Sarah joined Devro in December 2014, bringing 30 years of experience across a broad range of technology-based industry sectors. A metallurgist and mechanical engineer holding operational roles for 12 years, she subsequently held responsibility for executive level, global HR management positions. Sarah brings with her a practical understanding of how to develop organisational effectiveness and strong leadership teams. She holds FCIPD, FIMechE, executive coaching and mediation practice qualifications.

Kevin Shoemaker
Group Supply Chain Director

Kevin joined Devro in September 2016 as we transitioned to a Global Supply Chain. He brings 36 years' of international supply chain and manufacturing experience to Devro and is responsible for sourcing, making and delivering products to our customers. Prior to this he was the Senior Vice President of Operations for Purac/Corbion, where he was responsible for ten manufacturing sites and global supply chain activities.

His 15 years in the lactic acid and derivatives industry with Corbion was preceded by 20 years in corn wet milling, the majority of which were spent with Cargill. Kevin is a graduate from Iowa State University with a BS degree in Chemical Engineering.

Laurence Tanty
Commercial Director EMEA

Laurence joined Devro in October 2016. She has held senior management positions with several Industrial and FMCG companies. As the Managing Director of LINPAC-Allibert, she led the transformation of a global industrial packaging business into a professional marketing world-class performer. Laurence brings marketing and sales experience from fast-moving consumer goods companies Sara Lee and Mars Snack Foods Europe. Laurence brings a multi-cultural perspective to leadership, which she developed over years of living and working across Europe and the Americas. She holds an MBA from The Wharton School.

Corporate Governance Report
Chairman's introduction

The leadership and effectiveness of the Board are primarily the Chairman's responsibility.

We recognise the importance of, and are committed to, high standards of corporate governance, aligned with the needs of the company and the interests of all our stakeholders.

My fellow directors and I fully appreciate the importance of sound governance in the efficient running of the company, and in particular to the effectiveness and independence of the Board and the management of risks faced by the group. The following report sets out how we do this. It covers how the Board and its committees operated in 2017.

Gerard Hoetmer
Chairman

From 1 January 2017 until 31 December 2017, the company applied the 2016 edition of the UK Corporate Governance Code (the "Code").

1. Board composition

Mr G J Hoetmer, Chairman, Mr P W B Page, Chief Executive, Mr R A Helbing, Group Finance Director, Ms J A Lodge, Non-Executive Director and Mr P N Withers, Non-Executive Director, served as directors throughout 2017. Mr P A J Neep, Non-Executive Director, stepped down from the Board on 26 April 2017. Mr M S Swift was elected as a Non-Executive Director on 26 April 2017. Mr P W B Page stepped down from the Board on 28 February 2018.

The Non–Executive Directors are considered to be "independent" directors. This opinion is based primarily on careful consideration of their character and judgement and their contribution to the work of the Board and its committees. None holds any external position which would impinge upon his or her independence or objectivity, nor are there any relationships or circumstances such as are envisaged by Provision B.1.1 of the Code.

Mr P N Withers took over as Senior Independent Director from Mr P A J Neep when he retired from the Board on 26 April 2017.

The Board views the Senior Independent Director's role generally as a passive one, but acknowledges that there can be occasions where there may be a need for shareholders to convey concerns to the Board other than through the Chairman or the Chief Executive. The company's major shareholders are reminded that the Senior Independent Director is willing to meet with them if they wish.

All current directors will stand for re–election at the 2018 AGM. As in previous years, brief biographies of Board members, giving details of their experience and other main commitments, can be found on page 36, allowing shareholders to make an informed decision on the question of re–election. All the directors have had their performance reviewed recently, as described on page 40, and the Chairman is satisfied that each continues to be effective and to demonstrate commitment to the role.

There is a clear division of authority and responsibility through the separation of the roles of the Chairman and Chief Executive. This demarcation is set out in writing and was reviewed by the Board in 2015.

Directors of the company and its subsidiaries have the benefit of a directors' and officers' liability insurance policy.

The Board has adopted a formal schedule of matters specifically reserved to it including:

- the setting of corporate strategy;
- approval of the annual budget;
- major decisions on capital expenditure; and
- other high-value contracts.

In 2017, the Board broadly divided its time as follows:

The day-to-day management of the business is the responsibility of executive management.

Balance

The Chairman and the Board understand the need to ensure that the balance of the Board is appropriate for the requirements of the business and the benefits of diversity in its broadest sense are clearly understood. However, for a relatively small Board, it remains difficult to set targets for members of any particular background, and this applies to the issue of women on the Board. The Board's policy is therefore actively to encourage women to apply to join the Board whenever a vacancy exists, and the report from the Nomination Committee on pages 41 and 42 sets out how we do this. Ultimately, however, any appointments must be made on merit, taking account of the specific needs of the business at the relevant time, for the benefit of the company and its stakeholders.

Information flow

On appointment to the Board, directors are provided with an induction programme to familiarise themselves with the group's businesses and the risks and strategic challenges facing the group, as well as the economic, competition, legal and regulatory environments in which the group operates. Site visits are encouraged.

The directors are supplied with detailed papers covering the group's operating functions in advance of all Board meetings and a secure web-based portal is used to disseminate additional relevant information on a regular basis.

Members of the Executive Management Team and other key employees attend and make presentations as appropriate at meetings of the Board. A programme of strategic and other reviews, together with training provided during the year, ensures that the directors continually update their skills, knowledge and familiarity with the group's businesses, as well as their awareness of industry, risk, legal, regulatory, financial and other developments to enable them to fulfil their role on the Board and committees of the Board effectively.

The directors are authorised to obtain independent professional advice at the company's expense in performance of their duties as directors, although none has done so in the period under review. In addition, all directors have access to the services of the Company Secretary, who is also responsible for ensuring that Board procedures are observed and for advising the Board on corporate governance matters.

Corporate Governance Report continued

1. Board composition continued

Board and committee proceedings

The Board acknowledges that it is collectively responsible for the success of the company by providing entrepreneurial leadership, setting the company's strategic aims, ensuring that the necessary financial and human resources are in place and reviewing management performance.

A number of committees carry out detailed independent oversight on behalf of the Board in relation to the audit of the company, health and safety issues, the remuneration of directors, appointments to the Board and the risks facing the group. In 2016, the Board created a Disclosure Committee, to ensure that the company complies with the EU Market Abuse Regulations.

In order to discharge these responsibilities, the Board and its committees meet on a regular basis throughout the year. In 2017, the Board held eight meetings. Full details of the Board and committee attendance are shown in the table below:

	G J Hoetmer	P W B Page	R A Helbing	J A Lodge	P A J Neep[1]	M S Swift[2]	P N Withers
Board – 8 meetings	8	8	8	8	2	7	7
Audit Committee – 4 meetings	–	–	–	4	2	3	3
Executive Directors' Remuneration Committee – 4 meetings	4	–	–	4	1	3	3
Non-Executive Directors' Remuneration Committee – 1 meeting	–	1	1	–	–	–	–
Nomination Committee – 4 meetings	4	–	–	4	–	4	3
Health and Safety Committee – 4 meetings	–	4	–	–	–	2	4
Risk Committee – 4 meetings	–	4	4	–	–	–	–

1. Mr P A J Neep retired from the Board on 26 April 2017.
2. Mr M S Swift joined the Board on 26 April 2017.

Board papers are generally circulated one week before the meetings. Comprehensive monthly management accounts in an agreed format are also sent to directors in a timely manner.

The Audit, Remuneration, Nomination, Health and Safety and Risk Committees, all appropriately resourced, met a total of 21 times during the year.

The Chairman and the other Non-Executive Directors met informally during the year, providing an opportunity to review the business without the Executive Directors being present.

Board evaluation

In December 2017, the Board conducted an evaluation process based on a detailed questionnaire which was distributed to the directors for their consideration. Results were collated confidentially by the Company Secretary, and reviewed by the Chairman. Individual and collective discussions on the Board's performance then followed.

The questionnaire examines the balance of the skills of the directors, the operation of the Board in practice, including governance issues, and the content of Board meetings. Feedback from the process is used to identify opportunities to improve the performance of the Board and the directors.

This process also addresses the effectiveness of the Board committees, covering such matters as meeting arrangements, and information provision. The results of the 2017 process were discussed by the Board and, where areas of improvement were identified, actions were agreed.

A satisfactory review of the performance of the Chairman was completed by the Non-Executive Directors, led by the Senior Independent Director.

2. Relationship with shareholders

The company communicates with institutional investors primarily though analysts' briefings and meetings with major shareholders, as well as timely Stock Exchange announcements. The Board, and in particular the Non-Executive Directors, are kept informed of investors' views in the main through distribution of analysts' and brokers' briefings. The Chairman is willing to meet with shareholders to discuss matters such as strategy and governance and, as mentioned above, the Senior Independent Director is available in the event of shareholder concerns which cannot be addressed through the usual channels.

Broader shareholder communication takes place through the company's website, which contains significant company announcements and other relevant information, and also through the Annual Report and AGM. All directors attend the AGM, and shareholders have the opportunity to hear presentations on the group's financial and business performance, as well as to question any member of the Board on any relevant topic.

Votes at the AGM are conducted by way of a poll to ensure that the votes of shareholders who are unable to attend may be taken into account. The results are announced to the Stock Exchange.

Each substantial issue is proposed as an individual resolution of the AGM. Notice of the meeting is sent to shareholders at least 20 working days before the meeting.

3. Directors' remuneration

Details of the level of remuneration received by the directors in 2017 are set out in the Directors' Remuneration Report on pages 47 to 61. The Board believes that the current levels of remuneration are at the right level to attract and retain the directors needed to run the company successfully, without being excessive. Base salaries for Executive Directors are reviewed against those paid for similar positions in comparable companies. Professional advice from independent advisers is sought each year in this regard by the Executive Directors' Remuneration Committee.

An explanation of the company's incentive schemes, including how these are linked to the company's strategy, is set out in the Directors' Remuneration Report.

The Executive Directors' service contracts provide for notice periods of one year. Due to the technical nature of the business, these contracts contain restrictive covenants which will be rigorously applied and, taking this into account, the Board and the Executive Directors' Remuneration Committee believe that the notice periods are reasonable and in the best interests of the company, having regard to prevailing market conditions and current practice among public companies.

Non-Executive Directors' remuneration is reviewed annually by the Non-Executive Directors' Remuneration Committee, taking independent external advice as appropriate.

Mr P A J Neep chaired the Executive Directors' Remuneration Committee until he stepped down from the Board on 26 April 2017, when Mr P N Withers took over as chair, and Mr M S Swift joined the Committee. The other members of the Committee throughout 2017 were Mr G J Hoetmer and Ms J A Lodge. The Committee met four times in 2017.

Throughout 2017, the Non-Executive Directors' Remuneration Committee was chaired by Mr P W B Page, with Mr R A Helbing as the other member. This Committee met once in 2017.

The Remuneration Report contains a detailed statement of the remuneration of each director for 2017, including details of the company's pension policy for Executive Directors.

The written remit of the Executive Directors' Remuneration Committee is available on the company's website.

4. Report from the Nomination Committee

The members of the Committee during the year were Mr G J Hoetmer (Committee Chairman), Ms J A Lodge and Mr P N Withers, with Mr M S Swift replacing Mr P A J Neep on 26 April 2017. The Company Secretary acts as Secretary to the Committee.

The Committee has written terms of reference which can be found on the company's website. These include the regular review of the structure, size and composition of the Board. In 2017, the Committee met formally on four occasions.

In December 2017, the Committee nominated Mr R A Helbing for Mr P W B Page's successor as Chief Executive. This was the culmination of an extensive process based on criteria agreed by the Committee using external recruitment consultants.

Corporate Governance Report continued

4. Report from the Nomination Committee continued

The question of succession planning for senior management below Board level is primarily the responsibility of the Chief Executive.

The Committee will continue to facilitate the candidature of women for Board appointments and recruitment consultants will be instructed to ensure, whenever possible, that a significant proportion of any longlist put forward should be women. Shortlists will, where possible, be drawn up in a way which forces diversity amongst the final candidates.

5. Report from the Health and Safety Committee

This Committee was formed in 2009, reflecting the Board's commitment to health and safety matters.

The members of the Committee during the year were Mr P N Withers, who chaired the Committee until Mr M S Swift joined the Committee and took the chair on 26 April 2017, Mr P W B Page, Ms F L Curran, the company's Global Health and Safety Manager, and Mr Kevin Shoemaker, Group Supply Chain Director, who joined as a Committee member on 25 April 2017.

The Committee has written terms of reference which can be found on the company's website.

The Committee convened four times in 2017 and on each of these occasions met (either by video, telephone or in person) with representatives of the safety committees of the group's main manufacturing facilities.

The safety performance of the group is reviewed at each meeting and the Committee receives and reviews reports on all serious safety incidents. The Committee also reviewed and endorsed the safety plans for each of the main sites at the beginning of the year.

6. Report from the Risk Committee

An ongoing process is in place to identify, evaluate and manage the significant risks the group faces, which accords with the FRC's 2016 guidance and the Code. A Risk Committee was formed in 2010. In 2017, it was chaired by the Company Secretary and comprised the Executive Directors and other members of the Executive Management Team, as listed on pages 36 and 37, and Mr G Stephenson, our External & Regulatory Affairs Director.

This Committee meets four times a year and its remit includes the following:

- **Assess and monitor**
  To assess and monitor risk across the group and to recommend mitigating strategies in respect of the key risks;
- **Risk Register review**
  To review and update the Risk Register four times a year;
- **Process review**
  To review the group process for evaluating risk to ensure it remains appropriate and relevant; and
- **"Bottom up" review**
  To co-ordinate an annual "bottom up" review of risk across the group, culminating in formal reports to the Audit Committee and the Board in the fourth quarter of each year.

The Committee is charged with reviewing risk throughout the group and reporting thereon to the Board. As part of the process, risk assessment procedures are applied across the group. Each operating division prepares a risk assessment for its business. This involves preparing a report identifying the relevant risks to both current operations and future strategy, the process for managing and mitigating these risks and the means by which management might be assured that the processes are effective. A similar exercise is also conducted at group level, taking account of any significant risks identified by each of the individual operating companies. The risk assessment reports are collated and considered by the Risk Committee, and then the Audit Committee, before being reviewed and finalised by the Board. The Board and the Risk Committee also agree a number of key risks for in-depth review by the Committee in the course of the following year. At the end of the annual cycle in 2017, the Board considered the work done by the Committee and the processes used to identify and manage risk, and concluded that the approach taken remained proportionate and appropriate. The system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives. The principal risks identified as part of the group risk assessment process, and how they are managed or mitigated, are summarised on pages 24 to 27.

7. Financial reporting

The Board acknowledges its responsibility to present a fair, balanced and understandable assessment of the company's position and prospects. The Annual Report contains a Strategic Report on pages 2 to 35, including a Chairman's Statement, Business Review and Financial Review. The Board believes that this additional narrative sets the accounts in context and promotes a better understanding of the current status of the business and its outlook.

To ensure consistency of reporting, the group has an established consolidation process as well as formal financial and operational procedures manuals. Management monitors the publication of new reporting standards and works closely with the statutory auditors in evaluating the impact of these standards.

8. Internal control

The Board of Directors, being ultimately responsible for the group's system of internal control, has established an internal financial control structure which is designed to provide the Board with reasonable, but not absolute, assurance that it can rely on the accuracy and reliability of the financial records.

The structure, which is based on an assessment of material financial risks, can be described under the following headings:

Financial reporting

There is a budgeting system in place which includes an annual budget approved by the Board. Monthly actual results are reported against budget. Revised forecasts for the year are prepared regularly. The company reports formally to shareholders twice a year, with two additional trading updates.

Operating controls

Financial and operational policies and procedures are set out in formal procedures manuals. Business directors and senior financial staff are responsible for ensuring that all relevant staff are familiar with their content and application.

Treasury

Formal written treasury procedures are in operation, covering banking arrangements, hedging instruments, investment of cash balances and borrowing procedures. Individual staff responsibilities and levels of delegated authority in relation to treasury matters are defined.

Internal audit

The company has an internal audit function, which has a reporting line to the Chairman of the Audit Committee and also direct access to the Chairman of the Board. The Audit Committee receives reports from this function at each Committee meeting.

Capital investment appraisal

The company has clearly defined guidelines for the approval and review of capital expenditure projects, which include annual budgets and designated levels of authority.

Integrity of personnel

The company has a Policy on Business Conduct which sets out specific requirements for all staff to meet the company's standards of conduct and integrity in their business dealings.

The Board has reviewed the effectiveness of the system of internal control and considers that the group has an established system of internal control which the directors believe to be appropriate to the business.

9. Diversity in practice

Devro recognises the value of diversity in its broadest sense across its management teams and employee base in general, and we see progress at various levels. Our Executive Management Team now has four men and three women, with five nationalities represented. In our business teams around the globe, we now see an encouraging mix. Our recently formed Chinese team, for example, has an equal number of women and men, with an age range of 33 to 54.

Progress down this path follows from our commitment to treating people in a fair and inclusive manner. This is embedded in our "People" and "Business Conduct" statements, and by following our credo we are evolving into a company whose diversity at all levels is becoming increasingly apparent.

There is more work to do here, but we will continue to report openly on this, and while we can demonstrate progress, we do not believe that the adoption of specific targets is appropriate.

Corporate Governance Report continued

10. Going concern

The group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 2 to 35, along with the financial position of the group, its debt levels and borrowing facilities.

The directors have, at the time of approving the financial statements, a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the 12 months from the date of approval of this statement. For this reason, they continue to adopt the going concern basis of accounting in preparing the financial statements.

Key factors to support the going concern basis of accounting include the following:

- As at 31 December 2017, the group was operating within the £110m revolving credit facility negotiated in December 2014, and due to expire in 2019, and the US$100m US private placement, completed in June 2014 and due to expire between 2021 and 2026, and related key covenants.
- Forecasts of profits and cash flow have been prepared which indicate that the group is expected to operate within its key covenants and funding facilities for the 12 months from the date of approval of the financial statements.

11. Share capital

The Takeover Directive disclosures regarding the company's share capital structure are included in the share capital section of the Directors' Report on page 63 of this report.

12. Statement on compliance

This statement, together with the Directors' Remuneration Report set out on pages 47 to 61, and the Audit Committee Report on pages 45 to 46, describes how, in respect of the year ended 31 December 2017, the company has applied the provisions and principles of corporate governance as set out in the 2016 edition of the Code. The company has complied with all the Code's provisions throughout the period in question, with one exception. The company's remuneration committee structure does not fully comply with Provision D.2.2, as the remuneration of the Chairman is set by the Non-Executive Directors' Remuneration Committee comprising the Executive Directors instead of by a committee of Non-Executive Directors, as proposed by the Code. The company's two-committee approach, which is more fully described and explained in the Remuneration Report, is designed to ensure that no director is involved in setting his or her own remuneration, thus avoiding any potential conflict of interest, while ensuring that the experience of the Chairman is available to the Executive Directors' Remuneration Committee. The Board believes that this arrangement is an appropriate and effective use of the available resources and is fully aligned with the spirit of the Code.

Gerard Hoetmer
Chairman
14 March 2018

Audit Committee Report
Committee Chairman's introduction

As Chairman of the Audit Committee, I am pleased to present the report in respect of 2017. This report summarises the work of the Committee in the course of the year.

Jane Lodge
Chairman, Audit Committee

The Audit Committee has written terms of reference, which are available on the company's website, and include the responsibilities set out in Provision C.3.2 of the Code.

Ms J A Lodge chaired the Committee throughout the period under review. The other members of the Committee in 2017 were Mr P N Withers, Mr P A J Neep, who stepped down on 26 April 2017, and Mr M S Swift who joined on that date. The Company Secretary acts as Secretary to the Committee.

The Board views Ms J A Lodge as the Committee member with both recent and relevant financial expertise as stipulated in Provision C.3.1 of the Code. In the course of the year there were four meetings. These were attended as required by the Group Finance Director and members of senior management as invitees. Representatives of the statutory auditors also attend as appropriate.

The Committee and the statutory auditors operate procedures to ensure that the auditors remain objective and independent. These procedures include the pre-approval of the scope of the audit by the Committee.

Statutory auditors
KPMG LLP were first appointed as the company's statutory auditors at the 2015 Annual General Meeting, and their re-appointment is subject to approval at each subsequent Annual General Meeting.

Statutory audit
KPMG conducted no non-audit work for the company in 2017, generating no fees (2016: £20,000). Details of audit and non-audit services are shown in Note 8 to the financial statements. The ratio of non-audit fees to audit fees is 0:1 (2016: 0.06:1). The Committee noted the lack of non-audit work when reviewing the statutory auditors' independence.

The Committee is charged with reviewing the effectiveness of the auditors. The following processes are used for this purpose:

- The Committee received a detailed audit plan from the statutory auditors at the beginning of the annual audit process which included an outline of the proposed scope of the audit, and identification of key audit risks and areas of focus. This was discussed and agreed with the Committee.
- The Committee challenged the work done by the statutory auditors to test management's assumptions and estimates in relation to the significant issues.
- A survey was conducted of all businesses within the group to assess the effectiveness of the group and local statutory audit teams.
- At the completion of the statutory audit the Committee received feedback from the Group Finance Director on how effectively issues were addressed at the statutory audit clearance meetings.

Based on the above processes and feedback, and its own ongoing assessment of the statutory auditors' performance (for example, through consideration of the statutory auditors' reports and interactions with the group audit partner), the Committee was satisfied with the independence, objectivity and overall effectiveness of the statutory auditors with regard to the 2017 audit process.

Significant issues
The significant issues considered by the Committee during 2017, and how these were addressed, are as follows:

Exceptional items
Devro is undergoing a major transformation including the construction and start-up of two new plants in China and the US which completed in 2016, a restructuring of operations in Scotland and Australia initiated in 2014 and the Devro 100 programme, which will upgrade the group's sales capabilities, significantly reduce unit cost of manufacture and launch the next generation of differentiated products. The Devro 100 programme resulted in exceptional costs in 2017, and additional exceptional costs are expected in 2018.

Audit Committee Report continued

The costs associated with this programme have been significant and judgement has been required to determine whether these costs should be disclosed as exceptional items, taking account of their nature and size, and, in particular, whether they are incremental to normal operations. In some cases provisions have been set up in previous periods for the estimated liability for these costs.

The Committee has addressed these matters through reviewing and discussing reports from management outlining the nature and amount of the relevant costs, the amounts settled during the year for provisions held at the end of 2016, the estimates involved and the proposed accounting treatments, in particular reviewing the disclosure of amounts as exceptional items, and the associated descriptions included in the financial statements. The statutory auditors have also carefully examined this area and have reported their assessment to the Committee.

Carrying value of inventory

The perishable nature of the group's inventory means it is appropriate to hold a provision for obsolescence based on age from the date of manufacture. The group makes additional specific provisions in the event that any quality issues or damaged inventory are identified. Also in the case where products are being developed for particular applications, the group makes additional specific provisions in the event that such products do not meet the required customer specifications. The Committee has assessed the judgements of management relating to the carrying value of inventory, both with respect to the continued appropriateness of the group's accounting policy in providing for inventory obsolescence, and for any additional specific provisions. The statutory auditors have also focused on this area and reported their findings to the Committee.

Other matters

In addition to the significant issues referred to above, the following key areas of judgement and estimation were also considered by the Committee during 2017:

Pension obligations

The cost of defined benefit pension schemes is determined using actuarial valuations, which are based on assumptions including discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. The Committee reviewed and discussed the appropriateness of the assumptions, using input provided by external actuarial advisers and the associated reports presented by management. In particular the Committee focused on changes in assumptions compared with the prior year to understand the basis for these changes. The statutory auditors have also reviewed these assumptions, including benchmarking against those being used for comparable third party pension schemes, and reported their assessment to the Committee.

Tax

The group operates around the world and earns profits that are subject to tax at differing rates in different jurisdictions. The varying nature and complexity of the tax laws in these jurisdictions requires the group to review its tax positions and make appropriate adjustments. The Committee has reviewed reports from management setting out the key changes affecting the tax position of the group for the year, and has discussed these reports with management to understand the changes and review the input from external tax advisers on these matters. In particular the Committee focused on key changes in tax laws during the year, including the tax reforms that were enacted in the US on 22 December 2017. In addition the Committee has reviewed the key assumptions related to the uncertain tax provisions, and discussed the basis for these provisions with management. The statutory auditors have also reviewed the tax calculations, related assumptions and basis for the uncertain tax provisions and reported their assessment to the Committee.

Alternative Performance Measures (APMs)

In addition to the statutory financial measures, the group also presents certain APMs (which are not defined by IFRS) in the Annual Report, to help assess the operating performance and financial position of the group. The Committee has reviewed the APMs presented, the degree of prominence given to such measures alongside the equivalent statutory measures and also the associated disclosure in the Financial Review explaining the reasons for presenting such APMs and the reconciliations to equivalent statutory measures. The statutory auditors have also reviewed the use of APMs in the Annual Report, and associated disclosures, and reported their assessment to the Committee.

Whistleblowing procedure

The company's whistleblowing procedures are also reviewed regularly. Following a decision by the Committee in 2013, a confidential, multi-language system, entitled "SpeakUp", was set up and communicated to everyone in the group. The Committee believe that these arrangements facilitate a proportionate and independent investigation of matters raised.

Fair, balanced and understandable

The Committee acknowledges that, taken as a whole, the Annual Report and Accounts should be fair, balanced and understandable. The Committee advises the Board on whether it believes that the Annual Report and Accounts meet this requirement. In order for the Committee to make this assessment, it considers reports from management received during the year, monitoring financial performance and at year end in support of the financial statements and also reports from the statutory auditors on the findings of their annual audit. Formal review processes are in place to ensure that the Annual Report and Accounts are factually accurate.

The Committee also satisfies itself that the key messages in the narrative are consistent with the financial reporting, and that the Annual Report and Accounts as a whole are clear and understandable both in terms of the language used, and the layout and framework.

Following its review, the Committee was satisfied that the 2017 Annual Report and Accounts present a fair, balanced and understandable overview, including the necessary information for shareholders to assess the group's position, performance, business model and strategy.

The responsibility statement of the directors in respect of the Annual Report and Accounts is on pages 64 to 65.

Jane Lodge
Chairman, Audit Committee
14 March 2018

Directors' Remuneration Report
Committee Chairman's Annual Statement

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for 2017. This is the end of my first year as Remuneration Committee Chairman at Devro and I am grateful for the support of my fellow Committee members during the year as well as the work my predecessor Paul Neep undertook as the former Committee Chairman.

At our 2017 AGM, shareholders overwhelmingly approved our new remuneration policy with 99.83% of shareholders voting in support. This policy is effective from 1 January 2017 and can be found on pages 49 to 53.

The Annual Report on Remuneration on pages 54 to 61 explains how our new policy was implemented in 2017 including full details of the remuneration paid and how it will be implemented in 2018. The Annual Report on Remuneration together with this Annual Statement will be subject to an advisory vote at the AGM on 25 April 2018.

Paul Withers
Chairman, Executive Directors' Remuneration Committee

Overview of policy and link to our business strategy

The Committee sets the strategy, structure and levels of remuneration for the Executive Directors and reviews the remuneration of other members of senior management in the group. It does so in the context of the group's overall strategy and performance with the aim of aligning the financial interests of the Executive Directors and other senior managers with the achievement of the group's objectives, and with shareholder returns.

2017 has been a busy year for the Remuneration Committee. It has overseen the implementation of a new remuneration policy with some changes to the metrics and weighting for variable pay awards, as detailed below, to ensure continual and close alignment of our remuneration policy with our business strategy. It has also dealt with the remuneration package on cessation of our former Chief Executive Peter Page and the appointment of our former Group Finance Director, Rutger Helbing, to Chief Executive.

In the course of 2017, we appointed Korn Ferry as independent advisers to the Committee, after reviewing our requirements and carrying out a tender process.

It has, in addition, been a busy year in terms of Corporate Governance developments. The Committee has followed closely the proposals to enhance the UK's Corporate Governance and remuneration reporting regime and fully supports the objectives of the proposals. The Committee awaits the final detail of the changes so that Devro is able to comply when required to do so.

Pay and performance in 2017

Base salary

The Committee increased the Group Finance Director's salary by 1.5%, in line with other pay rises elsewhere in the group. The Chief Executive's salary was unchanged.

Annual bonus

The Committee believes that annual bonus targets should be genuinely challenging, clearly linked to the company's strategy and designed to align the interests of shareholders and executives.

The annual bonus for 2017 was based on (i) underlying operating profit (40%), calculated at budgeted exchange rates, (ii) reduction in net debt (40%) excluding dividends and exchange rate movements, and (iii) personal objectives (20%).

The underlying operating profit target threshold was missed, due in part to slightly reduced average selling prices and, as a result, no bonus will be paid for this element.

Tight control on expenditure led to a reduction in net debt of £18.7m and an improvement in the covenant net debt/underlying EBITDA ratio from 2.7, to 2.1. This will result in the maximum payout of 40% of salary to both Executive Directors for this element.

The personal objectives were subject to the underlying operating profit element of the bonus reaching threshold and so no bonus is payable for this element despite good progress being made against these measures.

The total payment of 40% of salary out of a possible 100% is considered by the Committee to be appropriate, in view of the performance during the year.

Full details of the annual bonus metrics, and performance against them are shown on page 57.

Long-term incentive plan

Conditional awards were granted to senior executives under the Devro plc Performance Share Plan in 2015. The performance targets for these awards were partly based

Directors' Remuneration Report continued

on underlying EPS growth and partly on relative TSR measured across a three-year performance period ending on 31 December 2017. The Committee reviewed the performance of the group against these conditions in February 2018, and concluded that neither threshold had been met. As a result, the awards have lapsed. Full details of the performance metrics and performance against them is shown on page 58.

Board changes and implementation of policy for 2018

Peter Page's leaving arrangements

As previously announced, Peter Page, former Chief Executive, stepped down from the Board on 28 February 2018.

His base salary, benefits and pension will continue to be paid until his contractual notice period expires in December 2018, subject to mitigation. No annual bonus will be paid for the period of service in 2018 and unvested performance share plan awards will be tested and vest (subject to performance) at the usual time subject to a pro-rated reduction to reflect actual service. His outstanding Deferred Share Bonus Plan award will be eligible for vesting when his notice period ends in December 2018.

Rutger Helbing's new package

When Rutger Helbing, formerly our Group Finance Director, became Chief Executive on 28 February 2018, his salary increased to £440,000. His annual bonus opportunity will remain at 100% of base salary, and his 2018 performance share award will be over shares with a value equivalent to 110% of his new base salary.

Variable pay

The 2018 variable pay awards will be based on similar performance metrics to the 2017 awards. The annual bonus will continue to be determined by underlying operating profit, cash targets, and personal objectives, but the weightings will be changed as follows: the cash weighting has been reduced from 40% in 2017 to 20%, as the level of debt has eased and more focus returns to underlying operating profit, with a weighting of 60% (2017: 40%). The weighting for personal objectives will be unchanged at 20%.

The Performance Share Plan awards will be determined by the same mix of ROCE, TSR and underlying EPS as was used in 2017, to continue the focus on delivering returns from the capital projects in China, the US and elsewhere in the group as well as retaining alignment with shareholder value. The targets to be set for the 2018 awards are set out on pages 54 and 55.

Group Finance Director

The Board is currently seeking to identify a new Group Finance Director. The Committee will determine the remuneration package for this role in accordance with our shareholder-approved remuneration policy and taking into account the candidate's skills and experience for the role.

Conclusion

We continue to monitor our approach to remuneration to ensure that it remains relevant and consistent both with our strategy and performance, and is aligned to shareholder value. I am available to you to receive your comments or discuss our approach to remuneration and answer any queries you may have. I look forward to your support at the AGM.

Paul Withers
Chairman, Executive Directors' Remuneration Committee
14 March 2018

Directors' Remuneration Report
Policy report

This part of the Directors' Remuneration Report sets out the remuneration policy for the company directors and has been prepared in accordance with The Large and Medium-sized Companies and groups (Accounts and Reports) (Amendment) Regulations 2013 (the "Regulations").

The Remuneration Policy
The company's remuneration policy must enable it to attract and retain leaders with the skills, experience and drive to execute the company's business strategy within a framework which is aligned to the interests of the company's shareholders, for example, through the deferral of bonuses and the requirement to hold shares. The Executive Directors' Remuneration Committee (the "Committee") believes that a significant proportion of Executive Directors' remuneration should be performance-related.

Each year, the Committee conducts a formal review of risk in the context of remuneration. A review of pay for other employees across the group, particularly salary increases, is also carried out each year when reviewing overall remuneration policy and this is taken into account when setting policy for the Executive Directors. No consultation process with employees was conducted in 2017 in respect of the directors' remuneration policy.

The Committee welcomes dialogue with shareholders and consults with its major investors and investor bodies regarding changes to Executive Director remuneration policy. Any views and feedback on arrangements from our investors will be considered by the Committee as part of its annual review of directors' remuneration.

Remuneration of Executive Directors
The following table summarises each element of the Executive Directors' remuneration package, the policy for how these are operated and their link to the company's strategy.

Policy table

Element of pay	Purpose and link to company's strategy	How operated in practice	Maximum opportunity	Performance metrics where relevant
Base salary	Reflects the value of the individual and their role. Takes account of experience and personal contribution to group strategy. Set at a level to facilitate recruitment and retention of suitably experienced executives.	Salaries are reviewed annually on 1 April. Policy is for salaries to be around those paid by other companies comparable on the basis of size and complexity, but also takes account of other factors including any change in responsibilities or the scope of the role.	There is no prescribed annual increase. The Committee is guided by the wider workforce increases, but may also need to recognise increases in certain circumstances such as assumed additional responsibility, or an increase in the scope or size of the role.	Takes into account the performance and personal contribution of the individual and performance of the company.
Annual bonus plan (including Devro 2009 Deferred Share Bonus Plan)	Rewards performance against specific near-term goals which are consistent with the strategic direction of the business. Deferred bonus plan aligns the interests of executives and shareholders and provides a retention tool. Clawback and deferral discourage excessive risk-taking and encourage a long-term view.	Assessed by the Committee against the audited results of the company, where relevant. Any bonus paid in excess of half the potential maximum is deferred into shares for three years subject to continued employment but no further performance conditions. Clawback may be applied to all of the bonus (cash and share deferred amounts), in the event of: (i) material misstatement of the company's accounts; (ii) an error in the computation of a bonus amount; or (iii) termination of service for gross misconduct.	A bonus of up to a maximum of 125% of salary may be awarded but the Committee will not increase above the current 100% of salary without prior consultation with the company's major shareholders.	The majority of the annual bonus will be targeted on financial metrics and any non-financial metrics will be subject to a robust financial underpin. For financial targets, no more than 20% of maximum will vest for threshold vestings.

Directors' Remuneration Report continued
Policy report continued

Element of pay	Purpose and link to company's strategy	How operated in practice	Maximum opportunity	Performance metrics where relevant
Devro plc Performance Share Plan ("PSP")	Aims to reward long-term value creation. Facilitates share ownership and provides further alignment with shareholders. Provides a retention tool.	PSP awards structured as nil-cost options are usually granted annually so that no undue emphasis is placed on performance in any one particular financial year. Awards generally vest on the third anniversary of award subject to performance over three financial years. Clawback may be applied, in the event of: (i) material misstatement of the company's accounts; (ii) an error in the computation of a bonus amount; or (iii) termination of service for gross misconduct. The Committee has discretion under the PSP rules to pay dividend equivalents for the vesting period in respect of any awards which vest. Any shares vesting from the PSP must be held for a further period of two years post-vesting, subject to the right to sell sufficient shares to cover tax charges arising on vesting.	Under the PSP rules, 150% of salary with scope for higher awards in exceptional recruitment situations, but not exceeding 200% of salary. The Committee will not increase above the current 110% of salary for the Chief Executive and 100% of salary for the Group Finance Director without prior consultation with the company's major shareholders.	The Committee will select the most appropriate financial metrics to support the company's medium to long-term strategy.
Benefits	To remain competitive in the marketplace, and provide medical care for the Executive Directors and their families.	Benefits include, but are not limited to, private medical insurance.	There is no prescribed maximum. The value of the benefit is determined by the cost to the company.	Not performance-related.
Pension contribution/ payment in lieu	To remain competitive in the marketplace and facilitate retirement planning.	A contribution equivalent to 10% of salary is made to both Executive Directors, paid either into a pension scheme, or paid direct to the individual in lieu.	10% of base salary.	Not performance-related.
Policy for Non-Executive Chairman and Directors' fees				
Non-Executive Chairman and Directors' fees	To attract and retain high-quality and experienced Non-Executive Chairman and Directors.	The Non-Executive Chairman and Directors are paid an annual fee. Fee levels are determined and reviewed taking into account experience, time commitment, responsibility and scope of role as well as market data for similar roles in other companies of a similar size and complexity to Devro.	There is no prescribed maximum fee or maximum increase. There may be a need to recognise increases in certain circumstances such as assumed additional responsibility (for example, taking on the Chairmanship of a Committee) or an increase in the scope or size of the role. Expenses incurred in relation to the company will be reimbursed, including any tax thereon "grossed up", where appropriate.	No performance-related element of remuneration.

Notes to the policy table

1. Annual Bonus Plan performance metrics

Performance measures, the weighting between them and stretching targets will be set at the start of each year by the Committee, based on the company's financial KPIs and strategic priorities for the year and taking account of the business plan, budget for the year and market conditions. At least 80% will be based on relevant financial targets and up to 20% may be attributed to a relevant non-financial target. Together, these targets are intended to incentivise and reward shorter-term performance, consistent with the interests of the shareholders and the overall strategy of the company.

2. PSP metrics

The Committee selects performance measures for the PSP awards that are aimed at incentivising and rewarding performance over the medium to long-term, aligned with the interests of the shareholders and consistent with the group strategy.

3. Deferred Share Bonus Plan

The Deferred Share Bonus Plan contains no additional performance conditions as any awards arise from an annual bonus which was itself subject to performance conditions.

4. Comparison with employees' remuneration policy

The key difference between Executive Directors' remuneration policy and that of employees generally is that, for the Executive Directors, there is significantly more weighting to variable performance-related pay. Variable pay is seen as more relevant for senior executives because of their greater ability to influence the overall performance of the company.

Shareholding guidelines

To provide alignment between shareholders and directors, the Executive Directors are required to build up a holding of 150% of salary over time. Any shares vesting from share incentive plans must be retained (subject to sales to meet tax and incidental costs of sale) until the target is reached.

Remuneration awarded prior to the effective date

For the avoidance of doubt, following approval of this policy report, authority was given to the company to honour any commitments entered into with current or former directors that have been disclosed to shareholders in previous remuneration reports including those share plan awards set out on pages 59 and 60. Details of any payments to former directors will be set out in the Annual Report on Remuneration as they arise.

Annual Bonus Plan and PSP policy

The Committee will operate the Annual Bonus Plan and PSP according to the rules of each respective plan and consistent with normal market practice and the Listing Rules of the London Stock Exchange, including flexibility in a number of aspects. How the Committee will retain flexibility includes (albeit with quantum and performance targets restricted to the descriptions detailed above):

- Who participates in the plans.
- When to make awards and payments.
- How to determine the size of an award, a payment, or when and how much of an award should vest.
- How to deal with a change of control or restructuring of the group.
- Whether a director is a "good/bad" leaver for incentive plan purposes and whether and what proportion of awards vest at the time of leaving or at the original vesting date(s).
- How and whether an award may be adjusted in certain circumstances (e.g. for a rights issue, a corporate restructuring or for special dividends).
- What the weighting, measures and targets should be for the Annual Bonus Plan and PSP from year-to-year.

The Committee also retains the discretion within the policy to adjust targets and/or set different measures and alter weightings for the Annual Bonus Plan and to adjust targets for the PSP if events happen that cause it to determine that the metrics are unable to fulfil their originally intended purpose, provided the new metrics are not materially less difficult to satisfy. Any adjustments will be fully disclosed in the following year's Annual Report on Remuneration.

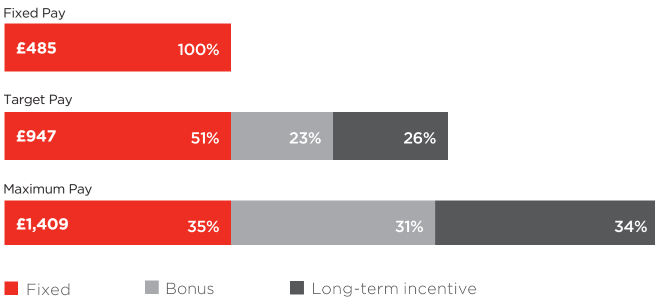
All historic awards to Executive Directors that were granted under any current or previous share schemes operated by the company, but remain outstanding, detailed on page 59, remain eligible to vest based on their original award terms.

Directors' Remuneration Report continued
Policy report continued

Payment under different scenarios
Under the Regulations, we are required to show a bar-chart indicating the level of remuneration which would be received by the Executive Directors in 2018 under different scenarios. As at the date of this report, the only Executive Director is Rutger Helbing, who transitioned from Group Finance Director to Chief Executive on 28 February 2018. The figures below are based on his current pay, after his promotion. Three scenarios are shown:

- **"Fixed pay"** is based on salary, benefits and pension contributions.
- **"Target pay"** is fixed pay, plus 50% of the maximum of variable pay.
- **"Maximum pay"** is fixed pay, plus the maximum of variable pay.

Chief Executive £'000



Assumptions:
1. Based on policy to be applied for financial year 2018.
2. No share price appreciation is assumed in long-term incentive awards.

Service Agreements and payments for loss of office of Executive Directors
It is the company's policy that Executive Directors should have contracts with an indefinite term, which are subject to one year's notice by the company and the director. In the event of early termination (including following a change of control in the company), the directors' contracts provide for compensation in line with their contractual notice period. In summary, the contractual provisions are as follows:

Provision	Detailed Terms
Notice period	12 months by the company, 12 months by the director
Termination payment	There is no provision for specific payment. If any existing contract is breached by the company, it would be liable to pay, as damages, an amount approximating to the net loss of salary and contractual benefits for the unexpired notice period, subject to mitigation and phased payments where appropriate. Any statutory amounts would be paid as necessary.
Remuneration entitlements	Pro-rata bonus may also become payable for the period of active service along with vesting for outstanding share awards (in certain circumstances – see below). In all cases performance targets would apply.
Change of control	The Executive Director's contract does not contain additional provisions in respect of change of control.

Any share-based entitlements granted to an Executive Director under the company's share plans will be determined based on the relevant plan rules. The default treatment under the PSP is that any outstanding awards lapse on cessation of employment. However, in certain prescribed circumstances, such as death, ill-health, disability, redundancy, retirement or other circumstances, at the discretion of the Committee "good leaver" status may be applied. For good leavers, awards will normally vest on cessation, or on the original vesting date, subject to the satisfaction of the relevant performance conditions at that time and reduced pro-rata to reflect the proportion of the three-year period actually served. However, the Committee has discretion to determine that awards vest at a later date and/or to disapply time pro-rating.

The default treatment under the 2009 Deferred Share Bonus Plan is that any awards lapse on cessation of employment. However, good leavers are entitled to retain their awards and to vest after leaving, subject to the rules of the Plan.

Legal fees, or a contribution towards them, in connection with any settlement agreement, and outplacement consultancy fees may be paid if this is considered appropriate.

Service Agreements and payments for loss of office of Executive Directors continued

Details of the service contract for the sole Executive Director are shown in the table below:

Director	Date of initial contract	Date term due to expire	Notice period from company (months)	Notice period from the director (months)	Termination payment	Remuneration entitlement on termination of contract by company	Termination on change of control
R A Helbing	8 December 2015	N/A	12	12	No contractual termination payments other than detailed above	12 months' notice	12 months' notice; "good leaver" status under share schemes

Recruitment and promotion policy for directors

The remuneration package for a new Executive Director would be set in accordance with the terms of the company's prevailing approved remuneration policy at the time of appointment and take into account the skills and experience of the individual, the market rate for a candidate of that experience and the importance of securing the relevant individual.

Salary would be provided at such a level as is required to attract the most appropriate candidate. It may be set initially at a below mid-market level on the basis that it may progress towards the mid-market level once expertise and performance has been proven and sustained. The annual bonus potential would be limited to 125% of salary, and conditional awards under the Devro plc Performance Share Plan may be up to the Plan maximum of 150% of salary or 200% on recruitment in exceptional circumstances. In addition, the Committee may offer additional cash and/or share-based elements to replace deferred or incentive pay forfeited by an executive leaving a previous employer. It would seek to ensure, where possible, that these awards would be consistent with awards forfeited in terms of vesting periods, expected value and performance conditions.

For an internal Executive Director appointment, any variable pay element awarded in respect of the prior role may be allowed to pay out according to its terms, adjusted as relevant to take into account the appointment. In addition, any other ongoing remuneration obligations existing prior to appointment may continue. For external and internal appointments, the Committee may agree that the company will meet certain relocation and other incidental expenses as appropriate.

If appropriate, the Committee may agree on the recruitment of a new executive to a notice period in excess of 12 months but to reduce to 12 months over a specified period.

The fees for a new Chairman or Non-Executive Director will be reflective of experience, time commitment, responsibility and scope of the role and will be consistent with the approved remuneration policy at the time.

Chairman and Non-Executive Directors

The Non-Executive Directors are engaged for fixed terms, with no notice period, with an entitlement to accrued fees and expenses only up to the date of termination. These appointments are subject to the company's Articles of Association. All directors submit themselves for re-election at the Annual General Meeting in accordance with the UK Corporate Governance Code.

The dates of the initial letters of appointment for the Non-Executive Directors are as follows:

Name	Date of letter of appointment	Date term due to expire
G J Hoetmer	30 July 2013	AGM 2019
J A Lodge	27 February 2012	AGM 2021
M S Swift	19 December 2016	AGM 2020
P N Withers	12 April 2011	AGM 2020

Directors' Remuneration Report continued
Annual Report on Remuneration

How the policy will be implemented in 2018:

Executive Director's salary
At the date of this report the Chief Executive is the only Executive Director. When a Group Finance Director is appointed, remuneration will be set in accordance with the Shareholder-approved Directors' Remuneration Policy.

The Chief Executive's salary of £440,000 was set on his appointment on 28 February 2018 and no increase will be made in 2018.

Non-Executive Directors' fees
The fees for Non-Executive Directors are as set out below:

	Base annual remuneration		Additional for committee chairmanships		Total annual remuneration	
Name	**2018**	2017	**2018**	2017	**2018**	2017
G J Hoetmer	**£136,010**	£134,000	**N/A**	N/A	**£136,010**	£134,000
J A Lodge	**£44,150**	£43,500	**£5,075**	£5,000	**£49,225**	£48,500
P A J Neep[1]	**N/A**	£43,500	**N/A**	£5,000	**N/A**	£48,500
M S Swift	**£44,150**	£43,500	**£5,075**	£5,000	**£49,225**	£48,500
P N Withers	**£44,150**	£43,500	**£5,075**	£5,000	**£49,225**	£48,500

1. Mr P A J Neep stepped down from the Board on 26 April 2017.

Annual bonus
The maximum annual bonus for Executive Directors in 2018 is 100% of base salary.

60% of the annual bonus for the Chief Executive will be determined by underlying operating profit, 20% will be determined by a cash target derived from the budgeted movement in net debt, excluding dividends and exchange rate movements, and 20% by personal objectives. The Committee will set a number of personal objectives for the Chief Executive based on the strategic priorities for 2018. These are mainly focused on the Devro 100 programme.

We are currently recruiting a new Group Finance Director. The 2018 annual bonus for this position will be pro-rated for time in post, and will have the same metrics and weightings as described above for the Chief Executive. Relevant personal objectives will be set on joining.

The personal objectives for both Executive Directors will be subject to a performance underpin under which the Committee may scale back the level of payment if it is not satisfied that it reflects the underlying financial performance of the company.

When reviewing the profit performance condition for 2018, the Committee will again look at underlying operating profit and will restate the actual underlying operating profit using the budgeted exchange rates in order to strip out the effect of translational currency fluctuations, which are, in the main, outside the control and performance of management.

The Committee considers that the actual targets for the 2018 bonus are commercially sensitive, but full details will be disclosed in the 2018 report.

Long-Term Incentive Plan
An award will be made in 2018 to the Chief Executive to the extent of 110% of base salary and for the new Group Finance Director on appointment to the extent of 100% of base salary. The performance measures for these awards will be tested over a three-year period commencing January 2018 and will be underlying EPS (40%), ROCE (40%) and TSR (20%) as follows:

Annual underlying EPS growth during the performance period	Performance shares vesting percentage (of total award)
Less than 15.7p	0%
15.7p	10%
Between 15.7p and 18.9p per annum	On a straight-line basis between 10% and 40%
18.9p per annum or more	40%

The underlying EPS range for the 2018 awards is considered stretching and is based on the Committee's assessment of the market conditions and growth opportunities over the next three years.

Long-Term Incentive Plan continued

TSR ranking relative to comparator group[1]	Performance shares vesting percentage (of total award)
Below median	0%
Median	5%
Between median and upper quartile	On a straight-line basis between 5% and 20%
Upper quartile or above	20%

ROCE target for final year of performance period	Performance shares vesting percentage (of total award)
Below 13%	0%
13%	10%
Between 13% and 15%	On a straight-line basis between 10% and 40%
15% or above	40%

1. The comparator group consists of the 100 listed companies (excluding Investment Trusts) closest to the company in terms of market capitalisation at the date of grant (i.e. 50 higher and 50 lower).

Pension and other benefits

The pension and benefits arrangements are as set out in the policy table above.

The Remuneration Committees

The members of the Executive Directors' Remuneration Committee in 2017 were Mr P A J Neep (Committee Chairman), who stepped down on 26 April 2017, Mr G J Hoetmer, Ms J A Lodge and Mr P N Withers. Mr P N Withers took over as Chairman of the Committee on 26 April 2017. Mr M S Swift joined on that date.

In 2017 the Committee received advice from:

- The Company Secretary (as Secretary to the Committee);
- Korn Ferry as independent adviser to the Committee. Korn Ferry were appointed as advisers by the Committee in 2017, following a tender process, in view of their expertise in this area; and
- New Bridge Street (a trading name of Aon Hewitt Limited being a group company of Aon plc).

No director is involved in any part of a meeting of the Committee when their individual remuneration or contractual terms are being decided.

The remuneration of the Non-Executive Directors and the Chairman is set by the Non-Executive Directors' Remuneration Committee, whose members in 2017 were Mr P W B Page and Mr R A Helbing. The two-committee approach ensures that no director is involved in setting his or her own remuneration.

Advisers to the Committee

Korn Ferry and New Bridge Street are signatories to the Remuneration Consultants' Code of Conduct and have confirmed to the Committee that they adhere in all respects to the terms of the Code. The Committee has satisfied itself that advice from both is objective. The total fees paid to Korn Ferry and New Bridge Street for the advice provided to the Committee during the year were £16,924 and £2,010, respectively. Neither Korn Ferry, New Bridge Street, nor any of their respective affiliated companies, have provided any other services to the company during the year.

Statement of shareholding voting at AGM

At the AGM held on 26 April 2017, votes cast by proxy and at the meeting in respect of the directors' remuneration were as follows:

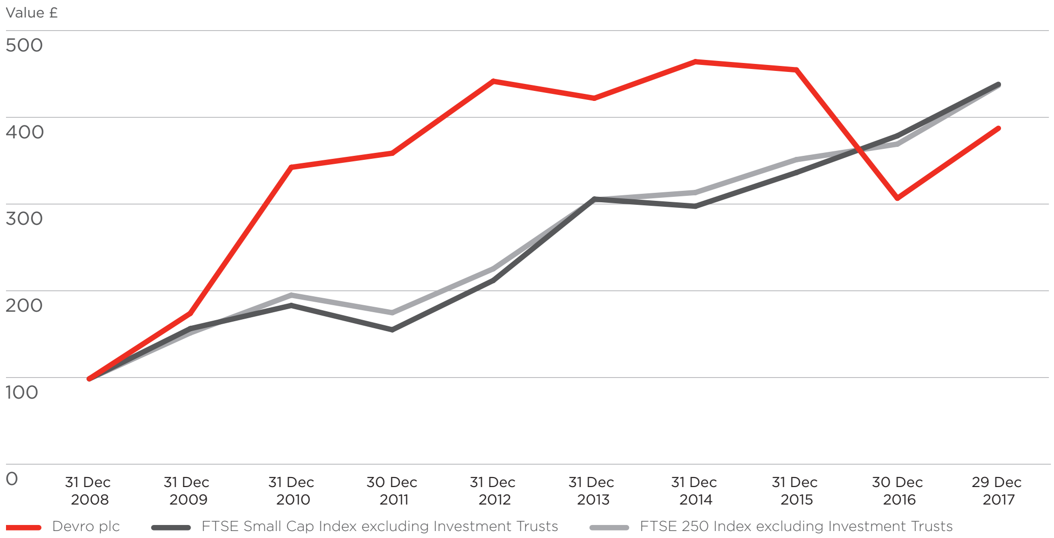
Resolution	Votes For	% For	Votes Against	% Against	Total votes cast	Votes withheld (abstentions)
Approval of Remuneration Report	118,289,320	99.94	75,408	0.06	118,364,728	38,893
Approval of Remuneration Policy	117,937,150	99.83	202,468	0.17	118,139,618	265,603

Engagement with investors

The Committee consulted with major investors on the proposed changes to the Remuneration Policy which were brought to the 2017 AGM. The Chairman of the Committee is always available to talk to investors should they have any concerns.

Directors' Remuneration Report continued
Annual Report on Remuneration continued

Performance graph
Total Shareholder Return



This graph shows the value, by 31 December 2017, of £100 invested in Devro plc on 31 December 2008 compared with the value of £100 invested in the FTSE 250 and FTSE SmallCap indices (excluding Investment Trusts) on the same date.

Table of historic data
The following table sets out the total remuneration and the amount vesting under short-term and long-term incentives (as a percentage of the maximum that could have been achieved) in each of the past nine years for the Chief Executive in post at the time.

Year	Chief Executive single figure of total remuneration (£'000)	Annual bonus payout against maximum opportunity %	Long-term incentive vesting rates against maximum opportunity %
2017	703	40	0
2016	513	0	0
2015	759	54.8	0
2014	498	0	0
2013	565	0	18.25
2012	1,154	0	100
2011	1,670	40	100
2010	1,767	100	100
2009	862	100	100

Total remuneration

	Base salaries/fees		Bonuses		Benefits in kind		Pension contributions or payments in lieu of pension contributions		Total remuneration	
Director	2017 £'000	2016 £'000	2017 £'000	2016 £'000	2017 £'000	2016 £'000	2017 £'000	2016 £'000	2017 £'000	2016 £'000
G J Hoetmer	**134**	132	**–**	–	**–**	–	**–**	–	**134**	132
R A Helbing[1]	**308**	227	**124**	–	**1**	1	**31**	23	**464**	251
J A Lodge	**49**	48	**–**	–	**–**	–	**–**	–	**49**	48
P A J Neep[2]	**15**	48	**–**	–	**–**	–	**–**	–	**15**	48
P W B Page[1]	**468**	466	**187**	–	**1**	1	**47**	46	**703**	513
M S Swift[3]	**33**	–	**–**	–	**–**	–	**–**	–	**33**	–
P N Withers	**49**	48	**–**	–	**–**	–	**–**	–	**49**	48
TOTAL	**1,056**	969	**311**	–	**2**	2	**78**	69	**1,447**	1,040

1. Benefits in kind for Mr R A Helbing and Mr P W B Page relate to medical insurance.
2. Mr P A J Neep stepped down from the Board on 26 April 2017.
3. Mr M S Swift joined the Board on 26 April 2017.

Details of variable pay earned in the year

Summary of 2017 annual bonus

In 2017, the Committee reintroduced a cash target alongside the established profit based metric and personal objectives.

Set out below are the targets which applied to the 2017 Annual Bonus Plan and performance against them:

Performance condition	Proportion of total bonus available: % of maximum	Proportion of total bonus available: % of salary	Actual performance achieved	Performance target for threshold vesting	Performance target for maximum vesting	Resulting bonus % of maximum	P W B Page bonus % of salary	R A Helbing bonus % of salary
Underlying operating profit	40	40	£35.8m[1]	£36.1m[2]	£41.8m	0	0	0
Cash target	40	40	£26.0m	£20.3m[2]	£24.8m	40	40	40
Personal objectives	20	20	Failed to meet financial underpin[3]	Partial payment for each objective completed	All objectives met	0	0	0
Total	**100**	**100**				**40**	**40**	**40**

1. Adjusted to exclude exceptional items, and recalculated using budgeted exchange rates as explained below.
2. 5% of salary vests at threshold.
3. The personal objectives were conditional upon adjusted underlying operating profit meeting or exceeding £36.1m.

The Committee agreed in 2016 that for the purpose of the bonus calculation, translational currency exchange rate fluctuations would be excluded. This is achieved by translating both the target and actual local currency underlying operating profit using the company's budgeted exchange rates for that year. Applying this approach to the 2017 underlying operating profit produced a notional figure of £35.8m, which was below the threshold for minimum payout of £36.1m, so no bonus was payable under this heading.

The cash target was defined in the bonus plan as movement in net debt excluding (1) exchange rate movements on net debt and (2) dividend payments. The actual performance set out in the table above reflects a year of tight control of expenditure and significant reduction in net debt, and results in a bonus of 40% of salary to Mr P W B Page and Mr R A Helbing.

The personal objectives for 2017 were linked to key strategic milestones, as follows:

Peter Page Personal objectives	Performance
Increase volumes, revenues and market share of specific products in certain target markets.	Significant overall volume and revenue uplift, plus market share growth, but specific bonus targets set at out-perform level and not all were met.
Achieve operational yield and cost targets.	Progress made, but certain specific out-perform targets not met.
Deliver to market at least one new differentiated innovation in 2017.	Introduction of new Fine Ultra product in 2017 before full roll-out in 2018.

Rutger Helbing Personal objectives	Performance
Manage delivery of targeted savings in the Devro 100 programme.	£7m in savings delivered in 2017, ahead of market expectations.
Drive implementation and process improvement to underpin new global organisation.	Devro 100 reorganisation now well advanced, with further progress expected in 2018.
Deliver on de-leveraging of the balance sheet (covenant net debt/underlying EBITDA ratio <2.5 by YE 2017).	Covenant net debt/underlying EBITDA at YE 2017 was 2.1.
Further align finance organisation with new organisation structure and drive operational improvements. Demonstrate leadership in the 2017 transition process to the satisfaction of the Chairman.	Finance function further aligned with new structure and more progress planned for 2018. Leadership throughout the year demonstrated, culminating in promotion to Chief Executive in 2018.

However, for 2017, these targets were subject to a financial underpin that the notional underlying operating profit should exceed £36.1m, and as that level was not reached, no bonus was payable in respect of the personal objectives.

Directors' Remuneration Report continued
Annual Report on Remuneration continued

The Devro Performance Share Plan

The three-year performance period for the awards under the Devro plc Performance Share Plan made to former Directors Mr P W B Page and Mr S C Webb on 25 March 2015 ended on 31 December 2017. The performance conditions which applied, and performance achieved against them, are set out below resulting in zero vesting.

Total Shareholder Return ("TSR") relative to comparator group consisting of the 100 FTSE-listed companies closest to the company in terms of market capitalisation at grant (50%)		Underlying Earnings Per Share ("Underlying EPS") growth (50%)				
Performance required	**Performance achieved**	**Performance required**	**Performance achieved**	**Vesting %**	**Number of shares vesting in 2018**	**Value of shares vesting in 2018**
25% vesting for median performance rising to maximum vesting for upper quartile performance with straight-line vesting in between	Ranking 75th out of 100	25% vesting for + 6% p.a. rising to maximum vesting at +14% p.a. or above	-8.7%	0%	P W B Page – Nil	£0
					S C Webb – Nil	£0

The TSR condition and performance set out above were independently reviewed.

Relative importance of spend on pay

	Total remuneration of all employees of the Devro group £'000	Dividends paid £'000
2017	**85,692 (+5.2%)**	**14,684 (0.1%)**
2016	81,440 (+5.8%)	14,670 (0.0%)

Percentage change in former Chief Executive's remuneration

	2017 £	2016 £	% change
Salary	**467,832**	466,103	0
Benefits	**840**	673	25
Bonus	**187,133**	–	>100

Percentage change in average remuneration of all Devro group employees

	2017 £	2016 £	% change
Salary	**31,408**	29,510	6
Benefits	**2,079**	1,753	19
Bonus	**1,472**	609	142

Performance Share Plan awards granted on 2 August 2017

	Scheme	Basis of award granted	Face value of award[1] £'000	Maximum vesting (% of face value)	Percentage vesting for threshold performance	Vesting and performance period
R A Helbing	The Devro plc Performance Share Plan	100% of salary 142,990 shares	310	100%	25% if the threshold for each of the metrics is reached	Performance period 3 financial years from 1 January 2017. Vesting period 3 years from date of grant
P W B Page	The Devro plc Performance Share Plan	110% of salary 237,697 shares	515	100%		

1. Based on share price of 216.5p on 1 August 2017, being the day before the date of grant.

Further details regarding the Performance Share Plan, together with the performance conditions applying to the above awards are set out on pages 59 and 60.

Leaving arrangements for Mr P W B Page

Mr P W B Page will continue to be paid his salary, benefits and pension until his contractual notice period expires in December 2018, subject to mitigation. Mr P W B Page will receive an annual bonus for 2017 as detailed above but no bonus for his period of service in 2018.

Unvested Performance Share Plan awards will be tested and vest (subject to performance) at the usual time and be pro-rated to reflect actual service. Outstanding Deferred Share Bonus awards will vest in December 2018 at the end of the 12 month notice period.

Audited information

The following information on pages 59 to 61 has been audited by the company's statutory auditors, KPMG LLP. The total remuneration figure table on page 56 is incorporated into this section by reference.

Company pensions and life assurance policy regarding Executive Directors

Mr R A Helbing and Mr P W B Page both elected to receive a monthly payment in lieu of pension amounting to 10% of base salary.

The contributions for each in respect of 2017 are shown in the table on page 56.

The company provides life assurance cover for senior executives under which the Executive Directors have cover of either three times or five times base salary (capped at £1.75m).

The Devro Performance Share Plan

Awards outstanding under the Devro plc Performance Share Plan for current and former Executive Directors are as follows:

Director	Date awarded	Market value at date of award (pence per share)	Market value at date of vesting of shares (pence per share)	Number of shares at 1 January 2017	Number of shares awarded during year	Number of shares exercised during year	Number of shares lapsed during year	Number of shares at 31 December 2017	Earliest normal vesting date
R A Helbing	8 April 2016	288p	N/A	209,621	–	–	–	209,621	8 April 2019
	2 August 2017	230p	N/A	-	142,990	–	–	142,990	2 August 2020
P W B Page[1]	9 June 2014	268p	N/A	185,400	–	–	185,400	–	9 June 2017
	25 March 2015	286.3p	N/A	172,593	–	–	–	172,593[2]	25 March 2018
	8 April 2016	288p	N/A	176,843	–	–	–	176,843	8 April 2019
	2 August 2017	230p	N/A	-	237,697	–	–	237,697	2 August 2020
S C Webb[1]	9 June 2014	268p	N/A	108,700	–	–	108,700	–	9 June 2017
	25 March 2015	286.3p	N/A	101,153	–	–	–	101,153[2]	25 March 2018

1. Mr P W B Page stepped down from the Board on 28 February 2018. Mr S C Webb left the Board on 31 March 2016.
2. These shares lapsed following a review of the relevant performance conditions by the Committee in February 2018.

Conditional nil-priced options under the Devro plc Performance Share Plan are considered for award annually, with earliest vesting occurring generally after three years and normally being dependent on both continued employment with the group and the extent to which the performance conditions set out below are met.

Directors' Remuneration Report continued
Annual Report on Remuneration continued

The Devro Performance Share Plans continued

The awards made between 2014 and 2016 were granted as nil-priced options subject to the performance conditions below.

Annual underlying EPS growth during the performance period	Performance shares vesting percentage (of total award)
Less than 6% per annum	0%
6% per annum	12.5%
Between 6% and 14% per annum	On a straight-line basis between 12.5% and 50%
14% per annum or more	50%

TSR ranking relative to comparator group[1]	Performance shares vesting percentage (of total award)
Below median	0%
Median	12.5%
Between median and upper quartile	On a straight-line basis between 12.5% and 50%
Upper quartile or above	50%

1. The comparator group consists of the 100 listed companies (excluding Investment Trusts) closest to the company in terms of market capitalisation at the grant date (i.e. 50 higher and 50 lower).

The awards made in 2017 were granted as nil-priced options subject to the performance conditions below.

Annual underlying EPS growth during the performance period	Performance shares vesting percentage (of total award)
Less than 6% per annum	0%
6% per annum	10%
Between 6% and 14% per annum	On a straight-line basis between 10% and 40%
14% per annum or more	40%

TSR ranking relative to comparator group[1]	Performance shares vesting percentage (of total award)
Below median	0%
Median	5%
Between median and upper quartile	On a straight-line basis between 5% and 20%
Upper quartile or above	20%

ROCE target for final year of performance period	Performance shares vesting percentage (of total award)
Below 13%	0%
13%	10%
Between 13% and 15%	On a straight-line basis between 10% and 40%
15% or above	40%

1. The comparator group is the 100 listed companies (excluding Investment Trusts) closest to the company in terms of market capitalisation at the grant date (i.e. 50 above, 50 below).

The Devro 2009 Deferred Share Bonus Plan

The current Executive Director does not hold any awards under the Devro 2009 Deferred Share Bonus Plan. The awards of former Executive Directors outstanding under this Plan are as follows:

Director	Date awarded	Market value at date of award (pence per share)	Market value at date of exercise of shares (pence per share)	Number of shares at 1 January 2017	Number of shares awarded during year	Number of shares exercised during year	Number of shares lapsed during year	Number of shares at 31 December 2017	Earliest normal vesting date
P W B Page[1]	22 March 2016	293p	N/A	7,375	–	–	–	7,375	22 March 2019
S C Webb[2]	22 March 2016	293p	208.25p	24,567	–	24,567	–	–	N/A

1. Mr P W B Page will leave the company as a "good leaver" on 10 December 2018 and may exercise this award at any time thereafter.
2. Mr S C Webb left the company as a "good leaver" on 31 March 2016 and exercised his award on 11 May 2017.

Directors' interests

The interests, all of which are beneficial, of the directors, former directors, and their immediate families in the share capital of the company (Ordinary Shares of 10 pence each), and details of awards held under the Devro plc Performance Share Plan (which has performance conditions) and the Devro Deferred Share Bonus Plan at the beginning and end of the financial year, are as follows:

Director	Total number of Ordinary Shares 1 January 2017	Total number of Ordinary Shares 31 December 2017	Performance Share Plan 1 January 2017	Performance Share Plan 31 December 2017	Deferred Share Bonus Plan 1 January 2017	Deferred Share Bonus Plan 31 December 2017
G J Hoetmer	210,000	210,000	–	–	–	–
R A Helbing	17,500	27,500	209,621	352,611	–	–
J A Lodge	36,341	37,798	–	–	–	–
P A J Neep[1]	224,893	N/A	–	–	–	–
P W B Page[2]	750,740	775,822	534,836[3]	587,133[4]	7,375	7,375
M S Swift[5]	N/A	–	–	–	–	–
S C Webb[6]	N/A	N/A	209,853[7]	101,153[8]	24,567	–
P N Withers	110,000	110,000	–	–	–	–

1. Mr P A J Neep retired from the Board on 26 April 2017.
2. Mr P W B Page stepped down from the Board on 28 February 2018.
3. Includes 185,400 shares which lapsed following a review by the Committee in February 2017.
4. Includes 172,593 shares which lapsed following a review by the Committee in February 2018.
5. Mr M S Swift joined the Board on 26 April 2017.
6. Mr S C Webb stepped down from the Board on 31 March 2016.
7. Includes 108,700 shares which lapsed following a review by the Committee in February 2017.
8. Lapsed following a review by the Committee in February 2018.

On 27 February 2018, Mr G J Hoetmer notified the company that he had purchased a further 25,000 Ordinary Shares in the company.

Shareholding guidelines

To provide alignment between shareholders and directors, the Executive Directors are required to build up a shareholding equivalent to 150% of base salary over time. Any shares vesting from share incentive plans must be retained (subject to sales to meet tax and incidental costs of sale) until the target is reached.

Director	Number of shares held including family interests as at 31 December 2017	Shares held as a % of salary[1]	Number of shares vested in 2017	Number of shares vested under share schemes, but unexercised
R A Helbing	27,500	20	Nil	Nil
P W B Page	775,822	380	Nil	Nil

1. Calculated on basis of three-month average share price to 31 December 2017, using salaries at 31 December 2017.

The company operates an employee share ownership plan ("ESOP"). All employees of the group, including the Executive Directors, are beneficiaries of the ESOP and are deemed to be interested in the shares held by the ESOP which, at 31 December 2017, amounted to 62,551 Ordinary Shares.

On behalf of the Board

Paul Withers
Chairman, Executive Directors' Remuneration Committee
14 March 2018

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

Consolidated income statement
for the year ended 31 December

		2017			2016		
	Note	Underlying £'m	Exceptional items £'m	Reported £'m	Underlying £'m	Exceptional items £'m	Reported £'m
Revenue	2	**256.9**	**–**	**256.9**	241.1	–	241.1
Operating profit	3, 4	**38.1**	**(5.1)**	**33.0**	38.1	(22.7)	15.4
Finance income	7	**–**	**–**	**–**	0.1	–	0.1
Finance cost	7	**(8.6)**	**–**	**(8.6)**	(7.0)	–	(7.0)
Net finance cost on pensions	7	**(2.8)**	**–**	**(2.8)**	(2.3)	–	(2.3)
Profit before tax	8	**26.7**	**(5.1)**	**21.6**	28.9	(22.7)	6.2
Tax	9	**(5.8)**	**(0.2)**	**(6.0)**	(6.7)	2.7	(4.0)
Profit for the year attributable to owners of the parent		**20.9**	**(5.3)**	**15.6**	22.2	(20.0)	2.2
Earnings per share							
Basic	12			**9.3p**			1.3p
Diluted	12			**9.3p**			1.3p

All results relate to continuing operations.

Consolidated statement of comprehensive income
for the year ended 31 December

	Note	2017 £'m	2016 £'m
Profit for the year		**15.6**	2.2
Other comprehensive income/(expense) for the year			
Items that will not be reclassified to profit or loss			
Pension obligations:			
– re-measurements	26	**12.7**	(33.0)
– movement in deferred tax	25	**(8.4)**	5.2
		4.3	(27.8)
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges:	29		
– net fair value gains/(losses)		**2.2**	(0.1)
– reclassified and reported in operating profit		**–**	(1.0)
– tax on fair value movements		**(0.4)**	0.2
Net investment hedges:	29		
– fair value losses		**(2.2)**	(1.6)
– tax on fair value movements		**0.4**	0.3
Net exchange adjustments	29	**12.5**	19.8
		12.5	17.6
Other comprehensive income/(expense) for the year, net of tax		**16.8**	(10.2)
Total comprehensive income/(expense) for the year attributable to owners of the parent		**32.4**	(8.0)

Balance sheets
at 31 December

	Note	Group 2017 £'m	Group 2016 £'m	Company 2017 £'m	Company 2016 £'m
ASSETS					
Non-current assets					
Property, plant and equipment	13	**291.1**	308.6	**–**	0.1
Intangible assets	14	**10.4**	10.4	**1.7**	0.7
Investments	15	**–**	–	**205.7**	204.0
Deferred tax assets	25	**35.3**	40.3	**0.6**	0.5
Trade and other receivables	17	**4.5**	4.7	**128.9**	113.3
		341.3	364.0	**336.9**	318.6
Current assets					
Inventories	16	**32.3**	33.8	**–**	–
Trade and other receivables	17	**30.6**	30.5	**17.5**	15.4
Derivative financial instruments	23	**1.8**	1.4	**1.9**	3.3
Current tax assets		**–**	0.1	**–**	–
Cash and cash equivalents	18	**10.8**	9.9	**0.3**	0.1
		75.5	75.7	**19.7**	18.8
Total assets		**416.8**	439.7	**356.6**	337.4
LIABILITIES					
Current liabilities					
Trade and other payables	19	**(31.2)**	(34.4)	**(5.3)**	(3.3)
Current tax liabilities		**(5.1)**	(7.0)	**–**	–
Borrowings	22	**(1.5)**	(1.9)	**(1.2)**	(3.5)
Derivative financial instruments	23	**(0.4)**	(2.6)	**(2.1)**	(3.5)
Provisions for other liabilities and charges	21	**(0.2)**	(0.8)	**–**	–
		(38.4)	(46.7)	**(8.6)**	10.3
Non-current liabilities					
Borrowings	22	**(144.2)**	(161.6)	**(108.8)**	(132.8)
Pension obligations	26	**(82.0)**	(96.0)	**–**	–
Deferred tax liabilities	25	**(18.1)**	(19.4)	**–**	–
Other payables	20	**(3.3)**	(3.4)	**(27.3)**	(22.1)
Provisions for other liabilities and charges	21	**(3.6)**	(3.6)	**–**	–
		(251.2)	(284.0)	**(136.1)**	(154.9)
Total liabilities		**(289.6)**	(330.7)	**(144.7)**	(165.2)
Net assets		**127.2**	109.0	**211.9**	172.2
EQUITY					
Capital and reserves attributable to owners of the parent					
Ordinary shares	27	**16.7**	16.7	**16.7**	16.7
Share premium		**9.3**	9.3	**9.3**	9.3
Other reserves	29	**83.4**	70.8	**45.4**	45.3
Retained earnings		**17.8**	12.2	**140.5**	100.9
Total equity		**127.2**	109.0	**211.9**	172.2

The financial statements on pages 66 to 115 were approved by the Board of Directors and signed on its behalf by:

R A Helbing, Chief Executive
14 March 2018

Statements of changes in equity

Group	Note	Ordinary shares £'m	Share premium £'m	Other reserves £'m	Retained earnings £'m	Total equity £'m
Balance at 1 January 2017		**16.7**	**9.3**	**70.8**	**12.2**	**109.0**
Comprehensive income						
Profit for the year		**–**	**–**	**–**	**15.6**	**15.6**
Other comprehensive income		**–**	**–**	**12.5**	**4.3**	**16.8**
Total comprehensive income		**–**	**–**	**12.5**	**19.9**	**32.4**
Transactions with owners						
Performance Share Plan charge, net of tax	29	**–**	**–**	**0.5**	**–**	**0.5**
Performance Share Plan credit in respect of awards lapsed	29	**–**	**–**	**(0.4)**	**0.4**	**–**
Dividends paid	11	**–**	**–**	**–**	**(14.7)**	**(14.7)**
Total transactions with owners		**–**	**–**	**0.1**	**(14.3)**	**(14.2)**
Balance at 31 December 2017		**16.7**	**9.3**	**83.4**	**17.8**	**127.2**
Balance at 1 January 2016		16.7	9.3	52.9	52.2	131.1
Comprehensive income/(expense)						
Profit for the year		–	–	–	2.2	2.2
Other comprehensive income/(expense)		–	–	17.6	(27.8)	(10.2)
Total comprehensive income/(expense)		–	–	17.6	(25.6)	(8.0)
Transactions with owners						
Performance Share Plan charge, net of tax	29	–	–	0.6	–	0.6
Performance Share Plan credit in respect of awards lapsed	29	–	–	(0.3)	0.3	–
Dividends paid	11	–	–	–	(14.7)	(14.7)
Total transactions with owners		–	–	0.3	(14.4)	(14.1)
Balance at 31 December 2016		16.7	9.3	70.8	12.2	109.0

Statements of changes in equity continued

Company	Note	Ordinary shares £'m	Share premium £'m	Other reserves £'m	Retained earnings £'m	Total equity £'m
Balance at 1 January 2017		**16.7**	**9.3**	**45.3**	**100.9**	**172.2**
Comprehensive income						
Profit for the year		**–**	**–**	**–**	**54.1**	**54.1**
Cash flow hedges, net of tax		**–**	**–**	**–**	**–**	**–**
Total comprehensive income		**–**	**–**	**–**	**54.1**	**54.1**
Transactions with owners						
Performance Share Plan charge, net of tax	29	**–**	**–**	**0.3**	**–**	**0.3**
Performance Share Plan credit in respect of awards lapsed	29	**–**	**–**	**(0.2)**	**0.2**	**–**
Dividends paid	11	**–**	**–**	**–**	**(14.7)**	**(14.7)**
Total transactions with owners		**–**	**–**	**0.1**	**(14.5)**	**(14.4)**
Balance at 31 December 2017		**16.7**	**9.3**	**45.4**	**140.5**	**211.9**
Balance at 1 January 2016		16.7	9.3	46.0	81.0	153.0
Comprehensive income/(expense)						
Profit for the year		–	–	–	34.3	34.3
Cash flow hedges, net of tax		–	–	(0.9)	–	(0.9)
Total comprehensive (expense)/income		–	–	(0.9)	34.3	33.4
Transactions with owners						
Performance Share Plan charge, net of tax	29	–	–	0.5	–	0.5
Performance Share Plan credit in respect of awards lapsed	29	–	–	(0.3)	0.3	–
Dividends paid	11	–	–	–	(14.7)	(14.7)
Total transactions with owners		–	–	0.2	(14.4)	(14.2)
Balance at 31 December 2016		16.7	9.3	45.3	100.9	172.2

Cash flow statements
for the year ended 31 December

	Note	Group 2017 £'m	Group 2016 £'m	Company 2017 £'m	Company 2016 £'m
Cash flows from operating activities					
Cash generated from/(used in) operations	30	**58.2**	39.0	**(22.1)**	(27.6)
Interest received		**–**	0.1	**6.1**	4.7
Interest paid		**(8.3)**	(7.8)	**(6.6)**	(5.9)
Tax paid		**(11.9)**	(5.8)	**–**	–
Net cash generated from/(used in) operating activities		**38.0**	25.5	**(22.6)**	(28.8)
Cash flows from investing activities					
Purchase of property, plant and equipment		**(11.2)**	(22.3)	**–**	–
Purchase of intangible assets		**(1.3)**	(1.7)	**(0.8)**	(0.5)
Capital grants received		**–**	0.7	**–**	–
Investment in subsidiary undertakings		**–**	–	**(1.7)**	(4.5)
Dividends received from subsidiary undertakings		**–**	–	**59.5**	40.2
Net cash (used in)/generated from investing activities		**(12.5)**	(23.3)	**57.0**	35.2
Cash flows from financing activities					
Borrowing under the loan facilities		**(9.8)**	8.4	**(17.2)**	3.5
Proceeds from financial instruments		**0.3**	3.4	**–**	3.4
Dividends paid		**(14.7)**	(14.7)	**(14.7)**	(14.7)
Net cash used in financing activities		**(24.2)**	(2.9)	**(31.9)**	(7.8)
Net increase/(decrease) in cash and cash equivalents		**1.3**	(0.7)	**2.5**	(1.4)
Net cash and cash equivalents at 1 January		**8.0**	7.7	**(3.4)**	(2.0)
Net increase/(decrease) in cash and cash equivalents		**1.3**	(0.7)	**2.5**	(1.4)
Exchange gain on cash and cash equivalents		**–**	1.0	**–**	–
Net cash and cash equivalents at 31 December		**9.3**	8.0	**(0.9)**	(3.4)
Cash and cash equivalents	18	**10.8**	9.9	**0.3**	0.1
Bank overdrafts	22	**(1.5)**	(1.9)	**(1.2)**	(3.5)
Net cash and cash equivalents at 31 December		**9.3**	8.0	**(0.9)**	(3.4)

Notes to the financial statements
for the year ended 31 December 2017

Devro plc ("the company") and its subsidiaries ("the group") is one of the world's leading manufacturers of collagen products for the food industry. The company is a public limited company, which is listed on the London Stock Exchange and is incorporated and domiciled in Scotland. The address of its registered office is Moodiesburn, Chryston, Glasgow G69 0JE.

1. Accounting policies
The principal accounting policies applied in the preparation of these consolidated and individual company financial statements are set out below. These policies have been consistently applied to the years presented, unless otherwise stated.

Basis of preparation
These consolidated and individual company financial statements have both been prepared in accordance with European Union endorsed International Financial Reporting Standards ("IFRSs"), IFRS IC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of derivative financial instruments and pension scheme assets.

The group's reporting currency is sterling and unless otherwise stated the financial statements are rounded to the nearest £0.1 million.

Going concern
The group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 2 to 35, along with the financial position of the group, its debt levels and borrowing facilities.

In addition, Note 23 includes the group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The directors have, at the time of approving the financial statements, a reasonable expectation that the company and the group have adequate resources to continue in operation for the next 12 months from the date of approval of this statement. For this reason they continue to adopt the going concern basis of accounting in preparing the financial statements.

Key factors to support the going concern basis of accounting include the following:

- As at 31 December 2017 the group was operating within the £110m revolving bank facility negotiated in December 2014 and due to expire in December 2019, and US$100m US private placement, completed in June 2014 and due to expire between 2021 and 2026.
- Forecast of profits and cash flows have been prepared which indicate that the group is expected to operate within its key covenants and funding facilities for the next 12 months from the date of approval of the financial statements.

Critical estimates and judgements
The preparation of financial statements in conformity with IFRSs requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates are based on management's best assessments of amounts, events or actions, actual results ultimately may differ from those estimates. The key areas that require estimates and judgements that have a significant risk of material misstatement or of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are the accounting for the group's exceptional items and carrying value of inventory.

Exceptional items
Devro is undergoing a major transformation including the construction and start-up of two new plants in China and the US which completed in 2016, a restructuring of operations in Scotland and Australia initiated in 2014 and the Devro 100 programme with expected benefits in 2019. The Devro 100 programme is focused on accelerating revenue growth through significantly improving sales capabilities, delivering substantial improvements in manufacturing efficiencies to reduce unit costs, and introducing the next generation of differentiated products. The incremental costs associated with implementing this transformation are significant, and judgement has been required to determine which costs should be expensed as incurred and which should be capitalised. Where costs have been expensed judgement has also been required to determine whether these costs should be disclosed as exceptional items, taking account of their nature and size and in particular whether they are incremental to normal operations. In some cases provisions have been set up in prior periods for the estimated liability for these costs and judgement is applied relating to the timing of recognition of provisions and the estimation of the amount of the provision. An analysis of exceptional items recognised is included in Notes 3 and 4. Details of provisions are included in Note 21.

Carrying value of inventory

Determining the carrying value of inventory involves a degree of judgement as to whether the group will be able to sell the inventory it has on hand for more than the value recorded in the balance sheet, which is typically the cost of production. The group adopts a policy of providing for inventory when it reaches a certain age, and also for any inventory where there are specific concerns. These estimated provisions are based on management's best assessments of future sales volumes and the likely selling prices, and actual results may differ from these estimates.

Although not considered significant, the following are the other key areas of judgement and estimation:

Pension obligations

The cost of defined benefit pension schemes is determined using actuarial valuations. The actuarial valuation involves certain key assumptions and complex calculations. The key assumptions include discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these schemes, such estimates are subject to uncertainty. An analysis of the sensitivity of the pension obligation to changes in key assumptions is provided based on movements in key variables that could reasonably occur. Further details are provided in Note 26.

Tax

The group's tax charge is based on the profit for the year and tax rates effective at the balance sheet date. In addition to corporation tax, the group is subject to indirect taxes such as sales and employment taxes across the tax jurisdictions in the countries in which it operates. The varying nature and complexity of these tax laws requires the group to review its tax positions and make appropriate adjustments at the balance sheet date.

The changing regulatory environment affecting all multinationals increases the estimation uncertainty associated with calculating the group's tax position. This is as a result of amendments to local tax laws, increased global co-operation between tax authorities and greater cross border transparency. The group estimates and recognises liabilities of taxes due based on management's interpretation of local tax laws, external advice and the likelihood of settlement. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the results in the year in which such determination is made. In addition, calculation and recognition of temporary differences giving rise to deferred tax assets requires estimates and judgements to be made on the extent to which future taxable profits are available against which these temporary differences can be utilised. In the event that actual taxable profits are different, such differences may impact the results in that year. Further details are provided in Notes 9 and 25.

Changes in accounting policies and disclosures

(a) New standards, amendments to standards and interpretations effective in 2017

The following new standards, amendments to standards and interpretations became mandatory for the first time during the financial year beginning 1 January 2017. With an exception of IAS 7, all were either not relevant for the group or had no material impact on the financial statements of the group. A new disclosure addressing the requirements of IAS 7 Changes in liabilities arising from financing activities is presented in Note 24.

	Effective date
• IFRS 12 (amendment) – Annual Improvements to IFRSs 2014-2016 Cycle	1 January 2017
• IAS 7 (amendment) – Disclosure Initiative	1 January 2017
• IAS 12 (amendment) – Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017

(b) New standards, amendments to standards and interpretations not applied

At the date of approval of these financial statements, the following standards, amendments to standards and interpretations were in issue but have not been applied in these financial statements:

	Effective date
• IFRS 2 (amendments) – Classification and Measurement of Share-based Payment Transactions	1 January 2018
• IFRS 4 (amendments) – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1 January 2018
• IFRS 9 – Financial instruments	1 January 2018
• IFRS 15 – Revenue from contracts with customers	1 January 2018
• IAS 40 (amendments) – Transfers of Investment Property	1 January 2018
• IFRS 1 and IAS 28 (amendments) – Annual Improvements to IFRSs 2014-16 Cycle	1 January 2018
• IFRIC 22 – Foreign Currency Transactions and Advance Consideration	1 January 2018
• IFRS 16 – Leases	1 January 2019

It is expected that the group will adopt these standards or amendments to standards on their effective dates.

The directors do not anticipate that the adoption of these standards or amendments to standards will have a material impact on the financial statements of the group.

Notes to the financial statements continued
for the year ended 31 December 2017

1. Accounting policies continued

Changes in accounting policies and disclosures continued

IFRS 15 Revenue from contracts with customers

The requirements of IFRS 15 have been reviewed and the impacts on the contracts held by the group have been considered, such as variable consideration and the timing of revenue recognition. The directors do not anticipate that the adoption of IFRS 15 will have a material impact on the financial statements of the group.

IFRS 9 Financial instruments

The requirements of IFRS 9 have been reviewed in respect of the financial assets and financial liabilities of the group for classification and measurement and impairment, and the current hedging arrangements have been considered. The directors do not anticipate that the adoption of IFRS 9 will have a material impact on the financial statements of the group.

IFRS 16 Leases

IFRS 16 requires lessees to recognise a lease liability reflecting future lease payments and a 'right of use asset' for virtually all lease contracts. On adoption, the group will recognise a right of use asset and a lease liability based on the net present value of the payments required under each of its leases. The operating lease charge, currently recognised in EBITDA, will be replaced by the depreciation of the right of use asset and interest on the lease liability.

The group continues to assess the full impact of IFRS 16; however, the impact will depend on the facts and circumstances at the point of adoption and upon the transition choices adopted.

Basis of consolidation

The consolidated financial statements include the financial statements of the company and all its subsidiary undertakings made up to 31 December 2017. Intra-group sales and profits are eliminated fully on consolidation. The purchase method of accounting is used to account for the acquisition of subsidiary undertakings by the group. The results of subsidiary undertakings acquired or disposed of are consolidated for the period from or to the date on which control passed. Uniform accounting policies are applied across the group.

The subsidiaries are entities over which the group has control. The group controls an entity when it is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. The cost of acquisition is measured as the fair value of assets given, equity instruments issued and liabilities incurred. Any identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. Any unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the group and liabilities incurred by the group to the former owners of the acquiree in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value.

Goodwill is measured as the excess of the sum of the consideration transferred over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

When the consideration transferred by the group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates at fair value with the corresponding gain or loss being recognised in profit or loss.

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Goodwill
Goodwill is initially recognised and measured as set out above.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Intangible assets
Intangible assets acquired separately that meet the recognition criteria of IAS 38 Intangible Assets, are capitalised at cost and when acquired in a business combination are capitalised at fair value at the date of acquisition. Cost includes the original purchase price of the asset and the costs directly attributable to bringing the asset to its working condition for its intended use. Following initial recognition, finite life assets are amortised on a straight-line basis and indefinite life assets are not amortised. Finite life intangible assets have a residual value of £nil and are amortised over their estimated useful lives as follows:

Computer software	4-5 years
Development projects	15 years
Customer contracts and relationships	12 years

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred.

Costs incurred on development projects are recognised as intangible assets when it is probable that the project will be a success, considering its commercial and technological feasibility, and costs can be measured reliably. External and internal costs are capitalised to the extent that they enhance the future economic benefit of the asset.

Intangible assets with indefinite lives are tested annually for impairment. The useful lives of finite life intangible assets are examined on an annual basis and adjustments, where applicable, are made on a prospective basis. Finite life assets are reviewed for impairment where indicators of impairment exist.

The group's only indefinite life intangible asset is goodwill.

Research and development
In general, research and development expenditure is charged to the income statement in the year in which it occurred. However, as set out above, under certain conditions development expenditure is capitalised as an intangible asset.

Property, plant and equipment
Property, plant and equipment is stated at cost less accumulated depreciation. The cost of property, plant and equipment is its purchase cost, together with any incidental costs of acquisition and directly attributable costs. Provision for depreciation is made so as to write off the costs of the assets on a straight-line basis over their expected useful economic lives as follows:

Freehold buildings	50 years
Plant and machinery	8-15 years
Computer equipment	4-5 years
Motor vehicles	4 years
Fixtures and fittings	10 years

Notes to the financial statements continued
for the year ended 31 December 2017

1. Accounting policies continued

Property, plant and equipment continued
No depreciation is provided on freehold land or on assets under construction.

Assets under construction are transferred to the appropriate asset category when they come into use. Depreciation on assets so transferred is provided with effect from the month following the date of transfer.

Asset residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date, or more frequently if there have been indications of any significant change in either.

Gains and losses on disposals are determined by comparing the proceeds with carrying amounts and are recognised within other operating income or expense in the income statement.

Repairs and maintenance costs are charged to the income statement during the year in which they are incurred.

Impairment of non-financial assets
Assets that have an indefinite useful life are not subject to amortisation but are tested for impairment annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to depreciation or amortisation are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

Grants
Grants relating to property, plant and equipment are included in current and non-current liabilities as appropriate and credited to the income statement on a straight-line basis over the expected useful lives of the related assets.

Grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs they are intended to compensate.

Fixed asset investments
The company's investments in subsidiary undertakings are shown at cost less accumulated impairment losses.

Leases
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease rentals are charged to the income statement on a straight-line basis over the term of the lease.

Inventories
Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first in, first out basis and includes transport and handling costs. In the case of manufactured products, cost includes all direct expenditure and production overheads based on the normal level of activity. Net realisable value is the price at which inventories can be sold in the normal course of business after allowing for the costs of realisation and, where appropriate, the cost of conversion from their existing state to a finished condition. Provision is made, where appropriate, for obsolete, slow-moving and defective inventories.

Trade receivables
Trade receivables are non-interest bearing and are initially recognised at fair value and subsequently measured at amortised cost, less provision for estimated irrecoverable amounts. Estimated irrecoverable amounts are based on historical experience, together with specific amounts that are not expected to be collectible. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Individual trade receivables are written off when management deems them not to be collectible.

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and short-term deposits with maturity dates of less than three months which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. For the purposes of the cash flow statement, net cash and cash equivalents comprise cash and cash equivalents net of bank overdrafts.

Offsetting of financial assets and liabilities
Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, the group has a legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Impairment of non-derivative financial assets
Financial assets, other than those held at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence of impairment which could include significant financial difficulty for the issuer or counterparty or observable data indicating there is a measurable decrease in the cash flows expected from a group of financial assets.

Foreign currencies
Items included in the financial statements of each of the group's subsidiary undertakings are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in sterling, which is the company's functional and presentation currency.

Foreign currency transactions in each entity are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges.

Other gains and losses arising from foreign currency transactions are included in the income statement.

The trading results of foreign currency denominated subsidiaries are translated into sterling, the presentation currency of the group and functional currency of the parent, using average rates of exchange for the year. The balance sheets of foreign currency denominated subsidiaries are translated into sterling at the rates of exchange ruling at the year end and exchange differences arising are taken directly to the translation reserve in equity. On disposal of a foreign denominated subsidiary, the deferred cumulative amount recognised in the translation reserve (since 1 January 2004 under the transitional rules of IFRS 1) relating to that entity is recognised in the income statement. All other translation differences are taken to the income statement, with the exception of differences on foreign currency borrowings and forward foreign currency contracts which are used to provide a hedge against the group's net investments in foreign enterprises. These are taken directly to equity or other comprehensive income until the disposal of the net investment, at which time they are recognised in the income statement.

Revenue recognition
Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the group's activities. Sales revenue, which is net of returns, rebates and discounts, and which excludes value added tax and sales between group companies, represents the net invoiced value of goods supplied and is recognised when the goods have either been delivered to or collected by the customer and the risks and rewards of ownership of the goods have been transferred to them.

Interest income is recognised on a time-proportion basis using the effective interest method.

Dividend income is recognised by the company in the income statement on the date the entity's right to receive payment is established.

Tax
The tax expense represents the sum of tax currently payable and deferred tax. Current tax and deferred tax are recognised within profit or loss, except when they relate to items recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

The charge for current tax is based on the results for the year as adjusted for items which are non-assessable or disallowable. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Tax provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that the group will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related asset is realised or the liability is settled. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity or other comprehensive income, in which case the deferred tax is also dealt with within equity or other comprehensive income.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Notes to the financial statements continued
for the year ended 31 December 2017

1. Accounting policies continued

Tax continued

Deferred tax is provided on temporary differences arising on investments in subsidiaries, except for deferred tax liabilities where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same tax authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Pensions

The group operates a number of defined contribution and defined benefit pension plans. All defined benefit pension plans are now closed to new entrants.

Payments to defined contribution pension plans are charged as an expense as they fall due.

The group's obligations in respect of defined benefit pension plans are valued by independent actuaries using the projected unit credit method. All group plans are funded externally, with the exception of Germany, where, in line with local practice, obligations are supported by insurance policies. Plan assets are valued at fair market value and are held completely separate from the group's assets. Full formal actuarial valuations of obligations are carried out at frequencies of not more than three years and are updated regularly for reporting purposes.

Amounts recorded in the balance sheet represent the fair value of external plan assets less the present value of the defined benefit obligations.

Amounts recorded in the income statement represent the current service cost over the reporting year, which is included in operating profit, and net finance income or cost, i.e. interest income on assets less interest cost on liabilities calculated using the discount rate, which is included as a separate component of finance income and cost. Other income statement credits or charges can arise for special events, such as a past service benefit improvement or settlement and curtailment of plan liabilities.

Re-measurements of the net defined benefit liabilities which comprise actuarial gains and losses, the gains or losses on plan assets excluding interest, and the effect of the asset ceiling (if any) are recognised immediately in other comprehensive income. Actuarial gains and losses on liabilities occur due to changes in actuarial assumptions at the balance sheet date and also due to any differences between assumptions and actual outcomes. Gains and losses on plan assets represent the difference between interest income over the year, and the actual return achieved.

Share schemes

The group operates a number of equity-settled share-based incentive plans as consideration for services received from employees. The fair value of services received in exchange for the grant of share awards is recognised as an expense with the total amount to be expensed being determined by reference to the fair value of the awards granted. The fair value of the awards includes any market performance conditions, but excludes the impact of any service or non-market performance vesting conditions and is reduced by any consideration received from employees. Any non-market performance or service conditions are included in assumptions over the number of awards expected to vest, and the total expense is recognised over the full vesting period in the income statement with a corresponding credit made to equity. At the end of each year the group revises its estimates of the number of awards expected to vest based on non-market vesting conditions and recognises the impact of any revision in the income statement, with a corresponding adjustment to equity.

The social security contributions payable on share awards granted is recognised in the income statement over the vesting period and is treated as a cash-settled transaction.

Dividends payable

The liability for final dividends is recorded when the dividends are approved by the company's shareholders. Interim dividends are recorded when paid.

Borrowings

Borrowings are recognised initially at fair value, net of transactions costs incurred, and subsequently re-measured at fair value where associated risks are hedged by derivative financial instruments. Un-hedged borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs are recognised as an expense in the year in which they are incurred, except where they are directly attributable to the acquisition, construction or production of a qualifying asset, in which case they are capitalised as part of the cost of that asset.

Trade payables
Trade payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Provisions for other liabilities and charges
Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that the group will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, with the present value of estimated cash flows used if the effect of the time value of money is material.

Restructuring provisions are recognised when the group has a detailed formal plan for the restructuring and has either started implementing the plan or announced its main features to those affected by it. The measurement of the obligation comprises costs which are directly related to the restructuring.

Derivative financial instruments
Derivative financial instruments used to hedge risks associated with interest rate and foreign currency fluctuations are initially and subsequently re-measured at fair value.

The fair values of forward exchange contracts are calculated by reference to market forward rates at the balance sheet date. The fair values of interest rate swap contracts are calculated on a discounted cash flow basis using market forward rates.

Gains or losses arising from the movement to fair value are taken to the income statement except where the derivative is designated as a cash flow hedge or net investment hedges.

In order to qualify for hedge accounting, the group is required to document in advance the relationship between the item being hedged and the hedging instrument, and demonstrate that the hedge will be highly effective on an ongoing basis. This effectiveness testing is re-performed at each reporting date to ensure that the hedge remains highly effective.

Cash flow hedges
The group has designated forward foreign exchange contracts and the interest rate differential of cross-currency interest rate swaps as cash flow hedges.

For cash flow hedges, the effective part of changes in the fair value of the derivative is recognised in other comprehensive income. Gains or losses relating to any ineffective part of changes in fair value are taken immediately to the income statement. Amounts accumulated in equity are transferred to the income statement in the same period as the hedged transaction occurs, for example, when the forecast sale or purchase transaction takes place.

Any movements in fair value occurring after the time when hedging contracts cease to be cash flow hedges are taken directly to the income statement.

Fair value hedges
The group has designated the exchange element of cross-currency interest rate swaps as fair value hedges.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the income statement immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The fair value adjustment to the carrying amount of the hedged risk is amortised in the income statement from the time the hedging contracts cease to be fair value hedges.

Net investment hedges
Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised in other comprehensive income. Gains or losses relating to any ineffective portion are taken immediately to the income statement. Amounts accumulated in equity are transferred to the income statement when the foreign operation is partially disposed of or sold.

Notes to the financial statements continued
for the year ended 31 December 2017

1. Accounting policies continued
Segment reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Board, which is responsible for allocating resources and assessing the performance of the operating segments.

Exceptional items
Exceptional items are those significant items which are incremental to normal operations and are separately disclosed by virtue of their nature or size to enable a better understanding of the group's underlying financial performance. See critical estimates and judgements section on page 72.

2. Segment information
The chief operating decision maker has been identified as the Board. The Board reviews the group's financial results on a geographical segment basis with three identifiable operating segments:

- Americas: includes North America and Latin America
- Asia – Pacific: includes Australia, New Zealand, Japan, China and the rest of South East Asia
- Europe: includes Continental Europe, UK, Ireland and Africa

The Board assesses the performance of the operating segments based on underlying operating profit. This measurement basis excludes the effects of exceptional income and expenditure from the operating segments. The Board assesses the operating segments based on group profit for external sales in each region, rather than statutory profit for the region which also includes profit on intercompany sales. Finance income and cost, and net finance cost on pensions, are not included in the segment results that are reviewed by the Board.

During the year the basis used by the Board was revised to reflect the new global organisation structure that was implemented in the last quarter of 2016, which created a single Global Supply Chain organisation and single Global Business Development organisation. Following this organisational change, the manufacturing asset base is now managed on a global basis, rather than by region. As a result the segmental information has been presented on the amended basis and the prior year figures have been restated on a consistent basis.

Profit for the geographic segments is determined as revenue less standard cost of manufacture and direct selling costs. The Global costs comprise Global Supply Chain (including any variances from standard cost of manufacture), Global Business Development (including research & development) and Global Business Services (including finance and human resources).

Information provided to the Board is consistent with that in the financial statements.

	Americas		Asia-Pacific		Europe		Global		Total group	
	2017 £'m	2016 £'m	**2017 £'m**	2016 £'m	**2017 £'m**	2016 £'m	**2017 £'m**	2016 £'m	**2017 £'m**	2016 £'m
Revenue from external customers	**61.6**	64.0	**85.3**	75.5	**110.0**	101.6	**–**	–	**256.9**	241.1
Underlying operating profit	**23.7**	24.4	**28.4**	27.4	**40.7**	41.6	**(54.7)**	(55.3)	**38.1**	38.1
Exceptional items									**(5.1)**	(22.7)
Operating profit									**33.0**	15.4
Finance income									**–**	0.1
Finance cost									**(8.6)**	(7.0)
Net finance cost on pensions									**(2.8)**	(2.3)
Profit before tax									**21.6**	6.2

Other segment information:

	Americas		Asia-Pacific		Europe		Global		Total Group	
	2017 £'m	2016 £'m	**2017 £'m**	2016 £'m	**2017 £'m**	2016 £'m	**2017 £'m**	2016 £'m	**2017 £'m**	2016 £'m
Additions to property, plant and equipment	**0.8**	1.0	**2.3**	16.2	**6.0**	3.3	**–**	–	**9.1**	20.5
Additions to intangible assets	**–**	0.1	**–**	0.7	**0.1**	0.5	**1.2**	0.4	**1.3**	1.7

The company is domiciled in the UK. Revenue by destination is presented based on the location of the customer receiving the supply and can be analysed as follows:

	2017 £'m	2016 £'m
UK	**32.4**	29.7
Other Europe	**80.8**	71.9
Total Europe	**113.2**	101.6
US	**51.6**	51.0
Other Americas	**10.0**	13.0
Total Americas	**61.6**	64.0
Australia	**19.6**	19.9
Other Asia – Pacific	**62.5**	55.6
Total Asia – Pacific	**82.1**	75.5
Total	**256.9**	241.1

Notes to the financial statements continued
for the year ended 31 December 2017

3. Operating profit

	2017			2016		
	Underlying £'m	Exceptional items £'m	Reported £'m	Underlying £'m	Exceptional items £'m	Reported £'m
Revenue	**256.9**	**–**	**256.9**	241.1	–	241.1
Cost of sales	**(166.3)**	**–**	**(166.3)**	(152.1)	(18.5)	(170.6)
Gross profit	**90.6**	**–**	**90.6**	89.0	(18.5)	70.5
Selling and distribution costs	**(19.6)**	**–**	**(19.6)**	(19.1)	–	(19.1)
Administrative expenses	**(23.6)**	**(5.1)**	**(28.7)**	(19.5)	(4.2)	(23.7)
Research and development expenditure	**(7.3)**	**–**	**(7.3)**	(7.2)	–	(7.2)
Other expenses	**(2.7)**	**–**	**(2.7)**	(5.3)	–	(5.3)
Total operating expenses	**(53.2)**	**(5.1)**	**(58.3)**	(51.1)	(4.2)	(55.3)
Other operating income	**0.7**	**–**	**0.7**	0.2	–	0.2
Net operating expenses	**(52.5)**	**(5.1)**	**(57.6)**	(50.9)	(4.2)	(55.1)
Operating profit/(expense)	**38.1**	**(5.1)**	**33.0**	38.1	(22.7)	15.4

An additional £1.2m (2016:£0.8m) of development expenditure has been capitalised within intangible assets (Note 14).

4. Exceptional items

Exceptional charges included in operating profit were £5.1m (2016: £22.7m).

	2017 £'m	2016 £'m
Devro 100 programme (i)	**5.1**	2.0
Investment projects		
Pre-operating costs to establish new manufacturing plants (ii)	**–**	20.3
Costs related to the closure of old manufacturing plant (iii)	**–**	0.4
	–	20.7
Total exceptional items	**5.1**	22.7

Devro is undergoing a major transformation including the construction and start up of two new plants in China and the US which completed in 2016, a restructuring of operations in Scotland and Australia initiated in 2014 and the Devro 100 programme with full benefits expected by 2019. The Devro 100 programme is focussed on accelerating revenue growth through significantly improving sales capabilities, delivering substantial improvements in manufacturing efficiencies to reduce unit costs, and introducing the next generation of differentiated products. The incremental costs associated with implementing this transformation are significant and as a result have been classified as exceptional items.

(i) Redundancy costs and other incremental external cost, including professional fees.

(ii) Costs related to the projects to establish new manufacturing plants in the US and China, including project management, legal and professional fees, and other incremental costs incurred prior to the commencement of normal production that are not eligible for capitalisation.

(iii) Costs incurred in the US related to the closure of the old manufacturing plant. Costs comprise redundancy and retention costs.

The exceptional tax charge includes £4.2m relating to the US federal tax rate change which is discussed in Note 9.

5. Directors' emoluments

A detailed analysis of directors' emoluments, shareholdings, long-term incentive schemes and pension arrangements is provided in the Director's Remuneration Report on pages 47 to 61.

Emoluments are summarised as follows:

	2017 £'m	2016 £'m
Aggregate emoluments (including long-term incentives with performance period ending during the year)	**1.4**	1.2
Payments in lieu of pension contributions	**0.1**	0.1

Details of the emoluments of the highest-paid director are as follows:

	2017 £'m	2016 £'m
Aggregate emoluments (including long-term incentives with performance period ending during the year)	**0.7**	0.4
Payments in lieu of pension contributions	**0.1**	0.1

6. Employee information

The average monthly number of persons (including Executive Directors) employed by the group during the year was:

	2017	2016
By employee category		
Operations and engineering	**1,785**	1,856
Sales and marketing	**87**	97
Distribution	**37**	38
Administration	**160**	165
Research and development	**109**	109
	2,178	2,265

The above total includes 42 persons (2016: 42) in the company.

Staff costs for the group were:

	2017 £'m	2016 £'m
Wages and salaries (including bonus and other benefits)	**74.4**	71.5
Social security costs	**10.3**	9.2
Pension obligation costs (Note 26)	**9.1**	8.2
Performance Share Plan charge	**0.5**	0.6
Redundancy costs included within exceptional items	**1.7**	1.1
	96.0	90.6

The key management of the group comprises of the directors and the Executive Management Team.

Notes to the financial statements continued
for the year ended 31 December 2017

7. Finance income and cost

	2017 £'m	2016 £'m
Finance income		
Interest receivable and similar income:		
On bank balances	–	0.1
Finance cost		
Interest payable and similar charges:		
On loans and overdrafts	(8.6)	(7.0)
Net finance cost on pensions	(2.8)	(2.3)

8. Profit before tax

	2017 £'m	2016 £'m
Profit before tax is stated after charging/(crediting):		
Depreciation of property, plant and equipment	25.0	22.1
Amortisation of intangible assets	1.0	0.9
Inventory recognised as an expense	122.4	114.6
Inventory written down or written off	7.0	5.6
Repairs and maintenance expenditure	12.9	14.3
Research and development expenditure	7.3	7.2
Hire of assets – operating leases	1.6	2.0
Net foreign exchange (gains)/losses	(0.4)	2.8
Auditors' remuneration (see below)	0.4	0.3

The creation and release of provisions for impaired receivables is included in other expenses in the income statement (Note 3). Amounts provided are written off when there is no expectation of them being collected.

Services provided by the company's auditors and its associates
During the year the group (including its overseas subsidiaries) obtained the following services from the company's auditors and its associates:

Group	2017 £'m	2016 £'m
Fees payable to the company's auditors and its associates for the audit of the parent company and consolidated accounts	0.1	0.1
Fees payable to the company's auditors and its associates for other services:		
– The audit of the company's subsidiaries	0.3	0.2
– Audit related assurance services £21,000 (2016: £21,000)	–	–
– Non-audit services £nil (2016: 20,000)	–	–
	0.4	0.3

In addition to the above, in 2017 the group incurred charges for services in relation to occupational pension scheme audits of £15,000 (2016: £12,000).

9. Tax

2017	Underlying £'m	Exceptional items £'m	Reported £'m
Current Tax			
UK corporation tax at 19.25%	0.1	(0.1)	–
Foreign tax	12.3	(0.2)	12.1
Total current tax charge/(credit)	**12.4**	**(0.3)**	**12.1**
Deferred tax			
Origination and reversal of temporary differences representing:			
UK corporation tax	(0.6)	–	(0.6)
Foreign tax	(5.9)	0.5	(5.4)
	(6.5)	**0.5**	**(6.0)**
Adjustments in respect of prior years	(0.1)	–	(0.1)
Total deferred tax (credit)/charge (Note 25)	**(6.6)**	**0.5**	**(6.1)**
Tax charge/(credit) in the income statement	**5.8**	**0.2**	**6.0**
Tax on items charged/(credited) to equity or other comprehensive income			
Deferred tax charge on pension obligations (excluding rate changes)	4.4	–	4.4
Deferred tax charge on net fair value losses on cash flow hedges	0.4	–	0.4
Rate changes – US federal rate (on pension obligations)	4.0	–	4.0
Deferred tax on items charged to equity or other comprehensive income	**8.8**	**–**	**8.8**
Current tax credit on other hedges	(0.4)	–	(0.4)
Total tax on items charged to equity or other comprehensive income	**8.4**	**–**	**8.4**
Total current tax charge/(credit) for the year	**12.0**	**(0.3)**	**11.7**
Total deferred tax charge for the year	**2.2**	**0.5**	**2.7**

Notes to the financial statements continued
for the year ended 31 December 2017

9. Tax continued

2016	Underlying £'m	Exceptional items £'m	Reported £'m
Current Tax			
UK corporation tax at 20%	0.4	(0.1)	0.3
Foreign tax	9.2	(0.1)	9.1
	9.6	(0.2)	9.4
Adjustments in respect of prior years	(1.8)	–	(1.8)
Total current tax charge/(credit)	7.8	(0.2)	7.6
Deferred tax			
Origination and reversal of temporary differences representing:			
UK corporation tax	(0.1)	(0.3)	(0.4)
Foreign tax	(1.1)	(2.2)	(3.3)
	(1.2)	(2.5)	(3.7)
Adjustments in respect of prior years	0.1	–	0.1
Total deferred tax (credit)/charge (Note 25)	(1.1)	(2.5)	(3.6)
Tax charge/(credit) in the income statement	6.7	(2.7)	4.0
Tax on items charged/(credited) to equity or other comprehensive income			
Deferred tax credit on pension obligations (excluding rate changes)	(5.8)	–	(5.8)
Deferred tax credit on net fair value losses on cash flow hedges	(0.2)	–	(0.2)
Deferred tax on Performance Share Plan charge	0.1	–	0.1
Rate changes – UK (on pension obligations)	0.6	–	0.6
Deferred tax on items credited to equity or other comprehensive income	(5.3)	–	(5.3)
Current tax credit on other hedges	(0.3)	–	(0.3)
Total tax on items credited to equity or other comprehensive income	(5.6)	–	(5.6)
Total current tax charge/(credit) for the year	7.5	(0.2)	7.3
Total deferred tax credit for the year	(6.4)	(2.5)	(8.9)

The effective rates for both years are higher than the standard rate of corporation tax in the UK. The differences are explained below:

2017	**Underlying £'m**	**Exceptional items £'m**	**Reported £'m**
Profit before tax	26.7	(5.1)	21.6
Profit before tax multiplied by the UK 19.25% corporation tax rate	5.2	(1.0)	4.2
Effects of:			
– Adjustments in respect of foreign tax rates	(1.2)	(0.2)	(1.4)
– Overseas tax	0.2	–	0.2
– Changes in tax rates (US federal rate)	–	4.2	4.2
– Temporary differences on which deferred tax not recognised/ (previously unrecognised)	0.4	(2.6)	(2.2)
– Permanent differences	1.2	(0.2)	1.0
Tax charge for the year	**5.8**	**0.2**	**6.0**

2016	Underlying £'m	Exceptional items £'m	Reported £'m
Profit before tax	28.9	(22.7)	6.2
Profit before tax multiplied by the UK 20% corporation tax rate	5.8	(4.5)	1.3
Effects of:			
– Adjustments in respect of prior years	(1.7)	–	(1.7)
– Adjustments in respect of foreign tax rates	(0.7)	(2.1)	(2.8)
– Overseas tax	0.4	–	0.4
– Changes in tax rates	0.2	–	0.2
– Temporary differences on which deferred tax not recognised/ (previously unrecognised)	2.9	3.9	6.8
– Permanent differences	(0.2)	–	(0.2)
Tax charge/(credit) for the year	6.7	(2.7)	4.0

The group's underlying effective tax rate on profit before exceptional items is 21.6% (2016: 23.2%).

The group operates around the world and earns profits which are subject to tax at differing rates in different tax jurisdictions. The global nature of the group's operations gives rise to several factors which could affect the future tax rate. These include the mix of profits, changes to statutory tax rates or tax legislation and the foreign exchange rates applicable when those profits are translated into sterling.

Tax reforms were enacted in the US on 22 December 2017, and although effective from 1 January 2018 the reforms did have an impact on the tax charge in 2017 due to the revaluation of deferred tax assets and liabilities to reflect the change in federal tax rate from 35% to 21%. The income statement impact for 2017 was an additional tax charge of £4.2m which is reported as an exceptional item.

Additional deferred tax assets in respect of previously unrecognised losses have been recognised in the year as a result of an increase in the projected taxable profits in the relevant jurisdictions, including the effects of a review of the internal funding structure. To the extent that additional deferred tax assets related to losses previously charged to exceptional items, the associated tax credit has also been reported as an exceptional item.

The UK corporation tax rate of 20% reduced to 19% from 1 April 2017 giving a blended rate for the year of 19.25%. Further reductions to 17% from 1 April 2020 were substantively enacted in September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax liability at 31 December 2017 has been calculated based on these rates.

The group has recognised potential liabilities in respect of uncertain tax positions as described in the group accounting policies. In determining such liabilities, having regard to the specific circumstances of each tax position and external advice where appropriate, the group assesses the range of potential outcomes and estimates whether additional tax may be due. Tax uncertainties and associated risks are increasing for all multi national groups as a consequence of changes to local and international tax rules, for example the OECD's Base Erosion & Profit Shifting project and other possible changes such as tax reform in the US. In these circumstances tax risk can arise from unclear regulations and differences in interpretation, but most significantly where tax authorities apply diverging standards in assessing intra-group cross-border transactions. The group does not currently anticipate any material changes to the amounts recorded in respect of these liabilities as at the balance sheet date.

10. Profit for the year

As permitted by Section 408 of the Companies Act 2006, the parent company's income statement and statement of comprehensive income have not been presented in these financial statements.

The parent company profit for the year is £54.1m (2016: £34.3m).

Notes to the financial statements continued
for the year ended 31 December 2017

11. Dividends

Group and company	2017 £'m	2016 £'m
Final paid of 6.1 pence per share (2016: 6.1 pence)	**10.2**	10.2
Interim paid of 2.7 pence per share (2016: 2.7 pence)	**4.5**	4.5
	14.7	14.7

During the year, dividends totalling £nil (2016: £nil) were waived in respect of shares owned by the Devro Employee Share Ownership Trust.

The directors propose a final dividend of 6.10 pence per share in respect of the financial year ended 31 December 2017 which will absorb an estimated £10.2m of shareholders' funds. It will be paid on 11 May 2018 to shareholders who are on the register at close of business on 3 April 2018.

12. Earnings per share

	2017 £'m	2016 £'m
Profit attributable to equity holders	**15.6**	2.2
Underlying profit attributable to equity holders	**20.9**	22.2
Earnings per share		
– Basic	**9.3p**	1.3p
– Underlying basic	**12.5p**	13.3p
– Diluted	**9.3p**	1.3p
– Underlying diluted	**12.4p**	13.2p

	2017	2016
Shares in issue Weighted average number of shares in the year	**166,949,022**	166,941,137
Adjustments for: – Performance Share Plan	**1,691,003**	1,717,046
Weighted average number of shares adjusted for potential dilution	**168,640,025**	168,658,183

Basic earnings per share is calculated by dividing the profit for the year attributable to owners of the parent of £15.6m (2016: £2.2m) by 166,949,022 (2016: 166,941,137) shares, being the weighted average number of shares in issue throughout the year.

Shares arising from the Performance Share Plan are only treated as dilutive where the effect is to reduce earnings per share. Diluted earnings per share is calculated by dividing the profit for the year attributable to ordinary shareholders of £15.6m (2016: £2.2m) by the average number of shares, including the effect of all dilutive potential shares, of 168,640,025 (2016: 168,658,183).

Underlying earnings per share is calculated in order to eliminate the effect of exceptional items after tax in 2017 of £5.3m (2016: £20.0m) on the results. Underlying basic earnings per share is calculated by dividing the underlying profit attributable to ordinary shareholders of £20.9m (2016: £22.2m) by 166,949,022 (2016: 166,941,137) shares, being the weighted average number of shares in issue throughout the year.

13. Property, plant and equipment

Group	Freehold land and buildings £'m	Plant and machinery, and motor vehicles £'m	Fixtures and fittings, and computer equipment £'m	Assets in the course of construction £'m	Total £'m
Cost					
At 1 January 2017	155.5	374.9	17.0	7.5	554.9
Exchange differences	1.6	(1.0)	(0.9)	1.0	0.7
Additions	0.1	2.8	0.5	5.7	9.1
Disposals	(1.7)	(4.4)	(0.4)	–	(6.5)
Reclassification	1.1	3.6	0.1	(4.8)	–
At 31 December 2017	**156.6**	**375.9**	**16.3**	**9.4**	**558.2**
Accumulated depreciation					
At 1 January 2017	(39.5)	(195.1)	(11.7)	–	(246.3)
Exchange differences	(1.1)	(0.5)	(0.1)	–	(1.7)
Charge for year	(3.5)	(21.0)	(0.5)	–	(25.0)
Disposals	1.3	4.3	0.3	–	5.9
At 31 December 2017	**(42.8)**	**(212.3)**	**(12.0)**	**–**	**(267.1)**
Net book value at 31 December 2017	**113.8**	**163.6**	**4.3**	**9.4**	**291.1**
Cost					
At 1 January 2016	88.5	266.1	10.6	103.4	468.6
Exchange differences	18.5	39.7	2.1	6.3	66.6
Additions	0.2	1.7	0.2	18.4	20.5
Disposals	–	(0.6)	(0.2)	–	(0.8)
Reclassification	48.3	68.0	4.3	(120.6)	–
At 31 December 2016	155.5	374.9	17.0	7.5	554.9
Accumulated depreciation					
At 1 January 2016	(32.2)	(157.6)	(8.7)	–	(198.5)
Exchange differences	(4.3)	(20.7)	(1.5)	–	(26.5)
Charge for year	(3.0)	(17.4)	(1.7)	–	(22.1)
Disposals	–	0.6	0.2	–	0.8
At 31 December 2016	(39.5)	(195.1)	(11.7)	–	(246.3)
Net book value at 31 December 2016	116.0	179.8	5.3	7.5	308.6
Cost at 1 January 2016	88.5	266.1	10.6	103.4	468.6
Accumulated depreciation at 1 January 2016	(32.2)	(157.6)	(8.7)	–	(198.5)
Net book value at 1 January 2016	56.3	108.5	1.9	103.4	270.1

In the income statement, depreciation of £23.6m (2016: £20.8m) has been charged in cost of sales, £0.2m (2016: £0.1m) in selling and distribution costs, £0.9m (2016: £1.1m) in administrative expenses, £0.1m (2016: £0.1m) in research and development expenditure and £0.2m (2016: £nil) in other expenses.

Notes to the financial statements continued
for the year ended 31 December 2017

13. Property, plant and equipment continued

Borrowing costs of £nil (2016: £0.5m) were capitalised to property, plant and equipment with no tax effect in 2017 (2016: £0.1m). A rate of 4.3% was used to capitalise borrowing costs in 2016.

Company	Plant and machinery, and motor vehicles and Total £'m
Cost	
At 1 January 2017	**0.9**
At 31 December 2017	**0.9**
Accumulated depreciation	
At 1 January 2017	**(0.8)**
Charge for year	**(0.1)**
At 31 December 2017	**(0.9)**
Net book value at 31 December 2017	**–**
Cost	
At 1 January 2016	0.9
At 31 December 2016	0.9
Accumulated depreciation	
At 1 January 2016	(0.7)
Charge for year	(0.1)
At 31 December 2016	(0.8)
Net book value at 31 December 2016	0.1
Cost at 1 January 2016	0.9
Accumulated depreciation at 1 January 2016	(0.7)
Net book value at 1 January 2016	0.2

14. Intangible assets

Group	Goodwill £'m	Customer contracts & relationships £'m	Computer software £'m	Development costs £'m	Total £'m
Cost					
At 1 January 2017	3.1	2.1	8.4	5.6	19.2
Exchange differences	–	–	0.1	(0.2)	(0.1)
Additions	–	–	0.1	1.2	1.3
At 31 December 2017	**3.1**	**2.1**	**8.6**	**6.6**	**20.4**
Accumulated amortisation					
At 1 January 2017	–	(0.2)	(7.3)	(1.3)	(8.8)
Exchange differences	–	–	(0.2)	–	(0.2)
Charge for year	–	(0.2)	(0.5)	(0.3)	(1.0)
At 31 December 2017	**–**	(0.4)	(8.0)	(1.6)	(10.0)
Net book value at 31 December 2017	**3.1**	**1.7**	**0.6**	**5.0**	**10.4**
Cost					
At 1 January 2016	3.1	2.1	7.0	4.4	16.6
Exchange differences	–	–	0.5	0.4	0.9
Additions	–	–	0.9	0.8	1.7
At 31 December 2016	3.1	2.1	8.4	5.6	19.2
Accumulated amortisation					
At 1 January 2016	–	–	(6.4)	(1.0)	(7.4)
Exchange differences	–	–	(0.4)	(0.1)	(0.5)
Charge for year	–	(0.2)	(0.5)	(0.2)	(0.9)
At 31 December 2016	–	(0.2)	(7.3)	(1.3)	(8.8)
Net book value at 31 December 2016	3.1	1.9	1.1	4.3	10.4
Cost at 1 January 2016	3.1	2.1	7.0	4.4	16.6
Accumulated amortisation at 1 January 2016	–	–	(6.4)	(1.0)	(7.4)
Net book value at 1 January 2016	3.1	2.1	0.6	3.4	9.2

Included in the net book value of intangible assets is £4.4m (2016: £3.5m) relating to internally generated development costs.

In the income statement, amortisation of £0.4m (2016: £0.3m) is included in cost of sales and £0.6m (2016: £0.6m) in administrative expenses.

The group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. The group's goodwill entirely relates to the acquisition of PV Industries B.V. which was completed during 2015, and represents a single cash generating unit. The recoverable amount of this cash generating unit is determined from value in use calculations, and the key assumptions are those regarding the discount rate, profit margin and sales growth rates. The group prepares cash flow forecasts for the next five years derived from the most recent financial budgets approved by management, based on expected market growth rates and prior experience, with an estimated long-term growth rate of 3.0% per annum assumed at the end of the five year forecast period. The rate used to discount the forecast cash flows is 9.0% (2016: 8.7%). Based on these calculations there is sufficient headroom over the book value of goodwill.

Notes to the financial statements continued
for the year ended 31 December 2017

14. Intangible assets continued

Company	Computer software £'m	Development costs £'m	Total £'m
Cost			
At 1 January 2017	3.8	0.4	4.2
Additions	–	1.1	1.1
At 31 December 2017	**3.8**	**1.5**	**5.3**
Accumulated amortisation			
At 1 January 2017	(3.5)	–	(3.5)
Charge for year	(0.1)	–	(0.1)
At 31 December 2017	**(3.6)**	**–**	**(3.6)**
Net book value at 31 December 2017	**0.2**	**1.5**	**1.7**
Cost			
At 1 January 2016	3.6	0.1	3.7
Additions	0.2	0.3	0.5
At 31 December 2016	3.8	0.4	4.2
Accumulated amortisation			
At 1 January 2016	(3.4)	–	(3.4)
Charge for year	(0.1)	–	(0.1)
At 31 December 2016	(3.5)	–	(3.5)
Net book value at 31 December 2016	0.3	0.4	0.7
Cost at 1 January 2016	3.6	0.1	3.7
Accumulated amortisation at 1 January 2016	(3.4)	–	(3.4)
Net book value at 1 January 2016	0.2	0.1	0.3

15. Investments

Company	2017 £'m	2016 £'m
Interest in group undertakings		
Cost and net book value at 1 January	**204.0**	199.5
Additions	**1.7**	4.5
Cost and net book value at 31 December	**205.7**	204.0

Additions in 2017 relate to Performance Share Plan charges for employees within subsidiaries which will be settled with the company's shares.

Additions in 2016 have arisen due to the company's investment in its China subsidiary in order to fund the group's investment projects and Performance Share Plan charges.

The company's subsidiary undertakings at 31 December 2017 are shown below:

Name of undertaking	Country of incorporation or registration	Nature of business	Class of shares held	Proportion of nominal value of issued shares & voting rights held by: Group	Company	Registered office address
Devro (Scotland) Limited	Scotland	Casings	Ordinary		100%	Moodiesburn, Chryston G69 0JE, Scotland
Devro New Holdings Limited	Scotland	Holding	Ordinary		100%	Moodiesburn, Chryston G69 0JE, Scotland
Devro Acquisition Corp	USA	Holding	Common	100%		2711 Centerville road, Suite 400, City of Wilmington 19808, County of New Castle, United States
Devro US Finance LLP	USA	Finance	Common	100%		2711 Centerville road, Suite 400, City of Wilmington 19808, County of New Castle, United States
Devro Asia Limited	Hong Kong	Casings	Ordinary	100%		7/F CKK Commercial Center 289 Hennessy Road Wanchai, Hong Kong
Devro Pty Limited	Australia	Casings	Ordinary	100%		139 Sydney Road, Kelso NSW 2795 Australia
Devro KK	Japan	Casings	Ordinary	100%		Yasuda Shibaura Bldg., No.2, 3-2-12 Kaigan Minato-Ku, Tokyo
Devro Inc	USA	Casings	Common	100%		2711 Centerville road, Suite 400, City of Wilmington 19808, County of New Castle, United States
Devro s.r.o	Czech Republic	Casings	Ordinary	100%		Vochovska 830, Hrabacov, 51401, Jilemnice
Devro Trading (Beijing) Co. Limited	China	Casings	Ordinary	100%		Room 1404 Tower B, COFCO Plaza, 8 Jianguomennei Avenue, Dongcheng District, Beijing 100005, China
Devro (Nantong) Technology Co. Limited	China	Casings	Ordinary	100%		No. 329 Xinxing East Road NETDA Nantong Jiangsu China
Devro B.V	The Netherlands	Casings	Ordinary	100%		Willem Alexanderstraat, 96691 EE, Gendt, The Netherlands

Devro Pty Limited has a branch located in New Zealand.

Notes to the financial statements continued
for the year ended 31 December 2017

16. Inventories
Details of inventories relating to the group are as follows:

	2017 £'m	2016 £'m
Raw materials and consumables	**4.7**	4.8
Work in progress	**4.9**	4.0
Finished goods and goods for resale	**22.7**	25.0
	32.3	33.8

The amounts stated above are net of inventory provisions. A 10% increase in inventories provided for would increase provision charge by £0.6m (2016: £0.6m).

17. Trade and other receivables

	Group		Company	
	2017 £'m	2016 £'m	2017 £'m	2016 £'m
Amounts falling due after more than one year				
Amounts owed by subsidiary undertakings	**–**	–	**128.9**	113.3
Other receivables	**4.5**	4.7	**–**	–
Amounts falling due within one year				
Trade receivables	**26.4**	26.2	**–**	–
Less: provision for doubtful debts	**(0.2)**	(0.2)	**–**	–
Trade receivables – net	**26.2**	26.0	**–**	–
Amounts owed by subsidiary undertakings*	**–**	–	**16.0**	13.8
Other receivables	**2.1**	1.7	**0.2**	–
Prepayments and accrued income	**2.3**	2.8	**1.3**	1.6
	30.6	30.5	**17.5**	15.4

* Amounts receivable from subsidiary undertaking include tax losses surrendered. These amount to £9.3m (2016: £8.0m).

Group
At 31 December 2017, trade receivables of £0.2m (2016: £0.2m) were impaired and fully provided. It was assessed that none of the impaired receivables would be recovered. The ageing of these receivables was as follows:

	2017 £'m	2016 £'m
Less than 30 days past due	**–**	–
Greater than 90 days past due	**0.2**	0.2
	0.2	0.2

Movements on the group's provision for impairment of receivables were as follows:

	2017 £'m	2016 £'m
At 1 January	**0.2**	0.6
Receivables impaired	**–**	(0.4)
At 31 December	**0.2**	0.2

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The group does not hold any collateral as security.

At 31 December 2017, trade receivables of £3.8m (2016: £5.5m) were past due but not impaired. The group believes the unimpaired amounts are collectable in full based on historical payment behaviour and an analysis of customer credit risk. The ageing of these receivables was as follows:

	2017 £'m	2016 £'m
Less than 30 days past due	**3.3**	4.8
30 to 90 days past due	**0.5**	0.7
	3.8	5.5

Formal procedures are in place to minimise, as far as possible, losses from non-collection of receivables. These procedures, which include designated levels of authority, cover the opening of new accounts, payment terms and the setting up and review of credit limits. Where considered appropriate, payment in advance or confirmed letters of credit are required before product is released to customers.

There have been no significant losses due to the impairment or non-collection of receivables in recent years.

The carrying amounts of the group's trade receivables were denominated in the following currencies:

	2017 £'m	2016 £'m
US dollar	**2.1**	2.1
Euro	**8.1**	7.2
Japanese yen	**6.1**	5.9
Sterling	**3.9**	3.4
Australian dollar	**2.3**	2.8
Czech koruna	**1.0**	1.2
Chinese renminbi	**0.8**	1.4
Other currencies	**1.9**	2.0
	26.2	26.0

Company
At 31 December 2017, trade receivables of £nil (2016: £nil) were neither past due nor impaired.

At 31 December 2017, receivables due from subsidiary undertakings of £144.9m (2016: £127.1m) were neither past due nor impaired.

The carrying amounts of the company's receivables due from subsidiaries were denominated in the following currencies:

	2017 £'m	2016 £'m
Sterling	**10.3**	8.3
Japanese yen	**4.5**	4.9
US dollar	**90.5**	86.6
Chinese renminbi	**34.2**	24.5
Euro	**2.2**	2.1
Other currencies	**3.2**	0.7
	144.9	127.1

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18. Cash and cash equivalents

	Group		Company	
	2017 £'m	2016 £'m	2017 £'m	2016 £'m
Cash at bank and in hand	**10.3**	9.8	**0.3**	0.1
Short-term bank deposits	**0.5**	0.1	**–**	–
	10.8	9.9	**0.3**	0.1

19. Trade and other payables – current

	Group		Company	
	2017 £'m	2016 £'m	2017 £'m	2016 £'m
Trade payables	**11.0**	13.0	**1.1**	0.7
Tax and social security payable	**2.3**	3.0	**–**	0.1
Accruals	**17.9**	18.4	**4.2**	2.5
	31.2	34.4	**5.3**	3.3

Accruals include £0.2m (2016: £0.1m) in respect of government grants payable within one year.

20. Other payables – non-current

	Group		Company	
	2017 £'m	2016 £'m	2017 £'m	2016 £'m
Amounts owed to subsidiary undertakings	**–**	–	**27.3**	22.1
Accruals	**3.3**	3.4	**–**	–
	3.3	3.4	**27.3**	22.1

Accruals include £2.4m (2016: £2.5m) in respect of government grants payable after more than one year. Government grants are primarily used for the purpose of funding capital expenditure.

21. Provisions for other liabilities and charges

Group	2017 £'m	2016 £'m
At 1 January	**4.4**	6.0
Charge to the income statement during the year	**2.6**	1.0
Released	**(0.5)**	–
Utilised during the year	**(2.6)**	(3.5)
Foreign exchange	**(0.1)**	0.9
At 31 December	**3.8**	4.4
Non-current	**3.6**	3.6
Current	**0.2**	0.8
Total	**3.8**	4.4

The closing provision as at 31 December 2017 includes redundancy provisions of £0.2m (2016: £0.8m), which are expected to be paid before the end of 2018, and an estimated £3.6m (2016: £3.6m) for decommissioning costs for the sites that need to be made safe following the cessation of associated manufacturing activities, and to ensure food hygiene and environmental standards are maintained at those sites. The decommissioning provision has been determined based on independent advice.

22. Financial liabilities – borrowings

	Group		Company	
	2017 £'m	2016 £'m	**2017 £'m**	2016 £'m
Current				
Bank overdrafts due within one year or on demand	**1.5**	1.9	**1.2**	3.5
Non-current				
Unsecured bank loans	**69.8**	80.4	**34.4**	51.6
US dollar private placement	**74.4**	81.2	**74.4**	81.2
	144.2	161.6	**108.8**	132.8

Bank overdrafts and bank loans are denominated in a number of currencies, and bear interest based on the London Interbank Offered Rate ("LIBOR") as set by the Intercontinental Exchange or equivalent rates appropriate to the country in which the borrowing is incurred. The group is exposed to short-term interest rate changes on all of its bank borrowings.

The group issued a private placement of senior unsecured notes on 17 April 2014 for a total of US$100m, of which US$50m was received in April 2014 and the remainder was received in June 2014. The private placement notes provide funding with fixed terms maturing between 2021 and 2026, with an average fixed interest rate of 4.48%.

The effective interest rates at the balance sheet dates were as follows:

	Currency	Rate	2017	2016
Bank overdrafts:				
	Sterling*	Bank of England base rate plus 150 basis points	**2.00%**	1.75%
	US dollar	US 1 month LIBOR plus 200 basis points	**3.56%**	2.77%
	Czech koruna	PRIBOR plus 90 basis points	**1.54%**	1.10%
	Euro	EUR LIBOR plus 90 basis points	**0.90%**	0.90%
Bank borrowings:				
Floating rate	Sterling	LIBOR plus 140 basis points (2016: plus 160 basis points)	**1.90%**	1.86%
Floating rate	US dollar	US LIBOR plus 140 basis points (2016: plus 160 basis points)	**2.96%**	2.37%
Floating rate	Australian dollar	BBSW plus 140 basis points (2016: plus 160 basis points)	**3.11%**	3.22%
Floating rate	Chinese renminbi	CNH Hong Kong HIBOR plus 140 basis points (2016: plus 160 basis points)	**6.35%**	9.22%
Average bank borrowings rate			**3.55%**	3.40%
Other debt payable:				
Fixed rate	US dollar		**4.48%**	4.48%

* includes overdrafts in certain currencies pooled with sterling for interest calculation purposes.

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for the year ended 31 December 2017

22. Financial liabilities – borrowings continued
Borrowings were denominated in the following currencies:

	2017			2016		
Group	**Bank borrowings £'m**	**Other debt £'m**	**Total £'m**	Bank borrowings £'m	Other debt £'m	Total £'m
Sterling	34.4	–	34.4	51.7	–	51.7
Australian dollar	8.1	–	8.1	0.9	–	0.9
Chinese renminbi	27.3	–	27.3	27.9	–	27.9
Czech koruna	1.5	–	1.5	1.8	–	1.8
US dollar	–	74.4	74.4	–	81.2	81.2
	71.3	**74.4**	**145.7**	82.3	81.2	163.5
Company						
Sterling	35.6	–	35.6	55.1	–	55.1
US dollar	–	74.4	74.4	–	81.2	81.2
	35.6	**74.4**	**110.0**	55.1	81.2	136.3

23. Capital and financial risk management, and financial instruments
Financial risk management
The Board reviews and agrees policies for managing each of the risks associated with capital, interest rates, foreign exchange, credit, and liquidity. It is the group's policy that no speculative trading in financial instruments shall be undertaken. These policies have remained unchanged throughout the year, are consistent with the previous year, and are summarised below:

Capital
When managing capital, the group's objectives are to safeguard the business as a going concern, provide returns to shareholders and benefits for other stakeholders, and maintain an efficient capital structure. The group's capital structure consists of net debt and equity of the group. Net debt is total borrowings less cash and cash equivalents. Equity comprises issued share capital, reserves and retained earnings. In order to maintain its capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The covenants related to the group's bank loan facilities determine a minimum of underlying EBITDA to net interest payable ratio and a maximum covenant of net debt to underlying EBITDA ratio. These measures are defined, explained and reconciled to the equivalent statutory measures in the Financial Review on pages 18 to 23. The group had adequate headroom within both covenants throughout the years ending 31 December 2017 and 31 December 2016.

Another measure used to monitor the strength of the group's balance sheet is the gearing ratio, which expresses the group's net debt as a percentage of its equity. The covenant and gearing ratios at 31 December 2017 and 31 December 2016 were as follows:

	Note	2017 £'m	2016 £'m
Total borrowings	22	**145.7**	163.5
Less: cash and cash equivalents	18	**(10.8)**	(9.9)
Net debt	31	**134.9**	153.6
Equity		**127.2**	109.0
Bank loan covenant ratios: Covenant net debt to underlying EBITDA		**2.1**	2.7
Underlying EBITDA to net interest payable		**7.7**	7.6
Gearing ratio		**106.1%**	140.9%

Financial risk management

Market risk

a) Interest rate risk

The group's interest rate risk arises from borrowings, cash and short-term deposits, together with currency swaps used to hedge intercompany loans.

The group borrows in the desired currencies at both floating and fixed rates of interest and may use forward rate agreements or interest rate swaps to generate the desired interest rate profile and manage the group's exposure to interest rate fluctuations. The US dollar private placement completed during 2014 means that around half of the group's debt is currently at a fixed rate of interest.

Cash is held in interest-bearing current accounts where practicable, with any excess cash placed on deposits. Any deposits made are for periods of less than three months.

The sensitivity of net finance costs to a movement in interest rates is restricted by the level of fixed rate borrowing now in place. A variation of, for example, 100 basis points in interest rates, applied to the group's borrowings, cash and short-term deposits at 31 December 2017, would result in a movement in finance costs of £0.7m (2016: £0.8m) and finance income of £nil (2016: £0.1m). This would result in an adverse post-tax impact on the group's income statement of £0.6m (2016: £0.6m) and a post-tax impact on the group's equity of £0.6m (2016: £0.6m).

b) Foreign exchange risk

The group has several significant overseas subsidiary undertakings whose revenues and expenses are denominated in a variety of currencies. Group policy dictates that foreign currency exposures arising from future commercial transactions are reviewed by Group Treasury and hedging activities are undertaken as appropriate in order to manage the net foreign exchange risks arising. Group policy permits the hedging of up to a maximum of 80% of the net external currency transaction exposures for periods of up to a maximum of fifteen months forward. It is not group policy to routinely hedge translation exposures apart from those created by inter-company loans or where foreign currency denominated assets are planned to be returned to the UK in the form of a dividend. Specific Board approval is required for any other translation exposure hedging.

A portion of the group's investment in its Czech subsidiary, Devro s.r.o., is hedged by a Czech koruna foreign exchange forward contract which mitigates the foreign currency risk arising from the subsidiary's net assets. The forward contract is designated as a net investment hedge. No ineffectiveness was recognised from the hedge in 2017. The group's investments in other subsidiaries are not hedged.

The table below details the impact changes in foreign exchange rates would have had on the group's underlying operating profit and post-tax profit for the years ended 31 December 2017 and 31 December 2016 due to the translation of both subsidiary profits from their functional currency into sterling, and also underlying currency transactions net of hedging arrangements and balances within group companies which are denominated in currencies other than the reporting currency of that group company. The movements in equity as at 31 December 2017 and 31 December 2016 includes the impact changes in foreign exchange rates would have on the translation of subsidiary net assets, as well as the effect of cash flow currency and net investment hedges.

In each case, it is assumed that the named currency is strengthening or weakening against all other currencies, while all the other currencies remain constant. The percentage foreign currency movement is based on the maximum annual percentage movement against sterling during the previous four years. Results are shown for all currencies where the impact on group post-tax profits would be significant.

Notes to the financial statements continued
for the year ended 31 December 2017

23. Capital and financial risk management, and financial instruments continued
Financial risk management continued

Foreign currency movement	Impact on group operating profit before exceptional items gains/(losses) Strengthening £'m	Impact on group operating profit before exceptional items gains/(losses) Weakening £'m	Impact on group profit after tax and exceptional items gains/(losses) Strengthening £'m	Impact on group profit after tax and exceptional items gains/(losses) Weakening £'m	Impact on equity increase/(decrease) Strengthening £'m	Impact on equity increase/(decrease) Weakening £'m
2017						
Australian dollar: 16%	1.6	(0.5)	1.1	(0.2)	5.5	(3.6)
Czech koruna: 14%	3.2	(1.0)	2.5	(0.8)	13.7	(9.2)
Euro: 14%	4.1	(3.1)	3.2	(2.4)	1.5	(1.4)
Japanese yen: 19%	1.4	(1.0)	1.1	(0.8)	1.2	(0.9)
US dollar: 17%	3.8	(2.7)	1.7	(1.1)	1.6	(1.3)
2016						
Australian dollar: 19%	1.4	(0.7)	0.9	(0.3)	9.1	(5.7)
Czech koruna: 14%	3.1	(1.7)	2.4	(1.3)	14.4	(9.8)
Euro: 14%	3.1	(2.3)	2.4	(1.8)	0.3	(0.2)
Japanese yen: 25%	2.2	(1.3)	1.7	(1.0)	1.2	(0.7)
US dollar: 17%	3.2	(2.3)	(0.4)	0.3	5.7	(4.3)

Credit risk
The group considers its exposure to credit risk at 31 December to be as follows:

	2017 £'m	2016 £'m
Cash and cash equivalents	**10.8**	9.9
Derivative financial instruments	**1.8**	1.4
Trade receivables	**26.2**	26.0
Other receivables	**2.1**	1.7
	40.9	39.0

The group monitors its credit exposure using credit ratings, where applicable, and through its policy of requiring appropriate credit checks on potential customers before sales commence. These procedures limit the group's exposure to any one party to approved levels. Exposure to banking counterparties is only permitted with approved banks which have one minimum short-term rating of A1/P1/F1 with rating agencies S&P, Moody's or Fitch. At the reporting date no single banking exposure was greater than £3.5m (2016: £2.7m). The group does not hold any collateral as security.

Liquidity risk
Alongside the longer-term funding provided by the US dollar private placement completed during 2014, which was put in place to support the group's two major investment projects, the group has medium-term loan facilities which are regularly reviewed to ensure that they provide adequate liquidity for the group. The facilities are managed on a centralised basis with appropriate local availability. Details of the undrawn committed borrowing facilities available at 31 December 2017 and 31 December 2016 are shown below:

	2017 £'m	2016 £'m
Expiring in more than two years	**40.2**	29.6

At 31 December 2017, the group had in place unsecured floating rate committed loan facilities totalling £110.0m (2016: £110.0m). These facilities consist of a single syndicated revolving credit facility with four banks, negotiated in December 2014 and expiring on 19 December 2019.

In addition to the committed facilities, local uncommitted working capital facilities of £5.0m (2016: £5.0m), US dollars 2.0m (2016: US dollars 2.0m), and Czech koruna 175m (2016: Czech koruna 175m) were also in place at 31 December 2017. These facilities are renewable within one year.

Financial instruments

Disclosures regarding financial instruments are set out below:

Fair value of derivative financial instruments

The fair values of derivative financial instruments were as follows:

	Group		Company	
	Assets £'m	Liabilities £'m	Assets £'m	Liabilities £'m
At 31 December 2017				
Forward foreign exchange contracts				
– cash flow hedge	1.6	0.1	1.6	0.1
– cash flow hedge held with subsidiaries	–	–	0.1	1.6
– net investment hedge	–	–	–	–
– other	0.2	0.3	0.2	0.4
	1.8	**0.4**	**1.9**	**2.1**
At 31 December 2016				
Forward foreign exchange contracts				
– cash flow hedge	0.9	1.9	0.9	1.9
– cash flow hedge held with subsidiaries	–	–	1.9	0.9
– net investment hedge	–	0.5	–	–
– other	0.5	0.2	0.5	0.7
	1.4	2.6	3.3	3.5

Forward foreign exchange contracts – other, shown in the table, relate to currency swaps used to hedge exposures in respect of intercompany loans.

Derivative financial instruments that are measured at fair value are disclosed by level of the following fair value measurement hierarchy:

Level 1 Quoted prices (unadjusted) in active markets for identical assets and liabilities

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (that is, as prices) or indirectly (that is, derived from prices)

Level 3 Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

All of the group and company's derivative financial instruments that are measured at fair value were classified as Level 2 as at 31 December 2017 (2016: Level 2). They have been valued using publicly available data, such as forward foreign exchange rates. There are no financial instruments measured as Level 3.

At 31 December 2017, the net fair value losses on open forward foreign exchange contracts that hedge the foreign currency risk of anticipated future sales and purchases amounted to £1.5m (2016: £1.0m). These will be transferred to the income statement and recognised in other operating income or expense when the forecast sales and purchases occur during 2018.

At 31 December, the principal amounts of the outstanding financial instruments were:

	2017 £'m	2016 £'m
Forward foreign exchange contracts	**70.4**	59.7
Currency swaps	**105.9**	87.7

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23. Capital and financial risk management, and financial instruments continued

Financial instruments continued

Fair values of non-derivative financial assets and liabilities

Group	Note	2017 Book value £'m	2017 Fair value £'m	2016 Book value £'m	2016 Fair value £'m
Fair value of non-current borrowings					
Other financial liabilities at amortised cost					
Long-term borrowings	22	**(144.2)**	**(144.2)**	(161.6)	(161.6)
Fair value of other financial assets and liabilities					
Primary financial instruments held or issued to finance the group's activities:					
Loans and receivables					
Trade and other receivables	17	**28.3**	**28.3**	27.7	27.7
Short-term bank deposits	18	**0.5**	**0.5**	0.1	0.1
Cash at bank and in hand	18	**10.3**	**10.3**	9.8	9.8
Other financial liabilities at amortised cost					
Trade and other payables	19	**(28.9)**	**(28.9)**	(31.4)	(31.4)
Short-term borrowings	22	**(1.5)**	**(1.5)**	(1.9)	(1.9)
Provisions for other liabilities and charges	21	**(3.8)**	**(3.8)**	(4.4)	(4.4)

The fair values of the group's bank borrowings are equivalent to the carrying values reported in the balance sheets as they are floating rate borrowings where interest rates are re-set to market rates at intervals of up to six months.

The fair values of trade and other receivables, short-term deposits and trade and other payables are equivalent to the carrying values because of the short-term nature of these instruments.

Maturity of financial liabilities

The tables below analyse the group's and company's financial liabilities, which will be settled on a net basis, into relevant maturity groupings based on the remaining period to the contractual maturity dates at 31 December 2017 and 31 December 2016. The amounts disclosed in the tables are the relevant undiscounted cash flows.

Group	Less than 1 year £'m	Between 1 and 2 years £'m	Between 2 and 5 years £'m	Over 5 years £'m
At 31 December 2017				
Bank borrowings	4.0	72.3	–	–
US dollar private placement	3.3	3.3	26.9	60.0
Derivative financial instruments	0.4	–	–	–
Trade and other payables	28.9	–	–	–
Provisions for other liabilities and charges	0.2	3.6	–	–
At 31 December 2016				
Bank borrowings	4.7	2.7	83.1	–
US dollar private placement	3.6	3.6	30.6	69.2
Derivative financial instruments	2.6	–	–	–
Trade and other payables	31.4	–	–	–
Provisions for other liabilities and charges	0.8	3.6	–	–

Company	Less than 1 year £'m	Between 1 and 2 years £'m	Between 2 and 5 years £'m	Over 5 Years £'m
At 31 December 2017				
Bank borrowings	0.7	35.1	–	–
US dollar private placement	3.3	3.3	26.9	60.0
Derivative financial instruments	2.1	–	–	–
Trade and other payables	5.3	–	–	–
At 31 December 2016				
Bank borrowings	5.1	1.5	53.1	–
US dollar private placement	3.6	3.6	30.6	69.2
Derivative financial instruments	3.4	–	–	–
Trade and other payables	3.2	–	–	–

The amounts shown as borrowings in the above tables include the capital outstanding at each balance sheet date, together with the estimated interest thereon calculated at the effective interest rates at these dates for the periods until the contractual maturity of the relevant borrowing facilities. There is no certainty that these amounts will be outstanding for all of the period involved or that these interest rates will be applicable during these periods.

The amounts showing as trade and other payables in the above tables exclude tax and social security payable.

Maturity of derivative financial instruments

The table below shows the group's and company's derivative financial instruments, which will be settled on a gross basis. The amounts disclosed in the tables are the contractual undiscounted cash flows.

As at 31 December

Group	2017 Less than 1 year £'m	2016 Less than 1 year £'m
Forward foreign exchange contracts – cash flow hedges		
Outflow	**(76.7)**	(63.4)
Inflow	**78.2**	62.4
Forward foreign exchange contracts – net investment hedges		
Outflow	**(31.2)**	(28.5)
Inflow	**31.2**	28.0
Forward foreign exchange contracts – other		
Outflow	**(70.2)**	(57.6)
Inflow	**70.1**	57.9
Company		
Forward foreign exchange contracts – cash flow hedges		
Outflow	**(154.9)**	(125.8)
Inflow	**154.9**	125.8
Forward foreign exchange contracts – other		
Outflow	**(101.4)**	(86.1)
Inflow	**101.2**	85.9

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24. Changes in liabilities arising from financing activities

Group	1 January 2017 £'m	Cash Flows £'m	Foreign exchange movement £'m	Movement in fair values of derivative financial instruments £'m	31 December 2017 £'m
Current interest-bearing loans and borrowings	(1.9)	0.6	(0.2)	–	(1.5)
Non-current interest-bearing loans and borrowings	(161.6)	9.8	7.6	–	(144.2)
Derivative financial instruments	(2.6)	–	–	2.2	(0.4)
Total liabilities from financing activities	**(166.1)**	**10.4**	**7.4**	**2.2**	**(146.1)**

The group uses an invoice discounting facility to support management of working capital in the US.

25. Deferred tax

	Group		Company	
	2017 £'m	2016 £'m	**2017 £'m**	2016 £'m
Net asset at 1 January	**20.9**	10.7	**0.5**	0.4
Exchange differences	**(1.2)**	1.3	**–**	–
Credit for the year to profit	**6.1**	3.6	**0.1**	0.1
(Charge)/credit to equity or other comprehensive income	**(8.9)**	5.9	**–**	–
UK corporation tax rate change	**0.3**	(0.6)	**–**	–
Net asset at 31 December	**17.2**	20.9	**0.6**	0.5

Group
Deferred tax assets can be analysed as follows:

	Pension obligations £'m	Losses and other £'m	Accelerated capital allowances £'m	Total £'m
At 1 January 2017	22.1	16.3	1.9	40.3
Exchange differences	(0.8)	–	–	(0.8)
Credit for the year to profit before US federal rate change	0.6	7.5	0.5	8.6
Charge to equity or other comprehensive income before US federal rate change	(4.4)	(0.5)	–	(4.9)
US federal rate change – exceptional charge to profit	–	(4.2)	–	(4.2)
US federal rate change – charge to other comprehensive income	(4.0)	–	–	(4.0)
UK corporation tax rate change	0.3	–	–	0.3
At 31 December 2017	**13.8**	**19.1**	**2.4**	**35.3**
At 1 January 2016	14.5	9.4	1.6	25.5
Exchange differences	1.9	2.1	–	4.0
Credit for the year to profit	0.5	4.7	0.3	5.5
Charge to equity or other comprehensive income	5.8	0.1	–	5.9
UK corporation tax rate change	(0.6)	–	–	(0.6)
At 31 December 2016	22.1	16.3	1.9	40.3

Deferred tax liabilities can be analysed as follows:

	Accelerated capital allowances £'m	Other £'m	Total £'m
At 1 January 2017	(17.8)	(1.6)	(19.4)
Exchange differences	(0.5)	–	(0.5)
Charge for the year to profit	0.4	1.4	1.8
At 31 December 2017	**(17.9)**	**(0.2)**	**(18.1)**
At 1 January 2016	(13.4)	(1.4)	(14.8)
Exchange differences	(2.7)	–	(2.7)
Credit for the year to profit	(1.7)	(0.2)	(1.9)
At 31 December 2016	(17.8)	(1.6)	(19.4)

Deferred tax assets and liabilities are only offset to the extent that there is a legally enforceable right to do so, as permitted by IAS 12.

A deferred tax asset of £11.0m (2016: £6.6m) has been recognised in respect of US and Chinese losses carried forward at 31 December 2017. This amount has been calculated by estimating the future taxable profits, against which the tax losses will be utilised, and applying the tax rates substantively enacted as at the balance sheet date. The estimate of future taxable profit reflects expected operational improvements and changes in the business' funding structure. Remaining gross losses of £17.4m (2016: £39.3m) have not been recognised at 31 December 2017 due to uncertainty over the timing of future taxable profits against which these losses can be recovered.

No deferred tax has been recognised in respect of any withholding or other taxes that would be payable on the unremitted earnings of subsidiaries. There are no unremitted earnings on which UK tax is expected to become payable if repatriated (2016: Nil).

Company	Temporary differences £'m
Asset at 1 January 2017	**0.5**
Credit for the year to profit	**0.1**
Asset at 31 December 2017	**0.6**
Asset at 1 January 2016	0.4
Credit for the year to profit	0.1
Asset at 31 December 2016	0.5

The company deferred tax asset can be analysed as follows:

	2017 £'m	2016 £'m
Due after more than one year	**0.6**	0.5

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for the year ended 31 December 2017

26. Pension obligations
The amounts recognised as charges in the income statement are as follows:

	2017 £'m	2016 £'m
Defined benefit schemes:		
– Current service cost	**1.6**	1.5
– Scheme administrative expenses	**1.6**	1.4
Defined benefit costs included within operating profit	**3.2**	2.9
Net finance cost	**2.8**	2.3
Total deferred benefit scheme costs	**6.0**	5.2
Defined contribution schemes	**3.1**	3.0
Total pension obligation costs	**9.1**	8.2

The amounts recognised as non-current liabilities in the balance sheet are as follows:

	2017 £'m	2016 £'m
Fair value of scheme assets	**247.6**	254.8
Present value of scheme liabilities	**(329.6)**	(350.8)
Pension obligations	**(82.0)**	(96.0)

The group operates a number of pension schemes throughout the world. The major schemes are of the defined benefit type and, with the exception of Germany where book reserves are supported by insurance policies, the assets of the schemes are held in separate trustee-administered funds. The defined benefit schemes are closed to new entrants. The total pension obligation cost for the group was £9.1m (2016: £8.2m), of which £4.2m (2016: £4.0m) related to the overseas schemes. On the advice of the actuaries, total cash contributions to the group's defined benefit schemes are expected to be £6.5m for the year ending 31 December 2018.

The most significant defined benefit scheme within the group is the Devro Limited (UK) Pension Plan, which operates in the UK. The latest triennial valuation of the UK scheme as at 31 March 2017 was finalised during 2017, with deficit funding levels remaining consistent with prior periods. The other major defined benefit schemes operate in Australia and the US.

Actuarial assumptions appropriate for each country have been used.

The last formal actuarial valuations of the group's material defined benefit schemes have been updated to 31 December 2017 by qualified independent actuaries. The major assumptions used by the actuaries in the following principal countries were:

	Australia		UK		US	
%	2017	2016	2017	2016	2017	2016
Discount rate	**3.60**	4.05	**2.45**	2.60	**3.40**	3.85
Rate of increase in salaries*	**3.25**	3.50	**1.00**	1.00	**–**	–
General inflation	**2.25**	2.50	**3.10**	3.25	**–**	–

* As part of the changes to the UK plan agreed in 2010, future pensionable salary increases are capped at 1% per annum. No rate of increase in salaries has been assumed in respect of the US plan as the plan is now frozen.

Demographic assumptions, such as mortality rates, are set having regard to the latest trends in life expectancy plan experience. These assumptions are under continual review. The mortality assumptions at 31 December 2017 are based on the following tables:

	Years of life expectancy for current pensioners aged 65			
	2017		2016	
	Male	Female	Male	Female
UK – SAPS 'Normal' (YOB)*	**21.2**	**24.1**	22.5	24.8
US – RP-2014 and projection scale MP-2017	**20.6**	**22.6**	21.1	23.3

* Adjusted by 110% for male non-pensioners (113% for male pensioners) and 94% for female non-pensioners (99% for female pensioners) with CMI 2016 improvements using a long-term rate of 1.5% per annum.

The Australian defined benefit scheme provides only for a lump sum payment on retirement.

In addition to the above schemes, the group operates a defined benefit pension plan in Germany which, in common with typical practice in that country, is supported by insurance policies. At 31 December 2017, the value of the insurance asset was £2.0m (2016: £2.2m) and the value of the liability was £3.7m (2016: £3.8m). A proportion of the assets and liabilities of the German plan, relating to the period when the business operated as a branch of Devro Inc or Devro (Scotland) Limited, was retained by the group after the sale of Devro GmbH in September 2011.

In addition, the group has benefit arrangements in respect of two former executives in the US for which the group has made adequate provisions on the advice of the actuaries. There is also an individual pension arrangement in Japan in respect of which appropriate contributions are made annually. The plan in Germany and these additional arrangements in the US and Japan are included under the "other" heading in the table note.

The aggregate fair values of assets in the group's defined benefit schemes at 31 December 2017 were estimated to be:

	Australia		UK		US		Other		Total	
	2017 £'m	2016 £'m	**2017 £'m**	2016 £'m	**2017 £'m**	2016 £'m	**2017 £'m**	2016 £'m	**2017 £'m**	2016 £'m
Equities	**6.0**	5.9	**38.6**	38.2	**14.2**	15.3	**–**	–	**58.8**	59.4
Bonds	**2.0**	2.1	**95.8**	95.1	**32.7**	35.5	**–**	–	**130.5**	132.7
Diversified growth funds	**–**	–	**48.3**	50.4	**–**	–	**–**	–	**48.3**	50.4
Other	**2.1**	2.6	**5.4**	7.0	**0.5**	0.5	**2.0**	2.2	**10.0**	12.3
	10.1	10.6	**188.1**	190.7	**47.4**	51.3	**2.0**	2.2	**247.6**	254.8

All equities and bonds have quoted prices in active markets. The diversified growth funds also have quoted prices.

Investments in each of the main schemes are well diversified. Strategy is split between liability matching and return generating assets with the split determined depending on the duration of the scheme, the funding position and the relevant country's pension rules. For the UK, the scheme invests 60% of the portfolio in growth assets with the remainder in UK government bonds matched to scheme liabilities. For the US scheme a defensive approach is taken given the shorter maturity of the scheme liabilities with around 70% of the portfolio invested in fixed income assets and the remainder in growth assets, principally equities. For the Australian scheme the strategy is for 70% of the portfolio to be invested in growth assets, with the remainder invested in defensive, primarily fixed income assets. In all three schemes, the investment approach will be de-risked over time as the funding position improves and market conditions allow.

Net pension assets and liabilities at 31 December 2017 were as follows:

	Australia		UK		US		Other		Total	
	2017 £'m	2016 £'m	**2017 £'m**	2016 £'m	**2017 £'m**	2016 £'m	**2017 £'m**	2016 £'m	**2017 £'m**	2016 £'m
Total fair value of scheme assets (as above)	**10.1**	10.6	**188.1**	190.7	**47.4**	51.3	**2.0**	2.2	**247.6**	254.8
Present value of scheme liabilities	**(10.1)**	(10.6)	**(235.3)**	(251.8)	**(80.4)**	(84.4)	**(3.8)**	(4.0)	**(329.6)**	(350.8)
Deficit	**–**	–	**(47.2)**	(61.1)	**(33.0)**	(33.1)	**(1.8)**	(1.8)	**(82.0)**	(96.0)
Related deferred tax assets	**–**	–	**5.8**	10.4	**7.3**	11.2	**0.7**	0.5	**13.8**	22.1
Net pension liabilities	**–**	–	**(41.4)**	(50.7)	**(25.7)**	(21.9)	**(1.1)**	(1.3)	**(68.2)**	(73.9)

The decrease in net pension liabilities during the year largely reflects the return on plan assets and a change in the demographic assumptions for the UK scheme, partially offset by a decrease in discount rate assumptions across the schemes. The group continues to pay contributions to pension schemes in accordance with local regulatory requirements and on the advice of qualified independent actuaries. The latest triennial valuation of the UK scheme as at 31 March 2017 was finalised during 2017 and resulted in no change to contributions.

Notes to the financial statements continued
for the year ended 31 December 2017

26. Pension obligations continued

Changes in the fair value of scheme assets and in the present value of defined benefit scheme liabilities were as follows:

	2017			2016		
	Liability	Asset	Net	Liability	Asset	Net
At 1 January	(350.8)	254.8	(96.0)	(281.8)	225.4	(56.4)
Interest income	–	7.0	7.0	–	8.5	8.5
Interest cost	(9.8)	–	(9.8)	(10.8)	–	(10.8)
Service cost	(1.6)	–	(1.6)	(1.5)	–	(1.5)
Scheme administrative expenses	–	(1.6)	(1.6)	–	(1.4)	(1.4)
Employer contributions	–	4.4	4.4	–	4.2	4.2
Member contributions	(0.2)	0.2	–	(0.2)	0.2	–
Benefits paid	20.5	(20.5)	–	14.1	(14.1)	–
Re-measurements – return on plan assets (excluding interest income)	–	7.8	7.8	–	21.2	21.2
Re-measurements – changes in financial assumptions	(9.5)	–	(9.5)	(55.6)	–	(55.6)
Re-measurements – experience adjustments	1.2	–	1.2	1.3	–	1.3
Re-measurements – restriction of surplus	(0.7)	–	(0.7)	0.1	–	0.1
Re-measurements – changes in demographic assumptions	13.9	–	13.9	–	–	–
Exchange losses/gains	7.4	(4.5)	2.9	(16.4)	10.8	(5.6)
At 31 December	(329.6)	247.6	(82.0)	(350.8)	254.8	(96.0)

Amounts charged/(credited) to the income statement were as follows:

	Australia		UK		US		Other		Total	
	2017 £'m	2016 £'m	2017 £'m	2016 £'m	2017 £'m	2016 £'m	2017 £'m	2016 £'m	2017 £'m	2016 £'m
Current service cost	0.5	0.4	1.1	1.1	–	–	–	–	1.6	1.5
Scheme administrative expenses	0.2	0.2	0.7	0.6	0.7	0.6	–	–	1.6	1.4
Net charge to operating profit	0.7	0.6	1.8	1.7	0.7	0.6	–	–	3.2	2.9
Interest income on pension scheme assets	(0.4)	(0.4)	(4.8)	(6.3)	(1.8)	(1.8)	–	–	(7.0)	(8.5)
Interest on pension scheme liabilities	0.4	0.4	6.3	7.3	3.0	3.0	0.1	0.1	9.8	10.8
Net interest cost	–	–	1.5	1.0	1.2	1.2	0.1	0.1	2.8	2.3
Net charge to profit	0.7	0.6	3.3	2.7	1.9	1.8	0.1	0.1	6.0	5.2

Amounts (charged)/credited to other comprehensive income were as follows:

	Australia		UK		US		Other		Total	
	2017 £'m	2016 £'m	**2017 £'m**	2016 £'m	**2017 £'m**	2016 £'m	**2017 £'m**	2016 £'m	**2017 £'m**	2016 £'m
Return on plan assets less interest income	**1.3**	0.3	**2.8**	19.8	**3.7**	1.1	**–**	–	**7.8**	21.2
Experience gains/(losses) on liabilities	**–**	(0.3)	**1.2**	1.6	**–**	–	**–**	–	**1.2**	1.3
Changes in demographic assumptions	**–**	–	**14.0**	–	**(0.1)**	–	**–**	–	**13.9**	–
Changes in financial assumptions	**(0.3)**	–	**(4.4)**	(54.3)	**(4.9)**	(1.0)	**0.1**	(0.3)	**(9.5)**	(55.6)
Restriction of surplus	**(0.7)**	0.1	**–**	–	**–**	–	**–**	–	**(0.7)**	0.1
Re-measurements	**0.3**	0.1	**13.6**	(32.9)	**(1.3)**	0.1	**0.1**	(0.3)	**12.7**	(33.0)

Movements in the deficit during the year were as follows:

	Australia		UK		US		Other		Total	
	2017 £'m	2016 £'m	**2017 £'m**	2016 £'m	**2017 £'m**	2016 £'m	**2017 £'m**	2016 £'m	**2017 £'m**	2016 £'m
Deficit in scheme at beginning of year	**–**	–	**(61.1)**	(29.3)	**(33.1)**	(25.9)	**(1.8)**	(1.2)	**(96.0)**	(56.4)
Movement in year:										
Pension charge	**(0.7)**	(0.6)	**(3.3)**	(2.7)	**(1.9)**	(1.8)	**(0.1)**	(0.1)	**(6.0)**	(5.2)
Employer contributions	**0.4**	0.4	**3.6**	3.8	**0.4**	–	**–**	–	**4.4**	4.2
Re-measurements	**0.3**	0.1	**13.6**	(32.9)	**(1.3)**	0.1	**0.1**	(0.3)	**12.7**	(33.0)
Exchange gains/(losses)	**–**	0.1	**–**	–	**2.9**	(5.5)	**–**	(0.2)	**2.9**	(5.6)
Deficit in scheme at end of year	**–**	–	**(47.2)**	(61.1)	**(33.0)**	(33.1)	**(1.8)**	(1.8)	**(82.0)**	(96.0)

The actual return on plan assets in 2017 was £14.8m (2016: £29.7m).

The cumulative re-measurements in other comprehensive income are £88.5m loss (2016: £101.2m loss).

The weighted average duration of the defined benefit obligation is 19 years, with benefit payments over the next ten years expected to be as follows:

	2017 £'m
In the next year	**12.8**
In years 2-5	**55.3**
In years 6-10	**72.3**
	140.4

The schemes' funds have been invested in a range of assets which are due to be realised in line with the associated liabilities. The trustees review the schemes' assets and adjust the weighting between short-term and long-term assets to combine security and growth with the liquidity required to meet the obligations as they fall due.

Notes to the financial statements continued
for the year ended 31 December 2017

26. Pension obligations continued

Sensitivity analysis of the principal assumptions used to measure defined benefit obligations:

Assumption	Change in assumption	Indicative impact on defined benefit obligation (before deferred tax)
Discount rate	Increase by 0.25%	Decrease by £14.7m
	Decrease by 0.25%	Increase by £15.7m
Rate of salary increase	Increase by 0.25%	Increase by £0.2m
	Decrease by 0.25%	Decrease by £0.1m
General inflation	Increase by 0.25%	Increase by £4.8m
	Decrease by 0.25%	Decrease by £4.4m
Life expectancy	Increase by 1 year	Increase by £11.0m

The above sensitivity analyses are based on the same change in assumption in each of the group's schemes (except where changes are limited through the individual scheme rules), while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the projected unit credit method is applied in the same way as for the calculation of the pension liability recognised in the financial statements.

Risks
Through its defined benefit pension obligations, the group is exposed to a number of risks, the most significant of which are detailed below:

Market volatility	The accounting estimate of net pension obligations is very sensitive to changes in market conditions. The discount rate used to estimate the defined benefit obligation is linked to yields on AA-rated corporate bonds, or similar, whilst scheme assets are invested in a range of other assets, which are themselves subject to fluctuations in value. Changing market conditions and movements in the discount rate will lead to volatility in the net pension obligation on the group's balance sheet, in other comprehensive income and in the income statement.
Choice of accounting assumptions	The value of the defined benefit obligation is determined by actuarial valuations over long-term cash flows. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future inflation. Due to the long-term nature of these schemes these estimates are subject to significant uncertainty, and the final outcome could be significantly different to the assumptions used. However, the risk is limited in certain respects for some schemes. The Australian scheme allows for a lump sum payment on retirement, so is not sensitive to changes in mortality assumptions, whilst the US scheme is frozen so that it is not sensitive to inflation or salary rises. Similarly the rate of increase in UK salaries is limited to 1% per annum.

27. Ordinary Shares

Group and company	2017 £'m	2016 £'m
Issued and fully paid		
166,949,022 (2016: 166,949,022) Ordinary Shares of 10 pence each	**16.7**	16.7

No Ordinary Shares were issued during the year.

28. Share-based payments

Under the Devro plc Performance Share Plan (PSP), the Executive Directors' Remuneration Committee made provisional allocations of ordinary shares in the company to employees of the group, including Executive Directors. No payment for an allocation is made by a participant. Allocations normally vest over a three-year period, are conditional on the continued employment of the participant and are subject to certain performance conditions. These performance conditions relate to growth in the company's earnings per share and the company's Total Shareholder Return in comparison to its peer group. For the 2017 awards, a performance condition relating to ROCE was added.

For awards where vesting is subject to the growth in earnings per share, the fair value of an allocation represents the market value of the ordinary shares in the company on the date of the provisional allocation, less the discounted value of estimated dividends expected to be paid during the vesting period. A participant is not entitled to receive dividends during this period. The fair value of awards subject to the company's Total Shareholder Return performance is determined using a Monte Carlo option valuation methodology. The weighted average fair value of options granted during the year using this method was £1.83 (2016: £1.92) with the significant inputs to the model being the share price at the grant date, an expected volatility in the share price of 25.5% (based on historic trends), the term of three years, risk free interest rate of 0.31% and expected dividend yield.

Amounts provided in the accounts are based on an estimate of the probability of the targets in respect of allocations being achieved.

During the year no shares vested under the PSP or its predecessor (2016: 16,490).

At 31 December 2017, the maximum number of shares which may vest under the PSP is as follows:

			Number of shares						
Grant date	Fair value per share	Normal vesting date	As at 1 January 2017	Awarded	Vested and exercised	Forfeited	Lapsed	As at 31 December 2017	Weighted average share price at exercise
9 June 2014	£1.690	9 June 2017	776,840	–	–	–	(776,840)	**–**	–
25 March 2015	£2.005	25 March 2018	963,289	–	–	(14,944)	–	**948,345**	–
8 April 2016	£1.915	8 April 2019	1,136,226	–	–	(54,926)	–	**1,081,300**	–
2 August 2017	£1.827	2 August 2020	–	1,265,687	–	(130,245)	–	**1,135,442**	–
			2,876,355	1,265,687	–	(200,115)	(776,840)	**3,165,087**	–

A more detailed summary of the performance conditions of the PSP is included in the Director's Remuneration Report on pages 47 and 61.

29. Other reserves

Group	Capital redemption reserve £'m	Special reserve £'m	Performance Share Plan £'m	Hedging reserve £'m	Cumulative translation adjustment £'m	Total £'m
At 1 January 2017	35.6	8.9	1.4	0.1	24.8	70.8
Exchange adjustments	–	–	–	–	12.5	12.5
Cash flow hedges, net of tax	–	–	–	1.8	–	1.8
Net investment hedges, net of tax	–	–	–	(1.8)	–	(1.8)
PSP charge, net of tax	–	–	0.5	–	–	0.5
PSP credit in respect of awards lapsed	–	–	(0.4)	–	–	(0.4)
At 31 December 2017	**35.6**	**8.9**	**1.5**	**0.1**	**37.3**	**83.4**
At 1 January 2016	35.6	8.9	1.1	2.3	5.0	52.9
Exchange adjustments	–	–	–	–	19.8	19.8
Cash flow hedges, net of tax	–	–	–	(0.9)	–	(0.9)
Net investment hedges, net of tax	–	–	–	(1.3)	–	(1.3)
PSP charge, net of tax	–	–	0.6	–	–	0.6
PSP credit in respect of awards lapsed	–	–	(0.3)	–	–	(0.3)
At 31 December 2016	35.6	8.9	1.4	0.1	24.8	70.8

Notes to the financial statements continued
for the year ended 31 December 2017

29. Other reserves continued

Company	Capital redemption reserve £'m	Special reserve £'m	Performance Share Plan £'m	Hedging reserve £'m	Total £'m
At 1 January 2017	35.6	8.9	0.8	–	45.3
Cash flow hedges, net of tax	–	–	–	–	–
PSP charge, net of tax	–	–	0.3	–	0.3
PSP credit in respect of awards lapsed	–	–	(0.2)	–	(0.2)
At 31 December 2017	**35.6**	**8.9**	**0.9**	**–**	**45.4**
At 1 January 2016	35.6	8.9	0.6	0.9	46.0
Cash flow hedges, net of tax	–	–	–	(0.9)	(0.9)
PSP charge, net of tax	–	–	0.5	–	0.5
PSP credit in respect of awards lapsed	–	–	(0.3)	–	(0.3)
At 31 December 2016	35.6	8.9	0.8	–	45.3

The balance on the capital redemption reserve represents the amount which arose at the time of the redemption of the preference share capital in 2002.

The balance on the special reserve account represents the remaining undistributable proportion of the amount which arose on the acquisition of Teepak International Inc in 1996 under the merger relief provisions of the Companies Act 1985.

The balance on Performance Share Plan reserve represents the cumulative net expense recognised through the income statement in respect of share awards under the plan which have yet to be vested by employees.

The hedging reserve represents the cumulative amount of gains and losses on hedging instruments deemed effective. The cumulative deferred gain or loss on the hedging instrument is recognised in the income statement only when the hedged transaction impacts profit or loss.

The cumulative translation reserve comprises all foreign currency differences arising from the retranslation of the balance sheets of foreign currency denominated subsidiaries.

30. Reconciliation of profit before tax to cash generated from operations

	Group		Company	
	2017 £'m	2016 £'m	**2017 £'m**	2016 £'m
Profit before tax	**21.6**	6.2	**54.1**	33.1
Adjustments for:				
Finance income	**–**	(0.1)	**(6.1)**	(4.7)
Finance cost	**8.6**	7.0	**6.8**	6.2
Dividends from subsidiaries	**–**	–	**(59.5)**	(40.2)
Net finance cost on pensions	**2.8**	2.3	**–**	–
Pension cost adjustment for normal contributions	**1.8**	1.1	**–**	–
Depreciation of property, plant and equipment	**25.0**	22.1	**0.1**	0.1
Amortisation of intangible assets	**1.0**	0.9	**0.1**	0.1
Release from capital grants balance	**(0.2)**	(0.2)	**–**	–
Pension deficit funding	**(3.0)**	(2.5)	**–**	–
Performance Share Plan	**0.5**	0.6	**0.3**	0.5
Changes in working capital:				
Decrease/(increase) in inventories	**0.9**	(1.1)	**–**	–
Decrease/(increase) in trade and other receivables	**0.4**	5.4	**(24.6)**	(18.7)
(Decrease)/increase in trade and other payables	**(0.9)**	(0.2)	**6.7**	(4.0)
Decrease in provisions	**(0.3)**	(2.5)	**–**	–
Cash generated from/(used in) operations	**58.2**	39.0	**(22.1)**	(27.6)
Of which:				
Cash generated from/(used in) underlying operations before pension deficit funding	**66.9**	64.4	**(19.3)**	(27.5)
Pension deficit funding	**(3.0)**	(2.5)	**–**	–
Exceptional items	**(5.7)**	(22.9)	**(2.8)**	(0.1)
Cash generated from/(used in) operations	**58.2**	39.0	**(22.1)**	(27.6)

31. Analysis of net debt

	Group		Company	
	2017 £'m	2016 £'m	**2017 £'m**	2016 £'m
Cash and cash equivalents	**10.8**	9.9	**0.3**	0.1
Bank overdrafts	**(1.5)**	(1.9)	**(1.2)**	(3.5)
Net cash and cash equivalents	**9.3**	8.0	**(0.9)**	(3.4)
Other bank borrowings	**(69.8)**	(80.4)	**(34.4)**	(51.6)
US dollar private placement	**(74.4)**	(81.2)	**(74.4)**	(81.2)
Net Debt	**(134.9)**	(153.6)	**(109.7)**	(136.2)

Notes to the financial statements continued
for the year ended 31 December 2017

32. Capital commitments
Capital expenditure contracted for but not provided in the group financial statements related to property, plant and equipment and amounted to £1.4m as at 31 December 2017 (2016: £0.8m). The company had no capital commitments as at 31 December 2017 (2016: Nil).

33. Contingent liabilities
In the opinion of the directors, the group has no material contingent liabilities as at 31 December 2017 (2016: Nil).

34. Financial commitments
Operating leases
At 31 December 2017, the future aggregate minimum lease payments were as follows:

	Group		Company	
	2017 £'m	2016 £'m	**2017 £'m**	2016 £'m
No later than one year	**0.7**	0.8	**0.1**	0.1
Later than one year and no later than five years	**1.1**	1.4	**0.5**	0.5
	1.8	2.2	**0.6**	0.6

35. Related party transactions
Key management are deemed to be the executive and non-executive directors and the Executive Management Team of the group as together they have the authority and responsibility for controlling group activities. The compensation paid or payable to key management for employee services is shown below:

	2017 £'m	2016 £'m
Emoluments payable to executive and non-executive directors		
Short-term employee benefits	**1.4**	1.2
PSP charge	**0.2**	0.2
Post-employment benefits	**0.1**	0.1
	1.7	1.5
Emoluments payable to remainder of the Executive Board		
Short-term employee benefits	**1.8**	1.5
PSP charge	**0.1**	0.1
Post-employment benefits	**0.2**	0.2
Compensation for loss of office	**–**	0.7
	2.1	2.5
Total emoluments payable to key management	**3.8**	4.0

Transactions with the group's pension schemes are disclosed in Note 26. Amounts due to the pension schemes at 31 December 2017 are £0.6m (2016: £0.4m).

The group had no further related party transactions.

Related party transactions carried out by the company during the year ended 31 December 2017 were as follows:

	2017 £'m	2016 £'m
Sale of services to subsidiary undertakings	**10.8**	8.2
Purchase of services from subsidiary undertakings	**0.1**	0.2
Interest received from subsidiary undertakings	**6.1**	4.7
Interest paid to subsidiary undertakings	**0.1**	0.1

Balances at 31 December arising from transactions with subsidiary undertakings:

	2017 £'m	2016 £'m
Derivative assets	**0.1**	1.9
Derivative liabilities	**1.6**	0.9
Receivables – current	**16.0**	13.8
– non-current	**128.9**	113.3
Payables – non-current	**27.3**	22.1

Current receivables from subsidiaries arise mainly on the sale of services and tax losses surrendered. The receivables are unsecured and do not bear interest. No provisions are held against receivables from subsidiaries, and all sales are made on an arm's length basis.

Non-current receivables and payables principally relate to loans to and from subsidiaries and interest is charged on them at commercial rates.

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.

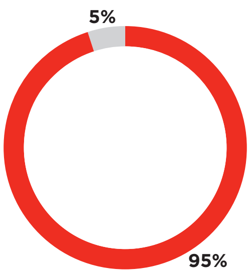
Of the group's ten (2016: eleven) reporting components, we subjected six (2016: six) to full scope audits for group purposes and none (2016: 1) to specified risk-focused audit procedures. In 2016 the latter was not individually financially significant enough to require a full scope audit for group purposes, 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.

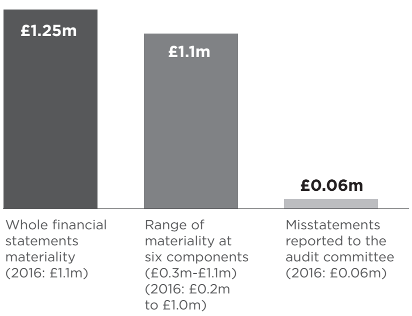
Telephone conferences were held with all component auditors, the group team visited component locations in Czech Republic and USA. At these meetings, the audit risks and strategy as well as findings reported to the group team were discussed in detail, and any further work required by the group team was 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)

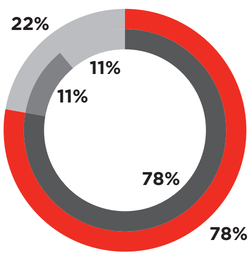


- Group profit before tax and exceptional items
- Group materiality

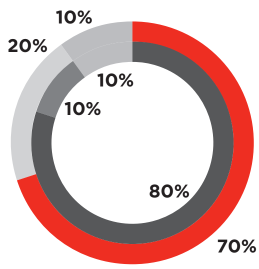
Group materiality
£1.25m (2016: £1.1m)



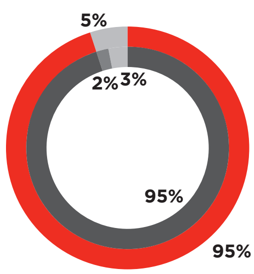
Group revenue



Group profit before tax

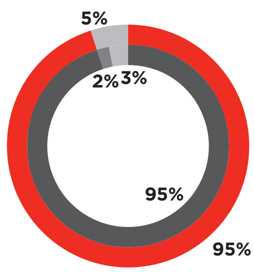


Group total assets



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

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



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

Financial summary
for the years ended 31 December

	2017 £'m	2016 £'m	2015 £'m	2014 £'m	2013 £'m
Revenue	**256.9**	241.1	230.2	232.3	242.7
Underlying operating profit*	**38.1**	38.1	33.3	30.3	42.1
Exceptional items	**(5.1)**	(22.7)	(14.1)	(23.9)	(1.3)
Operating profit	**33.0**	15.4	19.2	6.4	40.8
Profit before tax	**21.6**	6.2	15.1	2.2	37.5
Profit after tax	**15.6**	2.2	14.6	4.4	33.6
Net assets	**127.2**	109.0	131.1	133.2	158.0
Earnings per share:					
– Underlying basic*	**12.5p**	13.3p	15.4p	13.7p	20.8p
– Exceptional items	**(3.2p)**	(12.0p)	(6.6p)	(11.1p)	(0.7p)
– Basic	**9.3p**	1.3p	8.8p	2.6p	20.1p
– Diluted	**9.3p**	1.3p	8.7p	2.6p	20.0p
Dividends per share	**8.8p**	8.8p	8.8p	8.8p	8.8p
Net assets per share	**76.2p**	65.3p	78.6p	79.8p	94.9p

* Underlying figures are stated before exceptional items. (See Alternative Performance Measures section of the Financial Review for definition and explanation).

Shareholder information

If you have sold or transferred all of your holding of Ordinary Shares, you should pass this document to the person through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

Financial calendar

25 April 2018	Annual General Meeting
11 May 2018	Final dividend paid
1 August 2018	Half year results and interim dividend announced
5 October 2018	Interim dividend paid
31 December 2018	Financial year end
March 2019	2018 results and proposed final dividend announced

Dividends

The final dividend will be paid on 11 May 2018 to shareholders on the register at close of business on 3 April 2018.

Dividend mandates

Shareholders wishing dividends to be paid directly into a bank or building society account should apply online at www.investorcentre.co.uk or, alternatively, contact the registrar for a dividend mandate form at the address below. Dividends paid in this way will be paid through the Bankers Automated Clearing System (BACS).

Dividend Reinvestment Plan

Dividends are normally paid twice a year in May and October. We offer shareholders the opportunity to join the Computershare regulated Dividend Reinvestment Plan ("the Plan"), which allows you to reinvest your cash dividend in Devro plc Ordinary Shares. If you wish to participate in the Plan, please apply online at www.investorcentre.co.uk or, alternatively, you can complete a mandate form and return it to the registrar. If you do not have a mandate form, please contact our registrar at the address below.

Payment of dividends in foreign currency

The company's registrar offers a Global Payment Service which is available in certain countries. This may make it possible for shareholders living abroad to receive dividends direct into their bank account in their local currency. Please note that a service fee, plus a foreign exchange spread, is charged per payment. The fees will be automatically deducted from the proceeds before it is paid to you. This service can be set up at www.investorcentre.co.uk or by contacting the registrar.

Half year results

Any shareholder wishing to receive a paper copy of the Interim Report and Results for the six months to 30 June 2018 should contact the Company Secretary.

Shareholder enquiries

For all share registration and dividend mandate enquiries contact:

The Registrar
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol
BS99 6ZZ
Telephone – 0370 889 4050
Website – www.investorcentre.co.uk

For other shareholder enquiries contact:

Company Secretary
Devro plc
Moodiesburn
Chryston
G69 0JE

Telephone – 01236 872261

Managing your shareholding online with Investor Centre

Investor Centre is a free, secure online service run by Computershare, giving you convenient access to information on your shareholdings. Manage your shareholding online and take advantage of all these features and more:

- View share balances and market values for all of your Computershare-managed holdings.
- Update dividend mandate bank instructions and view dividend payment history.
- Register to receive company communications online.
- Cast your Proxy Vote online for forthcoming General Meetings.
- Update personal details, such as your address.

Registration is quick and easy. Just visit www.investorcentre.co.uk with your Shareholder Reference Number (SRN) to hand.

After registering you may be sent an activation code in the post, used to validate and gain full access to your account.

Website

The company has a website (www.devro.com) which provides up-to-date information on the company and its products.

Notes

Directors and Advisers
(as at 14 March 2018)

Executive Director
R A Helbing

Non-Executive Directors
G J Hoetmer
J A Lodge
M S Swift
P N Withers

Company Secretary and registered office
J Meredith
Moodiesburn
CHRYSTON
G69 0JE
Registered number: SC129785

Statutory auditors
KPMG LLP
15 Canada Square
Canary Wharf
LONDON
E14 5GL

Solicitors
Clifford Chance LLP
10 Upper Bank Street
Canary Wharf
LONDON
E14 5JJ

Financial advisers
Lazard & Co., Limited
50 Stratton Street
LONDON
W1J 8LL

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Barclays Bank plc
1st Floor, Aurora Building
120 Bothwell Street
GLASGOW
G2 7JT

HSBC Bank plc
Thames Valley
Corp. Banking Centre
5th Floor
Apex Plaza
READING
RH1 1AX

KBC Bank NV
111 Old Broad Street
LONDON
EC2N 1BR

Rabobank International
Thames Court
One Queenhithe
LONDON
EC4V 3RL

Stockbrokers
Investec Securities
2 Gresham Street
LONDON
EC2V 7QP

Registrars
Computershare Investor
Services PLC
The Pavilions
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BRISTOL
BS99 6ZZ

MIX
Paper from responsible sources
FSC® C023105
FSC
www.fsc.org

Designed and produced by emperor
Visit us at emperor.works

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