Devro plc

Annual Report and Accounts **2016**

DEVRO

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.

Read more on pages 2-3 →

Devro is one of the world's leading manufacturers of collagen products for the food industry.

Highlights of the year

Revenue* (£'m)

£241.1m

2016	241.1
2015	230.2
2014	232.3
2013	242.7
2012	241.1

Underlying operating profit* (£'m)

£38.1m

2016	38.1
2015	33.3
2014	30.3
2013	42.1
2012	42.4

Operating profit* (£'m)

£15.4m

2016	15.4
2015	19.2
2014	6.4
2013	40.8
2012	42.4

Underlying earnings per share* (pence)

13.3p

2016	13.3
2015	15.4
2014	13.7
2013	20.8
2012	19.4

Earnings per share* (pence)

1.3p

2016	1.3
2015	8.8
2014	2.6
2013	20.1
2012	19.4

Dividends per share (pence)

8.8p

2016	8.8
2015	8.8
2014	8.8
2013	8.8
2012	8.5

Strategic Report

Directors' Report

Financial Statements

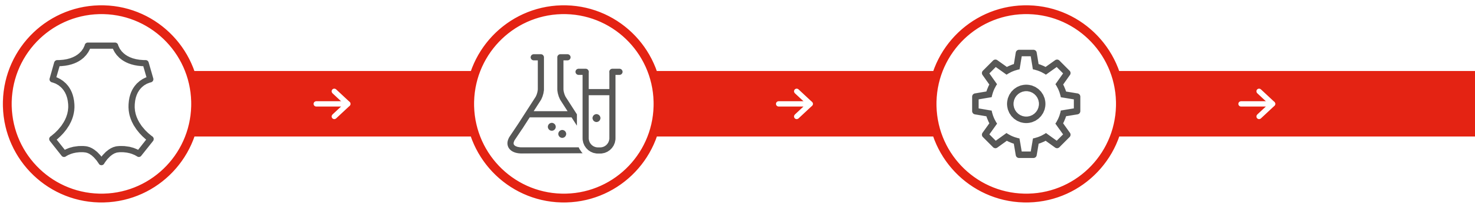
Shareholder Information

* All figures are for continuing operations and restated for revised pensions accounting rules (IAS 19R) where relevant. 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.

Devro at a glance

We aim to manufacture 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 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.

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.

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.

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.

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 their 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 10 years there has been a steady increase in the volume of edible collagen casing used in sausage production.

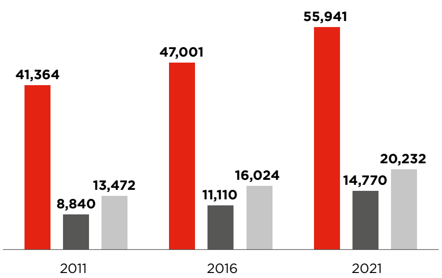
Trends

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)

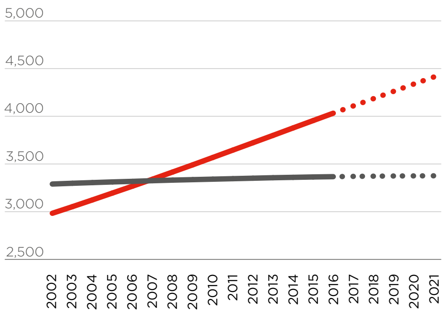


Developed markets
Emerging markets
World

(Source: International Monetary Fund (IMF) – World Economic Outlook Database October 2016)

Global urban population
(millions)

+23% in decade to 2016

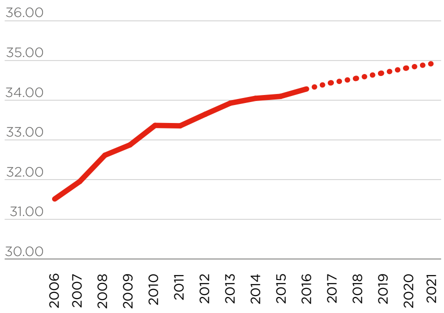


Urban population
Rural population

(Source: Food and Agriculture Organization of the United Nations (FAO) 2016)

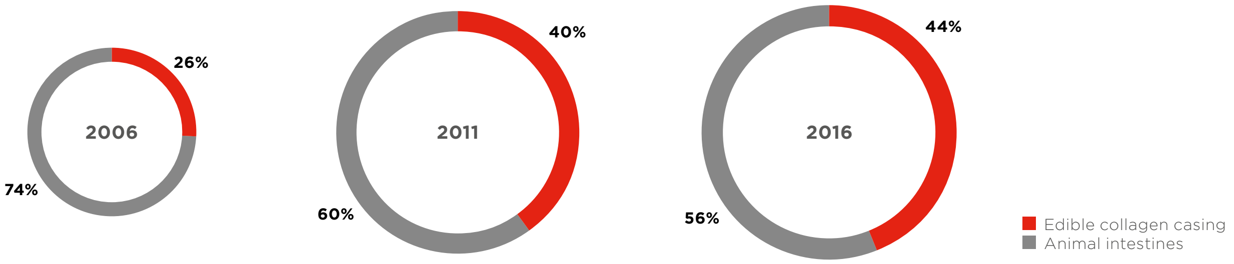
Global meat consumption
(kg per capita per year)

+9% in decade to 2016



(Source: OECD-FAO Agricultural Outlook 2016-2025)

Global market share of edible collagen casing 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.

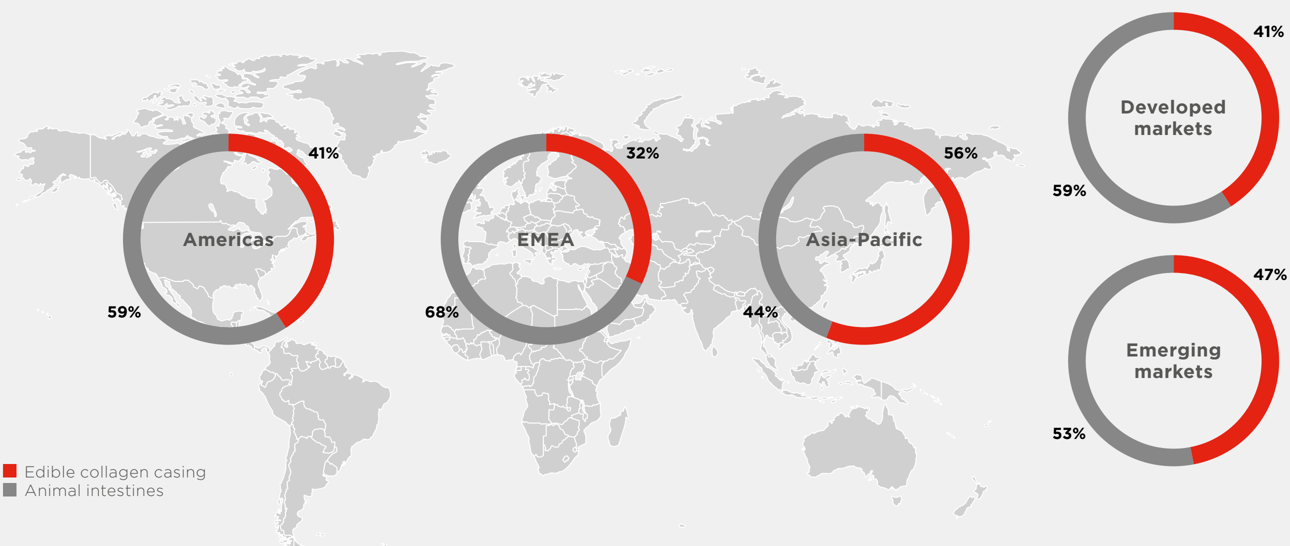
Europe, Middle East & Africa (EMEA)

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. Asia-Pacific has the largest single edible collagen casing market, which is China. Use of the product has grown considerably, primarily due to the increase in urbanisation and the growing popularity of Western-style sausage. The investment in modern manufacturing processes and the need for efficient manufacturing of safe and secure 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

Our three strategic priorities

1

Revenue growth

Growing in developed and emerging markets

Read more on pages 8-9 →

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

2

Manufacturing efficiency

Optimising our use of existing assets and investing in new technology

Read more on pages 10-11 →

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

3

Product differentiation

Differentiating ourselves through research and development

Read more on pages 12-13 →

We will achieve this by:

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

Our aim is to achieve earnings growth and improve return on capital. We have three strategic priorities in place to achieve this:

Our strategy in action

Revenue growth

£241.1m

Revenue

With our new plant in Nantong, China, fully commissioned and operational, we now plan to capitalise fully on this.

During 2016, whilst revenue increased 4.7% due to favourable exchange rate movements, sales volumes declined by 6.6% due to region-specific factors.

Actions have been taken in 2016 to ensure a return to growth in 2017 and beyond. These include an acceleration of the revenue growth component of the Devro 100 programme, focused on significantly upgrading our sales capabilities. This involves further development of key account management processes and the strengthening of our sales management in key markets.

The collagen casings market in China now accounts for around 40% of total global demand and, with the completion of our new local manufacturing plant in 2016, we are well positioned to grow our sales there. This market is expected to grow at 3-5% per annum over the coming years.

In conversation with Hui Yi, Sales Director, China

Prior to the investment in the plant in Nantong, Devro supplied the Chinese market with casings from the other plants in our global network.

The completion of our new domestic facility has enabled us to focus on qualifying products with existing and potential customers, which is progressing well.

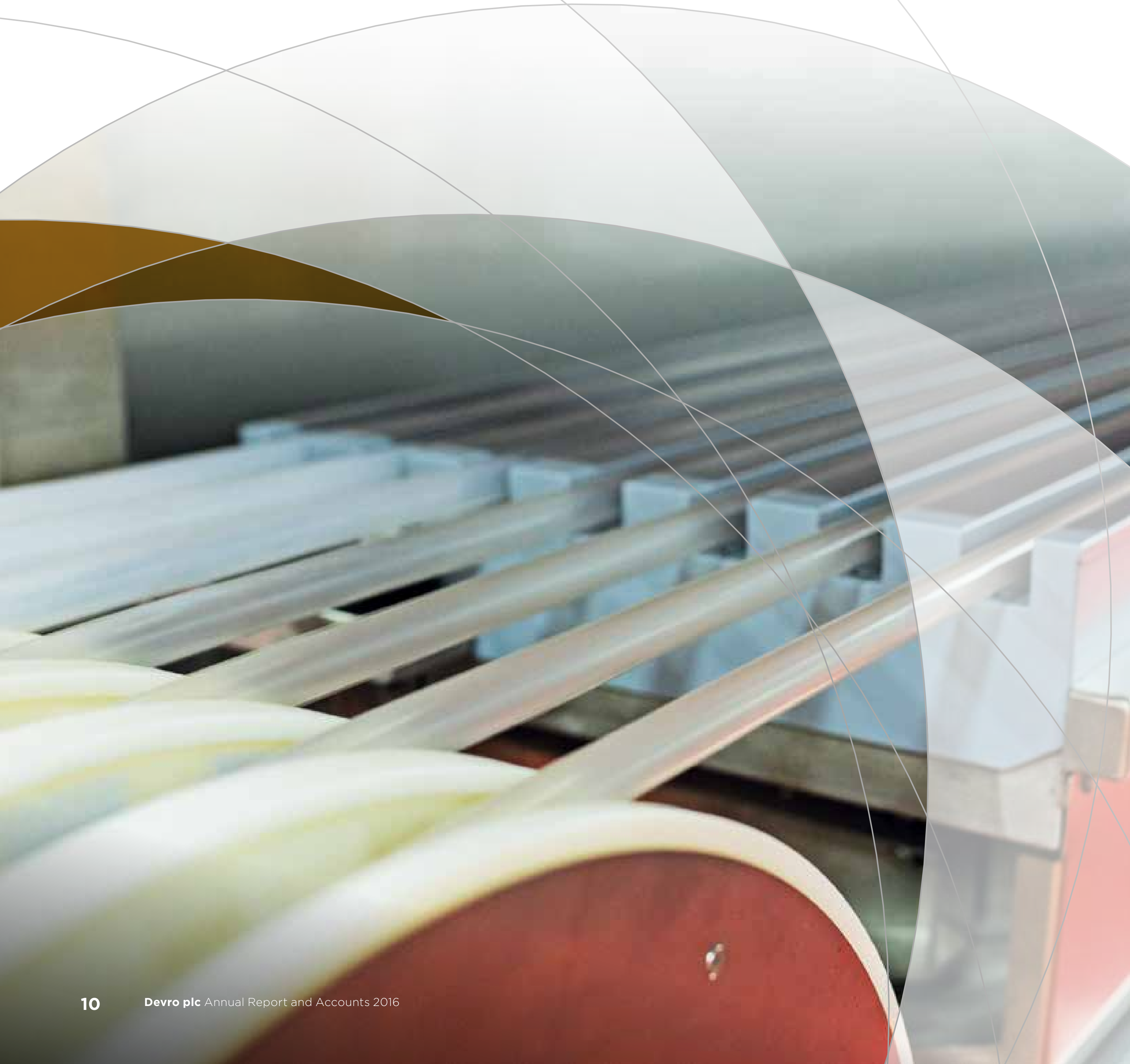
Hui Yi explains:

"We have had very positive feedback from a broad customer base who have started to use casing from the new Nantong plant. We are delivering strong growth in sales as customers see our products delivering production efficiency and lowering their costs of manufacture.

"They also see better attributes for consumers including the appearance and bite of the end product using our casing which keeps the consumers coming back to buy the sausages. We are continuing to build relationships with customers across the country and see sales moving forward."

Our strategy in action

Manufacturing efficiency



2 new plants

opened in 2016

Having transformed our global manufacturing footprint, we are now focused on delivering a return on our investments.

With a three-year programme of investment and restructure across our global manufacturing footprint completed during 2016, we now have a modern asset base, effectively organised as one global supply chain.

Our new facility in Sandy Run, South Carolina, USA is now on-stream. Although the transition from the old plant to the new, whilst maintaining production, was challenging, we look forward to improving efficiencies further in 2017.

The focus is now on maximising the potential across our global manufacturing base, harnessing our expertise to focus on global cost reduction initiatives.

In conversation with Karen Ferguson, Technical Engineering, Devro Scotland

During the past 18 months a number of projects have been underway to maximise capacity and efficiency in our production facilities.

One such initiative was the upgrade of a manufacturing unit in our Bellshill plant in Scotland.

Karen Ferguson explains:

"Since the unit was installed in 2011 we have been continually working on improvements to ensure we get the best quality products and maximum capacity from the lines. In 2015 investment was approved to incorporate the latest technology in high-speed drying to further increase manufacturing capacity.

"I joined Devro in 1997 as a Graduate Trainee and have been working as Engineering Project Manager since 2014. I was delighted to be given the opportunity to manage a project aimed at increasing Devro Scotland's ability to reduce cost of manufacture, and shape the future for casing manufacturing at our Bellshill plant.

"Although technically challenging, the upgrade was successfully carried out to plan, with encouraging results being realised so far."

Our strategy in action

Product differentiation

£8.0m

invested in research and development in 2016

An integral part of our success has been the ability to lead our market in developing differentiated products which meet the needs of our customers.

In 2016, we invested £8.0 million in research and development, a clear indication of our commitment and intent to remain the industry leader in innovation.

Our research capabilities were further enhanced by the acquisition of Devro B.V. in October 2015, which enabled collaboration in 2016 on key projects.

As part of the Devro 100 programme, significant progress was made during 2016 on the next generation of products, which will start to launch in 2017.

In conversation with Katrina Davidson, Open Innovation Coordinator, Devro Group

Devro has a long history of collagen research, product development and service improvement. We are committed to creating a culture of innovation involving everyone in the organisation.

"Collaborating with external partners is not new to Devro and it is especially helpful when trying to solve issues where we don't have the expertise within the company. Here at Devro we are also looking to learn from other organisations involved in Open Innovation and taking best practices from new research in this area. Working with external partners brings us closer to realising our strategic priorities whilst gaining access to up-to-the-minute technologies and expertise for mutual benefit."

Chairman's Statement

After a three-year transformation period, in 2016 we achieved a major milestone with the completion, as planned, of our two capital investment projects in the USA and China.

Global demand for collagen casings and related products grew by approximately 4% in 2016. Regional variations led to a range of opportunities and challenges and the higher levels of capacity in the market provided customers with a range of options of varying quality and functionality.

Devro's reported revenues were 4.7% above the prior year. This includes exchange rate movements, which were particularly beneficial in the second half. As previously guided, Devro's revenues in constant currency declined 6.9% in the year. Volumes in Latin America, Continental Europe, Russia and China reduced, although China returned to year-on-year growth in the final quarter. The performance in these areas was partially offset by increased volumes, and stable or increasing local currency average sales prices, in Japan, South East Asia and the UK & Ireland.

After a three-year transformation period we achieved a major milestone in 2016 with the completion, as planned, of our two capital investment projects in the USA and China. These new plants are now an integral part of our global manufacturing footprint.

In our November 2016 trading update we highlighted that our anticipated sales volumes for 2017 will result in an under-utilisation of available global capacity. As a consequence the Board decided to accelerate and implement more extensively the next stage of the group's strategic development. This programme, known as Devro 100, focuses on growing revenue through improving our sales capabilities, further improving manufacturing efficiencies to reduce unit costs and introducing the next generation of differentiated products.

To underpin the Devro 100 programme, a significant change in the group's organisation structure was implemented in the fourth quarter, under which we moved from local sales and manufacturing responsibilities to three sales-focused commercial regions, supported by global business development and global supply chain operations. The Board believes this will result in a strong focus on areas of future profit growth, faster development of new products and greater use of local operational expertise for the benefit of Devro worldwide by sharing best practices.

Given the extensive nature of this programme there will be a significant level of incremental costs during 2017 and 2018 which will be reported separately as exceptional items.

Financial highlights

Underlying operating profit increased 14% to £38.1 million (2015: £33.3 million), as it benefited from currency movements and lower input prices, which more than offset the effects of lower sales volumes.

After including exceptional items, operating profit was £15.4 million (2015: £19.2 million). A breakdown of exceptional items, together with a more detailed explanation of the group's financial performance, is set out in the Financial Review on pages 18 to 23.

Board

Rutger Helbing joined the Board in April 2016 as Group Finance Director following Simon Webb's retirement in March.

In December, Malcolm Swift agreed to join our Board as a Non-Executive Director with effect from 26 April 2017. At this time, Paul Neep will stand down after 12 years as a Non-Executive Director: I am extremely grateful for his significant contribution.

Employees

The expertise, experience and commitment of so many people who work in Devro are key to the future success of the business. 2016 was a demanding year for all colleagues as we progressed with the transformation of the business. On behalf of the Board, I thank all employees for their contribution.

I am particularly impressed by the way that new employees, in China and elsewhere, have integrated and strengthened our capabilities in many areas.

Dividend

The Board is proposing to maintain the final dividend at 6.1p per share (2015: 6.1p) bringing the total for the year to 8.8p per share (2015: 8.8p). Subject to shareholder approval at the Annual General Meeting in April, the dividend will be paid on 12 May 2017, to those shareholders on the register at 31 March 2017.

Return on investments

Having completed the transformation of our global manufacturing footprint, we are now focused on the need to deliver a return on our investments at the same time as generating strong cash flow for the reduction of debt. The actions planned under the Devro 100 programme will accelerate these returns. However we do recognise that the further exceptional items in 2017 and 2018 represent an additional investment from our investors. We are convinced that, with the quality of our new production facilities and strengthened senior management capability across the group, combined with a new global organisation structure, Devro is well-positioned to grow sales and reduce costs over the coming years. Our markets are dynamic and continue to grow, providing good opportunities for Devro to create long-term value for our shareholders.

Gerard Hoetmer
Chairman

Chief Executive's Review

Following the significant capital investments we have made in recent years, our objective is to use our high-technology assets to supply a growing global market with differentiated quality products, whilst reducing costs to levels substantially lower than has historically been possible with legacy facilities.

Markets overview

Devro supplies collagen casings, gel and film to over 100 countries worldwide. Current estimates are that this market is growing by 2-4% per annum. After a period of contraction in China in 2015, demand in this market returned to growth in 2016.

Markets have become increasingly competitive and customers are ever more demanding. Our markets are dynamic, presenting real opportunities for growth and development.

Strategy

Devro's three-part strategy focuses on revenue growth, manufacturing efficiency and product differentiation. The Devro 100 programme will accelerate progress across all three elements, as outlined below.

Revenue growth

Reported revenue increased 4.7%, strongly impacted by movements in exchange rates, particularly during the second half. Revenue in constant currency reduced 6.9%, reflecting lower sales volumes.

Over 80% of the group's sales come from edible collagen casings, for which total volumes declined 8.2% compared to prior year. This was due to a series of region-specific factors and actions have been taken to ensure a return to growth during 2017 and 2018.

Volumes in the UK & Ireland increased by 1.3% accompanied by continued progress in pricing. There have been some significant transfers of volume between UK sausage manufacturers during 2016, which has enabled Devro to increase its market share.

In Continental Europe, volumes declined 7.5% in an environment of increased competition over recent years. In order to compete more effectively in this market we are in the process of significantly upgrading our sales capabilities, as part of the Devro 100 programme. Volumes in Germany grew 2.1% as a result of working closely with customers to address their needs through our extensive product portfolio.

Volumes in Russia and surrounding markets were down 13.0% for the year reflecting the extremely competitive nature of the market in Russia that has been further exacerbated by the weak rouble. Our sales run-rate improved in the second half following the launch of a new product offering in Russia that was specifically developed to meet these market conditions. Other markets in the region, including Ukraine, Kazakhstan and Belarus, maintained similar volumes to prior year.

North America volumes declined 4.8% over the year, with most of the decline in the final quarter, particularly as one key account reduced inventories to manage working capital. We expect our volumes in this market to return to growth in 2017.

Our Latin America business was impacted by the change in sourcing away from the old USA plant, as part of the transformation of our global manufacturing operations. Despite extensive development and testing, when manufactured on a commercial scale it was found that the redesigned products were not able to meet customer needs, given their unique and demanding applications, resulting in a 33.5% volume reduction. Whilst many technical challenges have now been resolved, the process of scaling up testing and requalifying products will take time and we do not expect a major recovery in Latin America volumes until 2018. This remains a key area of focus for the group.

Volume growth remained strong in Japan (+4.5%), where Devro casings have been used to develop a successful application in the confectionery market, sales of which have continued to

Overall demand remains strong and we continue to see many attractive opportunities to grow the business.

expand. Volumes in South East Asia increased 5.9%, principally due to a strong recovery in Korea related to sales growth in the food service sector and a new product developed to meet local requirements. Volumes in Australia declined 7.8%, including the impact of one significant customer who moved to dual sourcing.

Devro's volumes in China for the year as a whole were 31.4% below prior year, but were strong in the final quarter as volumes came on-stream from the new plant in Nantong. In 2016 there was an oversupply of product at the lower end of the market, which resulted in significant price-led promotional activity. Devro decided not to participate in this activity, particularly given the higher costs of importing products before the new plant became operational. Devro is now in a period of testing products from the new plant with existing and potential customers. The new casings are performing well, which is reflected in the return to year-on-year sales growth in the final quarter.

Total volumes of gel sold across the group increased over 30% through a combination of further growth in the US, as our existing customers increased their market share, and new volumes in Europe, as a result of the acquisition of Devro B.V. in 2015 plus the development of an additional key account.

Devro 100 – Revenue growth

A key element of the Devro 100 programme is to significantly upgrade our sales capabilities. An extensive, structured plan is being implemented, with particular focus on 'key account management' processes. Several new senior sales managers joined the business, strengthening our presence in key markets. This programme has progressed well in 2016 and will continue during 2017.

Manufacturing efficiency

Over the past three years, the business has undergone a significant programme of investment and restructuring, to ensure that we have modern production capacity capable of supplying future demand efficiently. This investment has been completed and all operations are now managed by the new global supply chain function.

As the new China plant started up in the first half, 160 new colleagues joined the business in Nantong and, through the training and commissioning process, rapidly developed an impressive capability to manufacture high quality products. The plant is approved for sales inside China and for exports, has been accredited for FS22000 (the global food safety standard) and has recently achieved full Halal certification.

In the US, as well as bringing the new plant into operation, the closure of the old plant was completed at the end of the first half with the number of employees reduced by 200.

Devro 100 – Improving manufacturing efficiency

With the global manufacturing footprint now complete, the Devro 100 programme will focus efforts on delivering significant further cost savings to improve the unit cost of production. The establishment of the global supply chain function will support this improvement through identifying and applying best practice across the global operations to achieve better efficiency and cost savings.

As the new plants have been completed, engineering teams have returned to regular operations, enabling them to support this programme. In addition we are engaging external support, alongside our experienced employees, to assist with improving our existing processes through external benchmarking.

Product differentiation

Effective research and development is key to product differentiation. An experienced group research team was established in 2015, which actively collaborates with external research projects to extend knowledge and identify opportunities. These capabilities were further enhanced through the acquisition of Devro B.V., which had built a strong technical skills base in co-extrusion gel.

Devro 100 – Next generation of differentiated products

The third element of Devro 100 is the development of next generation products, which will deliver casings offering a step-change in attributes and performance. During 2016 significant progress was made on this development and in 2017 we plan to commence the launch of some of these new products in certain regions, reflecting the specific requirements of these markets.

Outlook

Overall demand remains strong and we continue to see many attractive opportunities to grow the business. In 2017, we will focus on increasing revenue to regain market share, achieving cost savings across our global operations and commencing the launch of new, differentiated products, as part of the Devro 100 programme. The further exceptional costs of this programme are expected to be between £10-12 million over the next two years, plus capital investments of between £7-8 million, with expected benefits of between £13-16 million per annum by 2019. Over this period there will also be a focus on reducing net debt levels.

Combined with the upgraded global manufacturing asset base, we are confident this will deliver long-term growth.

Safety

It was a tragedy for all colleagues that there was a fatal accident at our Czech plant on 30 March 2016, involving a forklift truck. We co-operated closely with the relevant authorities in the investigation process and launched our own in-depth internal investigations to learn from this distressing incident.

For further information on our safety management see pages 30 to 31.

Peter Page
Chief Executive

Financial Review

The financial results for 2016 comprised a number of significant moving parts. In terms of operating profit for the year the adverse impact from lower sales volumes was offset by lower input prices and exchange rate benefits.

Cash flow in the year continued to be impacted by the completion of the capital investment projects in 2016, which required further planned capital expenditure, as well as exceptional cash costs. The total cash outflow related to completion of these projects was material at £40 million, although £17 million below 2015. Due to these cash investments, net debt increased as expected during the year, but was further impacted by the significant weakening of sterling. With underlying EBITDA for the year of £58.8 million and covenant net debt (including derivative financial liabilities) of £156.2 million at year end, the net debt to EBITDA covenant ratio was 2.7 times at 31 December 2016.

There will be no further exceptional charges related to the capital investment projects. As highlighted in our November 2016 trading update, the Devro 100 programme will result in additional exceptional costs until 2018, together with some related capital expenditure. However, the amounts will be at lower levels than those we have seen in each of the last three years.

Going forward, the continued strong underlying cash generation from the business, combined with lower cash requirements for capital expenditure and exceptional items, will enable further reduction in net debt.

Revenue

	2016 £'m	2015 £'m	Change	Change constant currency
Revenue	**241.1**	230.2	+4.7%	-6.9%

Revenue for the year was ahead of 2015, with the benefits of exchange rate movements more than offsetting the reduction in sales volumes. Year-on-year revenue growth can be analysed as follows:

	2016 vs 2015	2015 vs 2014
Volume	**-6.6%**	+0.9%
Price/mix	**-0.3%**	+0.3%
Foreign exchange	**+11.6%**	-2.1%
Total	**+4.7%**	-0.9%

The reduction in sales volumes primarily related to China, Continental Europe, Russia and Latin America. Volumes in China, Continental Europe and Russia were impacted by region-specific competitive pressures, although performance improved significantly in the second half of the year in China and Russia. In Latin America, the lower volumes resulted from product performance issues related to the change in sourcing

Going forward, the continued strong underlying cash generation from the business, combined with lower cash requirements for capital expenditure and exceptional items, will enable further reduction in net debt.

away from the old USA plant as part of the transformation of the global manufacturing operations. Sales volumes grew in Japan, South East Asia and the UK & Ireland.

Sales of gel continued to grow well in the USA, as customers transferred from cellulose applications to collagen co-extrusion. There was a full year of gel sales in Continental Europe following the acquisition of PV Industries B.V. (now renamed Devro B.V.) in October 2015, which contributed 1.7% to volume growth.

Price/mix was slightly adverse, through a combination of changes in the geographical mix of sales and an investment in pricing in a number of competitive markets, where tactical pricing was applied. The geographical mix impact primarily related to the reduction in volumes in the Americas where market prices are above the global average, partially offset by the reduced volumes in China where the prices are lower.

Operating profit

Operating profit for the year can be analysed as follows:

	2016 £'m	2015 £'m	Change
Underlying EBITDA	**58.8**	49.7	+18.3%
Underlying depreciation & amortisation	**(20.7)**	(16.4)	-26.2%
Underlying operating profit	**38.1**	33.3	+14.4%
Exceptional items	**(22.7)**	(14.1)	
Operating profit	**15.4**	19.2	

Underlying operating profit

Underlying operating profit increased £4.8 million between 2015 and 2016, as a result of a number of factors which are described below.

The reduction in sales volumes by 6.6% reduced underlying operating profit by £6.5 million, and price/mix by a further £0.8 million as explained above.

Input prices were £4.5 million lower than prior year, which increased underlying operating profit, following further reductions in raw materials prices, particularly in the USA and Australia, combined with lower energy prices.

Overall manufacturing costs increased by £0.7 million, incorporating a number of factors. Production efficiency improved in Scotland and Australia compared with the first half of the prior year, which had been temporarily affected by the restructuring actions implemented in late 2014. With the new plants completing in 2016, there were changes in the fixed costs associated with the global manufacturing operation, comprising savings from the closure of the old USA plant and additional costs associated with the new plant in China. Given that capacity from the new plants was only available for a restricted period in 2016, these additional costs had a limited impact on underlying operating profit in 2016. However, there will be a full year impact in 2017.

As highlighted in our November 2016 trading update, the lower sales volumes in 2016, which will result in a lower starting point for sales in 2017, combined with the full year availability of the capacity from our new plants, will result in an under-utilisation of available global capacity in 2017. This will adversely affect underlying operating profit in 2017, although it is expected to be partially offset by the full year impact of the savings from the closure of the old USA plant, together with global manufacturing efficiency savings from the Devro 100 programme.

Devro has operations around the world in multiple currencies. Net movements in exchange rates had a favourable impact on underlying operating profit of £5.3 million, reflecting the weakening of sterling against most other key trading currencies of the group compared to 2015, particularly during the second half of the year.

Underlying operating profit also included the effects of a full year contribution from Devro B.V. of £0.6 million, which was acquired in October 2015, and other movements of £2.4 million including reduced bonus payments.

Depreciation & amortisation

The increase in underlying depreciation and amortisation of £4.3 million comprises the commencement of depreciation of the new plants in 2016 (£2.3 million) and foreign exchange movements (£2.0 million).

Exceptional items

	2016 £'m	2015 £'m
Capital investment projects	**20.7**	14.4
Devro 100 programme	**2.0**	–
Restructuring and other	**–**	(0.3)
Total exceptional items	**22.7**	14.1
Cash	**20.4**	12.7
Non-cash	**2.3**	1.4
	22.7	14.1

During 2016 exceptional costs were incurred in completing the capital investment projects and on the implementation of the Devro 100 programme. Further details of these costs is set out in note 4 to the financial statements.

For the Devro 100 programme, further exceptional costs are expected of between £10-12 million over the next two years, plus capital investments of between £7-8 million, with expected returns of between £13-16 million per annum by 2019.

Financial Review continued

Operating margin

	2016	2015
Underlying operating margin	15.8%	14.5%

The underlying operating margin for the year improved by 1.3 percentage points, with underlying operating profit growth outstripping revenue growth.

The reported operating margin reduced from 8.3% to 6.4%, with the improvement in underlying operating margin being offset by the increase in exceptional items.

Capital investment

	2016 £'m	2015 £'m
Capital investment	22.2	55.4

The group has invested £110 million on the two capital investment projects to build new plants in China and the USA over the last three years, and the majority of the group's capital investment during the year was related to the final phase of these projects. Both new plants are now in operation and the capital investment is complete, subject to approximately £3 million of capital retention payments which will be paid in 2017 once the associated criteria have been met.

Working capital

	2016		2015	
	£'m	Number of days	£'m	Number of days
Inventories	34	60	29	45
Trade and other receivables	35	39	38	50
Trade and other payables	(38)	40	(34)	30
	31		33	

Working capital improved by £2 million during the year with the benefits of lower receivables and higher payables being partially offset by increased inventories.

The movements in receivables and payables reflected improved working capital management, and the increase in inventories resulted from movements in foreign exchange (+£4 million) combined with some effects from the reduced sales volumes.

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, additional long term facilities were put in place in 2014 to supplement the shorter term facilities.

The three-year investment programme came to an end in 2016 and, as expected, net debt increased to £153.6 million at 31 December 2016 (or £156.2 million including derivative financial liabilities) compared with £125.5 million at year end 2015. This includes the effect of a significant weakening of sterling during 2016 (given that a part of the group's debt is denominated in US dollars), in particular following the result of the EU Referendum vote on 23 June 2016, which increased the reported net debt figure at 31 December 2016 by approximately £19 million (including the effect on derivative financial liabilities).

Key financial measures are as follows:

	2016	2015
Net debt	£153.6m	£125.5m
Covenant net debt/underlying EBITDA ratio	2.7 times	2.6 times
Underlying operating cash flow	£64.4m	£53.1m
Return on capital employed (ROCE)	11.5%	11.5%

At 31 December 2016, the covenant net debt / underlying EBITDA ratio was 2.7 times. As expected, this was a reduction from the 2.9 times ratio reported at 30 June 2016. The underlying EBITDA to net interest payable ratio was 7.6 times at 31 December 2016, meaning that both ratios were within their limits despite the changes in exchange rates during the year.

Now that the capital investment projects are complete, cash generated from the business will enable net debt levels to be reduced, which will ultimately result in the covenant ratios 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 2019.

Underlying operating cash flow (before pension deficit funding) was £64.4 million (2015: £53.1 million), an increase of £11.3 million relating to higher EBITDA and lower net working capital.

Cash outflow from exceptional items was £22.9 million (2015: £15.5 million) and from pension deficit funding was £2.5 million (2015: £3.2 million), resulting in operating cash flow of £39.0 million (2015: £34.4 million).

Finance costs

	2016 £'m	2015 £'m
Net finance cost	**6.9**	2.0
Net finance cost on pensions	**2.3**	2.1
Total net finance cost	**9.2**	4.1

As expected, the net finance cost for the year was higher than 2015 due to the increased level of net debt in 2016, which also attracts a higher rate of interest, and the ceasing of capitalisation of interest during the first half once the new plants became available for use. Capitalisation of interest in 2016 was £0.5 million (2015: £2.7 million).

The small increase in net finance cost on pensions over 2015 reflects the higher discount rates assumed at the end of last year compared to 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:

	2016 £'m	2015 £'m
Fair value of scheme assets	**254.8**	225.4
Present value of scheme liabilities	**(350.8)**	(281.8)
Net pension liabilities	**(96.0)**	(56.4)

The increase in net pension liabilities during the year largely reflects the lower discount rates at the end of 2016, compared with the end of last year, especially in the UK. Further analysis of the movement in net pension liabilities is set out in note 25 to the financial statements.

Tax

	2016 £'m	2015 £'m
Tax charge on underlying profit before tax	**6.7**	3.6
Tax credit on exceptional items	**(2.7)**	(3.1)
Tax charge in income statement	**4.0**	0.5

The group operates around the world and earns profits which are subject to tax at differing rates in different tax jurisdictions. The investment incentives the group had previously benefited from in the Czech Republic became fully utilised in 2015, and as a result the group's underlying tax rate increased this year to 23% (2015: 12%).

Earnings per share

	2016	2015
Underlying basic earnings per share	**13.3p**	15.4p
Basic earnings per share	**1.3p**	8.8p

We have again presented an adjusted earnings per share (EPS) measure, which excludes exceptional items, to provide a better indication of our underlying performance of the group. Underlying basic EPS reduced by 2.1 pence with the improvement in underlying EPS due to increased underlying operating profit (+2.9p) being more than offset by the effects of increased interest (-3.1p) and the higher effective tax rate (-1.9p).

The change in reported basic EPS reflects the lower underlying basic EPS plus higher exceptional costs in 2016.

Dividend

	2016	2015
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 final dividend of 6.1 pence per share, which will be payable on 12 May 2017 to shareholders on the register at 31 March 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'.

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.

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.

Financial Review continued

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 which will continue until 2018. The incremental costs associated with implementing this transformation are significant, and as a result have been classified as exceptional items.

Reported operating profit reflects the costs associated with the transformation without the benefits of the additional volumes expected to be generated in 2017 and beyond. The underlying measures have been adjusted to exclude exceptional items in order to give a more accurate representation of the costs incurred to manufacture the volumes produced in 2016. This treatment is consistent with the internal reporting used to manage the business.

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

	2016			2015		
	Underlying	**Exceptional items**	**Reported**	Underlying	Exceptional items	Reported
Operating profit (£'m)	**38.1**	**(22.7)**	**15.4**	33.3	(14.1)	19.2
Operating margin	**15.8%**	**(9.4%)**	**6.4%**	14.5%	(6.2%)	8.3%
Profit before tax (£'m)	**28.9**	**(22.7)**	**6.2**	29.2	(14.1)	15.1
Basic earnings per share	**13.3p**	**(12.0p)**	**1.3p**	15.4p	(6.6p)	8.8p

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:

	2016			2015		
	Underlying	**Exceptional items**	**Reported**	Underlying	Exceptional items	Reported
Operating profit (£'m)	**38.1**	**(22.7)**	**15.4**	33.3	(14.1)	19.2
Depreciation & amortisation (£'m)	**20.7**	**2.3**	**23.0**	16.4	1.2	17.6
EBITDA (£'m)	**58.8**	**(20.4)**	**38.4**	49.7	(12.9)	36.8

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:

	2016 £'m	2015 £'m
Current borrowings	**(1.9)**	(1.9)
Non-current borrowings	**(161.6)**	(133.2)
Total borrowings	**(163.5)**	(135.1)
Cash and cash equivalents	**9.9**	9.6
Net debt	**(153.6)**	(125.5)

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:

	2016 £'m	2015 £'m
Net debt	**(153.6)**	(125.5)
Derivative financial liabilities	**(2.6)**	(2.3)
Covenant net debt	**(156.2)**	(127.8)

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 for 2016 and 2015 is presented below:

	2016 £'m	2015 £'m	2014 £'m
Goodwill	**3.1**	3.1	–
Intangible assets	**7.3**	6.1	4.0
Property, plant and equipment	**308.6**	270.1	230.3
Trade and other receivables	**35.2**	38.4	33.7
Inventories	**33.8**	28.5	33.4
Trade and other payables	**(37.8)**	(33.7)	(34.1)
Capital employed	**350.2**	312.5	267.3
Average capital employed*	**331.4**	289.9	
Underlying operating profit	**38.1**	33.3	
Return on capital employed	**11.5%**	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 2016 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 foreseeable future and that they can be repaid in line with the expected terms.

After making enquiries, the directors have a reasonable expectation that the group have adequate resources to continue in operation for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Rutger Helbing
Group Finance Director

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 company, 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.

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 going concern and viability statements can be found on page 43.

In addressing and overseeing risk, the Board is supported by the Risk Committee. The Committee submits four 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

Following the UK's decision to leave the EU, the Government has now clarified its position: the UK will leave the EU, the Single Market and the current customs union, perhaps as early as mid-2019.

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. 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 Regulatory Affairs Director has established strong working relationships within 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 volumes which could conceivably 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

▲ Increased

= Unchanged

▼ 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 £8.0m in research and development activities in 2016, to extend and differentiate the product range and improve the quality of our products. Our capital investment programme has started to reduce our unit costs with further actions planned for 2017 and 2018. We also aim to expand the total collagen casings market by developing products which convert animal intestine applications to collagen casing.	=
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.	=
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 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 heavily in our products and processes with the aim of increasing quality while reducing our cost base to remain competitive.	=
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.	=

Principal Risks and Uncertainties continued

Key risk	Impact	Mitigation	Movement
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 approximately 15% of the group's total operating 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.	=
DEVELOPMENT OF NON-CASING TECHNOLOGIES More than 80% of the group's revenue is derived from the manufacture and sale of edible collagen casing, primarily for sausages. For many years, several manufacturers of machinery used in the food industry have been promoting "co-extrusion" systems for sausages which do not require casing.	If there were to be a significant conversion to co-extrusion, there could be an adverse effect on sales of casing, revenues and profits.	The group makes substantial investments in product development and manufacturing processes to sustain competitive advantage. Where there have been conversions to co-extrusion in the past, the group has often been successful in obtaining the business to supply the collagen gel required for such applications, and, following the 2015 acquisition of Devro B.V., continues to be a world leader in this specialist category.	=
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.	The Global Quality and 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

- Increased
- Unchanged
- 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.	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 cashflow.	
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 increased financial penalties.	We ensure that our systems are appropriately secured and employ firewalls and other security features. Regular penetration testing is conducted.	
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.	

Key Performance Indicators

Measuring our performance

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

Revenue growth

Growing in developed and emerging markets

Manufacturing efficiency

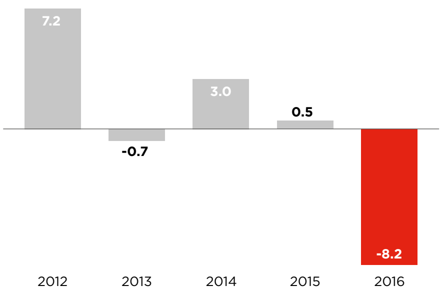
Optimising our use of existing assets and investing in new technology

Product differentiation

Differentiating ourselves through research and development

Sales volume growth*

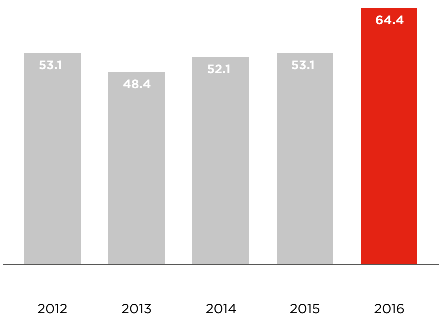
Volume growth of edible collagen casings (%)



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)

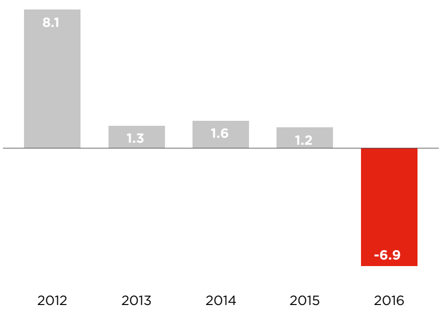


Underlying operating cash flow is the amount of cash generated by the group through its trading activities and manufacturing operations before exceptional items, investment in capital expenditure and pension deficit funding. This measure is used to evaluate the performance of the business and to assist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

* Continuing operations, and restated for revised pensions accounting rules (IAS 19R) where relevant.
** 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.

Constant currency revenue growth*

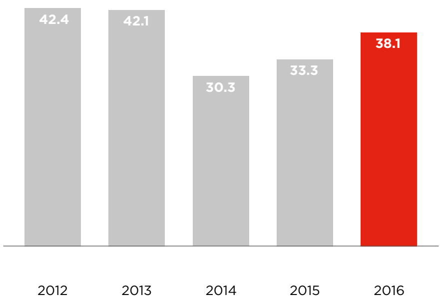
Value growth at constant currency (%)



Revenue is monitored on the basis of operating segments as follows: Americas, Asia-Pacific and Europe. Given the significant distorting effects of movements in exchange rates, revenue growth is monitored in constant currency**.

Underlying operating profit*

Underlying operating profit* (£'m)

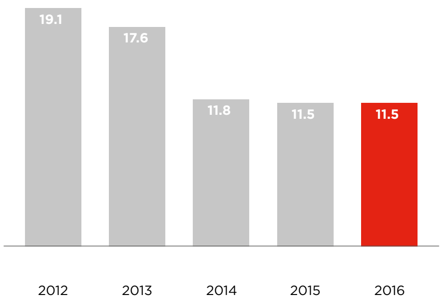


While the group aims to take a long-term perspective on shareholder value, it also monitors the financial performance of each of its businesses in the shorter term. The KPI used in this monitoring process is underlying operating profit. This measure is used to evaluate the performance of each business, 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.

Return on capital employed

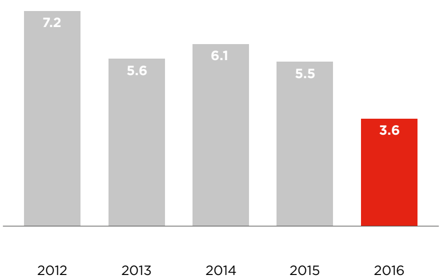
Underlying operating profit*/average capital employed (%)



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 the company is making use of its available capital, and is a good reflection of the performance of the company in terms of both earnings and cash flow.

Health and safety

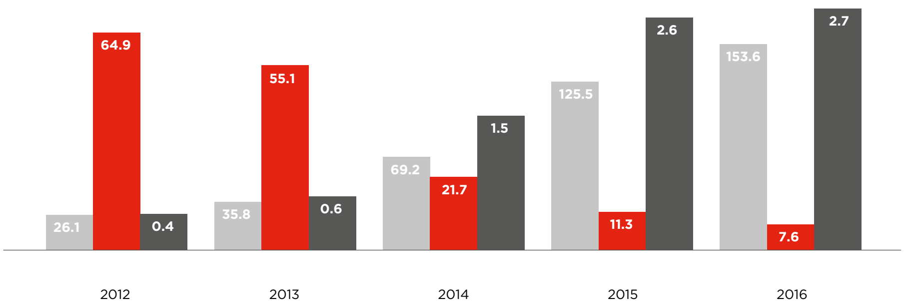
Number of injuries requiring treatment by a health professional per million hours worked



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

Debt

Net debt (£'m)
Underlying EBITDA/interest (times)
Covenant net debt/underlying EBITDA (times)



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.

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

In the last 10 years, we have focused on safety in the genuine belief that all accidents in the workplace are preventable. 2016 was a disappointing year, and we know that we must refocus our efforts in 2017 and beyond in order to regain momentum in this area.

It was a tragedy for all colleagues that there was a fatal accident at our Czech plant on 30 March 2016, involving a forklift truck. We co-operated closely with the relevant authorities in the investigation process and launched our own in-depth internal investigations to learn from this distressing incident.

Effective from January 2017, a new role has been established to ensure total consistency in the management of safety at all sites, with direct responsibility for group-wide standards and their implementation.

Safety underpins all our operational procedures with accountability for safety at every level of the organisation. 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.

We believe that all work-related injuries and work-related ill health cases can be prevented. Our aim is to provide a safe and healthy working environment for all colleagues, contractors and visitors and ensure that everyone returns home safely when they finish their work.

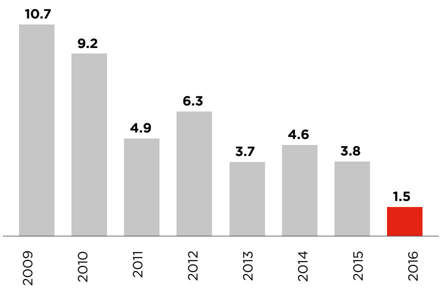
- We will set consistent standards across all locations, have high expectations of others, recognise good safety behaviour and be uncompromising in tackling poor behaviour or unsatisfactory safety performance.
- We will ensure that safe systems of work are in place for all tasks, that risk assessments are documented and reviewed periodically and that they reflect the actual practices taking place in all parts of the organisation.
- We will ensure that robust incident investigations are carried out to determine the root cause, prevent recurrence and continually improve day-to-day safety behaviours and performance.
- We will communicate on safety issues and are committed to providing open and honest feedback on all safety and health concerns.
- We will ensure that all parts of the organisation adhere to a Management of Change process so that safety needs are addressed in advance of changes being made.
- We will provide the necessary competent resources for health and safety management and ensure that safety is afforded the correct priority on everyone's agenda.
- We will provide safe working environments and promote healthy living to improve the health and well-being of our employees.
- We will respect all legislation.

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

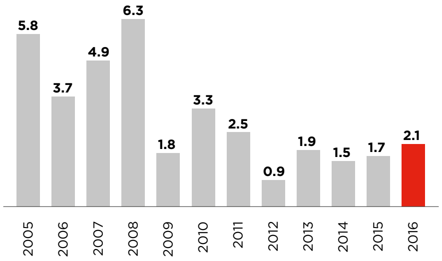
The Board's Health and Safety Committee reviews and monitors safety performance in each of the regions. All sites have an annual safety and training plan in place and these are submitted to the Committee at the start of the year for review.

The Committee met six times in 2016 to review progress and meet with the regional safety committees.

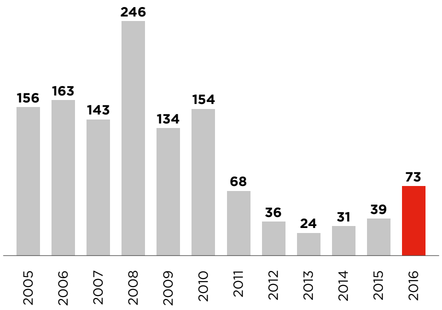
Recordable injury rate per million hours worked



Lost working day injury rate per millions hours worked



Number of lost working days per million hours worked



2016 safety statistics
We recorded 10 lost working day incidents in 2016 compared to nine in 2015. The number of working days lost due to injury was 347 (2015: 206). These incidents demonstrate the need for continuous improvement in the management of health and safety risks in the workplace.

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.

The Chief Executive meets personally with every colleague who has been involved in a Lost Working Day Injury.

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 2016, there were seven recordable incidents reported which was a significant decrease from the 20 reported in 2015.

There were 1,885 behavioural audits conducted in 2016, lasting over 700 hours, which identified over 1,500 unsafe acts and conditions.

Devro is committed to pro-actively resolve hazards before an incident occurs. One of the key initiatives in achieving this is through effective near miss reporting. Devro understands that near miss reporting has many benefits which includes engaging the workforce (all workers at all levels) in solving problems, increasing safety ownership and reinforcing workers' self-esteem and it develops a positive and necessary attitude surrounding safety.

In 2016, one of our core objectives was to increase near miss reporting throughout the organisation. Through this initiative we have as a result seen a 144% increase in the number of near misses reported from the workforce to 259 (2015: 106).

Safety statistics	**2016**	2015
Number of fatalities	**1**	0
Number of LWDIs including contractors	**10**	9
Number of days lost	**347**	206
Number of cases of occupational illness	**3**	0
Number of dangerous incidents	**13**	21
Number of recordable injuries	**7**	20
Number of first aid cases	**83**	115
Number of minor incidents	**85**	66
Number of reported near misses	**259**	106
Unsafe act rate (per hour)	**0.54**	0.44
Employee hours worked	**4,442,221**	4,308,730
Contractor hours worked	**326,466**	996,522

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 the solid waste from process 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, and thus pressures on Governments and communities, differ region by region. 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 is active global co-operation between our sites, and this is utilised to ensure 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 concern is climate change, and as such, it is a main area of commitment and focus. 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 USA and China have incorporated the best available technologies to minimise our emissions and energy usage per kilometre of product manufactured.

Global targets

By 2015 we had already met and surpassed the targets we had set in 2011, which required a 10% reduction per kilometre product in carbon dioxide emissions, water use and solid waste to landfill. We achieved double the target we had set.

Having evaluated the legislative requirements in the countries where we operate, and after investigating the opportunities presented by technology, new targets were adopted (against 2015 baseline) 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.

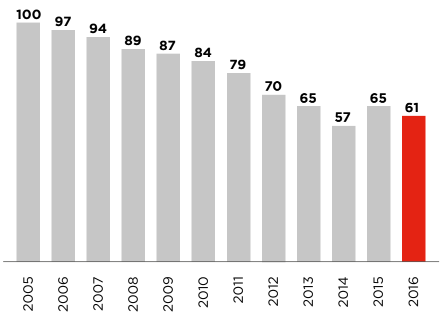
These targets demonstrate our aspirations in making a step-change in environmental performance into the next decade and underline our commitment and resolve to manage our environmental impacts and responsibilities.

Carbon dioxide

In addition to manufacturing at our established plants in the USA, Scotland, Australia and Czech Republic throughout 2016, we were also commissioning two new plants in the USA and China. Overall we achieved a 5% reduction in emissions levels from the 2015 baseline which was an excellent performance, particularly considering the output constraints which are incumbent with plant commissioning.

In the established plants in Australia, Czech Republic and Scotland we reduced our emissions against the 2015 baseline by just over 9%, a reduction in real terms of 9,950 tonnes of CO_2.

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



Energy consumption

Energy consumption and emissions are closely related. In 2016 we saw a strong performance in the established plants delivering a combined improvement of 25% which gave an overall global contribution of 5.5%.

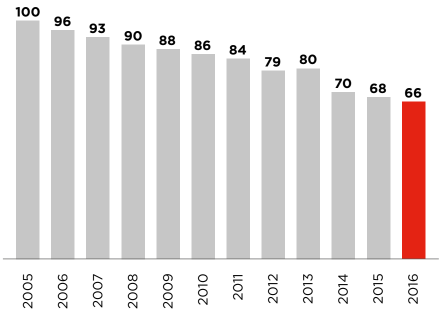
This 5.5% saw a reduction overall across the business of 70,000 GJ's, which in context would be enough energy to power 4,000 houses per annum. This was achieved against a backdrop of reduced production due to plant commissioning.

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 established and new manufacturing facilities in the USA. 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 and systems on green field sites. In total we continued the trend of reducing usage globally, this year by 3% against the 2015 baseline.

As the following bar chart shows, we have reduced water usage in all but one of the last 10 years and our current rate of water required to produce our products has now been reduced by one-third since 2005.

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



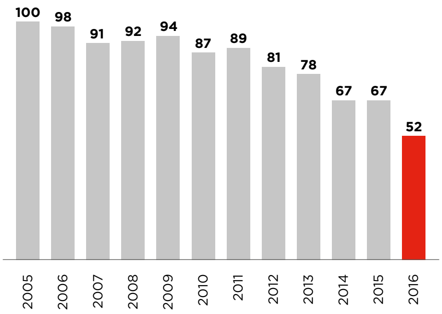
Solid waste to landfill

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 progress this year with a new contract in Australia which has seen about 800 tonnes converted from landfill to further processing, and this will double in 2017. Scotland have completed similar work and will be trialling a new waste stream from the first quarter of 2017 which will look to divert upwards of 3,000 tonnes of process waste from landfill. In total in 2016 we sent 1,800 tonnes less to landfill than in 2015, in a year where our manufactured volumes increased.

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, thus achieving our stated goal of zero landfill from process waste by 2020.

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



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. Four of the plants have now been accredited with the ISO 14001 standard and are now actively working to upgrade to the new 2015 variant. Work on this will be ongoing throughout 2017 with accreditation due by 2018. In the two new 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 emissions of greenhouse gases 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 below 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).

GHG emissions data (tonnes of CO_2e)

	2016	2015	2014
Scope 1 emissions (tes)	**76,696**	79,726	76,805
Scope 2 emissions (tes)	**68,435**	66,235	65,240
Scope 1 + 2 emissions (tes)	**145,131**	145,961	142,045
Intensity measure (£'m revenue)	**241.1**	230.2	232.3
Normalised emissions (tonnes of CO_2e per £'m revenue)	**602**	634	611

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 Management Team 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 the group's two new factories and the restructuring of the organisation under the new Executive Management Team. We also launched the first 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 and 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 2,265 people, on average, around the world during 2016 (2015: 2,174). As at 31 December 2016 the group employed 2,221 people (2015: 2,258).

We encourage the development of employees through training. We invest both time and money in this which provides benefits for both the group, through a more highly-skilled workforce, and the individual employees, who gain 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 2016 we were training 16 apprentices around

the world. During the course of the year, two apprenticeships were completed. As at 31 December 2016, 26 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 2017. This is supplemented with support for professional education in other disciplines.

Devro does not have a specific human rights policy. However, we have judged that human rights are not a material risk for the business due to the developed culture of ethical business practice and strong labour regulation present in most of the countries that the group operates in. 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.

As at the end of the year the gender breakdown of the workforce was as shown in the table below.

The Strategic Report, comprising pages 2 to 35 inclusive, was approved by the Board of Directors of the company on 15 March 2017.

John Meredith
Company Secretary
15 March 2017

	As at 31 December 2016			As at 31 December 2015		
	Male	**Female**	**Total**	Male	Female	Total
Board of Directors	5	1	6	5	1	6
	83%	17%		83%	17%	
Executive Management Team (excluding Directors)	3	3	6	3	1	4
	50%	50%		75%	25%	
Other senior managers	57	16	73	54	17	71
	78%	22%		76%	24%	
Other employees	1,378	758	2,136	1,372	805	2,177
	65%	35%		63%	37%	
Total	**1,443**	**778**	**2,221**	1,434	824	2,258
	65%	**35%**		64%	36%	

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 2016 was appointed as a Non-Executive Director of Evolva Holding SA, a Swiss bio-tech company.

Gerard is Chairman of the Nomination Committee.

Peter Page
Chief Executive
Peter joined Devro as Chief Executive in June 2007.

Peter has worked for 30 years in the international food and agribusiness sector, as a general manager and as a marketing manager where he gained experience of managing the interface between technology and food manufacturers, which is relevant to Devro's situation.

Peter is Chairman of the Non-Executive Directors' Remuneration Committee.

Rutger Helbing
Group Finance Director
Rutger joined Devro as Group Finance Director in April 2016.

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 managed finance functions during periods of significant growth and change at international businesses for over 20 years.

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.

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, a chartered accountant, has worked with Devro for over 20 years in various roles in finance, supply chain and general management. Most recently, Beverley has run the Devro Pty business in Bathurst, Australia, overseeing major restructuring and the development of customer relationships in the Asia-Pacific region.

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.

Paul Neep
Non-Executive Director
Senior Independent Director
Paul joined Devro in February 2005.

He was formerly Chairman of The Glenmorangie Company, part of LVMH, having previously been President and Chief Executive. Paul's knowledge of marketing and experience of international business development is particularly helpful in his role as a Non-Executive Director. He is the Senior Independent Director and Chairman of the Executive Directors' Remuneration Committee.

It is Paul's intention to step down from the Board at the 2017 Annual General Meeting.

Paul Withers
Non-Executive 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 therefore brings significant experience of international business to Devro's Board.

Paul is Chairman of the Health and Safety Committee.

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 brings 35 years' of international manufacturing experience, most recently in an eight-month consulting role with Devro at Sandy Run in South Carolina, USA. Prior to this he was the Senior Vice President of Operations for Purac/Corbion, where he was responsible for 10 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 as Commercial Director, EMEA, 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 my responsibility as Chairman.

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 2016.

Gerard Hoetmer
Chairman

From 1 January 2016 until 31 December 2016, the company applied the 2014 edition of the UK Corporate Governance Code (the "Code").

1. Board composition

Mr G J Hoetmer, Chairman, Mr P W B Page, Chief Executive, Ms J A Lodge, Non-Executive Director, Mr P A J Neep, Non-Executive Director, and Mr P N Withers, Non-Executive Director, served as directors throughout 2016. Mr S C Webb, Group Finance Director, stepped down from the Board on 31 March 2016, and was replaced in that role by Mr R A Helbing who was appointed as a Director on 4 April 2016.

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, other than as set out in the following paragraph.

Mr P A J Neep, who has held the position of "Senior Independent Director" since October 2005, has advised the Board that he wishes to retire, and will not be seeking re-election at the forthcoming Annual General Meeting ("AGM"). Mr P N Withers will take over as Senior Independent Director from that date.

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.

As previously announced, Mr M S Swift will join the Board as a Non-Executive Director at the forthcoming AGM.

All current directors, other than Mr P A J Neep, will stand for re-election at the 2017 AGM, and Mr Swift will stand for election. As in previous years, brief biographies of Board members, giving details of their experience and other main commitments, can be found on pages 36 and 37, 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.

Details of Mr Swift's experience can be found in the notice of the 2017 AGM, which is on the company's website (www.devro.com).

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; and
- major decisions on capital expenditure.

In 2016, the Board broadly divided its time as follows:

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

Balance and diversity

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 to actively encourage women to apply to join the Board whenever a vacancy exists, and the report from the Nomination Committee on page 41 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 times, 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.

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 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.

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.

Corporate Governance Report continued

1. Board composition continued

Board and committee proceedings continued

In order to discharge these responsibilities, the Board and its committees meet on a regular basis throughout the year. In 2016, the Board held nine 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[1]	J A Lodge	P A J Neep	S C Webb[1]	P N Withers
Board – 9 meetings	9	9	8	9	9	1	9
Audit Committee – 4 meetings	–	–	–	4	4	–	4
Executive Directors' Remuneration Committee – 5 meetings	5	–	–	5	5	–	5
Non-Executive Directors' Remuneration Committee – 1 meeting	–	1	1	–	–	–	–
Nomination Committee – 2 meetings	2	–	–	2	2	–	2
Health and Safety Committee – 6 meetings	–	6	–	–	–	–	6
Risk Committee – 4 meetings	–	3	3	–	–	–	–

1. Mr R A Helbing joined the Board on 4 April 2016/Mr S C Webb stepped down from the Board on 31 March 2016.

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 22 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 2016, 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 2016 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 2016 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 throughout 2016. The other members of the Committee were Mr G J Hoetmer, Ms J A Lodge and Mr P N Withers. The Committee met five times in 2016.

Throughout 2016, the Non-Executive Directors' Remuneration Committee was chaired by Mr P W B Page, with Mr R A Helbing replacing Mr S C Webb as the other member when he joined in April 2016. This Committee met once in 2016 to review the remuneration of the Non-Executive Directors for the current year.

The Remuneration Report contains a detailed statement of the remuneration of each director for 2016, 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.

In view of Mr P A J Neep's impending retirement at the AGM in April 2017, Mr P N Withers will take over as Chairman of the Executive Directors' Remuneration Committee from that date.

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, Mr P A J Neep and Mr P N Withers. 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 2016, the Committee met formally on two occasions.

During the course of the year, the Committee sought a new Non-Executive Director.

After a comprehensive search of external candidates using independent consultants, a number of strong contenders were identified. The Committee then reviewed the various candidates against the agreed specification before unanimously agreeing to nominate Mr Malcolm Swift to the Board for the post. Mr Swift will take up the position at the 2017 AGM, subject to election.

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, Mr P W B Page and Ms F L Curran, the company's Global Health and Safety Manager.

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

The Committee convened six times in 2016 and on four of these occasions met (either by video, telephone or in person) with representatives of the safety committee of one of the group's main manufacturing facilities.

Corporate Governance Report continued

5. Report from the Health and Safety Committee continued

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.

Following a review of the Committee structure by the Board in February 2017, it was agreed that Mr P N Withers will step down as Chairman of this Committee in view of his new role as Chairman of the Executive Directors' Remuneration Committee. Mr M S Swift will join as Committee Chairman, both with effect from 26 April 2017 and Mr Kevin Shoemaker, Group Supply Chain Director, will join as a Committee member on 25 April 2017.

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 2014 guidance and the Code. A Risk Committee was formed in 2010, chaired by the Group Company Secretary and comprising the Executive Directors and other members of the Executive Management Team, as listed on pages 36 and 37. 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 group operating company prepares a risk assessment for its business. This involves each company 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 2016, 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, Chief Executive's 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, provided by the Business Controls and Financial Analyst, who has a reporting line to the Chairman of the Audit Committee and also direct access to the Chairman of the Board. The Business Controls and Financial Analyst normally attends Audit Committee meetings and makes a formal report to the Committee annually.

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. 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 foreseeable future. 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 2016, 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 foreseeable future.

10. Viability statement
In accordance with the 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 2019 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 in the Strategic Report on pages 24 to 27, 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 reviewed continuously throughout the year and is updated as circumstances evolve.

Corporate Governance Report continued

10. Viability statement continued

The output from this planning is used to perform central 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.

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 2019.

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 pages 62 to 65 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 2016, the company has applied the provisions and principles of corporate governance as set out in the 2014 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
15 March 2017

Audit Committee Report

Committee Chairman's introduction

As Chairman of the Audit Committee, I am pleased to present the report in respect of 2016. 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 throughout 2016 were Mr P A J Neep and Mr P N Withers. 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, management and the Business Controls and Financial Analyst, 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 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 limited non-audit work for the company in 2016, generating £20,000 in fees (2015: £41,000). 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 0.06:1 (2015: 0.13:1). The Committee noted the relatively low level of non-audit work when reviewing the statutory auditors' independence and concluded that, in view of the safeguards in place, this would not impinge upon their objectivity or 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 2016 audit process.

Audit Committee Report continued

Significant issues

The significant issues considered by the Committee during 2016, and how these were addressed, are as follows:

Exceptional items
The final phase of the group's two major investment projects to construct new manufacturing plants in the USA and China was completed in 2016, including the training of new staff, commissioning of equipment and the commencement of operations at the plants. The costs associated with these projects have been significant and judgement has been required by management to determine which costs should be expensed as incurred and which should be capitalised. In addition the Board decided during 2016 to accelerate, and implement more extensively, 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. This programme is expected to result in significant additional costs until 2018, starting in 2016.

Where costs have been expensed as incurred, 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 2015, 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. The start-up of operations during 2016 at the group's new manufacturing plants in the USA and China increased the risk in relation to inventory valuation given the process of calibrating and refining the new production processes prior to the commencement of normal production. The group makes additional specific provisions in the event that such products do not meet the required customer specifications. During the course of the year inventory levels have risen compared with the end of 2015, and the level of provision has risen in line with this. 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.

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 will facilitate a proportionate and independent investigation of such matters.

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 2016 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
15 March 2017

Directors' Remuneration Report

Committee Chairman's introduction

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for 2016.

This report provides details of the remuneration paid to Executive and Non-Executive Directors for services to the company during the year.

In 2016, the Remuneration Committee carried out an extensive review of the current Executive Directors' remuneration policy. I have set out below details of the new policy that will be brought to shareholders for approval at our AGM, as well as the rationale for those changes and how that policy will be implemented in 2017.

Paul Neep
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 to align the financial interests of the Executive Directors and other senior managers with the achievement of the group's objectives, and with shareholder returns.

The Annual Report on Remuneration on pages 55 to 61 sets out how our policy was operated in 2016. This will be subject to an advisory vote at the AGM on 26 April 2017.

Pay and performance in 2016

Base salary

Our long-standing approach to base salaries for Executive Directors is to be around mid-market levels. In 2016, the Committee increased the Chief Executive's salary by 1.5%, a little less than the average of other pay rises elsewhere in the group. The new Group Finance Director's salary was set taking into account his experience and skills as well as market rates for similar positions in comparable companies, and was consistent with the salary of the outgoing director.

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.

For 2016, the annual bonus targets were largely focused on profit growth, with non-financial strategic targets accounting for a maximum 20% of the award. The Committee set the financial performance conditions for the annual bonus based on the budgeted exchange rates at the start of the year, in an effort to avoid the outturn being subject to the vagaries of the currency markets. As a result, while the 2016 underlying operating profit moved forward, the recalculated figure fell below the minimum threshold, and as the non-financial objectives were subject to a profit underpin at threshold level, the result was that no bonus was payable in respect of 2016.

Long-Term Incentive Plan

The Chief Executive and former Group Finance Director received conditional awards under the Devro Performance Share Plan in 2014. The performance targets for these awards were partly based on EPS growth and partly on relative TSR measured across a three-year performance period ending on 31 December 2016. The Committee reviewed the performance of the group against these conditions in February 2017, and concluded that neither threshold had been met. As a result, the awards in question have lapsed. A full explanation of the performance metrics is shown on page 58.

Directors' Remuneration Report continued

Changes to our policy for 2017-2020

The current remuneration policy was approved by shareholders at the 2014 AGM, and a triennial shareholder vote is required at the 2017 AGM for the same or a revised policy. A new policy for 2017-2020, as set out on pages 50 to 54, will be put to shareholders as a binding vote at this year's AGM. Subject to shareholder approval the new policy will be applied from 1 January 2017.

The Committee has carried out an extensive review of the current policy and the Executive Directors have also reviewed the Non-Executive Directors' element of the policy. In the course of their review, the Committee consulted with our major investors, before concluding that the current policy for the Executive Directors remains broadly appropriate but that a limited number of changes would bring it in line with evolving "best practice" while also providing some valuable flexibility for the next three-year policy period.

In summary, the key changes and rationale for those changes are as follows:

- The annual bonus maximum opportunity under the policy for both Executive Directors will increase from 100% of salary to 125% to provide some headroom and flexibility for the three-year policy period. Importantly, there is no intention, at this time, to increase the actual maximum opportunity for the Executive Directors from the current 100% of salary. If the Committee is considering an increase it would consult with its largest investors.
- Increasing flexibility within the policy to enable the Committee to select performance measures for the annual bonus and long-term incentive that are aligned with the strategy of the Company. As part of this, it is proposed that a cash target will be introduced into the annual bonus and that ROCE is introduced as a performance measure for the 2017 long-term incentive awards, in addition to the current TSR and EPS measures.
- We will increase the shareholding requirement for Executive Directors from 100% of base salary to 150% of base salary to strengthen the alignment of executives to shareholders.

For ease of reference, these key changes, as well as a small number of changes for administrative ease and clarification, are set out in detail in the table on page 49. The Executive Directors concluded two small changes should be made to the Non-Executive Directors' element of the policy to provide additional flexibility and these are also detailed in the table.

Implementation of policy for 2017

Our Chief Executive's base salary will not be increased in 2017, and our Group Finance Director will receive a 1.5% increase; broadly in line with the workforce average. The maximum annual bonus opportunity and LTIP award level will remain the same as in 2016. For the LTIP metrics, as mentioned above, we propose to introduce ROCE alongside TSR and underlying EPS in order to support a focus on delivering returns from the capital projects in China, the USA and elsewhere in the group.

The 2017 annual bonus will be targeted primarily on underlying operating profit and cash, with a small element of non-financial objectives accounting for 20% of the weighting. A cash target was last used as an annual bonus measure in 2014, and has been reintroduced in the 2017 awards in order to provide a focus on debt reduction.

Further details of how our policy will be implemented in 2017 are set out in the Annual Report on Remuneration at pages 55 to 61.

Review of shareholder vote on 2016 Annual Report on Remuneration

At our 2016 AGM, the resolution to approve the Annual Report on Remuneration, despite being passed with the requisite majority, had some 35% of votes cast against. The Committee understands and accepts the concerns raised by some shareholders relating to the treatment of executives on cessation, the exercise of discretion and pro-rating of long-term incentive awards and will take these concerns into account in making remuneration decisions going forward. The Committee will also continue to consult with our shareholders on remuneration matters.

Summary

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. As always 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 Neep
Chairman, Executive Directors' Remuneration Committee
15 March 2017

Table of changes

Set out below is a summary of the proposed changes to the directors' remuneration policy to be put to shareholders for approval at the 2017 AGM.

Summary of proposed changes to Executive Directors' Remuneration Policy

Element of policy	Current policy	New policy
Annual bonus opportunity	Maximum opportunity: Chief Executive and Group Finance Director 100% of salary.	Maximum opportunity: Executive Directors: 125% of salary with no increases to be made above the current maximum of 100% of salary without prior consultation with Devro's major shareholders.
Annual bonus performance metrics	At least 80% on financial targets, with 20% on non-financial targets.	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.
Long-term incentive performance metrics	50% subject to underlying EPS growth targets (or some other financial measure deemed to be appropriate) and 50% subject to relative TSR targets.	The Committee will select the most appropriate performance metrics to support the company's medium to long-term strategy.
Shareholding requirements	100% of salary.	150% of salary.
Other amendments for clarification and administrative ease		
Benefits	Executive Directors are entitled to private medical insurance.	Benefits include, but are not limited to, private medical insurance.
Service agreements and payments for loss of office	As set out on page 53.	As before, but for clarity, outplacement and legal fees may be paid where appropriate.

Proposed changes to Non-Executive Directors' Remuneration Policy

Element of policy	Current policy	Additional policy wording
Non-Executive Chairman and Directors' fees	The Non-Executive Chairman and Directors are paid an annual fee.	Additional fees may be payable in exceptional circumstances, for example, for an increased workload for exceptional events. A Non-Executive Chairman or Director may be reimbursed the tax payable (grossed up) on any business expenses that are subject to tax.

Directors' Remuneration Report continued

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 policy report will be put to a binding shareholder vote at the 2017 AGM and (subject to approval) the policy will take legal effect from 26 April 2017, but be applied from 1 January 2017.

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 2016 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.

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.

Directors' Remuneration Report continued

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.

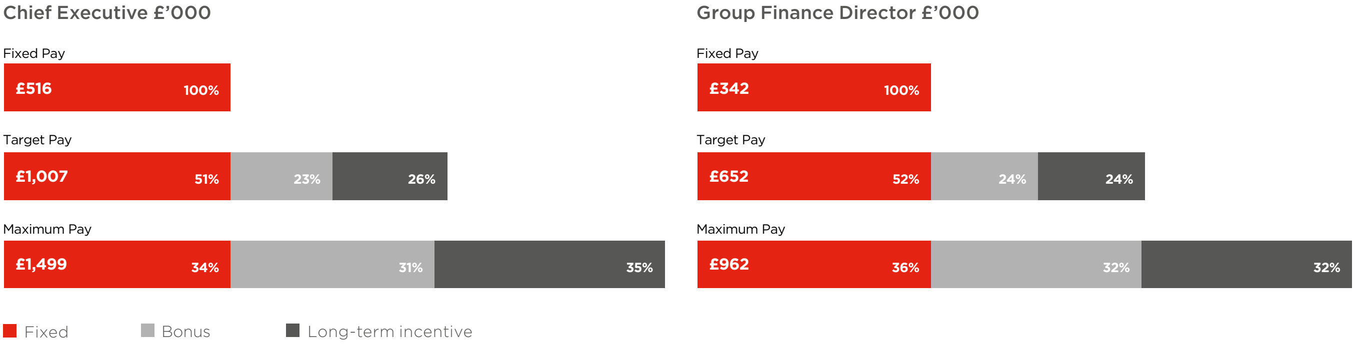
The Committee also retains the discretion within the policy to adjust targets and/or set different measures and alter weightings for the Annual Bonus Plan and to adjust targets for the PSP if events happen that cause it to determine that the metrics are unable to fulfil their originally intended purpose, 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 that were granted under any current or previous share schemes operated by the company, but remain outstanding, detailed on page 60, remain eligible to vest based on their original award terms.

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 2017 under different scenarios. Three scenarios are shown below:

- **"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.



Assumptions:
1. Based on policy to be applied for financial year 2017.
2. Salaries are based on salaries as at 1 April 2017. Taxable benefits are based on those disclosed for 2016.
3. Pension is 2017 policy applied to 1 April 2017 salaries.
4. 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	No Executive Director's contract contains 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.

Directors' Remuneration Report continued

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

Details of the service contracts of the Executive Directors 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
P W B Page	25 April 2007	N/A	12	12	No contractual termination payments other than detailed above	12 months' notice	12 months' notice; "good leaver" status under share schemes
R A Helbing	8 December 2015	N/A	12	12			

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.

External appointments

Executive Directors are permitted to accept external board or committee appointments, provided they do not interfere with the Executive Directors' obligations to the company. The Board will decide at the time of appointment whether an Executive Director may retain the fees for such appointments.

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 2018
P A J Neep	5 February 2005	AGM 2017
P N Withers	12 April 2011	AGM 2020

Annual Report on Remuneration

How the policy will be implemented in 2017:

Executive Directors' salaries

Current salaries for Executive Directors at the date of this report are as follows:

Chief Executive: £467,832
Group Finance Director: £305,000

From 1 April 2017 the Group Finance Director's salary will be increased by 1.5% to £309,575 and the Chief Executive's salary will remain unchanged.

Non-Executive Directors' fees

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

	Base annual remuneration			Total annual remuneration	
Name	2017	2016	Additional for committee chairmanships	2017	2016
G J Hoetmer	£134,000	£132,000	N/A	£134,000	£132,000
P A J Neep	£43,500	£42,500	£5,000	£48,500	£47,500
P N Withers	£43,500	£42,500	£5,000	£48,500	£47,500
J A Lodge	£43,500	£42,500	£5,000	£48,500	£47,500

Annual bonus

For 2017, 40% of the annual bonus for the Chief Executive and Group Finance Director will be determined by underlying operating profit, 40% will be determined by a cash target derived from the budgeted movement in net debt, excluding dividends and exchange rate movements, and 20% by non-financial strategic targets. This year, the Committee has set different non-financial targets for each of the Executive Directors in line with the business strategy and operational plan. The Chief Executive has seven objectives, reflecting the strategic imperative of increasing sales in key markets, improved manufacturing yield, and product innovation. The Group Finance Director's five objectives are primarily focused on the delivery of the restructuring programme announced in November 2016, and the savings which will result.

The non-financial targets are stretching and, furthermore, will be subject to the achievement of a robust underpin based on underlying operating profit. Provided this underpin is met, successful achievement of each individual objective may trigger a partial payout.

When reviewing the profit performance condition for 2017, the Committee will again look at operating profit before exceptional items and will restate the actual underlying operating profit using the budgeted exchange rates in order to strip out the effect of currency fluctuations, which are, in the main, outside of the control and performance of management. This year the Committee has set a tighter range than usual.

The Committee considers that the actual targets for the 2017 bonus are commercially sensitive, but full details will be disclosed in the 2017 report.

Long-Term Incentive Plan

Awards will be made in 2017 to the Chief Executive to the extent of 110% of base salary; and to the Group Finance Director to the extent of 100% of base salary. Subject to the new Remuneration Policy being approved at the AGM in April 2017, the performance measures for these awards will be targeted on underlying EPS (40%), ROCE (40%) and TSR (20%). The TSR performance condition will be based on a comparator group comprising the 50 FTSE listed companies above and 50 companies below Devro by market capitalisation. 25% of this part of the award will vest for median TSR performance, rising on a straight line basis so that there will be full vesting for top quartile performance. The actual targets for the underlying EPS and ROCE elements will be finalised by the Committee when the awards are granted, and will be included in the Stock Exchange announcement at that time.

Pension and other benefits

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

The Remuneration Committee

The members of the Executive Directors' Remuneration Committee (the "Committee") throughout 2016 were Mr P A J Neep (Committee Chairman), Mr G J Hoetmer, Ms J A Lodge and Mr P N Withers.

Directors' Remuneration Report continued

The Remuneration Committee continued

The Committee received advice from:

- The Company Secretary (as Secretary to the Committee) and the Chief Executive.
- New Bridge Street (a trading name of Aon Hewitt Limited being a group company of Aon plc) as independent adviser to the Committee. New Bridge Street were appointed as advisers by the Committee in view of their expertise in this area.

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 2016 were Mr P W B Page, Mr S C Webb (until he retired on 31 March 2016) and Mr R A Helbing (from 4 April 2016). The two-committee approach ensures that no director is involved in setting his or her own remuneration.

Advisers to the Committee

New Bridge Street is a signatory to the Remuneration Consultants' Code of Conduct and has confirmed to the Committee that it adheres in all respects to the terms of the Code. The Committee has satisfied itself that advice from New Bridge Street is objective. As disclosed on page 36, Mr G J Hoetmer is Chairman of the supervisory board of Aon Groep Nederland B.V. While that company and New Bridge Street are both part of the Aon plc group, the Committee has been advised that the two are operated independently from each other, and therefore is satisfied that the relationship does not impinge on the objectivity or independence of the advice provided by New Bridge Street. The total fees paid to New Bridge Street for the advice provided to the Committee during the year were £26,284. Fees are charged on a 'time spent' basis. Neither New Bridge Street, nor any other company in the Aon Group, has provided any other services to the company during the year.

Statement of shareholding voting at AGM

At the AGM held on 27 April 2016, votes cast by proxy and at the meeting in respect of the Directors' Remuneration Report were as follows:

Resolution	Votes For	% For	Votes Against	% Against	Total votes cast	Votes withheld (abstentions)
Approval of Remuneration Report	80,585,494	65.09	43,214,586	34.91	123,800,080	6,544,890

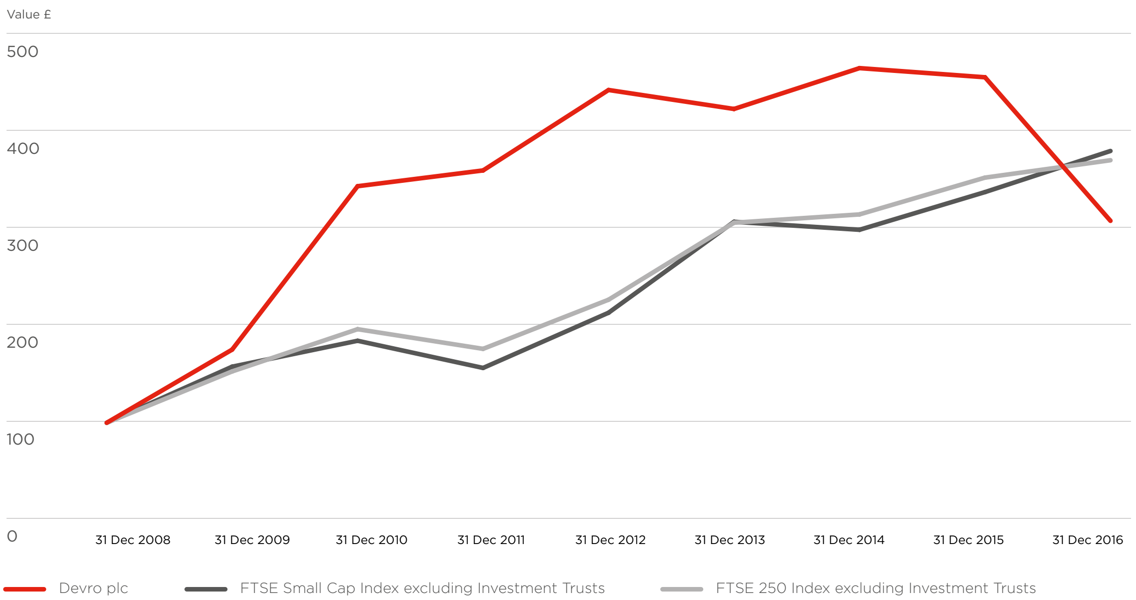
For an explanation of the sizeable votes against, see the Committee Chairman's comments on page 48.

Engagement with investors

The Committee consulted with major shareholders on the 2016 AGM vote, and also on the proposed changes to the Remuneration Policy referred to above. The Chairman of the Committee is always available to talk to investors should they have any concerns.

Performance graph

Total Shareholder Return



This graph shows the value, by 31 December 2016, 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 eight years for the Chief Executive.

Year	Chief Executive single figure of total remuneration (£'000)	Annual bonus payout against maximum opportunity %	Long-term incentive vesting rates against maximum opportunity %
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

Director	Base salaries/fees		Other payments		Bonuses		Deferred bonuses		Benefits in kind		Pension contributions or payments in lieu of pension contributions		Total remuneration	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000	**2016 £'000**	2015 £'000	**2016 £'000**	2015 £'000	**2016 £'000**	2015 £'000	**2016 £'000**	2015 £'000	**2016 £'000**	2015 £'000
G J Hoetmer	**132**	130	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**132**	130
P W B Page[1]	**466**	459	**–**	–	**–**	231	**–**	22	**1**	1	**46**	46	**513**	759
J A Lodge	**48**	47	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**48**	47
P A J Neep	**48**	47	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**48**	47
R A Helbing[1, 3]	**227**	–	**–**	–	**–**	–	**–**	–	**1**	–	**23**	–	**251**	–
S C Webb[1, 2, 4]	**75**	296	**198**	–	**–**	148	**–**	74	**–**	1	**27**	30	**300**	549
P N Withers	**48**	47	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**48**	47
TOTAL	**1,044**	1,026	**198**	–	**–**	379	**–**	96	**2**	2	**96**	76	**1,340**	1,579

1. Benefits in kind for Mr P W B Page, Mr R A Helbing and Mr S C Webb relate to medical insurance.
2. Mr S C Webb stepped down from the Board on 31 March 2016.
3. Mr R A Helbing joined the Board on 4 April 2016.
4. The "other payments" figure for Mr S C Webb relates to payment in lieu of notice.

Details of variable pay earned in the year

Summary of 2016 annual bonus

No annual bonus was paid in respect of 2016.

The Committee agreed in 2015 that for the purpose of the bonus calculation, currency exchange rate fluctuation would be excluded. This is achieved by calculating underlying operating profit using the company's budgeted exchange rates for the various non-sterling currencies in which the group trades. Applying this approach to the 2016 underlying operating profit produced a notional figure of £29.1m, which was below the threshold for minimum payout of £34.3m.

The non-financial targets for 2016 were linked to key strategic milestones, as follows:

Objectives	Outcome
1. Returns on projects: To have the new US plant in commercial production by end of June 2016 and to have the new Nantong plant in commercial production before the end of December 2016.	Partially completed. Both plants in production at the target dates, but transition in the US taking longer than anticipated.
2. Devro 100 programme: To have launched internal communications for this key strategic initiative and have a clear plan approved by the Board and incorporated in the 2017 budget.	Completed.
3. Innovation pipeline: To present, and have accepted by the Board, clear plans for new product introduction	Completed.

Directors' Remuneration Report continued

Details of variable pay earned in the year continued

Summary of 2016 annual bonus continued

Objectives	Outcome
4. Improved sales capability: To present a plan for the evaluation and development of the group's sales capability, and to have all posts filled with appropriately experienced people by end of September 2016.	Partially completed. One position unfilled.
5. Cost control: To present the unit cost reduction action plans for 2017-2018 to the Board, to be approved and incorporated in the 2017 budget.	Completed.

However, in line with our policy, these targets were subject to a financial underpin that the notional Group Operating Profit should exceed £34.3m, and as that level was not reached, no bonus was payable in respect of the non-financial targets.

Set out below are the performance conditions which applied to the 2016 Annual Bonus Plan:

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 out-turn	P W B Page bonus % of salary	R A Helbing bonus % of salary	S C Webb bonus % of salary
Underlying operating profit	80	80	£29.1m[1]	£34.3m[2]	£42.0m	0	0	0	0
Non-financial objectives	20	20	Failed to meet financial underpin[3]	3 out of 5 objectives met[4]	5 out of 5 objectives met	0	0	0	0
Total	**100**	**100**				**0**	**0**	**0**	**0**

1. Adjusted to exclude exceptional items, and recalculated using budgeted exchange rates.
2. 10% of salary vests at threshold.
3. The non-financial objectives were conditional upon adjusted Group Operating Profit meeting or exceeding £34.3m.
4. 5% of salary vests at threshold.

Joining arrangements for Mr R A Helbing

Mr R A Helbing joined the company as Group Finance Director on 4 April 2016. As disclosed last year, certain significant Share Plan awards with his previous employer lapsed when he left them to join Devro and the Committee therefore agreed that he should receive an award under the Devro plc Performance Share Plan equal to 100% of base salary to replace incentive pay forfeited, and taking into account the vesting periods and expected value of those forfeited awards. The anticipated value of the replacement award was consistent with that of the forfeited awards. This was in line with the shareholder-approved policy. A normal 100% award was also granted in 2016. Both awards are subject to the usual three-year performance period and details of the targets are set out on page 60. Mr Helbing's future awards will revert to 100% of base salary.

The Devro plc Performance Share Plan

The three-year performance period for the awards under the Devro plc Performance Share Plan made to Mr P W B Page and Mr S C Webb on 9 June 2014 ended on 31 December 2016. The performance conditions which applied, and performance achieved against them are set out below.

Total Shareholder Return ("TSR") relative to comparator group consisting of the 100 FTSE-listed companies closest to the company in terms of market capitalisation (50%)		Underlying Earnings Per Share ("Underlying EPS") growth (50%)				
Performance required	**Performance achieved**	**Performance required**	**Performance achieved**	**Vesting %**	**Number of shares vesting in 2016**	**Value of shares vesting in 2016**
25% vesting for median performance rising to maximum vesting for upper quartile performance with straight-line vesting in between	Ranking below median	25% vesting for + 6% p.a. rising to maximum vesting at +14% p.a. or above	-36%	0	P W B Page – Nil	£0
					S C Webb – Nil	£0

The TSR condition and performance set out above were independently reviewed by New Bridge Street.

Relative importance of spend on pay

	Total remuneration of all employees of the Devro group £'000	Dividends paid £'000
2016	81,440 (+5.8%)	14,670 (0.0%)
2015	76,964 (-5.4%)	14,684 (+0.1%)

Percentage change in Chief Executive's remuneration

	2016 £'000	2015 £'000	% change
Salary	**466**	459	+1.5
Benefits	**1**	1	0
Bonus	**–**	253	-100

Percentage change in average remuneration of all Devro group employees

	2016 £'000	2015 £'000	% change
Salary	**29**	27	+8
Benefits	**2**	1	+36
Bonus	**1**	2	-71

Performance Share Plan awards granted on 8 April 2016

	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
P W B Page	The Devro plc Performance Share Plan	110% of salary 176,843 shares	515	100%	25% under TSR & underlying EPS element together (12.5% for each part of the award)	Performance period three financial years from 1 January 2016. Vesting period three years from date of grant
R A Helbing	The Devro plc Performance Share Plan	200%[2] of salary 209,621 shares	610	100%		

1. Based on share price of 291p on 7 April 2016, being the day before the date of grant.
2. Additional 100% of salary awarded on recruitment – see page 58.

Further details regarding the Performance Share Plan, together with the performance conditions applying to the above awards are set out on page 58.

Audited information

The following information has been audited by the company's statutory auditors, KPMG LLP. The total remuneration figure table on page 57 is incorporated into this section by reference.

Company pensions and life assurance policy regarding Executive Directors

During the year, company contributions to pension schemes amounted to £27,239 (2015: £29,569) in respect of Mr S C Webb.

Mr P W B Page's contributions to a pension scheme ceased in March 2012, and thereafter he received a monthly payment in lieu, amounting to 10% of his base salary.

Mr R A Helbing, who joined the Board on 4 April 2016, elected to contribute £3,050 into the company's pension scheme, and take a payment in lieu amounting in 2016 to £19,630 of his base salary.

The contribution in respect of 2016 is shown in the table on page 57.

The company provides life assurance cover for senior executives under which the Executive Directors have cover of either three or five times base salary (capped at £1.75m), depending on whether they are a member of the company pension scheme.

Directors' Remuneration Report continued

The Devro Performance Share Plan

The Executive Directors' awards outstanding under the Devro plc Performance Share Plan 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 2016	Number of shares awarded during year	Number of shares exercised during year	Number of shares lapsed during year	Number of shares at 31 December 2016	Earliest normal vesting date
P W B Page	11 September 2013	336.2p	N/A	150,800	–	–	150,800	–	11 September 2016
	9 June 2014	268p	N/A	185,400	–	–	–	185,400[1]	9 June 2017
	25 March 2015	286.3p	N/A	172,593	–	–	–	172,593	25 March 2018
	8 April 2016	288p	N/A	–	176,843	–	–	176,843	8 April 2019
S C Webb	11 September 2013	336.2p	N/A	86,670	–	–	86,670	–	11 September 2016
	9 June 2014	268p	N/A	108,700	–	–	–	108,700[1]	9 June 2017
	25 March 2015	286.3p	N/A	101,153	–	–	–	101,153	25 March 2018
R A Helbing	8 April 2016	288p	N/A	–	209,621	–	–	209,621	8 April 2019

1. These shares lapsed following a review of the relevant performance conditions by the Committee in February 2017.

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. Vesting of 50% of shares awarded is based upon the group's underlying Earnings Per Share ("underlying EPS") growth over the relevant performance period, with the other 50% being dependent upon the group's Total Shareholder Return ("TSR") performance measured over the same period against the 100 listed companies (excluding Investment Trusts) closest to the company in terms of market capitalisation (i.e., 50 higher and 50 lower).

The awards made since 2013, including the year under review, were granted as nil-priced options subject to the performance conditions below.

Annual underlying EPS growth during the performance period	Performance shares vesting percentage
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	Performance shares vesting percentage
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%

The Devro 2009 Deferred Share Bonus Plan

The Executive Director awards outstanding under the Devro 2009 Deferred Share Bonus Plan 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 2016	Number of shares awarded during year	Number of shares exercised during year	Number of shares lapsed during year	Number of shares at 31 December 2016	Earliest normal vesting date
P W B Page	22 March 2016	293p	N/A	–	7,375	–	–	7,375	22 March 2019
S C Webb	22 March 2016	293p	N/A	–	24,567	–	–	24,567	22 March 2019[1]

1. Mr S C Webb left the company as a "good leaver" and may exercise this award at any time.

Directors' interests

The interests, all of which are beneficial, of the 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) at the beginning and end of the financial year, are as follows:

Director	Total number of ordinary shares 1 January 2016	Total number of ordinary shares 31 December 2016	Performance Share Plan 1 January 2016	Performance Share Plan 31 December 2016	Deferred Share Bonus Plan 1 January 2016	Deferred Share Bonus Plan 31 December 2016
G J Hoetmer	45,000	210,000	–	–	–	–
P W B Page	672,440	750,740	508,793[3]	534,836[5]	–	7,375
R A Helbing[1]	N/A	17,500	N/A	209,621	–	–
J A Lodge	17,500	34,500	–	–	–	–
P A J Neep	220,893	224,893	–	–	–	–
S C Webb[2]	42,952	N/A	296,523[4]	209,853[6]	–	24,567
P N Withers	90,000	110,000	–	–	–	–

1. Mr R A Helbing joined the Board on 4 April 2016.
2. Mr S C Webb retired from the Board on 31 March 2016.
3. Includes 150,800 shares which lapsed following a review by the Committee in February 2016.
4. Includes 86,670 shares which lapsed following a review by the Committee in February 2016.
5. Includes 185,400 shares which lapsed following a review by the Committee in February 2017.
6. Includes 108,700 shares which lapsed following a review by the Committee in February 2017.

There have been no changes to the directors' interests from 31 December 2016 to the date of this report.

Shareholding guidelines

To provide alignment between shareholders and directors, the Executive Directors are required to build up a shareholding equivalent to 100%[1] 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 2016	Shares held as a % of salary[2]	Number of shares vested in 2016	Number of shares vested under share schemes, but unexercised
P W B Page	750,740	317	Nil	Nil
R A Helbing	17,500	11	Nil	Nil

1. 150% for 2017-2020, if new policy approved at the 2017 AGM.
2. Calculated on basis of three month average share price to 31 December 2016, using salaries at 31 December 2016.

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 2016, amounted to 102,380 ordinary shares.

On behalf of the Board

Paul Neep
Chairman, Executive Directors' Remuneration Committee
15 March 2017

Directors' Report

Introduction

The directors of Devro plc (the "company") are pleased to present this Directors' Report for the year ended 31 December 2016 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 Guidance 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(1)	Capitalised interest	Note 14 to the financial statements
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, 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 2016, are set out on pages 36 and 37.

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 2016, 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 2016 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 2016 (2015: 166, 932,532) as shown in note 26 to the financial statements.

Dividends
The Board is recommending a final dividend in respect of 2016 of 6.1 pence per share (2015: 6.1 pence), making a total dividend for the year of 8.8 pence per share (2015: 8.8 pence). If approved, the final dividend will be payable to shareholders on the register as at 31 March 2017.

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 16,490 shares were issued under the rules of the Devro 2003 Performance Share Plan (2015: 11,490) and Nil shares were issued under the rules of the Devro plc Performance Share Plan (2015: Nil).

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 27 April 2016, 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 2016 (2015: Nil).

Post balance sheet events
There have been no material events from 31 December 2016 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 2016, 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	23,453,194	14.05
NN Group N.V.	21,890,708	13.11
Marathon Asset Management	11,492,268	7.06
Aberdeen Asset Managers Limited	8,350,475	5.01

During the period 1 January 2017 to 15 March 2017 the company received three notifications from Neptune Investment Management Limited advising that they had firstly decreased their holding in the company to 23,317,901 ordinary shares equating to 13.97% of issued share capital, then increased it to 23,801,270 ordinary shares equating to 14.26% of issued share capital, and finally decreased it to 23,372,620 ordinary shares equating to 13.99% of issued share capital.

Annual General Meeting ("AGM")

The AGM of the company will be held at 11am on 26 April 2017 at the Westerwood Hotel, St Andrews Drive, Cumbernauld, G68 0EW. 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 Guidance and Transparency Rule 4.1

Each of the directors, whose names and functions are listed on pages 36 and 37, 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
15 March 2017

Consolidated income statement
for the year ended 31 December 2016

	Note	2016 Underlying £'m	2016 Exceptional items £'m	2016 Reported £'m	2015 Underlying £'m	2015 Exceptional items £'m	2015 Reported £'m
Revenue	2	**241.1**	**–**	**241.1**	230.2	–	230.2
Operating profit	3,4	**38.1**	**(22.7)**	**15.4**	33.3	(14.1)	19.2
Finance income	7	**0.1**	**–**	**0.1**	–	–	–
Finance cost	7	**(7.0)**	**–**	**(7.0)**	(2.0)	–	(2.0)
Net finance cost on pensions	7	**(2.3)**	**–**	**(2.3)**	(2.1)	–	(2.1)
Profit before tax	8	**28.9**	**(22.7)**	**6.2**	29.2	(14.1)	15.1
Tax	9	**(6.7)**	**2.7**	**(4.0)**	(3.6)	3.1	(0.5)
Profit for the year attributable to owners of the parent		**22.2**	**(20.0)**	**2.2**	25.6	(11.0)	14.6
Earnings per share							
Basic	12			**1.3p**			8.8p
Diluted	12			**1.3p**			8.7p

All results relate to continuing operations.

Consolidated statement of comprehensive income
for the year ended 31 December 2016

	Note	2016 £'m	2015 £'m
Profit for the year		**2.2**	14.6
Other comprehensive (expense)/income for the year			
Items that will not be reclassified to profit or loss			
Pension obligations:			
– re-measurements	25	**(33.0)**	4.0
– movement in deferred tax	24	**5.2**	(2.6)
Total items that will not be reclassified to profit or loss		**(27.8)**	1.4
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges:			
– net fair value (losses)/gains	29	**(0.1)**	1.1
– reclassified and reported in profit	29	**(1.0)**	0.1
– tax on fair value movements	29	**0.2**	(0.2)
Net investment hedges:			
– fair value (losses)/gains	29	**(1.6)**	0.9
– tax on fair value movements	29	**0.3**	(0.2)
Net exchange adjustments	29	**19.8**	(6.0)
Total items that may be reclassified subsequently to profit or loss		**17.6**	(4.3)
Other comprehensive expense for the year, net of tax		**(10.2)**	(2.9)
Total comprehensive (expense)/income for the year attributable to owners of the parent		**(8.0)**	11.7

Balance sheets
at 31 December 2016

	Note	Group 2016 £'m	Group 2015 £'m	Company 2016 £'m	Company 2015 £'m
ASSETS					
Non-current assets					
Goodwill	13,37	**3.1**	3.1	**–**	–
Intangible assets	13	**7.3**	6.1	**0.7**	0.3
Property, plant and equipment	14	**308.6**	270.1	**0.1**	0.2
Investments	15	**–**	–	**204.0**	199.5
Deferred tax assets	24	**40.3**	25.5	**0.5**	0.4
Trade and other receivables	17	**4.7**	3.2	**113.3**	78.1
		364.0	308.0	**318.6**	278.5
Current assets					
Inventories	16	**33.8**	28.5	**–**	–
Current tax assets		**0.1**	–	**–**	–
Trade and other receivables	17	**30.5**	35.2	**15.4**	12.7
Derivative financial instruments	23	**1.4**	3.5	**3.3**	4.5
Cash and cash equivalents	18	**9.9**	9.6	**0.1**	0.1
		75.7	76.8	**18.8**	17.3
Total assets		**439.7**	384.8	**337.4**	295.8
LIABILITIES					
Current liabilities					
Borrowings	22	**1.9**	1.9	**3.5**	2.1
Derivative financial instruments	23	**2.6**	2.3	**3.5**	2.6
Trade and other payables	19	**34.4**	31.1	**3.3**	2.5
Current tax liabilities		**7.0**	5.4	**–**	–
Provisions for other liabilities and charges	21	**0.8**	5.5	**–**	–
		46.7	46.2	**10.3**	7.2
Non-current liabilities					
Borrowings	22	**161.6**	133.2	**132.8**	112.5
Deferred tax liabilities	24	**19.4**	14.8	**–**	–
Pension obligations	25	**96.0**	56.4	**–**	–
Other payables	20	**3.4**	2.6	**22.1**	23.1
Provisions for other liabilities and charges	21	**3.6**	0.5	**–**	–
		284.0	207.5	**154.9**	135.6
Total liabilities		**330.7**	253.7	**165.2**	142.8
Net assets		**109.0**	131.1	**172.2**	153.0
EQUITY					
Capital and reserves attributable to owners of the parent					
Ordinary shares	26	**16.7**	16.7	**16.7**	16.7
Share premium	28	**9.3**	9.3	**9.3**	9.3
Other reserves	29	**70.8**	52.9	**45.3**	46.0
Retained earnings	30	**12.2**	52.2	**100.9**	81.0
Total equity		**109.0**	131.1	**172.2**	153.0

The financial statements on pages 66 to 119 were approved by the Board of Directors and signed on its behalf by:

R A Helbing
Group Finance Director
15 March 2017

Statements of changes in equity
for the year ended 31 December 2016

Group	Note	Ordinary shares £'m	Share premium £'m	Other reserves £'m	Retained earnings £'m	Total equity attributable to owners of the parent £'m
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)						
Cash flow hedges, net of tax	29	–	–	(0.9)	–	(0.9)
Net investment hedges, net of tax	29	–	–	(1.3)	–	(1.3)
Pension obligations, net of tax	25,24	–	–	–	(27.8)	(27.8)
Exchange adjustments	29	–	–	19.8	–	19.8
Total 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 shares vested	29	–	–	–	–	–
Performance Share Plan credit in respect of awards lapsed	29	–	–	(0.3)	0.3	–
Issue of share capital	26,28	–	–	–	–	–
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**
Balance at 1 January 2015		16.7	9.3	56.5	50.7	133.2
Comprehensive income/(expense)						
Profit for the year		–	–	–	14.6	14.6
Other comprehensive income/(expense)						
Cash flow hedges, net of tax	29	–	–	1.0	–	1.0
Net investment hedges, net of tax	29	–	–	0.7	–	0.7
Pension obligations, net of tax	25,24	–	–	–	1.4	1.4
Exchange adjustments	29	–	–	(6.0)	–	(6.0)
Total other comprehensive income/(expense)		–	–	(4.3)	1.4	(2.9)
Total comprehensive income/(expense)		–	–	(4.3)	16.0	11.7
Transactions with owners						
Performance Share Plan charge, net of tax	29	–	–	0.9	–	0.9
Performance Share Plan credit in respect of shares vested	29	–	–	–	–	–
Performance Share Plan credit in respect of awards lapsed	29	–	–	(0.2)	0.2	–
Issue of share capital	26,28	–	–	–	–	–
Dividends paid	11	–	–	–	(14.7)	(14.7)
Total transactions with owners		–	–	0.7	(14.5)	(13.8)
Balance at 31 December 2015		16.7	9.3	52.9	52.2	131.1

Statements of changes in equity
for the year ended 31 December 2016 continued

Company	Note	Ordinary shares £'m	Share premium £'m	Other reserves £'m	Retained earnings £'m	Total equity attributable to owners of the parent £'m
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
Other comprehensive income/(expense)						
Cash flow hedges, net of tax	29	–	–	(0.9)	–	(0.9)
Total comprehensive income/(expense)		–	–	(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 shares vested	29	–	–	–	–	–
Performance Share Plan credit in respect of awards lapsed	29	–	–	(0.3)	0.3	–
Issue of share capital	26,28	–	–	–	–	–
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**
Balance at 1 January 2015		16.7	9.3	45.2	70.0	141.2
Comprehensive income/(expense)						
Profit for the year		–	–	–	25.5	25.5
Other comprehensive income/(expense)						
Cash flow hedges, net of tax	29	–	–	0.6	–	0.6
Total comprehensive income/(expense)		–	–	0.6	25.5	26.1
Transactions with owners						
Performance Share Plan charge, net of tax	29	–	–	0.4	–	0.4
Performance Share Plan credit in respect of shares vested	29	–	–	–	–	–
Performance Share Plan credit in respect of awards lapsed	29	–	–	(0.2)	0.2	–
Issue of share capital	26,28	–	–	–	–	–
Dividends paid	11	–	–	–	(14.7)	(14.7)
Total transactions with owners		–	–	0.2	(14.5)	(14.3)
Balance at 31 December 2015		16.7	9.3	46.0	81.0	153.0

Cash flow statements
for the year ended 31 December 2016

	Note	Group 2016 £'m	Group 2015 £'m	Company 2016 £'m	Company 2015 £'m
Cash flows from operating activities					
Cash generated from/(used in) operations	31	**39.0**	34.4	**(27.6)**	(9.6)
Interest received		**0.1**	–	**4.7**	2.9
Interest paid		**(7.8)**	(4.4)	**(5.9)**	(3.9)
Tax paid		**(5.8)**	(4.0)	**–**	–
Net cash generated from/(used in) operating activities		**25.5**	26.0	**(28.8)**	(10.6)
Cash flows from investing activities					
Purchase of property, plant and equipment		**(22.3)**	(54.2)	**–**	(0.1)
Purchase of intangible assets		**(1.7)**	(1.1)	**(0.5)**	(0.1)
Capital grants received		**0.7**	0.1	**–**	–
Investment in subsidiary undertakings		**–**	–	**(4.5)**	(45.8)
Dividends received from subsidiary undertakings		**–**	–	**40.2**	28.9
Acquisition of subsidiary	37	**–**	(6.4)	**–**	–
Net cash (used in)/generated from investing activities		**(23.3)**	(61.6)	**35.2**	(17.1)
Cash flows from financing activities					
Proceeds from the issue of ordinary shares		**–**	–	**–**	–
Borrowing under the loan facilities		**8.4**	48.6	**3.5**	42.1
Proceeds from financial instruments	23	**3.4**	–	**3.4**	–
Dividends paid	11	**(14.7)**	(14.7)	**(14.7)**	(14.7)
Net cash (used in)/generated from financing activities		**(2.9)**	33.9	**(7.8)**	27.4
Net decrease in cash and cash equivalents		**(0.7)**	(1.7)	**(1.4)**	(0.3)
Net cash and cash equivalents at 1 January		**7.7**	9.4	**(2.0)**	(1.7)
Net decrease in cash and cash equivalents		**(0.7)**	(1.7)	**(1.4)**	(0.3)
Exchange gain on cash and cash equivalents		**1.0**	–	**–**	–
Net cash and cash equivalents at 31 December		**8.0**	7.7	**(3.4)**	(2.0)
Cash and cash equivalents	18	**9.9**	9.6	**0.1**	0.1
Bank overdrafts	22	**(1.9)**	(1.9)	**(3.5)**	(2.1)
Net cash and cash equivalents at 31 December		**8.0**	7.7	**(3.4)**	(2.0)

Notes to the financial statements
for the year ended 31 December 2016

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 operational existence for the foreseeable future. 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 2016 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 foreseeable future.

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 which will continue until 2018. The costs associated with 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 issues the following are considered to be 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 25.

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. In addition the recognition of deferred tax assets is dependent upon an estimation of future taxable profits that will be available against which deductible temporary differences can be utilised. In the event that actual taxable profits are different, such differences may impact the carrying value of deferred tax assets in future years. Further details are provided in notes 9 and 24.

Changes in accounting policies and disclosures
(a) New standards, amendments to standards and interpretations effective in 2016
The following new standards, amendments to standards and interpretations became mandatory for the first time during the financial year beginning 1 January 2016. All were either not relevant for the group or had no material impact on the financial statements of the group:

	Effective date
• IFRS 10 (amendment) – Consolidated financial statements	1 January 2016
• IFRS 11 (amendment) – Joint arrangements	1 January 2016
• IFRS 12 (amendment) – Disclosure of interests in other entities	1 January 2016
• IAS 1 (amendment) – Presentation of financial statements	1 January 2016
• IAS 12 (amendment) – Income taxes	1 January 2016
• IAS 16 (amendment) – Property, plant and equipment	1 January 2016
• IAS 27 (amendment) – Separate financial statements	1 January 2016
• IAS 28 (amendment) – Investments in associates	1 January 2016
• IAS 38 (amendment) – Intangible assets	1 January 2016
• Annual improvements 2014	1 January 2016

(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 9 – Financial instruments	1 January 2018
• IFRS 15 – Revenue from contracts with customers	1 January 2018
• IFRS 16 – Leases	1 January 2019

It is expected that the group will adopt these amendments to standards on their effective dates. The directors do not anticipate that the adoption of these amendments to standards will have a material impact on the financial statements of the group, apart from that IFRS 9 will impact both the measurement and disclosures of financial instruments.

Basis of consolidation
The consolidated financial statements include the financial statements of the company and all its subsidiary undertakings made up to 31 December 2016. 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.

Notes to the financial statements
for the year ended 31 December 2016 continued

1. Accounting policies continued

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.

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

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.

Notes to the financial statements
for the year ended 31 December 2016 continued

1. Accounting policies continued

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.

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.

Notes to the financial statements
for the year ended 31 December 2016 continued

1. Accounting policies continued

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.

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: which includes North America and Latin America.
- Asia-Pacific: which includes Australia, New Zealand, Japan, China and the rest of South East Asia.
- Europe: which 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.

Segment assets exclude tax assets, which are managed on a central basis.

Segment liabilities exclude tax liabilities and non-current borrowings, which are managed on a central basis.

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

	Americas		Asia-Pacific		Europe		Total group	
	2016 £'m	2015 £'m	**2016 £'m**	2015 £'m	**2016 £'m**	2015 £'m	**2016 £'m**	2015 £'m
Revenue Sales to external customers	**64.0**	64.0	**75.5**	69.6	**101.6**	96.6	**241.1**	230.2
Underlying operating profit before corporate overheads	**7.5**	2.8	**14.3**	13.0	**18.6**	21.3	**40.4**	37.1
Corporate overheads							**(2.3)**	(3.8)
Underlying operating profit							**38.1**	33.3
Exceptional items	**(13.0)**	(10.7)	**(8.7)**	(3.7)	**(0.9)**	0.3	**(22.6)**	(14.1)
Corporate exceptional items							**(0.1)**	–
Operating profit							**15.4**	19.2
Finance income							**0.1**	–
Finance cost							**(7.0)**	(2.0)
Net finance cost on pensions							**(2.3)**	(2.1)
Profit before tax							**6.2**	15.1

Notes to the financial statements
for the year ended 31 December 2016 continued

2. Segment information continued
Other segment information:

	Americas		Asia-Pacific		Europe		Total group	
	2016 £'m	2015 £'m	**2016 £'m**	2015 £'m	**2016 £'m**	2015 £'m	**2016 £'m**	2015 £'m
Additions to property, plant and equipment:								
– Segment	**1.0**	20.7	**16.2**	27.3	**3.3**	6.2	**20.5**	54.2
– Corporate							**–**	0.1
Total							**20.5**	54.3
Additions to intangible assets:								
– Segment	**0.1**	0.3	**0.7**	–	**0.5**	0.7	**1.3**	1.0
– Corporate							**0.4**	0.1
Total							**1.7**	1.1
Depreciation of property, plant and equipment:								
– Segment	**5.0**	3.7	**5.4**	2.7	**11.6**	9.9	**22.0**	16.3
– Corporate							**0.1**	0.2
Total							**22.1**	16.5
Amortisation of intangible assets:								
– Segment	**0.2**	0.1	**0.1**	0.1	**0.5**	0.3	**0.8**	0.5
– Corporate							**0.1**	0.6
Total							**0.9**	1.1

Segment assets and liabilities can be analysed as follows:

	2016 £'m	2015 £'m
Assets		
Americas	**96.4**	92.7
Asia-Pacific	**136.1**	105.4
Europe	**162.4**	155.7
Total segment assets	**394.9**	353.8
Corporate assets	**4.4**	5.5
Tax	**40.4**	25.5
Total assets	**439.7**	384.8
Liabilities		
Americas	**39.8**	37.6
Asia-Pacific	**16.5**	11.4
Europe	**77.0**	45.4
Total segment liabilities	**133.3**	94.4
Corporate liabilities	**9.4**	5.9
Borrowings	**161.6**	133.2
Tax	**26.4**	20.2
Total liabilities	**330.7**	253.7

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

	2016 £'m	2015 £'m
UK	**29.7**	28.7
Other Europe	**71.9**	67.9
Total Europe	**101.6**	96.6
USA	**51.0**	45.2
Other Americas	**13.0**	18.8
Total Americas	**64.0**	64.0
Australia	**19.9**	19.4
Other Asia-Pacific	**55.6**	50.2
Total Asia-Pacific	**75.5**	69.6
Total	**241.1**	230.2

The total of non-current assets other than deferred tax can be analysed as follows:

	2016 £'m	2015 £'m
USA	**87.5**	76.7
Australia	**33.4**	29.8
China	**70.5**	48.7
UK	**40.8**	43.6
Czech Republic	**81.3**	74.0
The Netherlands	**9.4**	9.2
Corporate	**0.8**	0.5
Total	**323.7**	282.5

3. Operating profit

	2016			2015		
	Underlying £'m	**Exceptional items £'m**	**Reported £'m**	Underlying £'m	Exceptional items £'m	Reported £'m
Revenue	**241.1**	**–**	**241.1**	230.2	–	230.2
Cost of sales	**(152.1)**	**(18.5)**	**(170.6)**	(153.0)	(11.1)	(164.1)
Gross profit	**89.0**	**(18.5)**	**70.5**	77.2	(11.1)	66.1
Selling and distribution costs	**(19.1)**	**–**	**(19.1)**	(15.4)	–	(15.4)
Administrative expenses	**(19.5)**	**(4.2)**	**(23.7)**	(20.1)	(3.0)	(23.1)
Research and development expenditure	**(7.2)**	**–**	**(7.2)**	(5.3)	–	(5.3)
Other expenses	**(5.3)**	**–**	**(5.3)**	(3.2)	–	(3.2)
Total operating expenses	**(51.1)**	**(4.2)**	**(55.3)**	(44.0)	(3.0)	(47.0)
Other operating income	**0.2**	**–**	**0.2**	0.1	–	0.1
Net operating expenses	**(50.9)**	**(4.2)**	**(55.1)**	(43.9)	(3.0)	(46.9)
Operating profit/(expense)	**38.1**	**(22.7)**	**15.4**	33.3	(14.1)	19.2

An additional £0.8m (2015:£0.8m) of development expenditure has been capitalised within intangible assets (note 13).

Notes to the financial statements
for the year ended 31 December 2016 continued

4. Exceptional items
Exceptional charges included in operating profit were £22.7m (2015: £14.1m).

	2016 £'m	2015 £'m
Investment projects		
Pre-operating costs to establish new manufacturing plants (i)	**20.3**	10.9
Costs related to the closure of old manufacturing plant (ii)	**0.4**	3.5
	20.7	14.4
Devro 100 programme (iii)	**2.0**	–
Restructuring and other (iv)	**–**	(0.3)
Total exceptional items	**22.7**	14.1

Exceptional items comprise incremental costs that are directly related to the actions being taken to transform the business. During 2015 and 2016 these costs principally related to the two capital investment projects to establish new plants in the USA and China and the closure of the old plant in the USA. Exceptional costs were also incurred in 2016 relating to the Devro 100 programme, which is focussed on growing revenue through significantly improving sales capabilities, further improving manufacturing efficiencies to reduce unit costs and introducing the next generation of differentiated products.

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

(ii) Costs incurred in the USA related to the closure of the old manufacturing plant. 2016 costs comprise redundancy and retention costs. 2015 costs comprise redundancy and retention costs, decommissioning costs, accelerated depreciation and the write off of raw materials which are specific to the old manufacturing process in the USA and cannot be re-used.

(iii) Redundancy and retention costs and other incremental external costs, including professional fees.

(iv) Release of excess decommissioning provisions established in prior period net of acquisition related costs, including professional fees.

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:

	2016 £'m	2015 £'m
Aggregate emoluments (including long-term incentives with performance period ending during the year)	**1.2**	1.5
Payments in lieu of pension contributions	**0.1**	0.1

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

	2016 £'m	2015 £'m
Aggregate emoluments (including long-term incentives with performance period ending during the year)	**0.4**	0.7
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:

	2016	2015
By employee category		
Operations and engineering	**1,856**	1,790
Sales and marketing	**97**	94
Distribution	**38**	33
Administration	**165**	156
Research and development	**109**	101
	2,265	2,174

The above total includes 42 persons (2015: 41) in the company.

Staff costs for the group were:

	2016 £'m	2015 £'m
Wages and salaries (including bonus and other benefits)	**71.5**	66.9
Social security costs	**9.2**	8.0
Pension obligation costs (note 25)	**8.2**	7.5
Performance Share Plan charge	**0.6**	0.8
Redundancy costs included within exceptional items	**1.1**	1.8
	90.6	85.0

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

Notes to the financial statements
for the year ended 31 December 2016 continued

7. Finance income and cost

	2016 £'m	2015 £'m
Finance income		
Interest receivable and similar income:		
– On bank balances	**0.1**	–
Finance cost		
Interest payable and similar charges:		
– On loans and overdrafts	**(7.0)**	(2.0)
Net finance cost on pensions	**(2.3)**	(2.1)

8. Profit before tax

	2016 £'m	2015 £'m
Profit before tax is stated after charging:		
Depreciation of property, plant and equipment	**22.1**	16.5
Amortisation of intangible assets	**0.9**	1.1
Inventory recognised as an expense	**114.6**	122.3
Inventory written down or written off	**5.6**	1.6
Repairs and maintenance expenditure	**14.3**	14.6
Research and development expenditure	**7.2**	5.3
Hire of assets – operating leases	**2.0**	1.9
Net foreign exchange losses	**2.8**	1.8
Auditors' remuneration (see below)	**0.3**	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	2016 £'m	2015 £'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	**0.2**	0.2
– Audit related assurance services £21,000 (2015: £20,000)	**–**	–
– Non-audit services £20,000 (2015: £41,000)	**–**	–
	0.3	0.3

9. Tax

2016	**Underlying £'m**	**Exceptional items £'m**	**Reported £'m**
Current Tax			
United Kingdom 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:			
– United Kingdom 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 to the income statement (note 24)	(1.1)	(2.5)	(3.6)
Tax charge/(credit) for the year ended 31 December 2016	**6.7**	**(2.7)**	**4.0**
Tax on items charged/(credited) to equity or other comprehensive income			
Deferred tax credit on pension obligations	(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	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 ended 31 December 2016	**7.5**	**(0.2)**	**7.3**
Total deferred tax credit for the year ended 31 December 2016	**(6.4)**	**(2.5)**	**(8.9)**

Notes to the financial statements
for the year ended 31 December 2016 continued

9. Tax continued

2015	Underlying £'m	Exceptional items £'m	Reported £'m
Current Tax			
United Kingdom corporation tax at 20.25%	(0.1)	–	(0.1)
Foreign tax	4.9	0.1	5.0
Total current tax charge	4.8	0.1	4.9
Deferred tax			
Origination and reversal of temporary differences representing:			
– United Kingdom corporation tax	(0.2)	–	(0.2)
– Foreign tax	(0.5)	(3.2)	(3.7)
	(0.7)	(3.2)	(3.9)
Adjustments in respect of prior years	(0.5)	–	(0.5)
Total deferred tax credit to the income statement (note 24)	(1.2)	(3.2)	(4.4)
Tax charge/(credit) for the year ended 31 December 2015	3.6	(3.1)	0.5
Tax on items charged to equity or other comprehensive income			
Deferred tax charge on pension obligations	2.0	–	2.0
Deferred tax charge on net fair value losses on cash flow hedges	0.2	–	0.2
Deferred tax charge on other hedges	0.1	–	0.1
Deferred tax on Performance Share Plan charge	(0.1)	–	(0.1)
Rate change	0.6	–	0.6
Total deferred tax on items charged to equity or other comprehensive income	2.8	–	2.8
Total current tax charge for the year ended 31 December 2015	4.8	0.1	4.9
Total deferred tax charge/(credit) for the year ended 31 December 2015	1.6	(3.2)	(1.6)

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

2016	**Underlying £'m**	**Exceptional items £'m**	**Reported £'m**
Profit before tax	28.9	(22.7)	6.2
Profit before tax multiplied by the rate of corporation tax in the UK of 20%	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
– Deferred tax on losses not recognised	2.9	3.9	6.8
– Permanent differences	(0.2)	–	(0.2)
Tax charge/(credit)for the year ended 31 December 2016	**6.7**	**(2.7)**	**4.0**

2015			
Profit before tax	29.2	(14.1)	15.1
Profit before tax multiplied by the blended rate of corporation tax in the UK of 20.25%	5.9	(2.8)	3.1
Effects of:			
– Adjustments in respect of prior years	(0.5)	–	(0.5)
– Adjustments in respect of foreign tax rates	(0.6)	(1.8)	(2.4)
– Changes in tax rates	(0.1)	–	(0.1)
– Deferred tax on losses not recognised	2.0	1.5	3.5
– Permanent differences	(3.1)	–	(3.1)
Tax charge/(credit) for the year ended 31 December 2015	3.6	(3.1)	0.5

During the year, the UK corporation tax rate was 20%. Further reductions to 19% from 1 April 2017, and to 17% from 1 April 2020 were substantively enacted in October 2015 and September 2016 respectively. This will reduce the company's future current tax charge accordingly. The deferred tax liability at 31 December 2016 has been calculated based on these rates.

The group's effective tax rate on profit before exceptional items of 23.2% (2015: 12.3%) has increased principally due to investment incentives in the Czech Republic becoming fully utilised in 2015.

Adjustments in respect of prior years include adjustments to transfer pricing related liabilities.

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 £34.3m (2015: £25.5m).

Notes to the financial statements
for the year ended 31 December 2016 continued

11. Dividends

Group and company	2016 £'m	2015 £'m
Final paid of 6.10 pence per share (2015: 6.10 pence)	**10.2**	10.2
Interim paid of 2.70 pence per share (2015: 2.70 pence)	**4.5**	4.5
	14.7	14.7

During the year, dividends totalling £nil (2015: £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 2016 which will absorb an estimated £10.2m of shareholders' funds. It will be paid on 12 May 2017 to shareholders who are on the register at close of business on 31 March 2017.

12. Earnings per share

	2016 £'m	2015 £'m
Profit attributable to equity holders	**2.2**	14.6
Underlying profit attributable to equity holders	**22.2**	25.6
Earnings per share		
– Basic	**1.3p**	8.8p
– Underlying basic	**13.3p**	15.4p
– Diluted	**1.3p**	8.7p
– Underlying diluted	**13.2p**	15.3p

	2016	2015
Shares in issue		
Weighted average number of shares	**166,941,137**	166,928,534
Adjustments for:		
– Performance Share Plan	**1,717,046**	1,477,842
Weighted average number of shares adjusted for potential dilution	**168,658,183**	168,406,376

Basic earnings per share is calculated by dividing the profit for the year attributable to owners of the parent of £2.2m (2015: £14.6m) by 166,941,137 (2015: 166,928,534) 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 £2.2m (2015: £14.6m) by the average number of shares, including the effect of all dilutive potential shares, of 168,658,183 (2015: 168,406,376).

Underlying earnings per share is calculated in order to eliminate the effect of exceptional items after tax in 2016 of £20.0m (2015: £11.0m) on the results. Underlying basic earnings per share is calculated by dividing the underlying profit attributable to ordinary shareholders of £22.2m (2015: £25.6m) by 166,941,137 (2015: 166,928,534) shares, being the weighted average number of shares in issue throughout the year.

13. Intangible assets

Group	Goodwill £'m	Customer contracts & relationships £'m	Computer software £'m	Development costs £'m	Other intangible assets £'m	Total £'m
Cost						
At 1 January 2016	3.1	2.1	7.0	4.4	13.5	16.6
Exchange differences	–	–	0.5	0.4	0.9	0.9
Additions	–	–	0.9	0.8	1.7	1.7
At 31 December 2016	3.1	2.1	8.4	5.6	16.1	19.2
Accumulated amortisation						
At 1 January 2016	–	–	6.4	1.0	7.4	7.4
Exchange differences	–	–	0.4	0.1	0.5	0.5
Charge for year	–	0.2	0.5	0.2	0.9	0.9
At 31 December 2016	–	0.2	7.3	1.3	8.8	8.8
Net book value at 31 December 2016	**3.1**	**1.9**	**1.1**	**4.3**	**7.3**	**10.4**
Cost						
At 1 January 2015	–	–	8.2	3.5	11.7	11.7
Exchange differences	–	–	(0.1)	0.1	–	–
Arising on acquisition	3.1	2.1	–	–	2.1	5.2
Additions	–	–	0.3	0.8	1.1	1.1
Disposals	–	–	(1.4)	–	(1.4)	(1.4)
At 31 December 2015	3.1	2.1	7.0	4.4	13.5	16.6
Accumulated amortisation						
At 1 January 2015	–	–	6.9	0.8	7.7	7.7
Charge for year	–	–	0.9	0.2	1.1	1.1
Disposals	–	–	(1.4)	–	(1.4)	(1.4)
At 31 December 2015	–	–	6.4	1.0	7.4	7.4
Net book value at 31 December 2015	3.1	2.1	0.6	3.4	6.1	9.2
Cost at 1 January 2015	–	–	8.2	3.5	11.7	11.7
Accumulated amortisation at 1 January 2015	–	–	(6.9)	(0.8)	(7.7)	(7.7)
Net book value at 1 January 2015	–	–	1.3	2.7	4.0	4.0

Included in the net book value of intangible assets is £3.5m (2015: £3.1m) relating to internally generated development costs.

In the income statement, amortisation of £0.3m (2015: £0.3m) is included in cost of sales and £0.6m (2015: £0.8m) 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.

Notes to the financial statements
for the year ended 31 December 2016 continued

13. Intangible assets continued

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 1.5% per annum assumed at the end of the five year forecast period. The rate used to discount the forecast cash flows is 8.7% (2015: 11.3%).

Based on these calculations there is sufficient headroom over the book value of goodwill.

Company	Computer software £'m	Development costs £'m	Total £'m
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 2015	3.6	–	3.6
Additions	–	0.1	0.1
At 31 December 2015	3.6	0.1	3.7
Accumulated amortisation			
At 1 January 2015	2.8	–	2.8
Charge for year	0.6	–	0.6
At 31 December 2015	3.4	–	3.4
Net book value at 31 December 2015	0.2	0.1	0.3
Cost at 1 January 2015	3.6	–	3.6
Accumulated amortisation at 1 January 2015	(2.8)	–	(2.8)
Net book value at 1 January 2015	0.8	–	0.8

14. 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 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 2015	86.3	262.9	11.0	59.3	419.5
Exchange differences	(2.3)	(2.9)	(0.1)	1.5	(3.8)
Arising on acquisition	3.0	2.9	–	–	5.9
Additions	0.3	1.9	0.3	51.8	54.3
Disposals	–	(6.4)	(0.9)	–	(7.3)
Reclassification	1.2	7.7	0.3	(9.2)	–
At 31 December 2015	88.5	266.1	10.6	103.4	468.6
Accumulated depreciation					
At 1 January 2015	30.6	149.8	8.8	–	189.2
Exchange differences	(0.7)	(0.9)	(0.1)	–	(1.7)
Arising on acquisition	0.1	1.7	–	–	1.8
Charge for year	2.2	13.4	0.9	–	16.5
Disposals	–	(6.4)	(0.9)	–	(7.3)
At 31 December 2015	32.2	157.6	8.7	–	198.5
Net book value at 31 December 2015	56.3	108.5	1.9	103.4	270.1
Cost at 1 January 2015	86.3	262.9	11.0	59.3	419.5
Accumulated depreciation at 1 January 2015	(30.6)	(149.8)	(8.8)	–	(189.2)
Net book value at 1 January 2015	55.7	113.1	2.2	59.3	230.3

In the income statement, depreciation of £20.8m (2015: £15.6m) has been charged in cost of sales; £0.1m (2015: £0.1m) in selling and distribution costs; £1.1m (2015: £0.7m) in administrative expenses; and £0.1m (2015: £0.1m) in research and development expenditure.

Notes to the financial statements
for the year ended 31 December 2016 continued

14. Property, plant and equipment continued

Borrowing costs of £0.5m (2015: £2.7m) have been capitalised to property, plant and equipment with a tax effect of £0.1m (2015: £0.3m). A rate of 4.3% has been used to capitalise borrowing costs.

Company	Plant and machinery, and motor vehicles and Total £'m
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 2015	0.8
Additions	0.1
At 31 December 2015	0.9
Accumulated depreciation	
At 1 January 2015	0.5
Charge for year	0.2
At 31 December 2015	0.7
Net book value at 31 December 2015	0.2
Cost at 1 January 2015	0.8
Accumulated depreciation at 1 January 2015	(0.5)
Net book value at 1 January 2015	0.3

15. Investments

Company	2016 £'m	2015 £'m
Interest in group undertakings		
Cost and net book value at 1 January	**199.5**	153.7
Additions	**4.5**	45.8
Cost and net book value at 31 December	**204.0**	199.5

Additions during the year 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 for employees within subsidiaries which will be settled with the company's shares.

The company's subsidiary undertakings at 31 December 2016 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, County of New Castle, State of Delaware, United States, 19808
Devro US Finance LLP	USA	Finance	Common	100%		2711 Centerville Road, Suite 400, City of Wilmington, County of New Castle, State of Delaware, United States, 19808
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, Japan
Devro Inc	USA	Casings	Common	100%		2711 Centerville Road, Suite 400, City of Wilmington, County of New Castle, State of Delaware, United States, 19808
Devro s.r.o	Czech Republic	Casings	Ordinary	100%		Vochovska 830, Hrabacov, 51401, Jilemnice, Czech Republic
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
for the year ended 31 December 2016 continued

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

	2016 £'m	2015 £'m
Raw materials and consumables	**4.8**	4.8
Work in progress	**4.0**	3.8
Finished goods and goods for resale	**25.0**	19.9
	33.8	28.5

At 31 December 2016, inventories amounting to £12.2m (2015: £9.0m) were held at net realisable value. Amounts written down or written off in respect of inventories during the year are disclosed in note 8.

17. Trade and other receivables

	Group		Company	
	2016 £'m	2015 £'m	2016 £'m	2015 £'m
Amounts falling due after more than one year				
Amounts owed by subsidiary undertakings	**–**	–	**113.3**	78.1
Other receivables	**4.7**	3.2	**–**	–
Amounts falling due within one year				
Trade receivables	**26.2**	31.3	**–**	–
Less: provision for doubtful debts	**(0.2)**	(0.6)	**–**	–
Trade receivables – net	**26.0**	30.7	**–**	–
Amounts owed by subsidiary undertakings*	**–**	–	**13.8**	10.9
Other receivables	**1.7**	1.9	**–**	–
Prepayments and accrued income	**2.8**	2.6	**1.6**	1.8
	30.5	35.2	**15.4**	12.7

* Amounts receivable from subsidiary undertakings in respect of tax losses surrendered are included within amounts owed by subsidiary undertakings. These amount to £8.0m (2015: £6.9m).

Group

At 31 December 2016, trade receivables of £0.2m (2015: £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:

	2016 £'m	2015 £'m
Less than 30 days past due	–	0.1
Greater than 90 days past due	0.2	0.1
	0.2	0.2

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

	2016 £'m	2015 £'m
At 1 January	0.6	0.9
Receivables impaired	(0.4)	(0.3)
At 31 December	0.2	0.6

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 2016, trade receivables of £5.5m (2015: £5.0m) were past due but not impaired. The group believes that 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:

	2016 £'m	2015 £'m
Less than 30 days past due	4.8	4.4
30 to 90 days past due	0.7	0.6
	5.5	5.0

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:

	2016 £'m	2015 £'m
US dollar	2.1	10.3
Euro	7.2	6.2
Japanese yen	5.9	5.0
Sterling	3.4	3.3
Australian dollar	2.8	2.3
Czech koruna	1.2	0.8
Chinese renminbi	1.4	1.0
Other currencies	2.0	1.8
	26.0	30.7

Notes to the financial statements
for the year ended 31 December 2016 continued

17. Trade and other receivables continued

Company

At 31 December 2016, trade receivables of £nil (2015: £nil) were neither past due nor impaired.

At 31 December 2015, receivables due from subsidiary undertakings of £127.1m (2015: £89.0m) were neither past due nor impaired.

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

	2016 £'m	2015 £'m
Sterling	8.3	6.9
Japanese yen	4.9	3.9
US dollar	86.6	62.5
Chinese renminbi	24.5	13.2
Euro	2.1	2.2
Other currencies	0.7	0.3
	127.1	89.0

18. Cash and cash equivalents

	Group		Company	
	2016 £'m	2015 £'m	2016 £'m	2015 £'m
Cash at bank and in hand	9.8	9.4	0.1	0.1
Short-term bank deposits	0.1	0.2	–	–
	9.9	9.6	0.1	0.1

19. Trade and other payables – current

	Group		Company	
	2016 £'m	2015 £'m	2016 £'m	2015 £'m
Trade payables	13.0	9.9	0.7	0.3
Tax and social security payable	3.0	2.1	0.1	–
Accruals	18.4	19.1	2.5	2.2
	34.4	31.1	3.3	2.5

Accruals include £0.1m (2015: £0.1m) in respect of government grants payable within one year.

20. Other payables – non-current

	Group		Company	
	2016 £'m	2015 £'m	2016 £'m	2015 £'m
Amounts owed to subsidiary undertakings	–	–	22.1	23.1
Accruals	3.4	2.6	–	–
	3.4	2.6	22.1	23.1

Accruals include £2.5m (2015: £2.0m) 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	2016 £'m	2015 £'m
At 1 January	**6.0**	8.9
Charge to the income statement during the year	**1.0**	2.1
Released	**–**	(0.6)
Utilised during the year	**(3.5)**	(4.3)
Foreign exchange	**0.9**	(0.1)
At 31 December	**4.4**	6.0
Non-current	**3.6**	0.5
Current	**0.8**	5.5
Total	**4.4**	6.0

The closing provision as at 31 December 2016 includes redundancy provisions of £0.8m (2015: £2.6m), which are expected to be paid before the end of 2017, and an estimated £3.6m (2015: £3.4m) 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. During the year the estimated timing of the settlement of these decomissioning costs was revised as they are now not expected to be settled in the next 12 months.

22. Financial liabilities – borrowings

	Group		Company	
	2016 £'m	2015 £'m	2016 £'m	2015 £'m
Current				
Bank overdrafts due within one year or on demand	**1.9**	1.9	**3.5**	2.1
Non-current				
Unsecured bank loans	**80.4**	66.5	**51.6**	45.8
US dollar private placement	**81.2**	66.7	**81.2**	66.7
	161.6	133.2	**132.8**	112.5

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 British Bankers' Association 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 of between 7 and 12 years, with an average fixed interest rate of 4.48%.

Notes to the financial statements
for the year ended 31 December 2016 continued

22. Financial liabilities – borrowings continued

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

	Currency	Rate	2016	2015
Bank overdrafts:				
	Sterling*	Bank of England base rate plus 150 basis points	**1.75%**	2.00%
	US dollar	US 1 month LIBOR plus 200 basis points	**2.77%**	2.43%
	Czech koruna	PRIBOR plus 90 basis points	**1.10%**	1.03%
	Euro	EUR LIBOR plus 90 basis points	**0.90%**	0.90%
Bank borrowings:				
Floating rate	Sterling	LIBOR plus 160 basis points (2015: plus 140 basis points)	**1.86%**	1.90%
Floating rate	US dollar	US LIBOR plus 160 basis points (2015: plus 140 basis points)	**2.37%**	1.83%
Floating rate	Australian dollar	BBSW (Bank Bill Swap Rate) plus 160 basis points (2015: plus 140 basis points)	**3.22%**	3.47%
Floating rate	Chinese renminbi	CNH Hong Kong HIBOR plus 160 basis points (2015: plus 140 basis points)	**9.22%**	6.42%
Average bank borrowings rate			**3.40%**	2.92%
Other debt payable:				
Fixed rate	US dollar		**4.48%**	4.48%

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

Borrowings were denominated in the following currencies:

	2016			2015		
Group	**Bank borrowings £'m**	**Other debt £'m**	**Total £'m**	Bank borrowings £'m	Other debt £'m	Total £'m
Sterling	**51.7**	**–**	**51.7**	22.7	–	22.7
Australian dollar	**0.9**	**–**	**0.9**	2.7	–	2.7
Chinese renminbi	**27.9**	**–**	**27.9**	18.0	–	18.0
Czech koruna	**1.8**	**–**	**1.8**	1.9	–	1.9
US dollar	**–**	**81.2**	**81.2**	23.1	66.7	89.8
	82.3	**81.2**	**163.5**	68.4	66.7	135.1

	2016			2015		
Company	**Bank borrowings £'m**	**Other debt £'m**	**Total £'m**	Bank borrowings £'m	Other debt £'m	Total £'m
Sterling	**55.1**	**–**	**55.1**	24.8	–	24.8
US dollar	**–**	**81.2**	**81.2**	23.1	66.7	89.8
	55.1	**81.2**	**136.3**	47.9	66.7	114.6

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 underlying EBITDA to net interest payable ratio and a maximum covenant net debt to underlying EBITDA ratio. These measures are defined, explained and reconciled to the equivalent statutory measures in the Financial Review on pages 21 to 23. The group had adequate headroom within both covenants throughout the years ending 31 December 2016 and 31 December 2015.

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 2016 and 31 December 2015 were as follows:

	2016 £'m	2015 £'m
Total borrowings (note 22)	**163.5**	135.1
Less: cash and cash equivalents (note 18)	**(9.9)**	(9.6)
Net debt (note 32)	**153.6**	125.5
Equity	**109.0**	131.1
Bank loan covenant ratios:		
Covenant net debt to underlying EBITDA	**2.7**	2.6
Underlying EBITDA to net interest payable	**7.6**	11.3
Gearing ratio	**140.9%**	95.7%

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. The group entered into cross-currency interest rate swaps of US$40m during 2014 to convert a portion of the US dollar private placement into synthetic sterling denominated debt at a fixed rate of interest. These swaps were closed out during 2016 with proceeds of £3.4m. The foreign exchange element of these swaps was measured at fair value through profit and loss, with any gains or losses being taken immediately to the income statement to offset any fair value gains or losses on the hedged portion of the US dollar private placement.

Cash is held in interest-bearing current accounts where practicable with any excess cash placed on deposit. 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 2016, would result in a movement in finance costs of £0.8m (2015: £0.7m) and finance income of £0.1m (2015: £0.1m). This would result in an adverse post-tax impact on the group's income statement of £0.6m (2015: £0.5m) and a post-tax impact on the group's equity of £0.6m (2015: £0.5m).

Notes to the financial statements
for the year ended 31 December 2016 continued

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

Financial risk management continued

Market risk continued

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. 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 2016 and 31 December 2015 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 2016 and 31 December 2015 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.

	Impact on group underlying operating profit gains/(losses)		Impact on group profit after tax gains/(losses)		Impact on equity increase/(decrease)	
Foreign currency movement	Strengthening £'m	Weakening £'m	Strengthening £'m	Weakening £'m	Strengthening £'m	Weakening £'m
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)**
2015						
Australian dollar: 19%	1.3	(0.7)	1.0	(0.5)	5.9	(5.6)
Czech koruna: 8%	0.9	(0.4)	0.8	(0.4)	6.2	(6.0)
Euro: 7%	1.4	(1.4)	1.2	(1.2)	0.2	(0.2)
Japanese yen: 25%	1.1	(1.0)	1.0	(0.9)	0.6	(0.6)
US dollar: 6%	0.6	(0.6)	–	–	2.3	(2.3)

Credit risk

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

	2016 £'m	2015 £'m
Cash and cash equivalents	**9.9**	9.6
Derivative financial instruments	**1.4**	3.5
Trade receivables	**26.0**	30.7
Other receivables	**1.7**	1.9
	39.0	45.7

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 £2.7m (2015: £2.4m). 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 2016 and 31 December 2015 are shown below:

	2016 £'m	2015 £'m
Expiring in more than two years	**29.6**	43.5

At 31 December 2016, the group had in place unsecured floating rate committed loan facilities totalling £110.0m (2015: £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 (2015: £5.0m), US dollars 2.0m (2015: US dollars 2.0m), and Czech koruna 175m (2015: Czech koruna 120m) were also in place at 31 December 2016. These facilities are renewable within one year.

Notes to the financial statements
for the year ended 31 December 2016 continued

23. Capital and financial risk management, and financial instruments continued
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 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**
At 31 December 2015				
Forward foreign exchange contracts				
– cash flow hedge	0.3	1.0	0.3	1.0
– cash flow hedge held with subsidiaries	–	–	1.0	0.3
– net investment hedge	–	1.1	–	–
– other	0.2	0.2	0.2	1.3
Cross-currency interest rate swap	3.0	–	3.0	–
	3.5	2.3	4.5	2.6

Forward foreign exchange contracts – other, shown in the table above, relates 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 2016 (2015: Level 2). They have been valued using publically available data, such as forward foreign exchange rates. There are no financial instruments measured as Level 3.

At 31 December 2016, 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 £1.0m (2015: £0.7m). These will be transferred to the income statement and recognised in other operating income or expense when the forecast sales and purchases occur during 2017.

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

	2016 £'m	2015 £'m
Forward foreign exchange contracts	**59.7**	55.5
Currency swaps	**87.7**	88.3

Fair values of non-derivative financial assets and liabilities

Group	2016 Book value £'m	2016 Fair value £'m	2015 Book value £'m	2015 Fair value £'m
Fair value of non-current borrowings				
Other financial liabilities at amortised cost				
Long-term borrowings (note 22)	**(161.6)**	**(161.6)**	(107.0)	(105.8)
Other financial liabilities at fair value				
Long-term borrowings	**–**	**–**	(26.2)	(26.2)
	(161.6)	**(161.6)**	(133.2)	(132.0)
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 (note 17)	**27.7**	**27.7**	32.6	32.6
Short-term bank deposits (note 18)	**0.1**	**0.1**	0.2	0.2
Cash at bank and in hand (note 18)	**9.8**	**9.8**	9.4	9.4
Other financial liabilities at amortised cost				
Trade and other payables (note 19)	**(31.4)**	**(31.4)**	(29.0)	(29.0)
Short-term borrowings (note 22)	**(1.9)**	**(1.9)**	(1.9)	(1.9)
Provisions for other liabilities and charges (note 21)	**(4.4)**	**(4.4)**	(6.0)	(6.0)

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.

Notes to the financial statements
for the year ended 31 December 2016 continued

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

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 2016 and 31 December 2015. 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 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**	**–**	**–**
At 31 December 2015				
Bank borrowings	3.2	1.3	69.2	–
US dollar private placement	3.0	3.0	9.0	76.1
Derivative financial instruments	2.3	–	–	–
Trade and other payables	29.0	–	–	–
Provisions for other liabilities and charges	5.5	0.5	–	–

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 2016				
Bank borrowings	**5.1**	**1.5**	**53.1**	**–**
US dollar private placement	**3.6**	**3.6**	**30.6**	**69.2**
Derivative financial instruments	**3.5**	**–**	**–**	**–**
Trade and other payables	**3.2**	**–**	**–**	**–**
At 31 December 2015				
Bank borrowings	3.1	0.9	47.6	–
US dollar private placement	3.0	3.0	9.0	76.1
Derivative financial instruments	2.6	–	–	–
Trade and other payables	2.5	–	–	–

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.

	At 31 December 2016	At 31 December 2015			
Group	**Less than 1 year £'m**	Less than 1 year £'m	Between 1 and 2 years £'m	Between 2 and 5 years £'m	Over 5 years £'m
Forward foreign exchange contracts – cash flow hedges					
Outflow	**(63.4)**	(56.5)	–	–	–
Inflow	**62.4**	55.8	–	–	–
Forward foreign exchange contracts – net investment hedges					
Outflow	**(28.5)**	(24.5)	–	–	–
Inflow	**28.0**	23.4	–	–	–
Forward foreign exchange contracts – other					
Outflow	**(57.6)**	(38.5)	–	–	–
Inflow	**57.9**	37.8	–	–	–
Cross-currency interest rate swaps					
Outflow	**–**	(1.1)	(1.1)	(3.2)	(28.0)
Inflow	**–**	1.2	1.2	3.6	30.4
Company					
Forward foreign exchange contracts – cash flow hedges					
Outflow	**(125.8)**	(112.3)	–	–	–
Inflow	**125.8**	112.3	–	–	–
Forward foreign exchange contracts – other					
Outflow	**(86.1)**	(63.0)	–	–	–
Inflow	**85.9**	61.2	–	–	–
Cross-currency interest rate swaps					
Outflow	**–**	(1.1)	(1.1)	(3.2)	(28.0)
Inflow	**–**	1.2	1.2	3.6	30.4

Notes to the financial statements
for the year ended 31 December 2016 continued

24. Deferred tax

	Group		Company	
	2016 £'m	2015 £'m	**2016 £'m**	2015 £'m
Net asset/(liability) at 1 January	**10.7**	9.1	**0.4**	(0.1)
Exchange differences	**1.3**	0.5	**–**	–
Arising on acquisition	**–**	(0.5)	**–**	–
Credit for the year to profit	**3.6**	4.4	**0.1**	0.5
Credit/(charge) to equity or other comprehensive income	**5.9**	(2.2)	**–**	–
United Kingdom corporation tax rate change	**(0.6)**	(0.6)	**–**	–
Net asset at 31 December	**20.9**	10.7	**0.5**	0.4

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 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
United Kingdom corporation tax rate change	(0.6)	–	–	(0.6)
At 31 December 2016	**22.1**	**16.3**	**1.9**	**40.3**
At 1 January 2015	15.4	8.2	0.9	24.5
Exchange differences	0.4	(0.1)	–	0.3
Credit for the year to profit	1.3	1.5	0.7	3.5
Charge to equity or other comprehensive income	(2.0)	(0.2)	–	(2.2)
United Kingdom corporation tax rate change	(0.6)	–	–	(0.6)
At 31 December 2015	14.5	9.4	1.6	25.5

Deferred tax liabilities can be analysed as follows:

	Accelerated capital allowances £'m	Other £'m	Total £'m
At 1 January 2016	(13.4)	(1.4)	(14.8)
Exchange differences	(2.7)	–	(2.7)
Charge for the year to profit	(1.7)	(0.2)	(1.9)
At 31 December 2016	**(17.8)**	**(1.6)**	**(19.4)**
At 1 January 2015	(14.4)	(1.0)	(15.4)
Exchange differences	0.1	0.1	0.2
Arising on acquisition	–	(0.5)	(0.5)
Credit for the year to profit	0.9	–	0.9
At 31 December 2015	(13.4)	(1.4)	(14.8)

The net deferred tax asset/(liability) can be analysed as follows:

	Asset		Liability		Total	
	2016 £'m	2015 £'m	**2016 £'m**	2015 £'m	**2016 £'m**	2015 £'m
Due within one year	**1.9**	1.7	**(1.0)**	(0.4)	**0.9**	1.3
Due after more than one year	**38.4**	23.8	**(18.4)**	(14.4)	**20.0**	9.4
	40.3	25.5	**(19.4)**	(14.8)	**20.9**	10.7

Company

	Temporary differences £'m
Asset at 1 January 2016	**0.4**
Credit for the year to profit	**0.1**
Asset at 31 December 2016	**0.5**
Liability at 1 January 2015	(0.1)
Credit for the year to profit	0.5
Asset at 31 December 2015	0.4

The company deferred tax asset/(liability) can be analysed as follows:

	2016 £'m	2015 £'m
Due after more than one year	**0.5**	0.4

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.

No deferred tax asset has been recognised in respect of £39.3m (2015: £10.6m) of gross losses.

Deferred tax of £12.7m (2015: £4.2m) in respect of some of the group's previously incurred taxable losses is unrecognised 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 (2015: Nil).

Notes to the financial statements
for the year ended 31 December 2016 continued

25. Pension obligations

The amounts recognised as charges in the income statement are as follows:

	2016 £'m	2015 £'m
Defined benefit schemes:		
– Current service cost	**1.5**	1.6
– Scheme administrative expenses	**1.4**	1.4
Defined benefit costs included within operating profit	**2.9**	3.0
Net finance cost	**2.3**	2.1
Total defined benefit scheme costs	**5.2**	5.1
Defined contribution schemes	**3.0**	2.4
Total pension obligation costs	**8.2**	7.5

The amounts recognised as non-current liabilities in the balance sheet are as follows:

	2016 £'m	2015 £'m
Fair value of scheme assets	**254.8**	225.4
Present value of scheme liabilities	**(350.8)**	(281.8)
Pension obligations	**(96.0)**	(56.4)

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 £8.2m (2015: £7.5m), of which £4.0m (2015: £3.2m) related to the overseas schemes. On the advice of the actuaries, cash contributions to the group's defined benefit schemes are expected to be £5.2m for the year ending 31 December 2017.

The most significant defined benefit scheme within the group is the Devro Limited (UK) Pension Plan, which operates in the United Kingdom. The latest triennial valuation of the UK scheme as at 31 March 2014 was finalised during 2015. The other major defined benefit schemes operate in Australia and the USA.

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 2016 by qualified independent actuaries. The major assumptions used by the actuaries in the following principal countries were:

	Australia		United Kingdom		USA	
	2016 %	2015 %	2016 %	2015 %	2016 %	2015 %
Discount rate	**4.05**	4.00	**2.60**	3.75	**3.85**	3.95
Rate of increase in salaries*	**3.50**	3.50	**1.00**	1.00	**–**	–
General inflation	**2.50**	2.50	**3.25**	3.00	**–**	–

* As part of the changes to the United Kingdom 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 USA 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 2016 are based on the following tables:

	2016		2015	
Years of life expectancy for current pensioners aged 65	**Male**	**Female**	Male	Female
United Kingdom – SAPS 'Normal' (YOB)*	**22.5**	**24.8**	22.4	24.7
USA – RP-2014 and projection scale MP-2014	**21.1**	**23.3**	21.1	23.3

* Adjusted by -0.2 years for male non-pensioners and -1.1 years for female non-pensioners (-0.4 for female pensioners) with CMI 2013 improvements using a long-term rate of 1.25% 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 2016, the value of the insurance asset was £2.2m (2015: £2.0m) and the value of the liability was £3.8m (2015: £3.0m). 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 USA 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 USA and Japan are included under the "other" heading in this note.

The aggregate fair values of assets in the group's defined benefit schemes at 31 December 2016 were estimated to be:

	Australia		United Kingdom		USA		Other		Total	
	2016 £'m	2015 £'m	**2016 £'m**	2015 £'m	**2016 £'m**	2015 £'m	**2016 £'m**	2015 £'m	**2016 £'m**	2015 £'m
Equities	**5.9**	5.3	**38.2**	28.5	**15.3**	13.7	**–**	–	**59.4**	47.5
Bonds	**2.1**	1.7	**95.1**	83.8	**35.5**	30.7	**–**	–	**132.7**	116.2
Diversified growth funds	**–**	–	**50.4**	49.3	**–**	–	**–**	–	**50.4**	49.3
Other	**2.6**	2.2	**7.0**	7.8	**0.5**	0.4	**2.2**	2.0	**12.3**	12.4
	10.6	9.2	**190.7**	169.4	**51.3**	44.8	**2.2**	2.0	**254.8**	225.4

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.

Notes to the financial statements
for the year ended 31 December 2016 continued

25. Pension obligations continued

Net pension assets and liabilities at 31 December 2016 were as follows:

	Australia		United Kingdom		USA		Other		Total	
	2016 £'m	2015 £'m	**2016 £'m**	2015 £'m	**2016 £'m**	2015 £'m	**2016 £'m**	2015 £'m	**2016 £'m**	2015 £'m
Total fair value of scheme assets (as above)	**10.6**	9.2	**190.7**	169.4	**51.3**	44.8	**2.2**	2.0	**254.8**	225.4
Present value of scheme liabilities	**(10.6)**	(9.2)	**(251.8)**	(198.7)	**(84.4)**	(70.7)	**(4.0)**	(3.2)	**(350.8)**	(281.8)
Deficit	**–**	–	**(61.1)**	(29.3)	**(33.1)**	(25.9)	**(1.8)**	(1.2)	**(96.0)**	(56.4)
Related deferred tax assets	**–**	–	**10.4**	5.2	**11.2**	8.9	**0.5**	0.4	**22.1**	14.5
Net pension liabilities	**–**	–	**(50.7)**	(24.1)	**(21.9)**	(17.0)	**(1.3)**	(0.8)	**(73.9)**	(41.9)

The net deficit position has increased during the year. The discount rate decreased for all of the group's schemes, increasing the present value of the liabilities in each of the schemes. The impact of the decrease in the discount rate on the net deficit of the UK scheme was mitigated by the performance of the scheme assets with actual returns being above estimated interest income. 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 2014 was finalised during 2015 and resulted in contributions increasing to £2.5m per annum until 2026.

Changes in the fair value of scheme assets and in the present value of defined benefit scheme liabilities were as follows:

	2016			2015		
	Liability £'m	**Asset £'m**	**Net £'m**	Liability £'m	Asset £'m	Net £'m
At 1 January	**(281.8)**	**225.4**	**(56.4)**	(290.8)	231.8	(59.0)
Interest income	**–**	**8.5**	**8.5**	–	8.0	8.0
Interest cost	**(10.8)**	**–**	**(10.8)**	(10.1)	–	(10.1)
Service cost	**(1.5)**	**–**	**(1.5)**	(1.6)	–	(1.6)
Scheme administrative expenses	**–**	**(1.4)**	**(1.4)**	–	(1.4)	(1.4)
Employer contributions	**–**	**4.2**	**4.2**	–	4.8	4.8
Member contributions	**(0.2)**	**0.2**	**–**	(0.2)	0.2	–
Benefits paid	**14.1**	**(14.1)**	**–**	14.7	(14.7)	–
Re-measurements – return on plan assets (excluding interest income)	**–**	**21.2**	**21.2**	–	(4.9)	(4.9)
Re-measurements – changes in financial assumptions	**(55.6)**	**–**	**(55.6)**	8.8	–	8.8
Re-measurements – experience adjustments	**1.3**	**–**	**1.3**	0.6	–	0.6
Re-measurements – restriction of surplus	**0.1**	**–**	**0.1**	(0.5)	–	(0.5)
Exchange (losses)/gains	**(16.4)**	**10.8**	**(5.6)**	(2.7)	1.6	(1.1)
At 31 December	**(350.8)**	**254.8**	**(96.0)**	(281.8)	225.4	(56.4)

Amounts charged/(credited) to the income statement were as follows:

	Australia		United Kingdom		USA		Other		Total	
	2016 £'m	2015 £'m	**2016 £'m**	2015 £'m	**2016 £'m**	2015 £'m	**2016 £'m**	2015 £'m	**2016 £'m**	2015 £'m
Amounts charged to the income statement										
Current service cost	**0.4**	0.4	**1.1**	1.2	**–**	–	**–**	–	**1.5**	1.6
Scheme administrative expenses	**0.2**	0.2	**0.6**	0.8	**0.6**	0.4	**–**	–	**1.4**	1.4
Net charge to operating profit	**0.6**	0.6	**1.7**	2.0	**0.6**	0.4	**–**	–	**2.9**	3.0
Interest income on pension scheme assets	**(0.4)**	(0.3)	**(6.3)**	(6.0)	**(1.8)**	(1.6)	**–**	(0.1)	**(8.5)**	(8.0)
Interest on pension scheme liabilities	**0.4**	0.3	**7.3**	7.2	**3.0**	2.6	**0.1**	–	**10.8**	10.1
Net interest cost	**–**	–	**1.0**	1.2	**1.2**	1.0	**0.1**	(0.1)	**2.3**	2.1
Net charge/(credit) to profit	**0.6**	0.6	**2.7**	3.2	**1.8**	1.4	**0.1**	(0.1)	**5.2**	5.1

Amounts (charged)/credited to other comprehensive income were as follows:

	Australia		United Kingdom		USA		Other		Total	
	2016 £'m	2015 £'m	**2016 £'m**	2015 £'m	**2016 £'m**	2015 £'m	**2016 £'m**	2015 £'m	**2016 £'m**	2015 £'m
Amounts recognised in statement of comprehensive income										
Return on plan assets less interest income	**0.3**	0.3	**19.8**	(3.3)	**1.1**	(1.9)	**–**	–	**21.2**	(4.9)
Experience gains/(losses) on liabilities	**(0.3)**	–	**1.6**	0.6	**–**	–	**–**	–	**1.3**	0.6
Changes in financial assumptions	**–**	0.6	**(54.3)**	6.7	**(1.0)**	1.4	**(0.3)**	0.1	**(55.6)**	8.8
Restriction of surplus	**0.1**	(0.5)	**–**	–	**–**	–	**–**	–	**0.1**	(0.5)
Re-measurements	**0.1**	0.4	**(32.9)**	4.0	**0.1**	(0.5)	**(0.3)**	0.1	**(33.0)**	4.0

Notes to the financial statements
for the year ended 31 December 2016 continued

25. Pension obligations continued
Movements in the deficit during the year were as follows:

	Australia		United Kingdom		USA		Other		Total	
	2016 £'m	2015 £'m	**2016 £'m**	2015 £'m	**2016 £'m**	2015 £'m	**2016 £'m**	2015 £'m	**2016 £'m**	2015 £'m
Deficit in scheme at beginning of year	**–**	(0.2)	**(29.3)**	(33.8)	**(25.9)**	(23.5)	**(1.2)**	(1.5)	**(56.4)**	(59.0)
Movement in year: Pension charge	**(0.6)**	(0.6)	**(2.7)**	(3.2)	**(1.8)**	(1.4)	**(0.1)**	0.1	**(5.2)**	(5.1)
Employer contributions	**0.4**	0.4	**3.8**	3.7	**–**	0.7	**–**	–	**4.2**	4.8
Re-measurements	**0.1**	0.4	**(32.9)**	4.0	**0.1**	(0.5)	**(0.3)**	0.1	**(33.0)**	4.0
Exchange gains/ (losses)	**0.1**	–	**–**	–	**(5.5)**	(1.2)	**(0.2)**	0.1	**(5.6)**	(1.1)
Deficit in scheme at end of year	**–**	–	**(61.1)**	(29.3)	**(33.1)**	(25.9)	**(1.8)**	(1.2)	**(96.0)**	(56.4)

The actual return on plan assets in 2016 was £29.7m (2015: £3.1m).

The cumulative re-measurements in other comprehensive income are £101.2m loss (2015: £68.2m 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:

	2016 £'m
In the next year	**13.6**
In years 2-5	**55.8**
In years 6-10	**73.5**
	142.9

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.

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 £15.8m
	Decrease by 0.25%	Increase by £16.6m
Rate of salary increase	Increase by 0.25%	Increase by £0.2m
	Decrease by 0.25%	Decrease by £0.2m
General inflation	Increase by 0.25%	Increase by £4.9m
	Decrease by 0.25%	Decrease by £4.7m
Life expectancy	Increase by 1 year	Increase by £11.2m

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.

26. Ordinary shares

Group and company	2016 £'m	2015 £'m
Issued and fully paid		
166,949,022 (2015: 166,932,532) ordinary shares of 10 pence each	**16.7**	16.7

16,490 ordinary shares of 10 pence each were issued during the year in connection with the Devro 2003 Performance Share Plan (2015: 11,490).

27. Share-based payments

Under the Devro plc Performance Share Plan and its predecessor (together "the plans"), 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 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 £1.92 (2015: £2.01) 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 0.51% 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 16,490 shares were issued under the Devro 2003 Performance Share Plan (2015: 11,490).

Notes to the financial statements
for the year ended 31 December 2016 continued

27. Share-based payments continued

At 31 December 2016, the maximum number of shares which may vest under the plans is as follows:

Grant date	Fair value per share	Normal vesting date	Number of shares at 1 January 2016	Number of shares awarded during the year	Number of shares vested and exercised during the year	Number of shares lapsed during the year	Number of shares at 31 December 2016	Weighted average share price at exercise
26 September 2008	£0.693	26 September 2011	5,000	–	(5,000)	–	–	£2.53
29 March 2011	£2.640	29 March 2014	11,490	–	(11,490)	–	–	£2.53
12 September 2013	£2.080	12 September 2016	507,470	–	–	(507,470)	–	–
20 December 2013	£1.840	20 December 2016	40,000	–	–	(40,000)	–	–
9 June 2014	£1.690	9 June 2017	794,100	–	–	(17,260)	776,840	–
25 March 2015	£2.005	25 March 2018	983,746	–	–	(20,457)	963,289	–
8 April 2016	£1.915	8 April 2019	–	1,166,464	–	(30,238)	1,136,226	–
			2,341,806	1,166,464	(16,490)	(615,425)	2,876,355	£2.53

A more detailed summary of the performance conditions of the plans is included in the Director's Remuneration Report on pages 47 to 61.

28. Share premium

Group and company	2016 £'m	2015 £'m
At 1 January	**9.3**	9.3
Premium on shares issued under the Devro 2003 Performance Share Plan	**–**	–
At 31 December	**9.3**	9.3

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 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)**
Performance Share Plan charge, net of tax	**–**	**–**	**0.6**	**–**	**–**	**0.6**
Performance Share Plan credit in respect of shares vested	**–**	**–**	**–**	**–**	**–**	**–**
Performance Share Plan 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**
At 1 January 2015	35.6	8.9	0.4	0.6	11.0	56.5
Exchange adjustments	–	–	–	–	(6.0)	(6.0)
Cash flow hedges, net of tax	–	–	–	1.0	–	1.0
Net investment hedges, net of tax	–	–	–	0.7	–	0.7
Performance Share Plan charge, net of tax	–	–	0.9	–	–	0.9
Performance Share Plan credit in respect of shares vested	–	–	–	–	–	–
Performance Share Plan credit in respect of awards lapsed	–	–	(0.2)	–	–	(0.2)
At 31 December 2015	35.6	8.9	1.1	2.3	5.0	52.9

Company	**Capital redemption reserve £'m**	**Special reserve £'m**	**Performance Share Plan £'m**	**Hedging reserve £'m**	**Total £'m**
At 1 January 2016	35.6	8.9	0.6	0.9	46.0
Cash flow hedges, net of tax	–	–	–	(0.9)	(0.9)
Performance Share Plan charge, net of tax	–	–	0.5	–	0.5
Performance Share Plan credit in respect of awards lapsed	–	–	(0.3)	–	(0.3)
At 31 December 2016	**35.6**	**8.9**	**0.8**	**–**	**45.3**
At 1 January 2015	35.6	8.9	0.4	0.3	45.2
Cash flow hedges, net of tax	–	–	–	0.6	0.6
Performance Share Plan charge, net of tax	–	–	0.4	–	0.4
Performance Share Plan credit in respect of shares vested	–	–	–	–	–
Performance Share Plan credit in respect of awards lapsed	–	–	(0.2)	–	(0.2)
At 31 December 2015	35.6	8.9	0.6	0.9	46.0

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. Retained earnings

	Group		**Company**	
	2016 £'m	2015 £'m	**2016 £'m**	2015 £'m
At 1 January	**52.2**	50.7	**81.0**	70.0
Profit for the year	**2.2**	14.6	**34.3**	25.5
Dividends paid	**(14.7)**	(14.7)	**(14.7)**	(14.7)
Re-measurements of pension obligations, net of tax	**(27.8)**	1.4	**–**	–
Performance Share Plan credit in respect of awards lapsed	**0.3**	0.2	**0.3**	0.2
At 31 December	**12.2**	52.2	**100.9**	81.0

Notes to the financial statements
for the year ended 31 December 2016 continued

31. Reconciliation of profit before tax to cash generated from operations

	Group		Company	
	2016 £'m	2015 £'m	**2016 £'m**	2015 £'m
Profit before tax	**6.2**	15.1	**33.1**	24.7
Adjustments for:				
Finance income	**(0.1)**	–	**(4.7)**	(2.9)
Finance cost	**7.0**	2.0	**6.2**	4.0
Dividends from subsidiaries	**–**	–	**(40.2)**	(28.9)
Net finance cost on pensions	**2.3**	2.1	**–**	–
Pension cost adjustment for normal contributions	**1.1**	1.4	**–**	–
Depreciation of property, plant and equipment	**22.1**	16.5	**0.1**	0.2
Amortisation of intangible assets	**0.9**	1.1	**0.1**	0.6
Release from capital grants balance	**(0.2)**	(0.1)	**–**	–
Pension deficit funding	**(2.5)**	(3.2)	**–**	–
Performance Share Plan	**0.6**	0.8	**0.5**	0.4
Changes in working capital:				
(Increase)/decrease in inventories	**(1.1)**	5.2	**–**	–
Decrease/(Increase) in trade and other receivables	**5.4**	(4.2)	**(18.7)**	(15.8)
(Decrease)/increase in trade and other payables	**(0.2)**	0.6	**(4.0)**	8.1
Decrease in provisions	**(2.5)**	(2.9)	**–**	–
Cash generated from/(used in) operations	**39.0**	34.4	**(27.6)**	(9.6)
Of which:				
Cash generated from/(used in) underlying operations before pension deficit funding	**64.4**	53.1	**(27.5)**	(9.6)
Pension deficit funding	**(2.5)**	(3.2)	**–**	–
Exceptional items	**(22.9)**	(15.5)	**(0.1)**	–
Cash generated from/(used in) operations	**39.0**	34.4	**(27.6)**	(9.6)

32. Analysis of net debt

	Group		Company	
	2016 £'m	2015 £'m	**2016 £'m**	2015 £'m
Cash and cash equivalents	**9.9**	9.6	**0.1**	0.1
Bank overdrafts	**(1.9)**	(1.9)	**(3.5)**	(2.1)
	8.0	7.7	**(3.4)**	(2.0)
Other bank borrowings	**(80.4)**	(66.5)	**(51.6)**	(45.8)
US dollar private placement	**(81.2)**	(66.7)	**(81.2)**	(66.7)
Net debt	**(153.6)**	(125.5)	**(136.2)**	(114.5)

33. Capital commitments

Capital expenditure contracted for but not provided in the financial statements:

	Group		Company	
	2016 £'m	2015 £'m	**2016 £'m**	2015 £'m
Property, plant and equipment	**0.8**	14.3	**–**	–

34. Contingent liabilities

In the opinion of the directors, the group has no material contingent liabilities (2015:Nil).

35. Financial commitments

Operating leases

At 31 December 2016, the future aggregate minimum lease payments were as follows:

	Group		Company	
	2016 £'m	2015 £'m	**2016 £'m**	2015 £'m
No later than one year	**0.8**	0.7	**0.1**	0.1
Later than one year and no later than five years	**1.4**	1.4	**0.5**	0.5
Later than 5 years	**–**	0.1	**–**	0.1
	2.2	2.2	**0.6**	0.7

36. 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:

	2016 £'m	2015 £'m
Emoluments payable to executive and non-executive directors		
Short-term employee benefits	**1.2**	1.5
Performance Share Plan charge	**0.2**	0.2
Post-employment benefits	**0.1**	0.1
	1.5	1.8
Emoluments payable to remainder of the Executive Management Team		
Short-term employee benefits	**1.5**	1.4
Performance Share Plan charge	**0.1**	0.1
Post-employment benefits	**0.2**	–
Compensation for loss of office	**0.7**	–
	2.5	1.5
Total emoluments payable to key management	**4.0**	3.3

Transactions with the group's pension schemes are disclosed in note 25. Amounts due to the pension schemes at 31 December 2016 are £0.4m (2015: £0.4m).

The group had no further related party transactions.

Notes to the financial statements
for the year ended 31 December 2016 continued

36. Related party transactions continued
Related party transactions carried out by the company during the year ended 31 December 2016 were as follows:

	2016 £'m	2015 £'m
Sale of services to subsidiary undertakings	**8.2**	4.4
Purchase of services from subsidiary undertakings	**0.2**	0.2
Royalty income received from subsidiary undertakings	**–**	0.6
Interest received from subsidiary undertakings	**4.7**	2.9
Interest paid to subsidiary undertakings	**0.1**	0.1

Balances at 31 December arising from transactions with subsidiary undertakings:

	2016 £'m	2015 £'m
Derivative financial assets	**1.9**	1.0
Derivative financial liabilities	**0.9**	0.3
Receivables		
– current	**13.8**	10.9
– non-current	**113.3**	78.1
Payables		
– non-current	**22.1**	23.1

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.

37. Acquisition

On 5 October 2015 the group acquired 100% of the issued share capital of PV Industries B.V. ("PVI"), now called Devro B.V.. Based in the Netherlands, Devro B.V. is a leading manufacturer of high quality collagen gel products for the meat processing industry. The acquisition gives the group access to Devro B.V.'s strong technical skills base together with an innovative and developing product portfolio.

The amounts recognised in the prior year in respect of identifiable assets acquired and liabilities assumed are set out in the table below:

	2015 £'m
Identifiable intangible assets	2.1
Property, plant and equipment	4.0
Inventory	0.3
Trade and other receivables	0.7
Cash and cash equivalents	0.4
Trade and other payables	(0.8)
Current and deferred tax	(0.4)
Borrowings	(2.4)
Total identifiable assets	3.9
Goodwill	3.1
Total consideration	**7.0**
Satisfied by:	
Cash	6.8
Contingent consideration arrangement	0.2
Total consideration transferred	**7.0**
Net cash outflow arising on acquisition	
Cash consideration	6.8
Less cash and cash equivalent balances acquired	(0.4)
	6.4

Identifiable intangible assets solely relates to customer contracts and relationships.

The goodwill of £3.1m arising from the acquisition consists of Devro B.V.'s technological expertise, including the expertise of its staff and potential new customer relationships.

Acquisition related costs (included in operating expenses) amounted to £0.3m.

Independent Auditors' Report to the members of Devro plc only

Opinions and conclusions arising from our audit

1 Our opinion on the financial statements is unmodified

We have audited the financial statements of Devro plc for the year ended 31 December 2016 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the group and company balance sheets, the group and company cash flow statements, the group and company statements of changes in equity and the related notes, set out on pages 66 to 119. 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 2016 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.

2 Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement, in decreasing order of audit significance, that had the greatest effect on our audit were as follows:

Exceptional items £22.7m (2015: £14.1m)
(Refer to page 46 of the Audit Committee Report and pages 72 and 79 for accounting policies and note 4 on page 82 for financial disclosures).

The risk: The financial statements include costs of £22.7m which are disclosed as exceptional and primarily comprise the costs associated with establishing the two new factories in the USA and China (£20.7m) and other direct costs associated with the Devro 100 initiative (£2m). The classification of income and expenditure as exceptional is an area of judgement and it is not a term defined under IFRS. There is a risk that items are inappropriately described as exceptional, thus not providing an accurate reflection of the underlying (i.e., pre-exceptional) performance of the group within both the narrative sections of annual report and within the financial statements. Further, there is a risk that amounts are inconsistently classified as exceptional year on year and that the movements during the year in provisions relating to exceptional costs are not classified appropriately.

Our response: Among our procedures in this area, we have considered in detail the group's accounting policies and principles for recognising elements of income and expenditure as exceptional. 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. We also performed detailed testing on a sample basis (e.g. by recalculating amounts disclosed as exceptional), and have considered the appropriateness of recognising these items as exceptional with reference to the aforementioned group accounting policies. We assessed the consistency of the items classified as 'exceptional' year on year and in accordance with the group's accounting policy. We assessed the group's disclosures for exceptional items in the narrative sections of the 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 and that exceptional items in consecutive periods are classified consistently.

Carrying value of inventory £33.8m (2015: £28.5m)
(Refer to page 46 of the Audit Committee Report, pages 72 and 75 for accounting policies and note 16 on page 94 for financial disclosures).

The risk: The risk is that the carrying value of inventory exceeds 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 response: Among our procedures in this area, 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. We checked the inventory provision calculations against the group's policy for aged, obsolete and slow-moving inventory. We assessed the provisions for inventory loss compared to historical trends and with reference to known quality issues. We considered the sales and manufacturing forecasts and performance for each location in our assessment of the inventory provision, challenging the assumptions made by the directors. We also tested a sample of inventory to sales subsequent to the year end to assess whether they were sold at more than net book value.

Capitalisation of assets relating to capital projects

We continued to perform procedures over the capitalisation of assets relating to capital projects. However, in accordance with the progress of the capital projects, there has been a significant reduction in the amount of costs capitalised in the current year (£22.2 million in current year compared to £55.4 million for the year in 2015) and, as a result, we have not assessed this as one of the risks that had the greatest effect on our audit and, therefore, it is not separately discussed in our report this year.

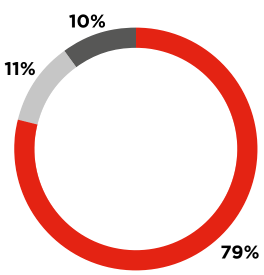
3 Our application of materiality and an overview of the scope of our audit

Materiality	amount	£1.14m (2015: £1.2m)
	basis	4% (2015: 4%) of Group profit before tax adjusted for exceptional items of £22.7m (2015: £14.1m)
Range of component materialities		£0.2m to £1m (2015: £0.1m to £1m)
Threshold for reporting corrected and uncorrected differences to the Audit Committee		£60,000 (2015:£60,000) plus lesser differences if warranted on qualitative grounds

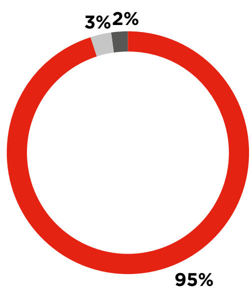
The group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The group team and component auditors performed audits for group reporting purposes at five (2015: three) of the group's twelve (2015: eleven) reporting components and the head office function. We subjected one component to specified risk-focused audit procedures over revenue and receivables. (In 2015, two components were subjected to specified audit procedures over key areas including inventory, exceptional items, capitalisation of assets relating to capital projects, revenue, receivables, cash, taxation, payroll, as applicable). These entities were not individually financially significant enough to require an audit for group reporting purposes, but did present specific individual risks that needed to be addressed.

The components within the scope of our work accounted for the following percentages of the group's results:

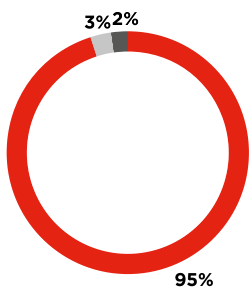
Revenue



Profit before tax



Total assets



- Full audit
- Specified audit procedures
- Out of scope

The remaining 10% (2015: 18%) of total group revenue, 2% (2015: 3%) of group profit before tax and 2% (2015: 11%) of total Group assets is represented by six reporting components, none of which individually represented more than 6% (2015: 9%) of any of total group revenue, group profit before tax or total group assets. For these remaining 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.

Telephone conferences were held with all component auditors (2015: in addition to calls, the group team visited component locations in Scotland, Czech Republic and Nantong, China). 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 reviewed the audit files of the components in the Czech Republic and USA.

4 Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent Auditors' Report to the members of Devro plc only continued

4 Our opinion on other matters prescribed by the Companies Act 2006 is unmodified continued
Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and the Directors' Report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

5 We have nothing to report on the disclosures of principal risks
Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the Directors' Viability Statement on pages 43 to 44, concerning the principal risks, their management, and, based on that, the directors' assessment and expectations of the group's continuing in operation over the three years to 31 December 2019; or
- the disclosures in note 1 of the financial statements concerning the use of the going concern basis of accounting.

6 We have nothing to report in respect of the matters on which we are required to report by exception
Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our 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 Audit Committee Report does not appropriately address matters communicated by us to the Audit Committee.

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.

Under the Listing Rules we are required to review:

- the directors' statements, set out on pages 43 to 44, in relation to going concern and longer-term viability; and
- the part of the Corporate Governance Statement on page 44 relating to the company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope and responsibilities
As explained more fully in the Directors' Responsibilities Statement set out on pages 64 to 65, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Anthony Sykes (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
15 March 2017

Financial Summary
For the years ended 31 December

	2016 £'m	2015 £'m	2014 £'m	2013 £'m	Restated 2012 £'m
Revenue	**241.1**	230.2	232.3	242.7	241.1
Underlying operating profit*	**38.1**	33.3	30.3	42.1	42.4
Exceptional items	**(22.7)**	(14.1)	(23.9)	(1.3)	–
Operating profit	**15.4**	19.2	6.4	40.8	42.4
Profit before tax	**6.2**	15.1	2.2	37.5	39.3
Profit after tax	**2.2**	14.6	4.4	33.6	32.0
Net assets	**109.0**	131.1	133.2	158.0	146.9
Earnings per share:					
– Underlying basic*	**13.3p**	15.4p	13.7p	20.8p	19.4p
– Exceptional items	**(12.0p)**	(6.6p)	(11.1p)	(0.7p)	–
– Basic	**1.3p**	8.8p	2.6p	20.1p	19.4p
– Diluted	**1.3p**	8.7p	2.6p	20.0p	19.2p
Dividends per share	**8.8p**	8.8p	8.8p	8.8p	8.5p
Net assets per share	**65.3p**	78.6p	79.8p	94.9p	88.7p

* 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

26 April 2017	Annual General Meeting
12 May 2017	Final dividend paid
2 August 2017	Half year results and interim dividend announced
6 October 2017	Interim dividend paid
31 December 2017	Financial year end
March 2018	2017 results and proposed final dividend announced

Dividends

The final dividend will be paid on 12 May 2017 to shareholders on the register at close of business on 31 March 2017.

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 2017 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:

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- 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.
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After registering you will be sent an activation code in the post, used to validate your account. Once activated, you will have full access to Investor Centre services.

Website

The company has a website (www.devro.com) which provides up-to-date information on the company and its products.

Directors and Advisers
(as at 15 March 2017)

Executive Directors
P W B Page
R A Helbing

Non-Executive Directors
G J Hoetmer
J A Lodge
P A J Neep
P N Withers

Company Secretary and registered office
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Registered number: SC129785

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Solicitors
Clifford Chance LLP
10 Upper Bank Street
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Rabobank International
Thames Court
One Queenhithe
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Services PLC
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