DEVRO PLC

Annual Report and Accounts 2018

DEVRO

My first year as CEO has been insightful and has only served to increase my appreciation of the opportunity ahead.

In addition to the strategic priorities as set out at the start of the year it has been my priority to provide clear focus on delivery of profitable growth and to create a culture and mind-set of a global business.

Rutger Helbing, CEO
Business Review on page 10 >

OUR 3Cs STRATEGY

WIN WITH THE WINNING **CUSTOMERS**

Devro will deliver superior customer experience through innovative quality products adapted to local customer needs, expert technical support and the capability to assist our customers to bring innovations to their markets.

Success in the snacking market
Page 15 >

FOCUS ON **CORE** PROFITABILITY DRIVERS

We will improve our margins through providing the capacity to underpin our revenue growth ambition as well as through continued focus on cost savings opportunities across the business.

Cost optimisation
Page 16 >

STRENGTHEN **COMPETENCIES**

By investing in our technology and science, and promoting external partnerships, we will strengthen our long-term competitiveness.

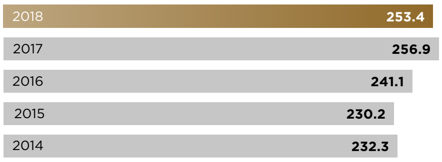
The Devro Academy
Page 19 >

WHO WE ARE AND WHAT WE DO
Page 2 >

Highlights of the year

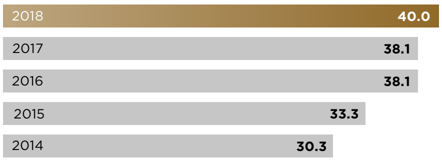
Revenue (£'m)

£253.4m



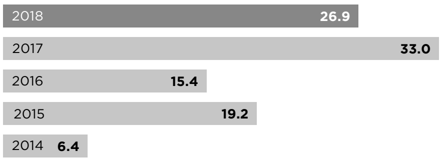
Underlying operating profit* before non-recurring items** (£'m)

£40.0m



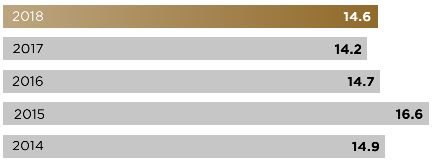
Operating profit (£'m)

£26.9m



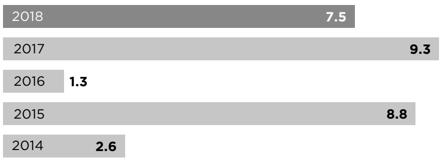
Underlying earnings per share* (pence)

14.6p



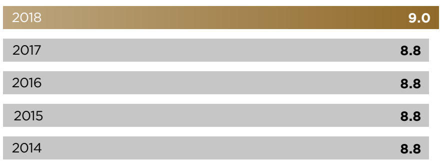
Earnings per share (pence)

7.5p



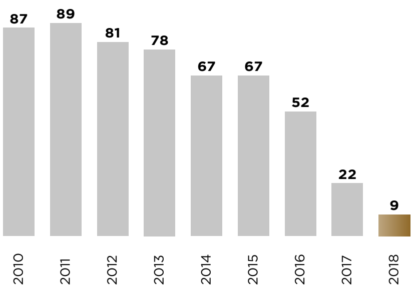
Dividends per share (pence)

9.0p



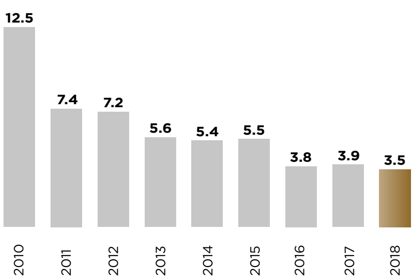
Tonnes waste

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



Total recordable injury rate

(LWDI and recordable) per million hours worked



Strategic Report

Directors' Report

Financial Statements

Shareholder Information

* Underlying measures are stated before exceptional items and net finance cost on pensions, and they are defined, explained and reconciled to the equivalent statutory measures in the Financial Review on pages 20 to 25. Underlying figures for 2017 and earlier years have been restated to exclude net finance cost on pensions, where applicable.

** Non-recurring items relate to Board change costs in 2018; see Alternative Performance Measures section of the Financial Review for definition and explanation.

Devro at a glance

Devro is one of the world's leading manufacturers of collagen products for the food industry, used by customers in the production of a wide variety of sausage and other meat products. We supply collagen casing, gel and film to over 1,000 customers in more than 100 countries.

The long-term underlying growth rate of the edible collagen casing global market is estimated at 2-4% p.a.

DEVRO PRODUCTS

EDIBLE CASING

An unrivalled range of edible collagen casings in numerous diameter and colour options.

NON-EDIBLE CASING

Large calibre peelable collagen casing for dried and heat-processed sausage.

FILM

Flat or tubular collagen film for fresh, frozen or processed roasts and hams.

GEL

Collagen gel for a broad range of co-extrusion applications from small diameter meat stick to large calibre ring sausage.

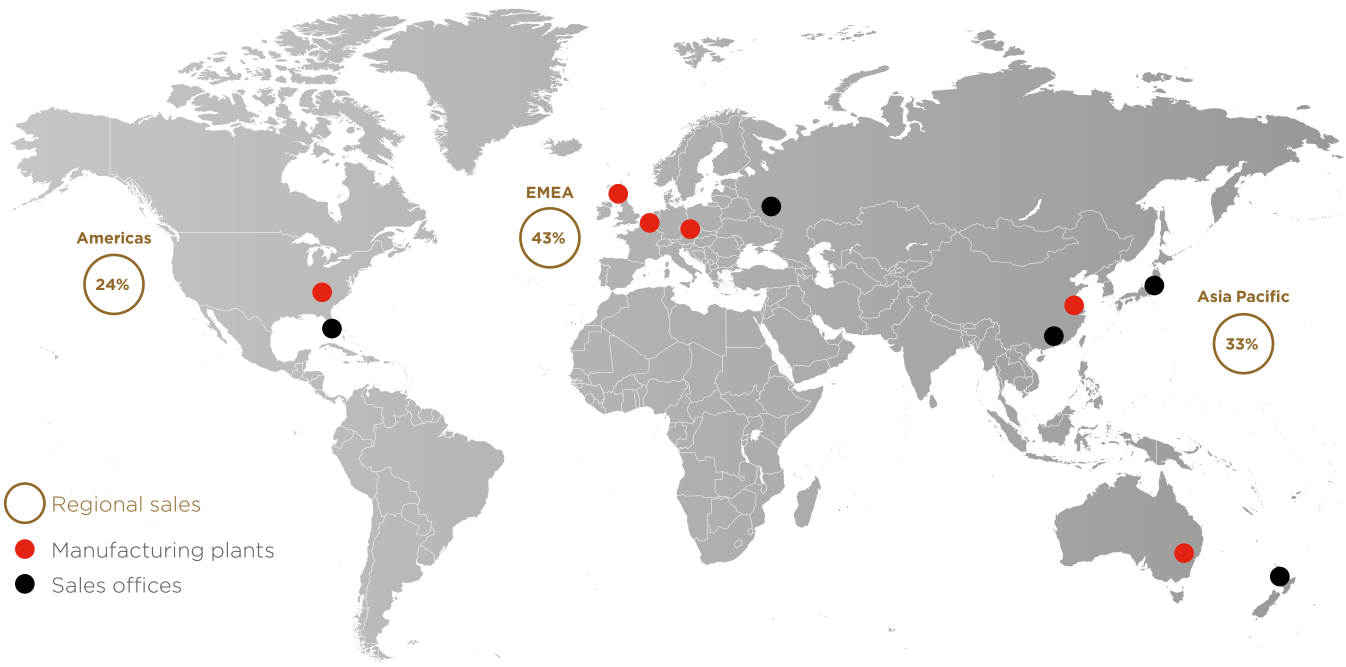
PLASTICS

Easy processing, with high mechanical strength for a wide range of applications.

THE DEVRO DIFFERENCE

> Over 85 years' experience in, and focus on, collagen casings
> Innovative quality products adapted to local customer needs
> Strong and longstanding customer relationships
> Expert technical support network – on-site and off-site
> Fully integrated global business

WHERE WE OPERATE



Devro investment case

MARKET-LEADING POSITIONS

- No.1 in many countries, gaining share elsewhere
- Provider of premium edible collagen casings
- Supporting customers with superior technical support

SIGNIFICANT LONG-TERM GROWTH POTENTIAL

- Underlying market growth estimated at 2-4% p.a. globally
- Increasing protein consumption, particularly in emerging markets
- Continued opportunity for gut conversion
- New product platforms, opening up new markets

GLOBAL CAPACITY

- Global commercial structure with products sold in over 100 countries
- Global manufacturing footprint with sites in the UK, the Netherlands, Czech Republic, the US, Australia and China
- Fully invested asset base with the latest technologies, capability for phased expansion
- Leadership in higher growth, complex to manufacture products
- c.3% of revenue invested into R&D in each year

HIGHLY CASH GENERATIVE

- Well-invested, high margin, tightly managed group
- Major capital expenditures completed
- Potential to grow capacity substantially with low level investments
- Material cost per unit reduction opportunity as volumes grow, given high level of operational gearing

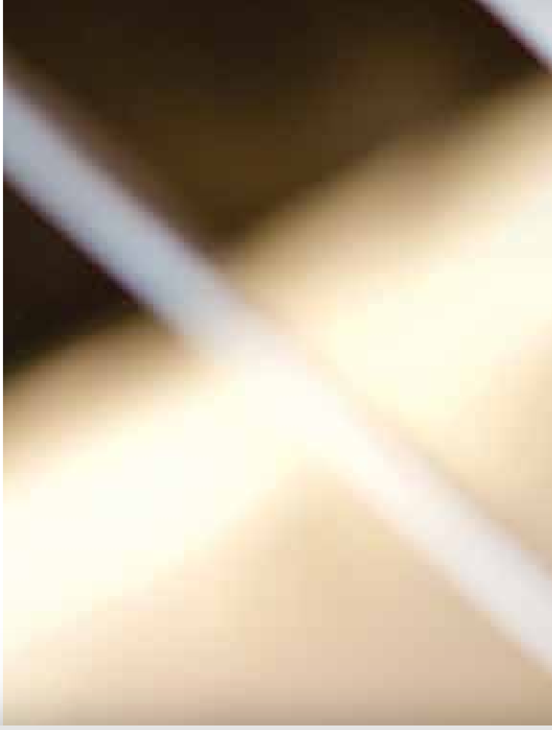
ATTRACTIVE DIVIDEND

- Dividend covered by cash generation
- Potential to grow

MANAGEMENT TEAM

- Dynamic and motivated team
- Refreshed: five out of seven Executive Management Team joined since 2016
- Experienced: majority of Executive Management Team have “Blue Chip” experience

Business model



Devro sells premium collagen products both directly to food manufacturers and, in some markets, through local distributors. We sell to over 1,000 customers in more than 100 countries.

OUR MARKET POSITION

Devro is one of a few significant producers of collagen casing with a global footprint/reach. Approximately one-third of Devro's sales are in emerging markets and two-thirds are in developed markets.

Devro has a No.1 market position in many countries.

OUR COMPETITIVE ADVANTAGE

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

We can also offer support to our customers to innovate.

KEY DIFFERENTIATORS

Customer intimacy
Having pioneered the conversion from gut to edible collagen casing, Devro has established intimate customer relationships both directly and through our global distributor network. We add unique value on the ground to strategic and key customers through our widespread local sales and technical applications support staff.

Our people
Devro employs over 2,100 people, with skills and knowledge ranging from chemical and electrical engineering to food technology, meat science and environmental health. Over 100 Devro employees work in customer-facing operations as sales and technical advisers.

Global reach
Devro has plants on four continents. This enables us to provide class-leading service to our global customer base.

Technology
Over the past 10 years we have made significant investments to upgrade our manufacturing facilities.

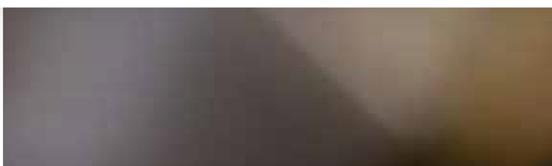
WHAT WE DO

EXTRACT

Extracting collagen
Collagen used for casing and gel is taken from the hides of carefully selected animals.

REINVEST

Reinvesting in our business
Devro invests in applied research and development and in a phased and disciplined capital programme, supporting the growth ambition.



INNOVATE

Applied technology
The production of collagen casing is a complex technological process. Devro combines 85 years of expertise and innovation to produce edible casings that allow our customers to offer a variety of sausages that are adapted to local consumer needs.

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

SELL

Sales, marketing and distribution
Devro products are sold in over 100 countries across all continents. 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 sausage products for the consumer. Our casing consistently scores highly for appearance, colour, bite and overall acceptance in independent research and consumer testing.

Chairman's Statement

Devro made significant progress on its strategic priorities in 2018 and, in tandem, improved its underlying profit margins.

Operational improvements were made across all our manufacturing sites.

Progress at our US plant was particularly good, with production yields now amongst the highest across the group. The focus into 2019 is on increasing production line speeds to further improve output from the plant.

Our key focus in 2018 for China was on improving the average selling price and, in this regard, we achieved double digit percentage growth in the year.

Following a period of commercial testing, the launch of the new Fine Ultra product platform for Continental Europe, Japan and South East Asia delivered modest sales volumes in the second half of 2018. We anticipate a marked increase in volumes in 2019 and this will be a key driver for growth going forward.

Devro's edible collagen revenue grew 2% on a constant currency basis with positive pricing/mix, particularly in China, and flat volumes. This reflected strong volume growth in North America, Latin America and South East Asia, offset by declines in Russia (due to weakening of the rouble against the euro) and in Japan (due to ongoing challenging market conditions).

The group's manufacturing performance continued to improve as we implemented best practice across all our sites. The Devro 100 programme achieved cost reductions ahead of plan of £4.5 million and this, combined with our discipline around operating costs, more than offset the ongoing inflationary pressures on the group.

Financial highlights

Underlying operating profit before non-recurring items was £40.0 million (2017: £38.1 million), due to the impact of positive price/mix on the average selling price, Devro 100 cost savings and tight cost management, partly offset by inflationary pressure on utilities costs and wages and adverse foreign exchange.

Operating profit was £26.9 million (2017: £33.0 million), impacted primarily by non-recurring items related to the 2018 Board changes of £0.8 million (2017: £nil) and higher exceptional items of £12.3 million (2017: £5.1 million) relating to the Devro 100 programme and restructuring as part of the alignment of the operating cost base to the new global model. From 2019 no further exceptional items will be recognised in relation to the Devro 100 programme (although approximately £6.0 million relating to 2018 will be paid out in cash in H1 2019). A more detailed explanation of the group's financial performance is set out in the Financial Review on pages 20 to 25.

In 2018 several factors caused a modest increase in net debt to £141.6 million (2017: £134.9 million). The main driver was lower underlying operating cash flow, but there were also increased pension deficit contributions and adverse movements in foreign exchange. Reducing the levels of net debt back to historic levels continues to be an area of strategic focus.

The group's net pension obligations reduced significantly from £82.0 million at 31 December 2017 to £54.4 million at 31 December 2018. This reduction primarily reflects gains on the UK scheme related to updated assumptions following completion of the triennial valuation, and also an increase in discount rates in the UK and US.

Board

At the end of February 2018, Rutger Helbing (previously the Group Finance Director) succeeded Peter Page as Chief Executive Officer of the group. Since his appointment, Rutger has accelerated the group's transition away from operating on a regional basis towards operating as a fully integrated global business. The final steps of this process were completed with the appointment of a single Global Commercial Director and restructuring of the group's operating cost base to better align with its global footprint. Rutger has also refocused the group's mid-term strategy on 3Cs – win with the winning Customers; focusing on the Core profitability drivers; and strengthening Competencies.

On 1 May 2018, the Board was further strengthened with the appointment of Jackie Callaway as Group Chief Financial Officer. Jackie was most recently Group Financial Controller of Brambles Limited, the ASX top 20 supply chain logistics company, where she led Brambles' global finance transformation programme. Jackie brings broad financial, business and international experience.

Employees
In 2018, as part of the implementation of the new global operating model, changes were made at all levels of the organisation, and in all locations, affecting many of our colleagues. Through this evolution we have seen increasing levels of engagement and involvement from our people in all areas of the business. All employees have contributed to the 2018 results and on behalf of the whole Board, I am most grateful for their commitment and professionalism.

Dividend
The Board is proposing an increased final dividend of 6.3p per share (2017: 6.1p) bringing the total for the year to 9.0p per share (2017: 8.8p). Subject to shareholder approval at the Annual General Meeting in April, the dividend will be paid on 10 May 2019, to those shareholders on the register at 29 March 2019.

Retirement
In November 2018, I announced my intention to retire as Chairman and Director at the conclusion of the Annual General Meeting on 25 April 2019. I joined the Board as a Director in July 2013 and became Chairman in May 2014. Having overseen the implementation of the recent capital investment programme, recruitment of a new senior management team and the establishment of a new global organisational structure, I believe it is the right time for a new Chair to oversee the next stage of Devro's development.

I would like to take this opportunity to thank everyone I have worked with over the last six years and wish the Board, management team and employees every success in the future.

Outlook
We continued to make significant progress on our strategic priorities in 2018, delivering manufacturing efficiency improvements, in particular at our US plant, driving average selling price improvements in China and establishing the building blocks for future growth supported by our new Fine Ultra product platform. We over-delivered on our Devro 100 cost savings programme and, in addition, we increased margins.

Looking ahead, we expect to grow revenue (weighted towards the second half) supported by an overall growing market and the continued rollout of the Fine Ultra product across a number of markets; to leverage our leading position in the fast growing protein sticks market; and to continue to convert customers from gut to collagen. We will also focus on delivering margin expansion and generating cash to reduce net debt.

Despite ongoing pressures from input cost inflation, principally salary and utility costs and exchange rate volatility, at this early stage of the year the Board believes that Devro is well placed to make good progress in 2019.

Gerard Hoetmer
Chairman

Business Review

My first year as CEO has been insightful and has only served to increase my appreciation of the opportunity ahead.

In addition to the strategic priorities as set out at the start of the year it has been my priority to provide clear focus on delivery of profitable growth and to create a culture and mind-set of a global business.

The business has many positive attributes, but after the major transformation programme, needed a more focused approach. Detailed plans, built around the 3Cs strategy, on how to grow the business sustainably in a cost effective way have been developed and the implementation started. We will provide more details on these plans and progress at our Capital Markets Event on the 19 March 2019.

Also during the year I have personally visited all of our sites to communicate our key messages directly with the workforce. The response to this has been positive and we will continue to engage with the workforce through regular communications, town halls and an annual engagement survey, which we kicked off in 2018.

In order to deliver our plans successfully, a strengthening and streamlining of the senior management team was required, which includes the appointment of Jackie Callaway as the new CFO and a new Global Commercial Director, Peter Whitmore, who joined in November from Amcor. The executive leadership team now consists of 7 members, and 5 of those have joined from 2016 onwards and they bring a range of relevant 'blue chip' experience to the team.

Overall I am pleased about the progress we have made in putting in place the building blocks for success, but as ever, more remains to be done to make sure Devro is to achieve what it is capable of. The new executive team under my leadership is excited and fully committed to continue to work on that in 2019 and beyond.

Strategic priorities

In 2018 we focused on significantly improving the efficiency of our US plant. This was achieved, with production yields at Sandy Run now amongst the highest in the group. This supported our growth ambitions in the North American markets, where we grew volumes by 8% in the year.

Our Fine Ultra product platform was further rolled out in our target markets of Japan, South East Asia and in selected European markets in the second half of the year. Although sales volumes were modest, in the year we tested and qualified our products with selected customers and we believe this platform will be a key driver for growth in 2019 and beyond.

Our Devro 100 savings programme delivered £4.5 million of savings in 2018 and £11.5 million over the two years since we started. We are now on track to deliver £16 million versus our original estimate of £13-16 million over the three year period to 2019.

In 2018 we also further defined our roadmap towards our mid-term ambition and longer-term vision. This is now based on our 3Cs strategy:

> win with the winning Customers – to drive profitable revenue growth;
> focus on Core profitability – to drive margin improvements; and
> strengthen Competencies – to underpin long terms competitiveness.

We made good progress with the 3Cs strategy by defining and applying a new customer and market segmentation; by developing plans to increase capacity to support the mid-term growth ambition cost effectively within the current infrastructure; and by defining and implementing a new global operating model to deliver cost savings and fund growth investments.

Finally, in 2018, we implemented the last step towards creating a global organisation with the appointment of a new Global Commercial Director to span all sales areas. This finalises the plan started in 2016 to move from a regional to a global organisation and will be instrumental in delivering our 3Cs strategy and realising our ambition and vision.

OUR 3Cs STRATEGY

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Read more on page 15 >

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Read more on page 16 >

STRENGHTEN **COMPETENCIES**

By investing in our technology and science, and promoting external partnerships, we will strengthen our long-term competitiveness.

Read more on page 19 >

Business performance

Devro's total sales volumes of edible collagen casings, which represent over 85% of the group's sales, were broadly flat for the year, with strong growth in North America, Latin America and South East Asia offset by market challenges in Russia and Japan.

Sales volumes in North America increased 8%, with a continued strong snacking market. Sales volumes in Latin America grew 9%, mainly due to strong sales into Brazil, including significant growth in sales of products from our China plant.

Overall sales volumes in Continental Europe grew 4%. We saw a slowdown, as anticipated, in the second half due to stronger comparatives. Full year growth was particularly strong in Germany (11%). Sales volumes into the Middle East and Africa recovered in the second half after the impact of a listeria outbreak in South Africa during the first half and volumes in the year grew 4%.

In South East Asia we continued to see growth. After an increase of 29% in 2017, we saw volumes in 2018 grow 6%, with a strong performance in the second half which was supported by initial sales of our new Fine Ultra products. China reported volumes for the year were down 8%, but adjusting for the impact of the discontinued imported product, underlying volumes were 5% ahead of the prior year. Aligned with our strategy, the average selling price was up 16%, benefiting from an improved customer mix.

Sales volumes in the mature markets in UK and Australia were broadly flat in the year, with a modest decline in UK, offset by modest growth in Australia.

In Russia and surrounding countries sales volumes have historically been volatile and impacted by movements in the Russian rouble. In 2018 we saw a weakening of the rouble versus the euro and, as anticipated, we saw the impact of that in the second half of the year. Overall volumes in the year were down 12%. In Japan sales of collagen cased sausages declined in the year due to higher promotional activity of sausages in sheep gut, with increased export volumes from China. After many years of continued growth in Japan we saw volumes decline 7% in the year.

Despite overall flat sales volumes, underlying operating profit before non-recurring items grew 5%, due to the impact of positive mix on the average selling price, Devro 100 costs savings and tight cost management, partly offset by inflationary pressure on utilities costs and wages, and adverse foreign exchange.

Safety

Safety is a core value and there was a year-on-year improvement in our performance. In 2018 we have implemented global safety standards as we strive for consistency and best practice across each site. We have introduced the 'hearts and minds' behavioural programme with the objective that we all 'Think Safe, Work Safe and Go Home Safe' each and every day.

Rutger Helbing
Chief Executive Officer

Understanding our markets

A GLOBAL COMPANY DELIVERING SERVICE LOCALLY

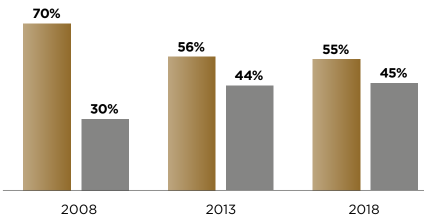
For over 85 years Devro has evolved into a market-leading supplier of edible collagen casing, expanding and tailoring our manufacturing footprint to match the changing market needs.

The drive for consumer value behind collagen growth

As food retailers operate in increasingly competitive environments, the drive to deliver value for consumers has never been greater. This has led sausage producers to seek out the production efficiencies that can be generated through converting from gut to edible collagen casings.

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

Increased share of sausage production using edible collagen casings

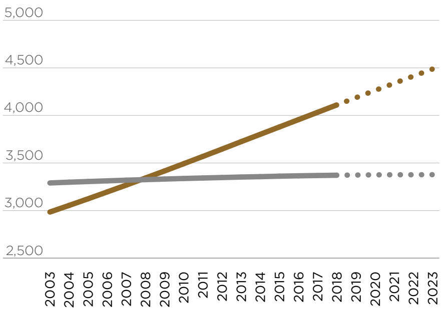


Gut
Edible collagen

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

Population growth

Growing global urban population (millions)



Urban
Rural

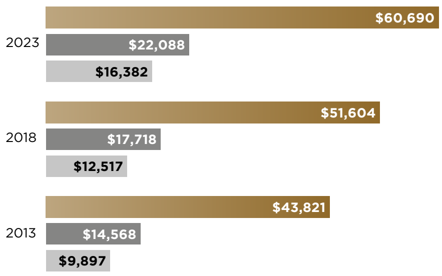
(Source: Food and Agriculture Organization of the United Nations (FAO) 2017)

The increase in the global population continues to underpin the rate of sausage consumption, particularly when combined with the rapid increase in urbanisation.

The global population living in an urban environment overtook those living in a rural environment in 2007, and this has continued to rise steeply.

GDP

Increasing GDP (US$'000 per capita)



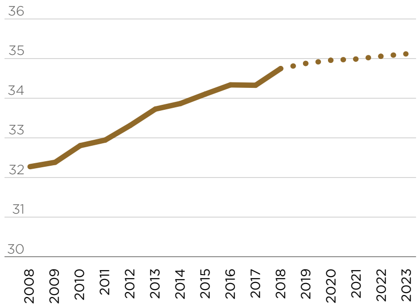
Advanced economy markets
World
Developing and emerging markets

(Source: International Monetary Fund (IMF) – World Economic Outlook Database October 2018)

Linked with the trend towards urbanisation, is a rise in income per capita, which in turn makes meat products relatively more affordable to a wider population. While income growth has been strong in advanced economy markets over the past five years, GDP per capita has risen 26% in developing and emerging markets.

Meat consumption

Growing global meat consumption (kg per capita per year)



(Source: OECD-FAO Agricultural Outlook 2018-2027)

Increased GDP combined with increased availability of meat products has given rise to increased average meat consumption across both developed and emerging markets.

Regional viewpoint

With manufacturing facilities in the UK, the Netherlands, Czech Republic, the US, Australia and China, Devro has a truly global footprint.

Our globality allows us to transfer learnings fast, and leverage market and product development knowledge. Meanwhile our regional market presence, and the resulting customer intimacy, allows us to identify local opportunities and challenges. We bring our global and local approaches together to rapidly provide tailored solutions to our customers.

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

Americas

The Americas remains a strong market for edible collagen casing with approximately 38% of the market in collagen. In North America, the meat snacks market is particularly strong. Major brands are growing and new brands are being introduced, particularly in the premium sector of the market. There is also rapid growth in a number of Latin American countries, driven by increasing meat consumption and improving economic conditions.

Europe, Middle East & Africa (EMEA)

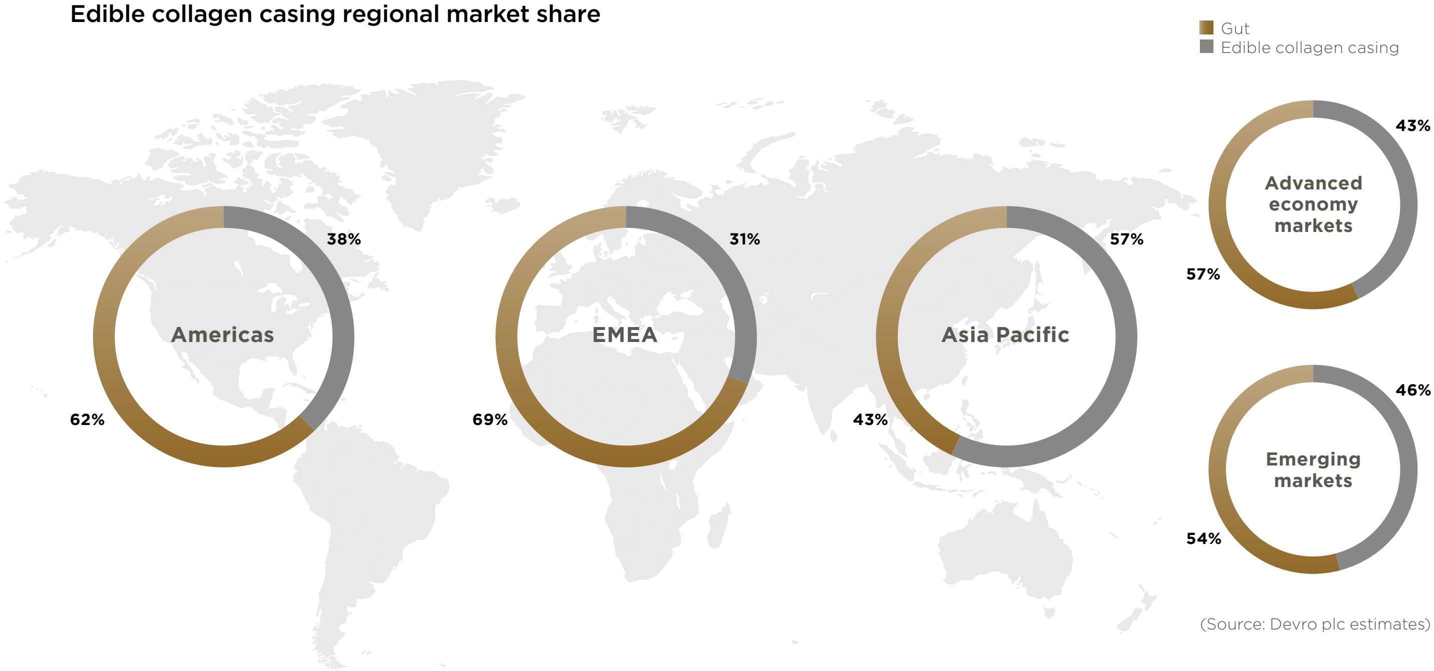
EMEA is a well-established and significant market for edible collagen casing, with approximately 31% of the market currently in collagen. Many markets within Europe, still use traditional processing methodology including using gut. However, as improving yields and efficiencies, as well as offering a greater consumer experience becomes increasingly important for sausage manufacturers, there is an opportunity to convert gut to collagen to deliver production efficiencies. As Devro's new generation of edible collagen products, which deliver even faster filling speeds and a more tender bite, rolls out, we are confident more and more producers will be attracted by the cost savings opportunities by converting to collagen.

Here, too, there are growing opportunities in the meat snacks market.

Asia Pacific

In Asia Pacific, edible collagen accounts for approximately 57% of the market. The sausage consumption in South East Asia and China continues to increase mainly driven by GDP/capita growth and ubanisation, whilst snacking and confectionery are also growth opportunities. The new Fine Ultra platform, with its deep fat frying properties, is highly relevant for most Asian markets. The underlying market in Australia is more mature, but Japan continues to provide gut-conversion opportunities.

Edible collagen casing regional market share



(Source: Devro plc estimates)

Three drivers of growth

UNDERLYING MARKET GROWTH

01

GDP/Capita
Urbanisation
Food trends

INCREASING SAUSAGE CONSUMPTION

COLLAGEN MARKET GROWTH

02

Cost savings
Consistency
Labour shortage

GUT TO COLLAGEN CONVERSION

DEVRO GROWTH

03

Customer intimacy
Product performance
Cost savings

MARKET SHARE GAINS

Our strategy in action

Case study

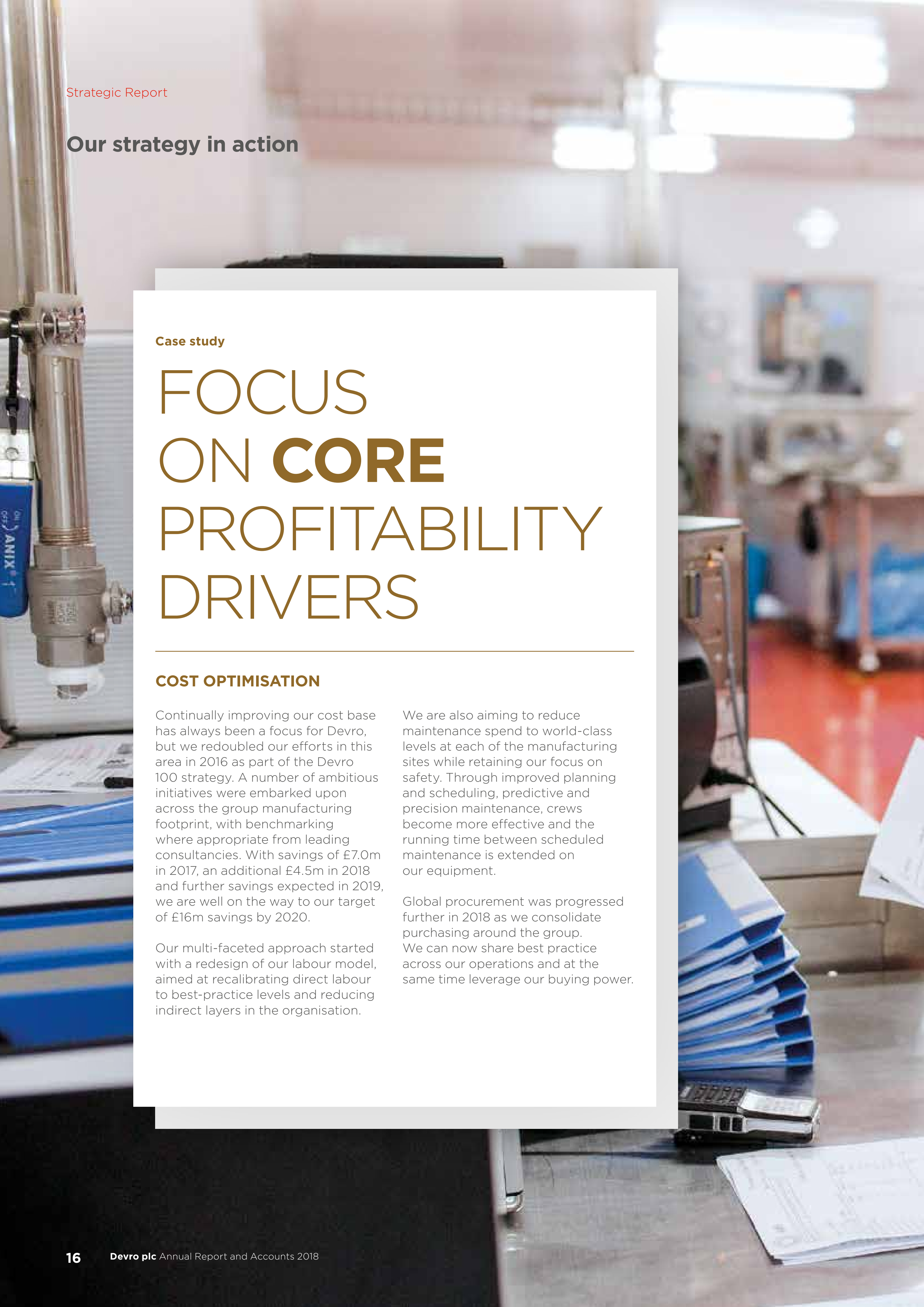
WIN WITH THE WINNING **CUSTOMERS**

SUCCESS IN THE SNACKING MARKET

No segment in the sausage market is growing faster than savoury snacking. With its small-calibre sticks, Devro has a leading supply position in meat sticks markets around the world.

Snacking is a key growth driver for the food industry. Research shows that consumers are eating between meal times more than ever. Savoury snacks have grown a CAGR of 19% per annum for the last five years, with success in both developed and emerging markets.

Devro pioneered the small-calibre casings needed for this application, and has built a leading global position from this base. Through the Devro Difference, we are providing a high quality and reliable product, combined with expertise to support the product development and commissioning of new products. Devro is therefore in prime position to take advantage of this global trend.



Our strategy in action

Case study

FOCUS ON **CORE** PROFITABILITY DRIVERS

COST OPTIMISATION

Continually improving our cost base has always been a focus for Devro, but we redoubled our efforts in this area in 2016 as part of the Devro 100 strategy. A number of ambitious initiatives were embarked upon across the group manufacturing footprint, with benchmarking where appropriate from leading consultancies. With savings of £7.0m in 2017, an additional £4.5m in 2018 and further savings expected in 2019, we are well on the way to our target of £16m savings by 2020.

Our multi-faceted approach started with a redesign of our labour model, aimed at recalibrating direct labour to best-practice levels and reducing indirect layers in the organisation.

We are also aiming to reduce maintenance spend to world-class levels at each of the manufacturing sites while retaining our focus on safety. Through improved planning and scheduling, predictive and precision maintenance, crews become more effective and the running time between scheduled maintenance is extended on our equipment.

Global procurement was progressed further in 2018 as we consolidate purchasing around the group. We can now share best practice across our operations and at the same time leverage our buying power.


DEVRO

Our strategy in action

Case study

STRENGHTEN **COMPETENCIES**

THE DEVRO ACADEMY

The purpose of the Devro Academy is to present relevant learning and development content in support of the needs of individuals, teams and the business, aligned to best practice across our global organisation via an online platform supplemented with tutor-led development.

Examples are a suite of sales e-learning modules and distributor management modules to support our commercial teams to 'win with the winning customers'.

Most recently, project management modules were added to promote the understanding and application of Devro's best practice project management approach.

Devro is fully committed to developing its workforce effectively to drive engagement and competence for future business success for all. The Devro Academy is just one strand of this initiative.

In addition to the Devro Academy, we have started global initiatives right across the Devro technical community on:

> Best practice sharing teams
> Talent management programmes
> Problem solving methodologies

Financial Review

Jackie Callaway joined Devro as Chief Financial Officer on 1 May 2018 and delivers her first Financial Review to shareholders.

The 2018 financial results delivered solid underlying operating profit growth and underlying operating profit margin improvement despite overall flat sales volumes. Underlying operating profit before non-recurring items grew 5% and underlying operating profit margin before non-recurring items increased to 15.8% from 14.8% in 2017, as the result of positive price/mix on the average selling price, Devro 100 costs savings and disciplined cost management, partly offset by inflationary pressure on utilities costs and wages and adverse foreign exchange.

Exceptional items for the year were £12.3 million (2017: £5.1 million) and include costs relating to the Devro 100 programme, which delivered further savings of £4.5 million in 2018, and restructuring costs as part of the alignment of the operating cost base to the new global model. The implementation of the new global operating model will result in a net reduction in operating costs after reinvestment of resources to match our growth ambition. From 2019 no further exceptional items will be recognised in relation to the Devro 100 programme (although approximately £6.0 million relating to 2018 will be paid out in cash in H1 2019).

Operating profit was £26.9 million (2017: £33.0 million), with the reduction driven by the higher exceptional items, together with non-recurring items of £0.8 million (2017: £nil) related to the 2018 Board changes.

During 2018 the net debt/underlying EBITDA ratio remained relatively flat and was 2.2 times at 31 December 2018, compared with 2.1 times at 31 December 2017. The main driver was a modest increase in net debt to £141.6 million (2017: £134.9 million) as the result of lower underlying operating cash flow, but there were also increased pension deficit contributions and adverse movements in foreign exchange on the retranslation of US dollar denominated debt.

With the focus in 2019 on volume growth and margin expansion delivering strong and improving underlying cash generation from the business, we expect the net debt/underlying EBITDA ratio to reduce during 2019.

Revenue

	2018 £'m	2017 £'m	Change	Change at constant currency
Revenue	253.4	256.9	-1.4%	+0.2%

Reported revenue for the year was lower than 2017, primarily due to foreign exchange headwinds. Excluding the effects of exchange rate movements, revenue of edible collagen casings grew by 1.5%, partially offset by reduced revenue from other products. Year-on-year revenue growth for edible collagen casings can be analysed as follows:

	2018 vs 2017	2017 vs 2016
Volume	+0.3%	+8.3%
Price/mix	+1.2%	+5.1%
Foreign exchange	-1.6%	+4.2%
Total	-0.1%	+7.4%

Sales volumes benefited from strong volume growth in North America (+8%) and South East Asia (+6%), underpinned by robust local market growth. Volume in Latin America also grew strongly (+9%) with increased imports from our Nantong plant and the acquisition of new customers in the Brazilian market. Continental Europe volume growth remained solid (+4%), through a combination of successful gut conversion, new customers and market growth. By comparison, sales volumes declined in Russia (-12%), which was impacted by market challenges, including a weak rouble. Asian volumes were impacted by market challenges in Japan (-7%), where lower sheep gut pricing resulted in some customers promoting products in sheep gut as opposed to those in edible collagen casings. In China, volumes declined (-8%), due to one-off events in 2017 with the removal of legacy imported products from this market. However adjusting for the impact of the discontinued imported product, sales volumes in China increased (+5%).

Approximately half of the favourable price/mix impact was due to improved average pricing within sales areas, in particular

in China where the improved customer mix, through focusing on customers who value our differentiated products, resulted in a 16% increase in the average selling price. The remaining favourable price/mix related to sales area mix.

The lower revenue from other products primarily related to coex gel where in North America one of our customers moved to dual sourcing, and in Europe we took the decision to exit a low margin customer. Overall there was a reduction in the utilisation of coex gel facilities in 2018 as manufacturers responded to market developments.

Operating profit

Operating profit for the year can be analysed as follows:

	2018 £'m	2017 £'m	Change
Underlying EBITDA before non-recurring items	65.6	64.1	+2.3%
Underlying depreciation & amortisation	(25.6)	(26.0)	-1.5%
Underlying operating profit before non-recurring items	**40.0**	**38.1**	**+5.0%**
Non-recurring items	(0.8)	–	
Underlying operating profit after non-recurring items	**39.2**	**38.1**	**+2.9%**
Exceptional items	(12.3)	(5.1)	
Operating profit	**26.9**	**33.0**	**-18.5%**

Underlying operating profit before non-recurring items increased 5% compared with 2017, with the headwinds from energy and salary inflation and exchange rate movements being more than offset by the benefits of improvements in price/mix and significant cost savings (Devro 100 and disciplined cost control in operating expenses). An analysis of the overall movement in set out below:

	£'m
Underlying operating profit 2017	38.1
Price/mix	+2.7
Volumes	+0.5
Contribution from other products	-1.0
Energy and salary inflation	-4.5
Devro 100 cost savings	+4.5
Operating expense savings	+0.9
Foreign exchange	-1.2
Underlying operating profit 2018 (before non-recurring items)	**40.0**
Non-recurring items	-0.8
Underlying operating profit 2018 (after non-recurring items)	**39.2**

The improved price/mix is explained above. Volumes included increased production volumes, in particular at our US plant where efficiencies have improved significantly, which resulted in a higher recovery of conversion costs.

As expected, energy and salary cost inflation was significantly higher in 2018 compared with prior year, as a result of economic factors. However this was largely offset by the cost savings delivered from the Devro 100 programme of £4.5 million, which were ahead of plan. These savings related to areas such as sourcing of raw materials, further optimisation of operational structures at the plants and investments to improve energy efficiency.

Devro has operations around the world in multiple currencies. Movements in exchange rates had an adverse impact on underlying operating profit of £1.2 million. This largely reflected the strengthening of sterling against most key currencies in H2 2017 (in particular the US dollar and Japanese yen), partially offset by the weakening of sterling against the euro and Czech koruna.

Financial review continued

Underlying operating profit also included non-recurring costs of £0.8 million associated with the Board changes in 2018, with the parallel costs associated with the Chief Executive Officer transition and recruitment of a new Chief Financial Officer.

Depreciation and amortisation for the period were largely unchanged, now that depreciation from the new plants started up in 2016 are fully included in the comparatives for 2017.

Reported operating profit for the period was £26.9 million, which was lower than 2017 with the increased underlying operating profit being more than offset by the higher exceptional items.

Exceptional items

	2018 £'m	2017 £'m
Devro 100 programme	6.5	5.1
New global operating model	4.9	–
GMP equalisation	0.9	–
Total exceptional items	12.3	5.1

The costs associated with the Devro 100 programme delivered further savings of £4.5 million in 2018. Implementation of the new global operating model, developed in H2 2018, will result in a net reduction in operating costs after reinvestment of resources to match our growth ambition. Together these business transformation costs were within the range previously guided. The Devro 100 programme is expected to deliver further savings of £4 million – £5 million in 2019.

On 26 October 2018 the High Court ruled that UK pension schemes must equalise their guaranteed minimum pensions (GMP), which has given rise to an additional pension obligation estimated at £0.9 million for Devro. Given the one-off nature of this additional obligation, the associated charge has been reported as an exceptional item.

Further details of exceptional items are set out in Note 4 to the financial statements.

Operating margin

	2018	2017
Underlying operating margin before non-recurring items	15.8%	14.8%
Operating margin	10.6%	12.8%

The underlying operating margin before non-recurring items for the year improved 100bps, reflecting the improved price/mix, progress made during the year on improving productivity, especially at our US plant, and also the cost savings from the Devro 100 programme and disciplined cost control in operating expenses that more than offset the high levels of salary and energy inflation.

The operating margin reduced due to the higher exceptional items, together with the non-recurring items related to the Board changes in 2018.

Capital investment

	2018 £'m	2017 £'m
Capital investment	11.2	10.4

Capital investment in 2018 included £1.7 million related to the Devro 100 programme, which delivered £4.5 million savings in 2018. Excluding the Devro 100 capital expenditure, maintenance capital expenditure was £9.5 million, which was below 2017.

Working capital

	2018		2017	
	£'m	Number of days	£'m	Number of days
Inventories*	38	63	32	50
Trade and other receivables	36	45	31	38
Trade and other payables	(29)	30	(31)	35
Provisions	(5)	–	–	–
	40		**32**	

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

Working capital increased by £8 million during the year, primarily related to higher inventories and receivables. The movements in inventories reflected the improved productivity achieved during 2018, enabling the group to rebuild inventory levels to optimum levels, compared with the slightly depleted levels at the end of 2017 following the strong sales volume growth in that year. Inventories also increased due to pre-building some European inventory as part of Brexit contingency planning. The higher receivables largely reflect changes in customer mix and some extension of payments terms.

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 expansion and upgrade of the manufacturing footprint, new long-term facilities were put in place in 2014 to supplement the shorter-term bank facilities.

Reducing the levels of net debt back below two times net debt/underlying EBITDA continues to be a key focus. In 2018 several factors caused a modest increase in net debt to £141.6 million, compared with the significant reduction in 2017. The main driver was increased working capital, but in addition there were higher pension deficit contributions and adverse movements in foreign exchange.

Key financial measures are as follows:

	2018	2017
Net debt	£141.6m	£134.9m
Covenant net debt/underlying EBITDA ratio	2.2 times	2.1 times
Underlying operating cash flow	£57.5m	£66.9m
Operating cash flow	£46.1m	£58.2m
Return on capital employed (ROCE)	11.7%	11.1%

Underlying operating cash flow (before pension deficit funding) was £57.5 million for 2018 (2017: £66.9 million). The year-on-year reduction was due to increased working capital and the payment of a bonus for 2017, partially offset by improved underlying EBITDA. The higher working capital was primarily the result of building inventory levels back to optimal operational levels, enabled by the improved productivity in 2018 in particular at our US plant, and pre-building some European inventory as part of Brexit contingency planning, together with increased receivables following changes in customer mix and some extension of payments terms.

The covenant net debt/underlying EBITDA ratio was 2.2 times at 31 December 2018, compared with 2.1 times at 31 December 2017. It should be noted that movements in net debt during 2018 included adverse foreign exchange movements of £3.2 million, compared with a benefit of £7.4 million during 2017, related to the retranslation of US dollar denominated debt. Excluding the adverse movement in 2018, the covenant net debt/underlying EBITDA ratio would be 2.1 times at 31 December 2018.

The underlying EBITDA/net interest payable ratio was 8.5 times at 31 December 2018 (2017: 7.7 times), meaning that both ratios were well within the covenant.

Cash outflow from exceptional items was £6.5 million (2017: £5.7 million) and pension deficit funding increased to £4.9 million (2017: £3.0 million), contributing to the reduced operating cash flow of £46.1 million (2017: £58.2 million). The increase in pension deficit funding related to higher contributions to the US scheme.

Capital expenditure of £12.2 million was slightly higher in 2018 compared with prior year, due to investments related to delivering the Devro 100 savings.

In June 2018 the company completed a refinancing of its revolving credit facility, which extended the maturity of this facility from 2019 to 2023.

The improvement in ROCE reflects the increased underlying operating profit in 2018.

Finance costs

	2018 £'m	2017 £'m
Net finance cost	7.1	8.6
Net finance cost on pensions	2.3	2.8
Total net finance cost	**9.4**	**11.4**

The net finance cost for the year was lower than 2017 primarily due to the restructuring of borrowings drawn down in Chinese renminbi to support our investment in China, partially offset by higher UK interest rates and fees associated with refinancing of the revolving credit facility.

The decrease in net finance cost on pensions over 2017 reflects the lower discount rates assumed at the start of 2018 compared with the year before.

Pension schemes

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

	2018 £'m	2017 £'m
Fair value of scheme assets	232.8	247.6
Present value of scheme liabilities	(287.2)	(329.6)
Net pension obligations	**(54.4)**	**(82.0)**

The group's net pension obligations reduced significantly from £82.0 million at 31 December 2017 to £54.4 million at 31 December 2018. This reduction primarily reflects gains on the UK scheme related to updated assumptions following completion of the triennial valuation, and also an increase in discount rates in the UK and US.

Devro plays an active role in managing its pension schemes and related liabilities, ensuring that the assets are appropriately invested and that additional contributions are made where necessary to ensure all obligations are met as they fall due. In 2018 the company made pension deficit funding contributions of £4.9 million (2017: £3.0 million).

Further analysis of the movement in net pension liabilities is set out in note 6 to the attached financial statements.

Tax

	2018 £'m	2017 £'m
Tax charge on underlying profit before tax	7.7	5.8
Tax charge/(credit) on exceptional items & exceptional tax charge	(2.7)	0.2
Tax charge in income statement	**5.0**	**6.0**

The group operates around the world and earns profits which are subject to tax at differing rates in different tax jurisdictions.

The underlying tax charge for the year was higher than 2017 primarily due to the benefit in 2017 from the recognition of deferred tax assets on previously unrecognised losses. To the extent that movements in deferred tax assets relate to losses previously charged to exceptional items, the associated tax charge or credit is also reported as an exceptional item.

Earnings per share

	2018	2017 Restated
Underlying basic earnings per share	14.6p	14.2p
Basic earnings per share	7.5p	9.3p

Financial review continued

We have presented an adjusted earnings per share (EPS) measure, which excludes exceptional items and net finance cost on pensions, to provide a better indication of the underlying performance of the group (see the Alternative Performance Measures section below for definitions, explanation and reconciliation to the equivalent statutory measures). The underlying measure was revised in 2018 to also exclude net finance cost on pensions, and the 2017 comparative information has been restated accordingly.

Underlying basic EPS increased by 0.4p, as a result of the improved underlying operating profit (+0.6p), and lower finance charges (+0.9p), partially offset by the higher underlying effective tax rate (-1.1p).

The reduction in basic EPS reflects higher exceptional costs in 2018, more than offsetting the factors resulting in higher underlying basic EPS.

Dividend

	2018	2017
Interim per share	2.7p	2.7p
Final per share	6.3p	6.1p
Total	**9.0p**	**8.8p**

In line with the increase in underlying basic EPS, the Board is recommending an increased dividend in 2018 from 8.8p to 9.0p.

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 exchange rates', 'underlying', 'earnings before interest, tax, depreciation and amortisation (EBITDA)', 'net debt', 'covenant net debt' and 'return on capital employed (ROCE)'.

Constant exchange rates

The group has operations across the world in multiple currencies, and is exposed to 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 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 presenting both the current and prior year local currency amounts using the prior period average exchange rates.

Underlying

Underlying figures are stated before exceptional items and net finance cost on pensions. 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, the full benefits of which are expected by 2020. In addition, a further restructuring was initiated in 2018 to implement the new global operating model to align the operating cost base with the global structure. In 2018 an additional pension obligation arose in relation to equalising pay for guaranteed minimum pensions (GMP), following the High Court ruling in October 2018 which impacted pension schemes in the UK. The incremental costs associated with the transformation and GMP are significant and non-recurring, and as a result have been classified as exceptional items.

The exclusion of net finance cost on pensions for the first time in 2018 followed a review which concluded that these costs are volatile, given that they are dependent upon the pension position at 31 December each year which is subject to market fluctuations. Prior to 2018, underlying figures had included net finance cost on pensions and therefore underlying figures for 2017 have been restated where applicable.

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

	2018			
	Underlying	**Exceptional items**	**Net finance cost on pensions**	**Reported**
Operating profit (£'m)	39.2	(12.3)		26.9
Operating margin (%)	15.5%	(4.9%)		10.6%
Profit before tax (£'m)	32.1	(12.3)	(2.3)	17.5
Basic earnings per share (p)	14.6p	(5.8p)	(1.3)	7.5p

	2017			
	Underlying	Exceptional items	Net finance cost on pensions	Reported
Operating profit (£'m)	38.1	(5.1)		33.0
Operating margin (%)	14.8%	(2.0%)		12.8%
Profit before tax (£'m)	29.5	(5.1)	(2.8)	21.6
Basic earnings per share (p)	14.2p	(3.2p)	(1.7)	9.3p

Non-recurring items

Non-recurring items relate to the incremental costs incurred in 2018 associated with the Board changes, following the retirement of the previous Chief Executive (after 10 years in the role), the succession of the previous Group Finance Director to the Chief Executive Officer role and recruitment of a new Chief Financial Officer. These costs totalled £0.8 million in 2018 (2017: £nil) and have been disclosed separately due to their size and nature in relation to the group's operating cost base. These costs are relevant as Board changes of this scale have not occurred in recent years and, due to their size, inclusion of these costs distorts year on year comparisons. Equivalent costs are not expected to occur in 2019.

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:

	2018			2017		
	Underlying	**Exceptional items**	**Reported**	Underlying	Exceptional items	Reported
Operating profit (£'m)	39.2	(12.3)	26.9	38.1	(5.1)	33.0
Depreciation & amortisation (£'m)	25.6	–	25.6	26.0	–	26.0
EBITDA (£'m)	64.8	(12.3)	52.5	64.1	(5.1)	59.0
EBITDA margin (%)	25.6%		20.7%	25.0%		23.0%

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:

	2018 £'m	2017 £'m
Current borrowings	(4.7)	(1.5)
Non-current borrowings	(146.8)	(144.2)
Total borrowings	(151.5)	(145.7)
Cash and cash equivalents	9.9	10.8
Net debt	(141.6)	(134.9)

From June 2018, net debt (as defined above) was used to calculate one of the group's banking covenant ratios under the terms of the new revolving credit facility. Prior to June 2018, the definition of net debt used to calculate this covenant ratio also included derivative financial liabilities, as shown below:

	2017 £'m
Net debt	(134.9)
Derivative financial liabilities	(0.4)
Covenant net debt	(135.3)

Return on capital employed

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

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

A reconciliation from reported figures is presented below:

	2018 £'m	2017 £'m	2016 £'m
Intangible assets	10.5	10.4	10.4
Property, plant and equipment	278.8	291.1	308.6
Inventories	38.2	32.3	33.8
Trade and other receivables	41.4	35.1	35.2
Trade and other payables	(32.3)	(34.5)	(37.8)
Total capital employed	336.6	334.4	350.2
Average capital employed*	335.5	342.3	331.4
Underlying operating profit	39.2	38.1	38.1
Return on capital employed	**11.7%**	**11.1%**	**11.5%**

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

Going concern

At 31 December 2018 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 at least 12 months from the date of approval of this statement and that they can be repaid in line with the expected terms.

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

Jackie Callaway
Chief Financial Officer

Key Performance Indicators

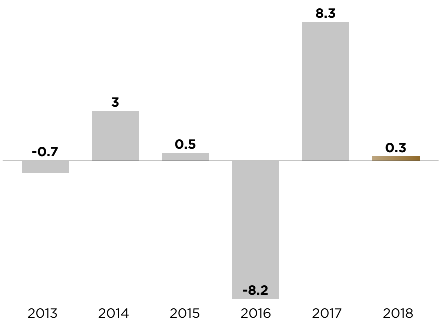
MEASURING OUR PERFORMANCE

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

Sales volume growth*

Volume growth of edible collagen casings (%)

1 3

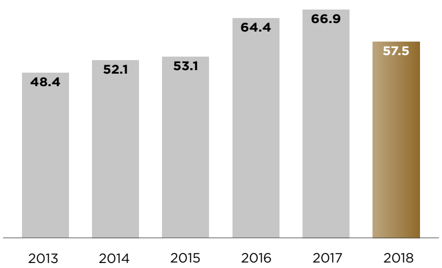


A key element underpinning the group's strategy is to deliver growth in sales revenue. There are several components to revenue growth, including changes in sales volumes and in price/mix. As a result, the group monitors sales volume growth separately, and changes in price/mix are monitored through revenue 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)

1 2 3

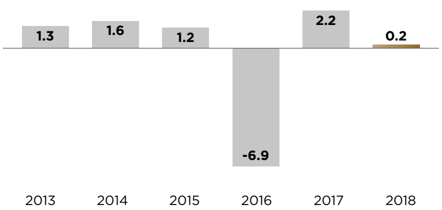


Underlying operating cash flow before non-recurring items is the amount of cash generated by the group through its trading activities and manufacturing operations before exceptional items and non-recurring items, investment in capital expenditure and pension deficit funding. This measure is used to evaluate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

Constant currency revenue growth***

Value growth at constant currency (%)

1 3

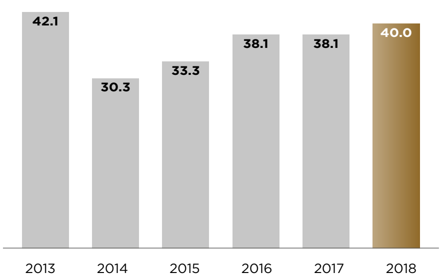


The group has operations across the world in multiple currencies, and is exposed to translation risk on fluctuations in foreign exchange rates. As a result the group's reported revenue will be impacted by movements in actual exchange rates. The group monitors revenue growth on a constant currency basis**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

Underlying operating profit* (before non-recurring items**)

Operating profit before exceptional items and non-recurring items (£'m)

1 2 3



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

Underlying operating profit before non-recurring items excludes exceptional items and the definition, explanation and reconciliation to equivalent statutory measures is included in the Financial Review on pages 20 to 25.

Link to Strategy:

1 WIN WITH THE WINNING **CUSTOMERS**

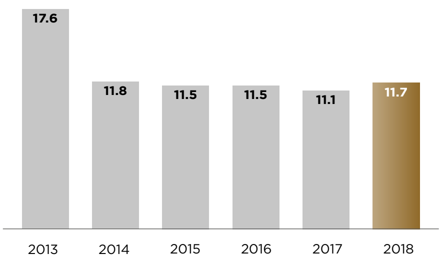
2 FOCUS ON **CORE** PROFITABILITY DRIVERS

3 STRENGHTEN **COMPETENCIES**

Return on capital employed

1 2 3

Underlying operating profit*/average capital employed (%)

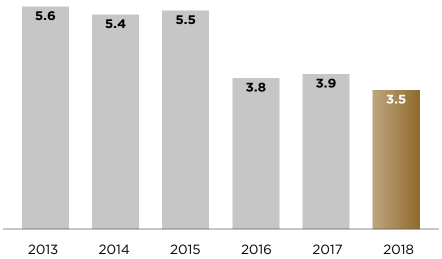


Return on capital employed (ROCE) represents underlying operating profit as a percentage of average capital employed. Capital employed is defined as fixed assets plus current assets less current liabilities, excluding all balances related to interest-bearing assets and liabilities, any derivative financial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

Health and safety

3

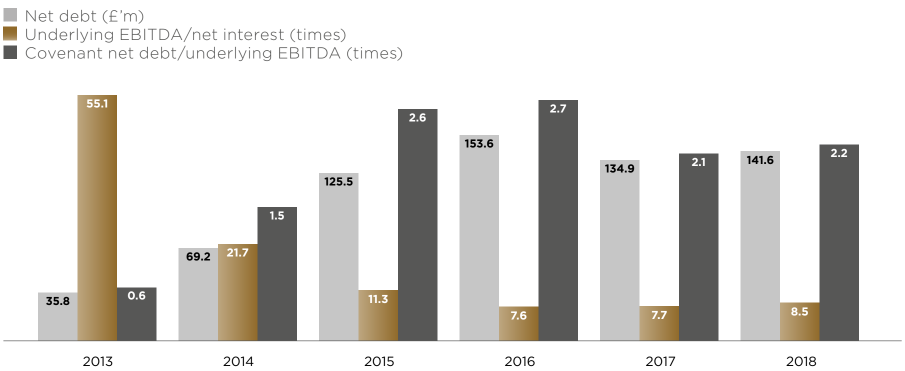
Total recordable injury rate (LWDI and recordable) per million hours worked



Health and safety matters are discussed further on pages 32 and 33. Safety performance is measured in various ways at a local level. At group level, it is measured by the total rate of recordable injuries which is calculated as the number of injuries per million hours worked, comprising both lost working day injuries and recordable injuries.

Debt

1 2 3



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 20 to 25.

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.

Prior to 2018, covenant net debt includes derivative financial liabilities and is defined, explained and reconciled to equivalent statutory measures in the Financial Review on pages 20 to 25. Under the terms of the borrowing facilities agreed in 2018, derivative liabilities were excluded from the definition of covenant net debt for 2018.

* Continuing operations.
** Non-recurring items relate to Board change costs in 2018, see Alternative Performance Measures in Financial Review section for definition and explanation.
*** 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.

Principal Risks and Uncertainties

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

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

Broadly speaking, our risk profile is unchanged, although we do see a heightened level of risk in the area of Political and Regulatory Risk.

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

The viability and going concern statements can be found on pages 31 and 45, respectively.

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

A report from the Committee can be found on page 44.

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

Brexit could have a number of implications for Devro. For example, while our Scottish factories mainly manufacture for the UK, some product is currently exported to other EU 27 countries, and our Czech and Dutch plants send small amounts of their product to the UK. Some raw materials used by our UK/Scottish plants are imported from other EU countries. Our people move freely between our European plants.

However, it is important to keep this in perspective: the great majority of Devro group production and trade is unaffected. The total EU 27 export volumes which could be impacted amount to less than 7% of group output.

While the UK Government has stated 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 have prepared contingency plans based on various "worst-case" scenarios.

With eight manufacturing locations around the world, Devro is well placed to reconfigure its global routes to market in order to adapt to changing regulatory restrictions. We have assessed our supply chain for vulnerabilities and have taken appropriate action to alleviate potential issues including planning to build inventory of certain key raw materials. Buffer stocks of finished goods have already been manufactured for the EU 27 and elsewhere.

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

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

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 significantly | v Decreased significantly | = Broadly unchanged

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 £6.8m in research and development activities in 2018, to extend and differentiate the product range and improve the quality of our products. Since 2017, cost savings of £11.5m have been delivered in order to keep our manufacturing base competitive. We also aim to continue expanding the total collagen casing market by developing products which convert gut applications to collagen casing.	=
FOREIGN EXCHANGE RISK Almost 90% of the group's revenues are invoiced in currencies other than sterling.	Adverse foreign exchange rate movements could reduce revenues and the sterling value of reported profits.	The financial impact of exchange rate fluctuations within our operating units is mitigated by a policy of hedging a substantial portion of transactional foreign exchange risk for periods of up to 15 months using forward contracts.	=
DOWNTURN IN CONSUMER DEMAND Consumer preferences evolve over time and are influenced by a number of issues outside our control, including economic factors and health considerations.	A decline in consumer demand for sausage could lead to increased competition in the marketplace and reduced sales revenue/ profitability.	Devro's wide range of products allows flexibility to respond to customer and market demands. We continue to invest in our products and processes with the aim of producing differentiated products while reducing our cost base to remain competitive.	=
IT SYSTEMS/CYBER RISK IT systems are central to our business operations. Vulnerability to an external attack is a growing worldwide issue.	An outage for a period of time could have an impact on our operations. Loss of commercial or personal data could damage the business or our reputation and result in increased financial penalties.	We continually renew our systems to ensure they are appropriately secured, and have invested in firewalls and other security features. Penetration testing is conducted.	=
POLITICAL AND REGULATORY RISK As a supplier to the food industry, the group complies with all relevant food safety regulations. Regulatory authorities routinely enact changes to food safety legislation. Political uncertainty leaves international trading companies exposed to the risk of restrictions on cross-border sales.	As a global trading company, political change (including, but not limited to, Brexit) could impact our ability to operate internationally. Changes to food safety regulations could result in restrictions on the movement of the group's products, or its raw materials, between territories, or necessitate changes to the production processes at one or more of the group's manufacturing operations.	Our External & Regulatory Affairs Director actively monitors planned and actual changes to regulations in all relevant jurisdictions in order to minimise disruption to our business. The group is a founder member of the Collagen Casings Trade Association, which represents the industry and promotes its excellent record in regulatory and health issues. Supplier approval and traceability are under constant review. See Brexit analysis on opposite page.	^

Principal Risks and Uncertainties continued

Risk	Impact	Mitigation	Movement
FINANCIAL RISKS The main financial risks relate to the availability of short and long-term funding.	Failure to operate within the agreed financial framework could lead to inability to support long-term investment or to raise capital for funding growth. Interest rate increases could impact earnings.	All term debt is arranged and managed centrally and appropriate covenant headroom is maintained.	v
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 eight 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.	=
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 17% 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 85% 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.	=

RISK TREND
^ Increased significantly | v Decreased significantly | = Broadly unchanged

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

VIABILITY STATEMENT

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

The group's business plan is focused on long-term growth through our 3Cs strategy described in the Business Review on pages 10 and 11. 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 2021 constitutes an appropriate period over which to provide its viability statement. This three-year period aligns with the period focused on by the Board during the strategic planning process.

In making this statement, the Board carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency and liquidity. The group's principal risks, and how these are managed, are set out above and the group's capital and financial risk management policies and exposures are set out in Note 23 to the financial statements. The three-year strategic plan is constructed on a "bottom up" basis and is reviewed by the Board. This process involves input from individual group operating companies and includes assumptions regarding expected sales volumes and average selling prices by region, production levels by manufacturing site and the level of targeted cost savings achieved. The plan is updated as circumstances evolve.

The output from this planning is used to perform debt and headroom analysis, which includes a review of sensitivity to "business as usual" risks and also stress testing using "severe but plausible" events. The analysis takes account of the availability and likely effectiveness of the further mitigation actions that could be taken to avoid or reduce the impact or occurrence of the identified risks or events. The current revolving credit facility was renewed in 2018 and is now in place until 2023.

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 2021.

Corporate Social Responsibility Report

Health and safety

Safety is our number one priority; we have always said we want everyone to go home from work in the same condition they arrived in. As part of our global Health and Safety programme we have looked at how other companies have reduced workplace injuries and want to learn from them.

2018 successes

> Total Recordable Case Rate, Lost Working Day Injury (LWDI) Rate and Lost Working Day Severity – all lowest in last eight years
> Severity of LWDI cases reduced significantly with 57 days lost in 2018 compared to 411 in 2017
> Three sites reported zero LWDIs in 2018
> One-third reduction in recordable incidents
> 22% increase in "near miss" reporting
> Safety Community month across the full company with the launch of our Safety Community Pledge.
> Engaged with over 1,500 employees on safety culture assessments

We recognise that our employees are key if we want to reduce injuries, and during 2018 we engaged employees throughout the business to make them part of the "Devro Community". We asked employees to take ownership for the safety of themselves and others through the launch of our Safety Community Pledge.

The Safety Community Pledge captures succinctly the core beliefs and practices that all employees must have towards safety to enable us to build safe workplace communities.

We ask all employees to have the shared view that we will all THINK SAFE, WORK SAFE and GO HOME SAFE. It really is that simple: we want all employees to go home in the same condition in which they arrived.

All employees participated in Safety Community Pledge workshops with employees then signing pledge boards to show their support and commitment.

By promoting common and shared beliefs and practices, we want to give employees a sense of belonging, trust, accountability and involvement.

We recognise our workplaces are not perfect or hazard-free and therefore a sense of community and camaraderie is essential in injury prevention, in combination with our safety management efforts.

Our aim is to create a Zero Accident community. To accomplish this, we focus on three areas of safety: firm foundation, "discipline discipline" and internalised safety behaviours.

Our internalised safe behaviours component recognises that safety should be an internalised value and actively practiced by each employee. With safety as a core value, employees share the belief that safety should be embraced as a way of life and making safety a habit. To help us achieve this we started our "Hearts & Minds" programme, have conducted safety culture assessments throughout the organisation and have engaged with over 1,500 employees during this process.

We held our first ever Safety Community Month across the business. This was a five week long initiative. It was launched by the Board, and our Executive Management Team members visited sites and offices to ensure visible leadership throughout the month.

All employees watched a safety psychology DVD we had commissioned by industrial safety psychologists. We had wellness topics each week covering mental health, breast and prostate cancer, travel safety and health and wellbeing. In addition, we provided free fruit each week. We launched our new global newspaper "The Safety Community Post" and kept everyone up to date each week. We ran a safety crossword competition for all employees. All sites also had local initiatives such as flu clinics, motivational speakers, ergonomist visits and health checks. The month initiative was a huge success and will be repeated in 2019.

In May 2018, our Health and Safety Managers across the group met in Scotland to discuss strategic projects to meet our zero accident goals. We have made significant progress in the creation and implementation of global standards to drive consistency across the group to ensure best practice and set the firm foundation. Safety underpins all our operational procedures with accountability for safety at every level of the organisation.

In January we introduced our "just and fair" standard as part of our "discipline discipline" initiative. This ensures that if human error is found to be a root cause of an incident or unsafe act, we can determine if this was a genuine lapse or deliberate violation and act on this with consistency of approach and in an appropriate manner.

During the course of 2018, there were 6,841 training course attendances on various health and safety topics across the regions by our 2,157 employees. In addition to this, every office and remote worker also participated in the safety community pledge workshops.

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

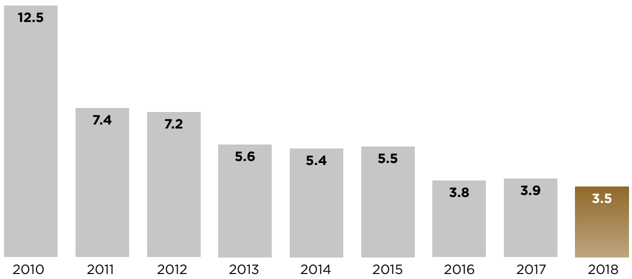
The Board's Health and Safety Committee reviews and monitors safety performance in each of the regions. All sites have an annual safety and training plan in place, These are submitted to the Committee at the start of the year for review.

The Committee met four times in 2018 to review progress and meet with the regional safety committees.

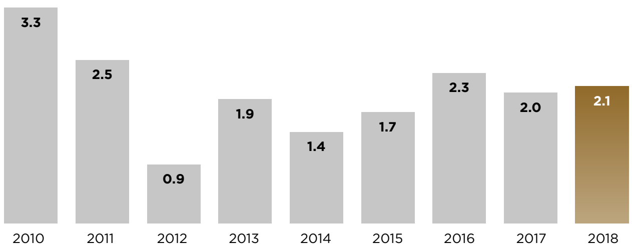
Overall, in 2018, following steady and significant improvements in our safety performance over the past decade, the number of injuries per million working hours – the total recordable case frequency – has decreased compared to 2017. We did, however, achieve a small decrease in the level of injuries that led to time off work in 2018. The severity of these was significantly less than in 2017 and there was a significant decrease in the number of working days lost.

We also externally benchmark our performance against the OSHA total recordable cases (TRC) rate. Devro had a TRC in 2018 of 0.7. The OSHA food manufacturing TRC rate was 4.7.

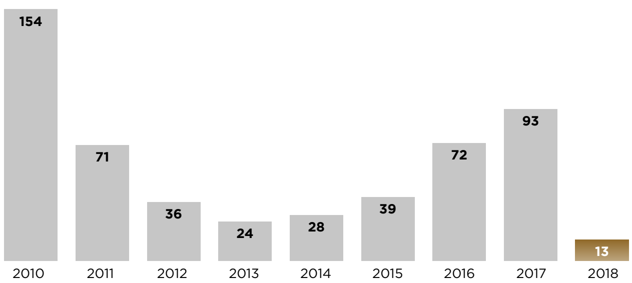
Total recordable injury rate (LWDI and recordable)
per million hours worked



Total number of lost working day incidents
per million hours worked



Total number of lost working days
per million hours worked



2018 safety statistics

We also measure our performance by looking at the number of recordable injuries, i.e., those that need more attention than basic first aid and require the attention of a health professional. In 2018, there were 15 recordable incidents reported, a decrease from the 17 reported in 2017.

We recorded nine lost working day incidents in 2018 which was the same as in 2017. The number of working days lost due to injury was 57 which was a significant decrease from 411 in 2017.

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

Statistics

	2018	2017
Number of LWDIs	**9**	9
Number of days lost	**57**	411
Number of cases of occupational illness	**8**	2
Number of dangerous incidents	**3**	10
Number of recordable injuries	**15**	17
Number of first aid cases	**96**	75
Number of minor incidents	**88**	69
Number of near misses	**287**	236
Total hours worked	**4,296,486**	4,397,546

Corporate Social Responsibility Report continued

Environment

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

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

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

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

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

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

Global targets

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

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

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

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

Carbon dioxide

In 2018, our CO_2 emissions per million metres of casing increased as shown on the chart opposite. This was mainly due to increased production as we built inventory levels, and conducted a significant amount of product development work.

Energy consumption

Energy consumption and emissions are closely related, and so our consumption data followed a similar trend to our emissions data.

In Scotland, Devro invested more than £2 million in a state of the art Combined Heat and Power (CHP) system that was commissioned in July. The CHP system generates more than 90% of the Moodiesburn plant's requirement for electricity and utilises the waste heat from the exhaust to replace steam previously generated from the gas fired boiler. As a result, the Moodiesburn boilers now run at 80% of their previous setting saving an annualised 22,000 Therms of natural gas per month.

Water

Our water consumption is a mixture of well extracted and mains supply, this being driven both commercially and by the conditions in the regions. We measured water usage for the first time in China with the commissioning of the new Nantong plant and, of course, had water usage in both the existing and new manufacturing facilities in Sandy Run, US. Similar to our energy profile, we made significant reductions per million metre of casing produced in the established plants (circa 18%) which offset some of the usages that can be expected from commissioning of new processes. In total we continued the trend of reducing usage globally, with a 2% reduction on 2017 and a total 8% reduction against the 2015 baseline.

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

Solid waste to landfill

In the various regions in which we operate, local legislation governs landfill use and is quite diverse. However, there is a common message to reduce the impact wherever and whenever possible.

We remain focused on finding new avenues for our process waste and continue to evaluate new technologies with our business partners. We made some significant progress this year, especially in Scotland, where for the duration of 2018 we diverted the vast majority of collagen waste to composting and hence, energy generation. This trend continued across all plants throughout 2018. As a result we have now reduced landfill by 87% against our 2015 benchmark.

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

Environmental management systems

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

Greenhouse gas emissions

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

Methodology

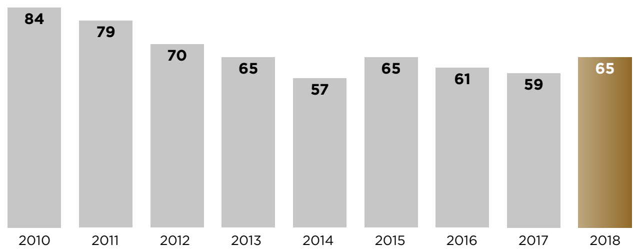
We have reported on all of the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, and taking account of the GHG Protocol Scope 2 Guidance (2015).

GHG emissions data (tonnes of CO_2e)

	2018	2017	2016
Scope 1 emissions (tes)	**59,932**	62,438	70,681
Scope 2 emissions (tes)	**79,738**	75,877	74,450
Scope 1 + 2 emissions (tes)	**139,670**	138,315	145,131
Intensity measure (£m turnover)	**253**	257	241
Normalised emissions (tonnes of CO_2e per £m turnover)	**551**	538	602

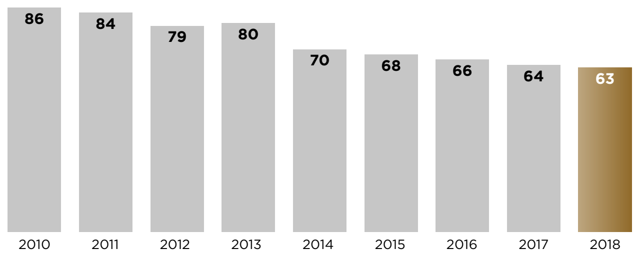
CO2 emissions

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



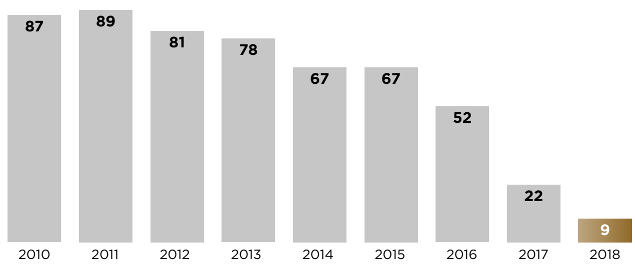
Water use

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



Tonnes waste

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



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 local management and that of visiting executives and senior managers. It is 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. This year saw the launch of our first global Employee Engagement and Experience survey, 'Tell Dev', with every employee across the group having the opportunity to feedback on a number of areas including Purpose, Enablement, Autonomy, Reward and Leadership. This has provided a baseline measurement upon which our leaders across the business can work with their teams to build upon, ensuring Devro remains an enjoyable and progressive place to work.

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

We employed 2,157 people, on average, around the world during 2018 (2017: 2,178). As at 31 December 2018 the group employed 2,125 people (2017: 2,166).

We encourage the development of employees through training by investing both time and money. This provides benefits for both the group, through a more highly-skilled workforce, and the individual employee, who gains both qualifications and experience that they can use to further their careers whilst with the group and in any future roles elsewhere. As at 31 December 2018 we were training 11 apprentices around the world. During the course of the year, three apprenticeships were completed.

As at 31 December 2018, 17 people who had successfully completed apprenticeships with us were still employed by the group.

In 2018 we commenced a review of our technical and scientific capabilities across the business in key areas such as Research & Development and Process Engineering. We recognise that we must invest in these skills in order to achieve our business aims, as well as attracting and retaining talented individuals.

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

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

The gender analysis of the workforce as at the end of the year is shown in the table below. As a result of our Gender Equal Pay Reporting, we have put in place a plan to address any imbalance including the roll out of unconscious bias training to key managers across the business.

The Strategic Report, comprising pages 2 to 37 inclusive, was approved by the Board of Directors of the company on 15 March 2019.

John Meredith
Company Secretary
15 March 2019

	As at 31 December 2018			As at 31 December 2017		
	Male	**Female**	**Total**	Male	Female	Total
Board of Directors	4 67%	2 33%	6	5 83%	1 17%	6
Executive Management Team (excluding Directors)	3 60%	2 40%	5	3 50%	3 50%	6
Other senior managers	40 74%	14 26%	54	44 76%	14 24%	58
Other employees	1,325 64%	735 36%	2,060	1,348 64%	748 36%	2,096
Total	**1,372** **65%**	**753** **35%**	**2,125**	1,400 65%	766 35%	**2,166**

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.

Experience: Previously Chief Executive of Corbion, an international bio-based products company, Gerard started his career with Unilever in 1980. Gerard holds two other non-executive positions. He is Chairman of the supervisory board of Aon Groep Nederland B.V. since June 2015, and in May 2017 he was appointed as Chairman of Evolva Holding SA, a Swiss bio-tech company, having joined as a Non-Executive Director in May 2016.

Gerard is Chairman of the Nomination Committee.

Skills: Gerard has extensive international business experience from a successful executive career in the food industry.

It is Gerard's intention to step down from the Board at the 2019 Annual General Meeting.

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

Experience: 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. He holds a postgraduate finance degree from the Free University of Amsterdam and a degree in economics from the Erasmus University.

Skills: Rutger brings broad experience from having worked in a wide range of international businesses with exposure to food manufacturing, consumer facing businesses and in business-to-business environments. Having both worked in broad finance roles and in general management he has also wide functional experience.

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

Jackie Callaway
Chief Financial Officer
Jackie joined Devro as Chief Financial Officer on 1 May 2018.

Experience: Jackie was most recently Group Financial Controller of Brambles Limited, the ASX top 20 supply chain logistics company, where she led Brambles global finance transformation programme. Between 2008 and 2013 she was Chief Financial Officer of Consolidated Minerals Limited, the manganese ore producer, where she led a $405 million refinancing and was responsible for investor relations. Jackie has also held further senior finance roles at, amongst others, Fonterra Co-operative Group Limited, New Zealand's leading dairy producer. Jackie served on the Australian Financial Reporting Council between May 2016 and June 2018.

Skills: Jackie is a fellow of Chartered Accountants Australia and New Zealand. She brings broad financial, business and international experience to the Board.

Executive Management Team

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

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

Beverley Munro
Group Business Excellence Director
Beverley, a qualified Chartered Accountant, has worked with Devro for over 20 years and has a wealth of experience through various roles including commercial, general management, finance and supply chain. Until 2016, she ran the Devro Pty business in Bathurst, Australia, overseeing major restructuring and expansion and up to 2018 she led the development of customer relationships in the Asia Pacific region, leading to significant sales growth.

In her new role she will drive the implementation of new processes and enhanced use of existing tools to support the management of the integrated global business and delivery of the 3Cs strategy. Given her broad experience within the business she is well positioned for this role.

Kevin Shoemaker
Group Supply Chain Director
Kevin joined Devro in September 2016 as we transitioned to a global supply chain. He brings 38 years' of international supply chain and manufacturing experience to Devro and is responsible for sourcing, making and delivering products to our customers. Prior to this he was the Senior Vice President of Operations for Purac/Corbion, where he was responsible for 10 manufacturing sites and global supply chain activities.

His 15 years in the lactic acid and derivatives industry with Corbion were 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.

Board of Directors continued



Paul Withers
Non-Executive Director/ Senior Independent Director

Paul joined Devro in April 2011.

Experience: 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.

Skills: Paul brings significant experience of international business to Devro's Board.

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

Jane Lodge
Non-Executive Director

Jane joined Devro in March 2012.

Experience: Jane is a Non-Executive Director and Audit Chairman of Bakkavor Group plc, 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.

Skills: Jane's extensive experience with manufacturing companies and her financial and strategic work with Deloitte have given her a strong international business perspective.

Jane is Chairman of the Audit Committee.

Malcolm Swift
Non-Executive Director

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

Experience: Malcolm is President, Global Flavor Solutions and International Business for McCormick & Company Inc., a global leader in flavour, listed on the New York Stock Exchange. Malcolm leads the McCormick businesses in China, Europe, Middle East, Africa and Asia Pacific. He is a member of McCormick's Management Committee and the Chairman of the Global Flavor Solutions Strategy Council.

Malcolm joined McCormick in January 2005. He began his career with Price Waterhouse, before moving to roles with Mars, Diageo, Time Warner and Hero AG.

Skills: Malcolm brings his expertise in the food industry along with significant experience of international business.

Malcolm is Chairman of the Health and Safety Committee.

Executive Management Team continued


Sarah Voaden
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.

Peter Whitmore
Global Commercial Director

Peter joined Devro In November 2018 in the newly created role of Global Commercial Director. He brings with him a wealth of experience in global commercial roles in business-to-business environments, and has worked for companies including Dow, Trinseo and Amcor.

Peter's appointment is the final step towards a truly global commercial structure and a key enabler for achieving our growth ambition as part of our 3Cs strategy.

Corporate Governance Report
Chairman's introduction

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

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

My fellow directors and I fully appreciate the importance of sound governance in the efficient running of the company, and in particular in 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 2018.

Gerard Hoetmer
Chairman

1. Board composition

Mr G J Hoetmer, Chairman, Mr R A Helbing, Chief Executive Officer, Ms J A Lodge, Non-Executive Director, Mr M S Swift, Non-Executive Director and Dr P N Withers Non-Executive Director, served as directors throughout 2018. Mr P W B Page, former Chief Executive, stepped down from the Board on 28 February 2018 to be succeeded by Mr R A Helbing, who had previously been Chief Financial Officer. Ms J W Callaway was appointed as Chief Financial Officer on 1 May 2018.

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

Dr P N Withers has been Senior Independent Director since 26 April 2017.

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

On 15 November 2018, the Chairman announced his intention to stand down at the forthcoming AGM. All other current directors will stand for re–election at the 2019 AGM. The directors biographies set out on pages 38 and 39 describe the particular skills and experience that each brings to the Board and explains why the contribution of those standing for election or re-election is, and continues to be, important to the company's long-term success. All the directors have had their performance reviewed recently, as described on page 42, and the Chairman is satisfied that each continues to be effective and to demonstrate commitment to the role.

There is a clear division of authority and responsibility through the separation of the roles of the Chairman and the Chief Executive Officer. This demarcation is set out in writing and was reviewed by the Board in December 2018.

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

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

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

In 2018, the Board broadly divided its time as follows:

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

Balance

The Chairman and the Board understand the need to ensure that the balance of the Board is appropriate for the requirements of the business and the benefits of diversity in its broadest sense are clearly understood. However, for a relatively small Board, it remains difficult to set targets for members of any particular background, and this applies to the issue of women on the Board. The Board's policy is therefore actively to encourage women to apply to join the Board whenever a vacancy exists, and the report from the Nomination Committee on page 43 sets out how we do this. Ultimately, however, any appointments must be made on merit, taking account of the specific needs of the business at the relevant time, for the benefit of the company and its stakeholders.

Information flow

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

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

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

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

Board and committee proceedings

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

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

Corporate Governance Report continued

1. Board composition continued

In order to discharge these responsibilities, the Board and its committees meet on a regular basis throughout the year. In 2018, the Board held eight meetings. Full details of the Board and committee attendance are shown in the table below:

	G J Hoetmer	P W B Page[1]	R A Helbing	J W Callaway[2]	J A Lodge	M S Swift	P N Withers
Board – 8 meetings	8	1	8	5	8	6	8
Audit Committee – 4 meetings	–	–	–	–	4	4	3
Executive Directors' Remuneration Committee – 4 meetings	4	–	–	–	4	4	4
Non-Executive Directors' Remuneration Committee – 1 meeting	–	1	1	–	–	–	–
Nomination Committee – 2 meetings	1	–	–	–	2	–	2
Health and Safety Committee – 4 meetings	–	1	3	–	–	4	3
Risk Committee – 4 meetings	–	–	3	2	–	–	–

1. Mr P W B Page stepped down from the Board on 28 February 2018.
2. Ms J W Callaway joined the Board on 1 May 2018.

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 19 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 2018, 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 2018 process were discussed by the Board and, where areas of improvement were identified, actions were agreed. These included continuation of a programme to ensure the Board interacted with more senior managers below Board level, and a commitment to visit at least three company locations each year.

A 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 2018 are set out in the Directors' Remuneration Report on pages 48 to 63. 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.

Dr P N Withers chairs the Executive Directors' Remuneration Committee. The other members of the Committee throughout 2018 were Mr G J Hoetmer, Ms J A Lodge and Mr M S Swift. The Committee met four times in 2018.

The Directors' Remuneration Report contains a detailed statement of the remuneration of each director for 2018, including details of the company's pension policy for Executive Directors.

The written remit of the Executive Directors' Remuneration Committee was reviewed and updated by the Board in December 2018. A copy is available on the company's website.

4. Report from the Nomination Committee

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

The written terms of reference of the Committee were reviewed and updated by the Board in December 2018. A copy can be found on the company's website. In 2018, the Committee met formally on two occasions.

In April 2018, the Committee nominated Ms J W Callaway as Mr R A Helbing's successor as Chief Financial Officer. This was the culmination of an extensive process based on criteria agreed by the Committee using external recruitment consultants.

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

In November 2018, the Committee commenced the recruitment process for a new Chairman, following Mr G J Hoetmer's decision to stand down at the forthcoming AGM. Dr P N Withers, our Senior Independent Director, chaired this process.

The Committee is committed to diversity in its broadest sense and, as part of this, 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 M S Swift, who chaired the Committee, Dr P N Withers, Ms F L Curran, the company's Global Health and Safety Manager, and Mr K Shoemaker, Group Supply Chain Director. Mr P W B Page was a member of the Committee until 28 February 2018, when he stepped down from the Board. Mr R A Helbing replaced him on the Committee with effect from that date.

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

The Committee convened four times in 2018 and on each of these occasions met (either by video, telephone or in person) with representatives of the safety committees of the group's main manufacturing facilities.

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

Corporate Governance Report continued

6. Report from the Risk Committee

An ongoing process is in place to identify, evaluate and manage the significant risks the group faces, which accords with the FRC's 2016 guidance and the Code. A Risk Committee was formed in 2010. In 2018, it was chaired by the Company Secretary and comprised the Executive Directors and other members of the Executive Management Team, as listed on pages 38 and 39, and Mr G Stephenson, External & Regulatory Affairs Director.

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

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

The Committee is charged with reviewing risk throughout the group and reporting thereon to the Board. As part of the process, risk assessment procedures are applied across the group. Each business function prepares a risk assessment for its business. This involves preparing a report identifying the relevant risks to both current operations and future strategy, the process for managing and mitigating these risks and the means by which management might be assured that the processes are effective. A similar exercise is also conducted at group level, taking account of any significant risks identified by each of the individual operating companies. The risk assessment reports are collated and considered by the Risk Committee, and then the Audit Committee, before being reviewed and finalised by the Board. The Board and the Risk Committee also agree a number of key risks for in-depth review by the Committee in the course of the following year. At the end of the annual cycle in 2018, 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 28 to 31.

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 37, including a Chairman's Statement, Business Review and Financial Review. The Board believes that this additional narrative sets the accounts in context and promotes a better understanding of the current status of the business and its outlook.

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

8. Internal control

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

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

Financial reporting

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

Operating controls

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

Treasury

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

Internal audit

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

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

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

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

9. Diversity in practice
Devro recognises the value of diversity in its broadest sense across its management teams and employee base in general, and we see progress at various levels. Our Executive Management Team comprised of four men and four women for most of 2018, with six nationalities represented. In our business teams around the globe, we now see an encouraging mix.

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

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

10. Going concern
The group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 2 to 37, 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 at least 12 months from the date of approval of this statement. For this reason, they continue to adopt the going concern basis of accounting in preparing the financial statements.

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

> As at 31 December 2018, the group was operating within the £90m revolving credit facility negotiated in 2018, and due to expire in 2023, 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 at least 12 months from the date of approval of the financial statements.

11. Share capital
The Takeover Directive disclosures regarding the company's share capital structure are included in the share capital section of the Directors' Report on page 65 of this report.

12. Statement on compliance
This statement, together with the Directors' Remuneration Report set out on pages 48 to 63, and the Audit Committee Report on pages 46 to 47, describes how, in respect of the year ended 31 December 2018, the company has applied the provisions and principles of corporate governance as set out in the 2016 edition of the Code. The company has complied with all the Code's provisions throughout the period in question, with one exception. The company's remuneration committee structure does not fully comply with Provision D.2.2, as the remuneration of the Chairman is set by the Non-Executive Directors' Remuneration Committee comprising the Executive Directors instead of by a committee of Non-Executive Directors, as proposed by the Code. The company's two-committee approach, which is more fully described and explained in the Remuneration Report, is designed to ensure that no director is involved in setting his or her own remuneration, thus avoiding any potential conflict of interest, while ensuring that the experience of the Chairman is available to the Executive Directors' Remuneration Committee.

The Board believes that this arrangement is an appropriate and effective use of the available resources and is fully aligned with the spirit of the Code.

Gerard Hoetmer
Chairman
15 March 2019

Audit Committee Report
Committee Chairman's introduction

As Chairman of the Audit Committee, I am pleased to present the report in respect of 2018. This report summarises the work of the Committee in the course of the year.

Jane Lodge
Chairman, Audit Committee

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

Ms J A Lodge chaired the Committee throughout the period under review. The other members of the Committee in 2018 were Mr M S Swift and Dr 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 Chief Financial Officer and members of senior management as invitees. Representatives of the statutory auditors also attend as appropriate.

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

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

Statutory audit
KPMG conducted no non-audit work for the company in 2018, generating no fees (2017: £nil). Details of audit and non-audit services are shown in Note 8 to the financial statements. The ratio of non-audit fees to audit fees is 0:1 (2017: 0:1). The Committee noted the lack of non-audit work when reviewing the statutory auditors' independence.

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

> The Committee received a detailed audit plan from the statutory auditors at the beginning of the annual audit process which included an outline of the proposed scope of the audit, and identification of key audit risks and areas of focus. This was discussed and agreed with the Committee.
> The Committee challenged the work done by the statutory auditors to test management's assumptions and estimates in relation to the significant issues.
> A survey was conducted of all businesses within the group to assess the effectiveness of the group and local statutory audit teams.
> At the completion of the statutory audit, the Committee received feedback from the Chief Financial Officer 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 2018 audit process.

Significant issues
The significant issues considered by the Committee during 2018, and how these were addressed, are as follows:

Exceptional items
Devro is undergoing a major transformation including the construction and start-up of two new plants in China and the US which completed in 2016, a restructuring of operations in Scotland and Australia initiated in 2014, the Devro 100 programme, to upgrade the group's sales capabilities, significantly reduce unit cost of manufacture and launch the next generation of differentiated products, and most recently a restructuring of the global operating model, designed to achieve a net reduction in operating costs after reinvestment of resources to support Devro's growth ambition. The Devro 100 programme and global restructuring of the operating model resulted in exceptional costs in 2018. No further Devro 100 exceptional items are expected in 2019.

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

Property, plant and equipment

The group tests property, plant and equipment for impairment if events or circumstances indicate that the carrying value of these assets may be impaired. Where potential indicators of impairment are identified, the group conducts impairment testing by comparing the carrying value for each cash generating unit (CGU) with its recoverable amount. The recoverable amount of a CGU is determined by the higher of the value in use or fair value less costs to sell. Value in use is derived from discounted cash flow calculations. The assumptions on which these calculations are based include discount rates, expected changes in volumes, average selling prices and costs, and long-term growth rates. Judgement is required in establishing these assumptions.

The Committee reviewed and discussed the appropriateness of the assumptions, in the context of their knowledge of the performance of the business in 2018, plans for future business growth and also risks associated with execution of the business plan. In particular, the Committee reviewed the results of sensitivity analysis performed by management in relation to the discounted cash flow calculations.

Tax

The group operates around the world and earns profits that are subject to tax at differing rates in different jurisdictions. The varying nature and complexity of the tax laws in these jurisdictions requires the group to review its tax positions and make appropriate adjustments. In addition, when calculating the amount of deferred tax assets to be recognised in relation to losses carried forward, judgements are required in estimating the probable future taxable profits against which the tax losses will be utilised.

The Committee has reviewed reports from management setting out the key changes affecting the tax position of the group for the year, and has discussed these reports with management to understand the changes and review the input from external tax advisers on these matters. In addition, the Committee has reviewed the key assumptions underlying the calculation of deferred tax assets related to carried forward losses, and discussed the basis and support for the uncertain tax provisions with management. The statutory auditors have also reviewed the tax calculations, related assumptions and basis for the deferred tax assets recognised and the uncertain tax provisions, and reported their assessment to the Committee.

Other matters

In addition to the significant issues referred to above, the following key areas of judgement and estimation were also considered by the Committee during 2018:

Pension obligations

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

Alternative Performance Measures (APMs)

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

Whistleblowing procedure

The company's whistleblowing procedures are also reviewed regularly. Following a decision by the Committee in 2013, a confidential, multi-language system, entitled "SpeakUp", was set up and communicated to everyone in the group. The Committee believe that these arrangements facilitate a proportionate and independent investigation of matters raised. The whistleblowing policy was reviewed in light of the introduction of the 2018 edition of the Corporate Governance Code and a new, broader, policy was introduced in its place with effect from 1 January 2019. This is available for viewing on the company's website.

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 2018 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 page 67.

Jane Lodge
Chairman, Audit Committee
15 March 2019

Directors' Remuneration Report
Committee Chairman's Annual Statement

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for 2018.

Dr Paul Withers
Chairman, Executive Directors' Remuneration Committee

Our Directors' Remuneration Policy was approved by shareholders at our 2017 AGM. The Committee is comfortable that the policy remains appropriate for the final year of the three-year policy period. A full review will be carried out during this year and a new policy will be brought to shareholders for approval at our 2020 AGM.

The Annual Report on Remuneration on pages 55 to 63 explains how our policy was implemented in 2018 including full details of the remuneration paid and how it will be operated in 2019. The Annual Report on Remuneration together with this Annual Statement will be subject to an advisory vote at the AGM on 25 April 2019.

Overview of policy and link to our business strategy
The Committee sets the strategy, policy, structure and levels of remuneration for the Executive Directors and, with effect from 1 January 2019, the Executive Management Team and Company Secretary. It does so in the context of the group's overall remuneration policies and practices, strategy and performance with the aim of aligning the remuneration with the achievement of the group's long-term objectives, and with shareholder returns.

Work of the Committee during the year
In addition to its usual annual agenda items, the Committee reviewed the recent changes to the UK Corporate Governance Code and Directors' Remuneration Reporting Regulations and considered what changes are required to its remit as well as the current policy and operation to ensure compliance. There has also been updated guidance from a number of investors and proxy voting agencies following the Code changes, and the Committee has reviewed and taken account of these in considering the operation of policy for 2019 but also noting their applicability to our forthcoming policy review.

During the year the Board welcomed, and the Committee determined the remuneration package for, our new CFO Jackie Callaway. Jackie's remuneration package was set in accordance with our shareholder-approved remuneration policy reflecting her skills and experience and is detailed in the Annual Report on Remuneration on pages 55 to 63.

Pay and performance in 2018
Base salary
There were no salary increases in 2018 with the CEO being promoted to the role from CFO on a salary of £440,000 and our new CFO joining the business on a salary of £310,000.

Annual bonus
The Committee continues to set annual bonus targets that are challenging, clearly linked to the company's strategy and designed to align the interests of shareholders and executives.

The annual bonus for 2018 was based on (i) underlying operating profit before non-recurring items (adjusted for FX) (60%), (ii) reduction in net debt excluding dividends, capital expenditure, and exchange rate movements (20%), and (iii) personal objectives (20%). The weighting to net debt was reduced to 20% from 40% in 2017 with underlying operating profit increased to reflect the improvement in net debt over 2017 and the need to maintain our focus on improving operating profit.

The maximum award is 100% of base salary for both Executive Directors, with Jackie Callaway's bonus potential being reduced pro-rata for 2018 as she joined the company on 1 May 2018.

The company's underlying profit moved forward in 2018, and applying the bonus formula to the FX-adjusted underlying operating profit before non-recurring items, produced a notional bonus contribution of 18.75% of maximum for both Executive Directors.

Net debt increased during the year and, as a result, the threshold target has been missed and no bonus is payable for this element.

The Executive Directors made good progress against their personal objectives, resulting in notional bonus contributions under this metric of 15.7% of maximum for the CEO and 15% for the CFO.

In total, then, a strict application of the formula would have produced a total bonus of 34.45% of maximum for the CEO and 33.75% of maximum for the CFO.

However, it falls to the Committee to consider whether the formula-driven outcome of the bonus scheme is appropriate in view of the broader context of the business. The Committee considered this carefully in February 2019, and concluded that the bonuses of the Executive Directors should be restricted to 10% of the maximum. In reaching this decision, the Committee has taken into account the overall cost of the bonus programme for all employees.

The Committee now has responsibility for the Executive Management Team and the Company Secretary remuneration, and a similar reduction in their bonuses will also apply. Full details of the annual bonus metrics, and performance against them are shown on pages 58 to 60.

The Committee is satisfied that there has been a strong link between reward and performance.

Long-term incentive plan

The performance targets for the CEO's 2016 Performance Share awards were based on underlying EPS growth for 50% of the award and relative TSR for the other 50% measured across a three-year performance period ending on 31 December 2018. The Committee reviewed the performance of the group against these conditions in February 2019. Both the relative TSR and EPS targets were not achieved and as a result the award has lapsed. Full details of the performance metrics and performance against them is shown on page 60.

Implementation of policy for 2019

Our Executive Directors will receive a salary increase of 2% from 1 April 2019 which is aligned to the UK workforce average. Annual bonus opportunity remains at 100% of base salary for both Directors and Performance Share Plan awards for the CEO of 110% of base salary and for the CFO of 100% of base salary.

Variable pay

The 2019 variable pay awards will be based on similar performance metrics to the 2018 awards. The annual bonus for Executive Directors will continue to be determined by underlying operating profit (60%), reduction in net debt (20%), and personal objectives (20%).

The Performance Share Plan awards will be determined by the same mix of ROCE (40%), TSR (20%) and underlying EPS (40%) as was used in 2018, to continue the focus on delivering returns from the capital projects in China, the US and elsewhere in the group as well as retaining alignment with shareholder value. The targets to be set for the 2019 awards are set out on page 56.

We have increased the EPS range, while the ROCE range remains unchanged. The Committee is satisfied that the ranges are appropriately stretching.

UK Corporate Governance Code and Directors' remuneration reporting regulations

There were no changes to the Remuneration Policy or operation of policy for 2019 and accordingly the Committee has not consulted during the year with shareholders regarding remuneration matters. The Committee has however kept up-to-date with new and revised remuneration guidance from investors and proxy voting agencies and considered the impact of this on policy and operation. Specific engagement with our shareholders will however take place over the next 12 months as we move towards a policy vote on our new policy at our 2020 AGM.

The Committee values the opinions of its shareholders and will seek to gather broader stakeholder input, as required by the revised UK Corporate Governance Code, including from its employees. As mentioned in our Corporate Governance Report, the Board will use and enhance its current approach to employee engagement to ensure compliance with the Code and consideration is being given to how to most effectively engage with employees to explain the alignment of our Executive Directors' remuneration to the wider group policy. I will set out in next year's report the Committee's activities in carrying out this engagement.

In addition, the Committee has already taken certain steps to address the requirements of the new Code as follows:

> *Remuneration Committee remit:* The Committee's Terms of Reference have been updated to include the broader remit of the Committee to set the remuneration of our Executive Management Team and the Company Secretary and to have oversight of workforce policies and practices as well as other matters required by the new Code;

> *Workforce policies and practices:* The Committee already considers, as part of its annual agenda, certain workforce policies and practices and takes these into account when setting the Executive Directors' Remuneration Policy and operation. The Committee will consider the breadth and depth of its review and broaden this as appropriate;

> *Remuneration principles, structures and discretion*: The Committee already considers clarity, simplicity, risk, predictability, proportionality and culture as part of its review and decision-making process in terms of setting both policy and operation of policy;

> Our long-term performance share awards already have a two-year post-vesting holding period in addition to a three-year vesting period, and our policy includes annual bonus deferral. Both of these provide alignment with shareholders and longer-term performance both during and post-employment. The Committee will review post-employment shareholding requirements and pension alignment to the workforce average as part of the policy review during the course of 2019;

> The Committee will use discretion where necessary to adjust formulaic incentive outcomes and our incentive plan rules are being amended to ensure this is effective;

> We consult with our shareholders when the Committee is considering substantive changes to policy and operation of policy and welcome feedback at any time. The Committee also keeps up-to-date with any policy guidance publicised by investors and proxy voting agencies and considers how this might affect the current policy and operation. The Committee will continue with this approach.

> *Clawback and malus:* The provisions in the current schemes have been reviewed and are being updated so that they are in line with the new Code and to ensure they are fully enforceable.

The Committee has also agreed to incorporate some of the new Directors' remuneration reporting requirements a year early, although given the administrative work required we will not be reporting a CEO pay ratio this year.

Conclusion

The Committee is comfortable that the 2018 remuneration outcomes are aligned to business performance and affordability, and that our remuneration policy and operation for 2019 continue to support our business strategy.

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.

Dr Paul Withers
Chairman, Executive Directors' Remuneration Committee
15 March 2019

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 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 2018 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 Officer and 100% of salary for the Chief Financial Officer 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
Policy 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 61 and 63. 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.

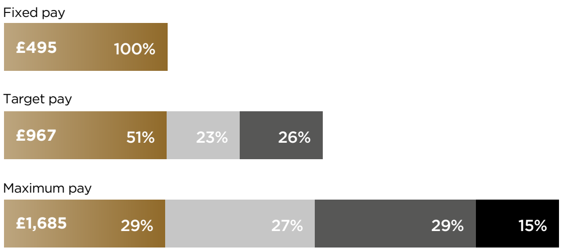
The Committee also retains the discretion within the policy to adjust targets and/or set different measures and alter weightings for the Annual Bonus Plan and to adjust targets for the PSP if events happen that cause it to determine that the metrics are unable to fulfil their originally intended purpose, 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 61, remain eligible to vest based on their original award terms.

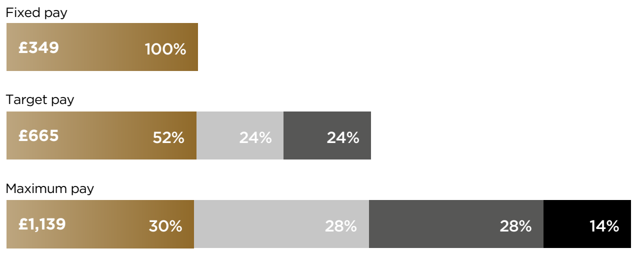
Payment under different scenarios
Under the Regulations, we are required to show a bar-chart indicating the level of remuneration which would be received by the Executive Directors in 2019 under different scenarios. Three scenarios are shown below:

> **"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, including 50% LTIP share price appreciation.

Chief Executive Officer
£'000



Chief Financial Officer
£'000



Assumptions:
1. Based on policy to be applied for financial year 2019.
2. Salaries are based on those in force on 1 April 2019.
3. Maximum example assumes LTIP share price appreciation of 50% during the performance period.

- Fixed
- Bonus
- Long-term incentive
- Share price appreciation

Service Agreements and payments for loss of office of Executive Directors

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

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

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

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

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

Directors' Remuneration Report continued
Policy report 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
R A Helbing	8 December 2015	N/A	12	12	No contractual termination payments other than detailed above	12 months' notice	12 months' notice; good leaver status under share schemes
J W Callaway	29 March 2018	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.

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

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

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

Annual Report on Remuneration

How the policy will be implemented in 2019:

Executive Directors' salaries

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

Chief Executive Officer: £440,000
Chief Financial Officer: £310,000

From 1 April 2019 the salaries will be increased by 2% as follows:

Chief Executive Officer: £448,800
Chief Financial Officer: £316,200

Non-Executive Directors' fees

The fees for Non-Executive Directors are as set out below. As shown in the table, these were increased by 2% from 1 January 2019.

	Base annual remuneration		Additional for committee chairmanships		Total annual remuneration	
Name	**2019**	2018	**2019**	2018	**2019**	2018
G J Hoetmer	**£138,750**	£136,000	**N/A**	N/A	**£138,750**	£136,000
J A Lodge	**£45,000**	£44,150	**£5,200**	£5,075	**£50,200**	£49,225
M S Swift	**£45,000**	£44,150	**£5,200**	£5,075	**£50,200**	£49,225
P N Withers	**£45,000**	£44,150	**£5,200**	£5,075	**£50,200**	£49,225

Annual bonus

The maximum annual bonus for Executive Directors in 2019 is 100% of base salary.

60% of the annual bonus for the Executive Directors will be determined by underlying operating profit excluding exchange rate movements, 20% will be determined by a net debt target derived from the budgeted movement in net debt, excluding dividends, capital expenditure, exceptional cash movements and exchange rate movements, and 20% by personal objectives. The objectives for the Executive Directors are based on the strategic priorities for 2019. These are mainly focused on the 3Cs programme and cover a range of strategic milestones and operational targets.

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

When reviewing the profit performance condition for 2019, the Committee will again look at underlying operating profit and will take into account exchange rate movements which are in the main outside the control and performance of management.

The Committee considers that the actual targets for the 2019 bonus are commercially sensitive, but full details will be disclosed in the 2019 report.

Directors' Remuneration Report continued
Annual Report on Remuneration continued

Long-Term Incentive Plan
An award will be made in 2019 to the Chief Executive Officer to the extent of 110% of base salary and to the Chief Financial Officer to the extent of 100% of base salary. The performance measures for these awards will be tested over a three-year period commencing January 2019 and will be underlying EPS (40%), ROCE (40%) and TSR (20%) as follows:

Annual underlying EPS growth during the performance period	Performance shares vesting percentage (of total award)
Less than 16.2p	0%
16.2p	10%
Between 16.2p and 21.5p per annum	On a straight-line basis between 10% and 40%
21.5p per annum or more	40%

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

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

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

The underlying EPS range and ROCE range for the 2019 awards are considered stretching. This is based on the Committee's assessment of the business plan, market conditions and growth opportunities over the next three years.

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

The Remuneration Committees
The members of the Executive Directors' Remuneration Committee in 2018 were Dr P N Withers (Committee Chairman), Mr G J Hoetmer, Ms J A Lodge and Mr M S Swift.

In 2018 The Committee received advice from:

> The Company Secretary (as Secretary to the Committee);
> Korn Ferry as independent adviser to the Committee. Korn Ferry was appointed as adviser by the Committee in 2017 in view of its 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 2018 were Mr R A Helbing, Mr P W B Page (until 28 February 2018) and Ms J W Callaway (from 1 May 2018). The two-committee approach ensures that no director is involved in setting his or her own remuneration.

Advisers to the Committee

Korn Ferry 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 Korn Ferry is objective. The total fees paid to Korn Ferry for the advice provided to the Committee during the year were £21,158. Korn Ferry provided recruitment services in the course of 2018. The fees for this service in 2018 were £78,400.

Statement of shareholding voting at AGM

At the AGM held on 25 April 2018, 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	127,157,083	99.44	717,988	0.56	127,875,071	40,605

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

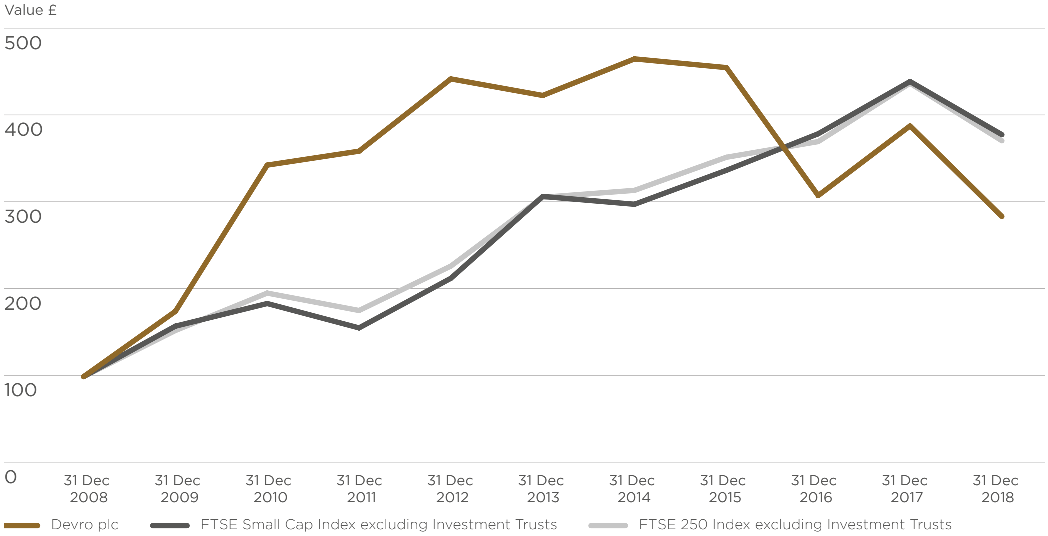
Resolution	Votes for	% for	Votes against	% against	Total votes cast	Votes withheld (abstentions)
Approval of Remuneration Policy	117,937,150	99.83	202,468	0.17	118,139,618	265,603

Engagement with investors

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 2018, 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.

Directors' Remuneration Report continued
Annual Report on Remuneration continued

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 10 years for the Chief Executive Officer in post at the time.

Year	Chief Executive Officer single figure of total remuneration (£'000)	Annual bonus payout against maximum opportunity %	Long-term incentive vesting rates against maximum opportunity %
2018	**504**	**10**	**0**
2017	703	40	0
2016	513	0	0
2015	759	54.8	0
2014	498	0	0
2013	565	0	18.25
2012	1,154	0	100
2011	1,670	40	100
2010	1,767	100	100
2009	862	100	100

Total remuneration

	Base salaries/fees		Bonuses		Taxable benefits		Pension contributions or payments in lieu of pension contributions		Total remuneration	
Director	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000
R A Helbing[1]	**419**	308	**42**	124	**1**	1	**42**	31	**504**	464
J W Callaway[2]	**207**	–	**21**	–	**–**	–	**21**	–	**249**	–
G J Hoetmer[1]	**136**	134	**–**	–	**4**	–	**–**	–	**140**	134
J A Lodge[1]	**49**	49	**–**	–	**1**	–	**–**	–	**50**	49
P A J Neep[3]	**–**	15	**–**	–	**–**	–	**–**	–	**–**	15
P W B Page[1,4]	**78**	468	**–**	187	**-**	1	**8**	47	**86**	703
M S Swift[1]	**49**	33	**–**	–	**4**	–	**–**	–	**53**	33
P N Withers[1]	**49**	49	**–**	–	**1**	–	**–**	–	**50**	49
TOTAL	**987**	1,056	**63**	311	**11**	2	**71**	78	**1,132**	1,447

1. Taxable benefits for Mr R A Helbing and Mr P W B Page relate to medical insurance. Taxable benefits for Mr G J Hoetmer, Ms J A Lodge, Mr M S Swift and Dr P N Withers relate to travelling and subsistence expenses.
2. Ms J W Callaway joined the Board on 1 May 2018.
3. Mr P A J Neep stepped down from the Board on 26 April 2017.
4. Mr P W B Page stepped down from the Board on 28 February 2018, and ceased to be an employee on 10 December 2018. See note on page 61 for payments made after he left the Board.

Details of variable pay earned in the year
Summary of 2018 annual bonus

In 2018, the Committee continued the approach taken in 2017 of using a net debt target alongside the established profit-based metric and personal objectives.

Set out in the following table are the targets which applied to the 2018 Annual Bonus Plan, the performance against them and the bonus outturn which would have resulted from the Bonus Plan formula:

Performance condition	Proportion of total bonus available: % of maximum	% of salary R A Helbing[6]	% of salary J W Callaway[5]	Actual performance achieved	Performance target for threshold vesting	Performance target for target vesting	Performance target for maximum vesting	R A Helbing resulting bonus % of maximum	J W Callaway resulting bonus % of maximum	R A Helbing bonus % of salary	J W Callaway bonus % of salary
Underlying operating profit[1]	60	60	40.0	£39.6m	£38.6m[2]	£40.6m[2]	£44.7m[2]	18.75	18.75	18.75	12.50
Net debt target	20	20	13.3	£23.6m	£33.2m[3]	£36.9m[3]	£40.6m[3]	0	0	0	0
Personal objectives	20	20	13.3	See below	Partial payment for each objective achieved[4]			15.70	15.00	15.70	10.00
Total	100	100	66.6	–	–		–	34.45	33.75	34.45	22.50

1. Adjusted to exclude exceptional items and non-recurring items, and recalculated using budgeted exchange rates as explained below.
2. 7.5% of maximum bonus vests at threshold, 30% at target and 60% at maximum.
3. 2.5% of maximum bonus vests at threshold, 10% at target and 20% at maximum.
4. The personal objectives were conditional upon the Committee being satisfied that the underlying financial performance during the year in question justified a bonus.
5. Ms J W Callaway joined the company on 1 May 2018, and her bonus opportunity was pro-rated accordingly.
6. Mr R A Helbing's salary is taken as the salary actually paid in 2018.

The Committee decided, that for the purpose of the bonus calculation, underlying operating profit before non-recurring items would be used, and translational currency exchange rate fluctuations would be excluded. Applying these adjustments to the 2018 underlying operating profit produced a notional profit figure for bonus purposes of £39.6m.

The net debt target was defined in the bonus plan as movement in net debt excluding (1) exchange rate movements on net debt, (2) capital expenditure, and (3) dividend payments. The actual performance set out in the table above shows that the threshold target was not met, so no bonus was payable under this heading.

The personal objectives for 2018 were linked to key strategic milestones, as follows:

Mr R A Helbing (Chief Executive Officer)

Personal objectives	Performance	Scoring
China three-year commercial strategy agreed including specific 2018 milestones.	Partially achieved	0.5/1
New products accepted by major US customer by at latest end of H1.	Achieved	1/1
Design and implementation plan of global commercial structure agreed taking into account timing of successful recruitment of Global Commercial Director.	Achieved	1/1
£4m of savings achieved.	Achieved	1/1
High level plan for next stage of capacity investment approved by the Board by year-end.	Achieved	1/1
Identification of next innovation platform.	Partially achieved	0.5/1
High level vision for Devro beyond Devro 100 developed and agreed by Board in Q4 2018.	Ongoing and partially achieved	0.5/1
		5.5/7 = 78.6% achieved

Ms J W Callaway (Chief Financial Officer)

Personal objectives	Performance	Scoring
Delivery of Devro 100 savings.	Achieved	1/1
Develop plan to reduce operating expenses by 1%.	Achieved	1/1
Manage balance sheet so that net debt/underlying EBITDA ratio is below 2 by year end.	Not achieved	0/1
Design and implement new finance structure to support global organisation.	Achieved	1/1
		3/4 = 75% achieved

The Committee scored the total personal objectives outcome for Mr R A Helbing as 78.6% of maximum, resulting in a bonus calculation under the formula of 15.7% of maximum, and for Ms J W Callaway, 75% of maximum, resulting in a bonus calculation under the formula of 15%.

Directors' Remuneration Report continued
Annual Report on Remuneration continued

Overall annual bonus outcome

As shown above, the 2018 annual bonus metrics, if applied strictly, would have resulted in bonuses of 34.45% of maximum for Mr R A Helbing and 33.75% of maximum for Ms J W Callaway.

However, as explained in the Committee Chairman's letter on page 48, the Committee decided that the bonus for the Executive Directors would be capped at 10% of the maximum for each. Full details are set out below.

R A Helbing bonus % of maximum per Plan metrics	R A Helbing bonus % of salary[1] per Plan metrics	R A Helbing value of bonus per Plan metrics £'000	R A Helbing bonus % of maximum after reduction by Committee	R A Helbing bonus % of salary after reduction by Committee	R A Helbing value of bonus actually paid £'000
34.45	34.45	144.23	10	10	42

J W Callaway bonus % of maximum per Plan metrics	J W Callaway bonus % of salary[2] per Plan metrics	J W Callaway value of bonus per Plan metrics £'000	J W Callaway bonus % of maximum after reduction by Committee	J W Callaway bonus % of salary after reduction by Committee	J W Callaway value of bonus actually paid £'000
33.75	22.50	69.75	10	6.67	21

1. Mr R A Helbing's salary is taken as the salary actually paid in 2018.
2. Ms J W Callaway joined the company on 1 May 2018 and her bonus opportunity was pro-rated accordingly.

The Devro plc Performance Share Plan

The three-year performance period for the awards under the Devro plc Performance Share Plan made to Mr R A Helbing and former Director Mr P W B Page on 8 April 2016 ended on 31 December 2018. The performance conditions which applied, and performance achieved against them, are set out below resulting in zero vesting.

Total Shareholder Return ("TSR") relative to comparator group consisting of the 100 FTSE-listed companies closest to the company in terms of market capitalisation (50%)		Earnings Per Share ("EPS") growth (50%)				
Performance required	Performance achieved	Performance required	Performance achieved	Vesting %	Number of shares vesting in 2018	Value of shares vesting in 2018
25% vesting for median performance rising to maximum vesting for upper quartile performance with straight-line vesting in between	Percentile ranking: 22.5%	25% vesting for + 6% p.a. rising to maximum vesting at + 14% p.a. or above	-13%	0%	R A Helbing – Nil	£0
				0%	P W B Page – Nil	£0

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

Relative importance of spend on pay

	Total remuneration of all employees of the Devro group £'000	Dividends paid £'000
2018	**86,843 (+1.3%)**	**14,684 (0.0%)**
2017	85,692 (+5.2%)	14,684 (+0.1%)

Percentage change in Chief Executive Officer's remuneration

	2018 £	2017 £	% change
Salary	**444,639**	467,832	-5
Benefits	**1,268**	840	+51
Bonus	**41,826**	187,133	-78

The 2018 figures above are a combination of Mr P W B Page's remuneration as Chief Executive Officer from the beginning of the year to 28 February 2018, and Mr R A Helbing's remuneration from 1 March 2018, when he took over as Chief Executive Officer. The 2017 figures relate to the remuneration of Mr P W B Page.

Percentage change in average remuneration of all Devro group employees

	2018 £	2017 £	% change
Salary	**33,271**	31,408	+6
Benefits	**1,805**	2,079	-13
Bonus	**1,137**	1,472	-23

Performance Share Plan awards granted in 2018

	Scheme	Date of grant	Basis of award granted	Face value of award £000	Maximum vesting (% of face value)	Percentage vesting for threshold performance	Vesting and performance period
R A Helbing	The Devro plc Performance Share Plan	9 April 2018	110% of salary 242,242 shares	484[1]	100%	25% if the threshold for each of the metrics is reached	Performance period three financial years from 1 January 2018. Vesting period three years from date of grant
J W Callaway	The Devro plc Performance Share Plan	14 May 2018	100% of salary 138,702 shares	310[2]	100%		

1. Based on share price of 199.8p on 6 April 2018, being the trading day before the date of grant.
2. Based on share price of 223.5p on 13 May 2018, being the day before the date of grant.

Further details regarding the Performance Share Plan, together with the performance conditions applying to the above awards are set out on pages 62 and 63.

Payments to past directors and payments for loss of office

Detailed in last year's Remuneration Report were the leaving arrangements for Mr P W B Page, who stepped down from the Board on 28 February 2018. Mr Page's remuneration while he was a director is included in the table of total remuneration on page 58.

Salary of £361,670, benefits of £1,052, and pension of £36,167 were paid from 1 March 2018 to 10 December 2018, being his contractual notice period. No other payments were made to Mr Page or otherwise under this heading.

Audited information

The following information on pages 61 to 63 has been audited by the company's statutory auditors, KPMG LLP. The total remuneration figure table on page 58 is incorporated into this section by reference.

Company pensions and life assurance policy regarding Executive Directors

Mr R A Helbing and Ms J W Callaway receive a pension contribution or a monthly payment in lieu thereof amounting to 10% of base salary.

The contributions for each in respect of 2018 are shown in the table on page 58.

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 or not they are a member of the company pension scheme.

The Devro plc Performance Share Plan

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

Director	Date awarded	Market value at date of award (pence per share)	Market value at date of vesting of shares (pence per share)	Number of shares at 1 January 2018	Number of shares awarded during year	Number of shares exercised during year	Number of shares lapsed during year	Number of shares at 31 December 2018	Earliest normal vesting date
R A Helbing	8 April 2016	288p	N/A	209,621	–	–	–	209,621[3]	8 April 2019
	2 August 2017	230p	N/A	142,990	–	–	–	142,990	2 August 2020
	9 April 2018	199.8p	N/A	–	242,242	–	–	242,242	9 April 2021
J W Callaway	14 May 2018	223.5	N/A	–	138,702	–	–	138,702	14 May 2021
P W B Page[1]	25 March 2015	286.3p	N/A	172,593	–	–	172,593	–	25 March 2018
	8 April 2016	288p	N/A	176,843	–	–	19,219[2]	157,624[3]	8 April 2019
	2 August 2017	230p	N/A	237,697	–	–	130,245[2]	107,452	2 August 2020
S C Webb[1]	25 March 2015	286.3p	N/A	101,153	–	–	101,153	–	25 March 2018

1. Mr P W B Page stepped down from the Board on 28 February 2018. Mr S C Webb left the Board on 31 March 2016.
2. These share lapsed as a result of pro-rating when Mr P W B Page left the company.
3. These shares lapsed following a review of the relevant performance conditions by the Committee in February 2019.

Directors' Remuneration Report continued
Annual Report on Remuneration continued

Conditional nil-priced options under the Devro plc Performance Share Plan are considered for award to the Executive Directors 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.

The awards made to Executive Directors in 2015 and 2016 were granted as nil-priced options subject to the performance conditions below.

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

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

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

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

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

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

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

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

The awards made to Executive Directors in 2018 were granted as nil-priced options subject to the performance conditions below.

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

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

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

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

The Devro 2009 Deferred Share Bonus Plan

The current Executive Directors do not hold any awards under the Devro 2009 Deferred Share Bonus Plan. One former Executive Director exercised an award under this Plan in 2018:

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 2018	Number of shares awarded during year	Number of shares exercised during year	Number of shares lapsed during year	Number of shares at 31 December 2018	Earliest normal vesting date
P W B Page[1]	22 March 2016	293p	158p	7,375	–	7,375	–	–	N/A

1. Mr P W B Page left the company as a "good leaver" on 10 December 2018 and exercised this award on 11 December 2018, under the rules of the Plan.

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) and the Devro Deferred Share Bonus Plan at the beginning and end of the financial year, are as follows:

Director	Total number of Ordinary Shares 1 January 2018	Total number of Ordinary Shares 31 December 2018	Performance Share Plan 1 January 2018	Performance Share Plan 31 December 2018	Deferred Share Bonus Plan 1 January 2018	Deferred Share Bonus Plan 31 December 2018
G J Hoetmer	210,000	235,000	–	–	–	–
R A Helbing	27,500	52,500	352,611	594,853[1]	–	–
J W Callaway[3]	–	15,000	–	138,702	–	–
J A Lodge	37,798	37,893	–	–	–	–
P W B Page[4]	775,822	N/A	587,133	265,076[2]	7,375	–
M S Swift	–	5,000	–	–	–	–
P N Withers	110,000	140,000	–	–	–	–

1. Includes 209,621 shares which lapsed following a review by the Committee in February 2019.
2. Includes 157,624 shares which lapsed following a review by the Committee in February 2019.
3. Ms J W Callaway joined the Board on 1 May 2018.
4. Mr P W B Page stepped down from the Board on 28 February 2018.

On 6 March 2019, the company received a notification from Mr R A Helbing that he had purchased a further 7,500 Ordinary Shares in the company, and also from Ms J W Callaway that she had purchased a further 5,000 Ordinary Shares in the company.

Shareholding guidelines

To provide alignment between shareholders and directors, the Executive Directors are required to build up a shareholding equivalent to 150% of base salary over time. This guideline is not currently met and 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 2018	Shares held as a % of salary[1]	Number of shares vested in 2018	Number of shares vested under share schemes, but unexercised
R A Helbing	52,500	19.3	Nil	Nil
J W Callaway	15,000	7.8	Nil	Nil

1. Calculated on basis of three-month average share price to 31 December 2018, using salaries at 31 December 2018.

The company operates an employee share ownership plan trust ("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 2018, amounted to 55,176 Ordinary Shares.

On behalf of the Board

Dr Paul Withers
Chairman, Executive Directors' Remuneration Committee
15 March 2019

Directors' Report

Introduction
The directors of Devro plc (the "company") are pleased to present this Directors' Report for the year ended 31 December 2018 which sets out certain disclosures about the Devro group of companies (including the company) (the "group"), required under the Companies Act 2006 (the "Act") and under the Financial Conduct Authority's Listing Rules ("LRs") and Disclosure and Transparency Rules ("DTRs").

The Corporate Governance Report, which can be found on pages 40 to 45 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 37:

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

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

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

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

The company's principal subsidiary undertakings and branches, including those located outside the UK, as at 31 December 2018 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 2018, are set out on pages 38 and 39.

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.

None of the directors had, during the year ended 31 December 2018, 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 2018 are shown on page 63.

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 2018 (2017: 166,949,022) as shown in Note 27 to the financial statements.

Dividends
The Board is recommending a final dividend in respect of 2018 of 6.3 pence per share (2017: 6.1 pence), making a total dividend for the year of 9.0 pence per share (2017: 8.8 pence). If approved, the final dividend will be payable to shareholders on the register as at 29 March 2019.

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.

The Company operates an employee share ownership plan trust ("ESOP"). The ESOP holds a number of shares in trust and a dividend waiver applies to them.

During the year no shares were issued under any of the company's share schemes.

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

At the company's AGM on 25 April 2018, 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 2018 (2017: Nil).

Post balance sheet events
There have been no material events from 31 December 2018 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.

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.

Directors' Report continued

Substantial shareholdings

As at 31 December 2018, 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
NN Group N.V.	25,393,839	15.21
Neptune Investment Management Limited	20,021,431	11.99
Marathon Asset Management	11,492,268	7.06
Standard Life Aberdeen plc	11,379,896	6.81
Aberdeen Asset Managers Limited	8,038,838	4.82
Blackmoor Investment Partners LLC	6,850,227	4.10

During the period 1 January 2019 to 4 March 2019, the company has received a notification from Neptune Investment Management Limited that they had decreased their holding in the company to 18,298,314 Ordinary Shares equating to 10.96% of issued share capital, followed by a further notification that they had decreased their holding in the company to 16,579,790 Ordinary Shares equating to 9.93% of issued share capital. The company also received notification from NN Group N.V. that they had increased their holding in the company to 26,971,339 Ordinary Shares equating to 16.16% of issued share capital.

Annual General Meeting

The AGM of the company will be held on 25 April 2019 at 11am at the Devro site, Gartferry Road, Moodiesburn, Chryston G69 0JE. The notice of meeting and explanatory notes are available on the company's website (www.devro.com). Shareholders will be asked for their approval of the items of business which are explained in the notes.

Disclosure of information to auditors

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

Statement of directors' responsibilities in respect of the Annual Report and the financial statements

The directors are responsible for preparing the Annual Report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the parent company financial statements on the same basis.

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 group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

> select suitable accounting policies and then apply them consistently;
> make judgements and estimates that are reasonable, relevant and reliable;
> state whether they have been prepared in accordance with IFRSs as adopted by the EU;
> assess the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
> use the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Report that complies with that law and those regulations. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the directors in respect of the annual financial report

Each of the directors, whose names and functions are listed on pages 38 and 39 confirms that to the best of his or her knowledge:

> the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
> the Strategic Report and this Directors' Report include a fair review of the development and performance of the business and the position of the issuer and the undertakings 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 the Annual Report and Accounts, 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.

By order of the Board

John Meredith
Company Secretary
15 March 2019

Consolidated income statement
for the year ended 31 December

	Note	2018 Underlying £'m	2018 Non-underlying items £'m	2018 Reported £'m	2017 Underlying* £'m	2017 Non-underlying Items* £'m	2017 Reported £'m
Revenue	2	**253.4**	**–**	**253.4**	256.9	–	256.9
Operating profit	3, 4	**39.2**	**(12.3)**	**26.9**	38.1	(5.1)	33.0
Finance cost	7	**(7.1)**	**–**	**(7.1)**	(8.6)	–	(8.6)
Net finance cost on pensions	7	**–**	**(2.3)**	**(2.3)**	–	(2.8)	(2.8)
Profit before tax	8	**32.1**	**(14.6)**	**17.5**	29.5	(7.9)	21.6
Tax	9	**(7.7)**	**2.7**	**(5.0)**	(5.8)	(0.2)	(6.0)
Profit for the year attributable to owners of the parent		**24.4**	**(11.9)**	**12.5**	23.7	(8.1)	15.6
Earnings per share							
Basic	12			**7.5p**			9.3p
Diluted	12			**7.4p**			9.3p

All results relate to continuing operations.

* Underlying figures for the year ended 31 December 2017 have been restated to exclude net finance cost on pensions. All relevant notes are restated accordingly.

Consolidated statement of comprehensive income
for the year ended 31 December

	Note	2018 £'m	2017 £'m
Profit for the year		**12.5**	15.6
Other comprehensive income/(expense) for the year			
Items that will not be reclassified to profit or loss			
Pension obligations:			
– re-measurements	26	**30.3**	12.7
– movement in deferred tax	25	**(3.2)**	(8.4)
		27.1	4.3
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges:	29		
– net fair value (losses)/gains		**(2.5)**	2.2
– tax on fair value movements		**0.4**	(0.4)
Net investment hedges:	29		
– fair value gains/(losses)		**0.5**	(2.2)
– tax on fair value movements		**(0.1)**	0.4
Net exchange adjustments	29	**(4.7)**	12.5
		(6.4)	12.5
Other comprehensive income for the year, net of tax		**20.7**	16.8
Total comprehensive income for the year attributable to owners of the parent		**33.2**	32.4

Balance sheets
at 31 December

	Note	Group 2018 £'m	Group 2017 £'m	Company 2018 £'m	Company 2017 £'m
ASSETS					
Non-current assets					
Property, plant and equipment	13	**278.8**	291.1	**–**	–
Intangible assets	14	**10.5**	10.4	**2.2**	1.7
Investments	15	**–**	–	**253.0**	205.7
Deferred tax assets	25	**34.2**	35.3	**0.4**	0.6
Trade and other receivables	17	**5.4**	4.5	**153.6**	128.9
		328.9	341.3	**409.2**	336.9
Current assets					
Inventories	16	**38.2**	32.3	**–**	–
Trade and other receivables	17	**36.0**	30.6	**19.0**	17.5
Derivative financial instruments	23	**0.2**	1.8	**1.8**	1.9
Cash and cash equivalents	18	**9.9**	10.8	**0.5**	0.3
		84.3	75.5	**21.3**	19.7
Total assets		**413.2**	416.8	**430.5**	356.6
LIABILITIES					
Current liabilities					
Trade and other payables	19	**(29.3)**	(31.2)	**(6.1)**	(5.3)
Current tax liabilities		**(0.3)**	(5.1)	**–**	–
Borrowings	22	**(4.7)**	(1.5)	**(8.6)**	(1.2)
Derivative financial instruments	23	**(1.6)**	(0.4)	**(1.7)**	(2.1)
Provisions for other liabilities and charges	21	**(5.2)**	(0.2)	**–**	–
		(41.1)	(38.4)	**(16.4)**	(8.6)
Non-current liabilities					
Borrowings	22	**(146.8)**	(144.2)	**(142.9)**	(108.8)
Pension obligations	26	**(54.4)**	(82.0)	**–**	–
Deferred tax liabilities	25	**(17.6)**	(18.1)	**–**	–
Other payables	20	**(3.0)**	(3.3)	**(47.8)**	(27.3)
Provisions for other liabilities and charges	21	**(3.8)**	(3.6)	**–**	–
		(225.6)	(251.2)	**(190.7)**	(136.1)
Total liabilities		**(266.7)**	(289.6)	**(207.1)**	(144.7)
Net assets		**146.5**	127.2	**223.4**	211.9
EQUITY					
Capital and reserves attributable to owners of the parent					
Ordinary Shares	27	**16.7**	16.7	**16.7**	16.7
Share premium		**9.3**	9.3	**9.3**	9.3
Other reserves	29	**77.1**	83.4	**45.5**	45.4
Retained earnings		**43.4**	17.8	**151.9**	140.5
Total equity		**146.5**	127.2	**223.4**	211.9

The financial statements on pages 68 to 118 were approved by the Board of Directors and signed on its behalf by:

Jackie Callaway,
Chief Financial Officer
15 March 2019

Statements of changes in equity

Group	Note	Ordinary Shares £'m	Share premium £'m	Other reserves £'m	Retained earnings £'m	Total equity £'m
Balance at 1 January 2018		**16.7**	**9.3**	**83.4**	**17.8**	**127.2**
Comprehensive income						
Profit for the year		**–**	**–**	**–**	**12.5**	**12.5**
Other comprehensive income		**–**	**–**	**(6.4)**	**27.1**	**20.7**
Total comprehensive income		**–**	**–**	**(6.4)**	**39.6**	**33.2**
Transactions with owners						
Performance Share Plan charge, net of tax	28	**–**	**–**	**0.8**	**–**	**0.8**
Performance Share Plan credit in respect of awards lapsed	28	**–**	**–**	**(0.7)**	**0.7**	**–**
Dividends paid	11	**–**	**–**	**–**	**(14.7)**	**(14.7)**
Total transactions with owners		**–**	**–**	**0.1**	**(14.0)**	**(13.9)**
Balance at 31 December 2018		**16.7**	**9.3**	**77.1**	**43.4**	**146.5**
Balance at 1 January 2017		16.7	9.3	70.8	12.2	109.0
Comprehensive income/(expense)						
Profit for the year		–	–	–	15.6	15.6
Other comprehensive income/(expense)		–	–	12.5	4.3	16.8
Total comprehensive income/(expense)		–	–	12.5	19.9	32.4
Transactions with owners						
Performance Share Plan charge, net of tax	28	–	–	0.5	–	0.5
Performance Share Plan credit in respect of awards lapsed	28	–	–	(0.4)	0.4	–
Dividends paid	11	–	–	–	(14.7)	(14.7)
Total transactions with owners		–	–	0.1	(14.3)	(14.2)
Balance at 31 December 2017		16.7	9.3	83.4	17.8	127.2

Statements of changes in equity continued

Company	Note	Ordinary Shares £'m	Share premium £'m	Other reserves £'m	Retained earnings £'m	Total equity £'m
Balance at 1 January 2018		**16.7**	**9.3**	**45.4**	**140.5**	**211.9**
Comprehensive income						
Profit for the year		**–**	**–**	**–**	**25.7**	**25.7**
Cash flow hedges, net of tax		**–**	**–**	**–**	**–**	**–**
Total comprehensive income		**–**	**–**	**–**	**25.7**	**25.7**
Transactions with owners						
Performance Share Plan charge, net of tax	28	**–**	**–**	**0.5**	**–**	**0.5**
Performance Share Plan credit in respect of awards lapsed	28	**–**	**–**	**(0.4)**	**0.4**	**–**
Dividends paid	11	**–**	**–**	**–**	**(14.7)**	**(14.7)**
Total transactions with owners		**–**	**–**	**0.1**	**(14.3)**	**(14.2)**
Balance at 31 December 2018		**16.7**	**9.3**	**45.5**	**151.9**	**223.4**
Balance at 1 January 2017		16.7	9.3	45.3	100.9	172.2
Comprehensive income/(expense)						
Profit for the year		–	–	–	54.1	54.1
Cash flow hedges, net of tax		–	–	–	–	–
Total comprehensive (expense)/income		–	–	–	54.1	54.1
Transactions with owners						
Performance Share Plan charge, net of tax	28	–	–	0.3	–	0.3
Performance Share Plan credit in respect of awards lapsed	28	–	–	(0.2)	0.2	–
Dividends paid	11	–	–	–	(14.7)	(14.7)
Total transactions with owners		–	–	0.1	(14.5)	(14.4)
Balance at 31 December 2017		16.7	9.3	45.4	140.5	211.9

Cash flow statements
For the year ended 31 December

	Note	Group 2018 £'m	Group 2017 £'m	Company 2018 £'m	Company 2017 £'m
Cash flows from operating activities					
Cash generated from/(used in) operations	30	**46.1**	58.2	**(4.7)**	(22.1)
Interest received		**–**	–	**8.1**	6.1
Interest paid		**(7.6)**	(8.3)	**(6.2)**	(6.6)
Tax paid		**(12.5)**	(11.9)	**(0.4)**	–
Net cash generated from/(used in) operating activities		**26.0**	38.0	**(3.2)**	(22.6)
Cash flows from investing activities					
Purchase of property, plant and equipment		**(11.3)**	(11.2)	**–**	–
Purchase of intangible assets		**(0.9)**	(1.3)	**(0.7)**	(0.8)
Investment in subsidiary undertakings		**–**	–	**(47.3)**	(1.7)
Dividends received from subsidiary undertakings		**–**	–	**30.9**	59.5
Net cash (used in)/generated from investing activities		**(12.2)**	(12.5)	**(17.1)**	57.0
Cash flows from financing activities					
Borrowing under the loan facilities		**(0.6)**	(9.8)	**30.4**	(17.2)
Proceeds from financial instruments		**(2.6)**	0.3	**(2.6)**	–
Dividends paid		**(14.7)**	(14.7)	**(14.7)**	(14.7)
Net cash (used in)/generated from financing activities		**(17.9)**	(24.2)	**13.1**	(31.9)
Net increase/(decrease) in cash and cash equivalents		**(4.1)**	1.3	**(7.2)**	2.5
Net cash and cash equivalents at 1 January		**9.3**	8.0	**(0.9)**	(3.4)
Net (decrease)/increase in cash and cash equivalents		**(4.1)**	1.3	**(7.2)**	2.5
Net cash and cash equivalents at 31 December		**5.2**	9.3	**(8.1)**	(0.9)
Cash and cash equivalents	18	**9.9**	10.8	**0.5**	0.3
Bank overdrafts	22	**(4.7)**	(1.5)	**(8.6)**	(1.2)
Net cash and cash equivalents at 31 December		**5.2**	9.3	**(8.1)**	(0.9)

Notes to the financial statements
for the year ended 31 December 2018

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.

This is the first set of group's annual financial statements in which IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have been applied. Changes to significant accounting policies are described in 'Changes in accounting policies and disclosures'.

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 37, along with the financial position of the group, its debt levels and borrowing facilities.

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

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

The position on Brexit remains unclear and much uncertainty remains. The Board has considered the potential and plausible scenarios and concluded that the going concern assumption remains appropriate. Brexit has been covered in more detail in Principal Risks and Uncertainties on page 28.

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

> As at 31 December 2018 the group was operating within the £90m revolving bank facility negotiated in 2018 and due to expire in 2023, 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 at least the next 12 months from the date of approval of the financial statements.

Critical estimates and judgements

The preparation of financial statements in conformity with IFRSs requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates are based on management's best assessments of amounts, events or actions, actual results ultimately may differ from those estimates. In the process of applying the group's accounting policies, management has made the following judgements and estimates which have the most significant effect on the amounts recognised in the financial statements.

Judgements

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 the full benefits of which are expected by 2020. The Devro 100 programme is focused on accelerating revenue growth through significantly improving sales capabilities, delivering substantial improvements in manufacturing efficiencies to reduce unit costs, and introducing the next generation of differentiated products. The incremental costs associated with implementing this transformation are significant, and judgement has been required to determine 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 for the estimated liability for these costs. An analysis of exceptional items recognised is included in Notes 3 and 4.

Estimates
Following are the areas of estimation considered as significant:

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 require the group to review its tax positions and make appropriate adjustments at the balance sheet date.

The changing regulatory environment affecting all multinationals increases the estimation uncertainty associated with calculating the group's tax position. This is as a result of amendments to local tax laws, increased global co-operation between tax authorities and greater cross-border transparency. The group estimates and recognises liabilities of taxes due based on management's interpretation of local tax laws, external advice and the likelihood of settlement. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the results in the year in which such determination is made. In addition, calculation and recognition of temporary differences giving rise to deferred tax assets require estimates and judgements to be made, in particular on the extent to which probable future taxable profits are available against which these temporary differences can be utilised. Given the inherent uncertainty in the long-term nature of forecasting, it is reasonably possible that developments could require a material increase or decrease to the carrying amount of these recognised and unrecognised assets within the next financial year. Further details are provided in Notes 9 and 25.

Property, plant and equipment
The group tests property, plant and equipment for impairment if events or circumstances indicate that the carrying value of these assets may be impaired. Where potential indicators of impairment are identified, the group conducts impairment testing by comparing the carrying value for each cash generating unit (CGU) with its recoverable amount. The recoverable amount of a CGU is determined by the higher of its value in use or fair value less costs to sell, with value in use derived from discounted cash flow calculations. The assumptions on which these calculations are based include discount rates, expected changes in volumes, average selling prices and costs, and long-term growth rates, requiring estimates to be determined.

Other estimates
Although not considered significant, the following are the other areas of estimation:

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

Provisions
In some cases provisions have been set up for the estimated liability for exceptional and other costs and judgement is applied relating to the timing of recognition of provisions and the estimation of the amount of the provision. 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.

Changes in accounting policies and disclosures
(a) New standards, amendments to standards and interpretations effective in 2018
The following new standards, amendments to standards and interpretations became mandatory for the first time during the financial year beginning 1 January 2018. With an exception of IFRS 15 and IFRS 9, all were either not relevant for the group or had no material impact on the financial statements of the group.

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

Notes to the financial statements continued
for the year ended 31 December 2018

1. Accounting policies continued
Changes in accounting policies and disclosures continued
The assessments of the impact of adoption of IFRS 15 and IFRS 9 are set out below:

IFRS 15 Revenue from Contracts with Customers
IFRS 15 supersedes IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. IFRS 15 establishes a principles-based approach to revenue recognition and measurement based on the concept of recognising revenue when performance obligations are satisfied in respect of the transfer of goods or services at an amount that the entity expects to be entitled to in exchange for those goods or services.

In general, Devro agreements with customers do not contain complex terms or separately identifiable performance obligations outside delivering product to customers. The performance obligation continues to be the supply of product to the customer and therefore the transaction price relates to this performance obligation. Revenue is continued to be recognised on delivery of goods to the customer.

One area that was specifically considered as part of the assessment of the impact of adoption was the use of rebates, in the context of determining the transaction price. It was concluded that the approach historically applied, based on determining the 'most likely' outcome, was consistent with the principles of IFRS 15.

Adoption of IFRS 15 for the year ended 31 December 2018 has not resulted in a material impact on the financial statements of the group.

The group has adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of applying this standard at the date of initial application (i.e. 1 January 2018). Accordingly, the information presented for 2017 has not been restated and is therefore presented, as previously reported, under IAS 18, IAS 11 and related interpretations.

IFRS 9 Financial Instruments
IFRS 9 replaces IAS 39 (Financial Instruments: Recognition and Measurement), and addresses the classification and measurement of financial instruments, adopts a new impairment model for financial assets and introduces new principles for hedge accounting.

The group has undertaken a review of the impact of adoption IFRS 9, based on the financial instruments it holds and the purpose for which they are held, and has concluded there is no material impact on the balance sheet or in the income statement. Presentation in the notes to the financial statements has been updated to reflect the new classification introduced by IFRS 9, which are outlined below.

Classification and measurement of financial assets and liabilities
IFRS 9 introduces different classifications of financial assets; measured at amortised cost. Fair value through other comprehensive income (FVOCI) and fair value through income statement (FVTIS). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale.

The adoption of IFRS 9 has not changed the method of measurement of any financial assets. A summary of how the classifications apply to the existing categories of financial assets is set out in Note 23.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

Impairment of financial assets
IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets, including those measured at amortised cost.

One area that was specifically considered as part of the assessment of the impact of adoption was the recoverability of trade receivables, in the context of the new ECL model. It was concluded that the approach historically applied to establishing the allowance against the recoverability of receivables, which takes into account historic experience, current conditions and expectations, was consistent with the principles of IFRS 9.

Hedge accounting
IFRS 9 also introduces a new hedging model, intended to align hedge accounting more closely with the group's risk management processes. IFRS 9 allows an option to defer the transition of hedge accounting IFRS 9 until the completion of the IASB's macro hedge accounting project. The group has elected to continue to account for hedging relationships under IAS 39 and will assess when to adopt the hedge accounting for IFRS 9 at a future date. On adoption there is not expected to be any material change in hedge accounting for the group.

(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 16 – Leases	1 January 2019
> IFRIC 23 – Uncertainty over Tax Treatments	1 January 2019
> IFRS 9 (amendments) – Prepayments Features with Negative Compensation	1 January 2019
> IAS 15 (amendments) – Long-term Interests in Associates and Joint Ventures	1 January 2019
> IAS 19 (amendments) – Plan Amendments, Curtailment or Settlement	1 January 2019
> Various standards – Annual Improvements to IFRSs 2015-17 Cycle	1 January 2019
> Amendments to References to Conceptual Framework in IFRS Standards	1 January 2020

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 standards or amendments to standards will have a material impact on the financial statements of the group.

IFRS 16 Leases
IFRS 16 requires lessees to recognise a lease liability reflecting future lease payments and a 'right of use asset' for virtually all lease contracts. The group will implement IFRS 16 from 1 January 2019 by applying the modified retrospective method, meaning that the comparative figures in the financial statements for the year ending 31 December 2019 will not be restated to show the impact of IFRS 16. On adoption, the group will recognise a right of use asset and a lease liability based on the net present value of the payments required under each of its leases. The operating lease charge, will be replaced by the depreciation of the right of use asset and interest on the lease liability.

The group has decided to apply the short-term and low-value exemption when recognising the lease liability.

The detailed assessment of IFRS 16 impact on operating leases on the financial statements is currently in progress, however, the anticipated impact is not expected to be material on the income statement or net assets although assets and liabilities will be grossed up for the net present value of the outstanding operating lease liabilities as at 1 January 2019.

Notes to the financial statements continued
for the year ended 31 December 2018

1. **Accounting policies** continued

Basis of consolidation

The consolidated financial statements include the financial statements of the company and all its subsidiary undertakings made up to 31 December 2018. Intra-group sales and profits are eliminated fully on consolidation. The purchase method of accounting is used to account for the acquisition of subsidiary undertakings by the group. The results of subsidiary undertakings acquired or disposed of are consolidated for the period from or to the date on which control passed. Uniform accounting policies are applied across the group.

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

Business combinations

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

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

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

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

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

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 project 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.

Notes to the financial statements continued
for the year ended 31 December 2018

1. Accounting policies continued
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.
The accounting for leases will change from 1 January 2019 in line with IFRS 16 as explained on page 77.

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

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

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

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

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

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

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

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

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

Revenue recognition

Sales revenue, which is net of returns, rebates and discounts, and which excludes value added tax and sales between group companies is recognised when performance obligations are satisfied in respect of the transfer of goods or services at an amount that the business expects to be entitled to in exchange for those goods or services. Refer to page 76 for detailed revenue accounting policy.

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, 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 there is convincing evidence that probable 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.

Notes to the financial statements continued
for the year ended 31 December 2018

1. Accounting policies continued

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.

Dividend 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. Where risks associated with borrowings are hedged by derivative financial instruments, only changes in fair value attributable to hedged risk is measured at fair value. 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.

On completion of a refinancing, any unamortised financing charges are accelerated through the income statement.

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 hedge.

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 on page 74.

Notes to the financial statements continued
for the year ended 31 December 2018

2. Segment information

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

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

The Board assesses performance of the operating segments based on revenue generated from sales to external customers. Each manufacturing site produces products for multiple sales areas and performance cannot be allocated to operating segments; the Board reviews performance by manufacturing plant regularly. The Board manages underlying operating profit before exceptional items and non-recurring items at a group level. Finance income and cost, and net finance cost on pensions, are not included in the segment results that are reviewed by the Board.

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

	Americas		Asia Pacific		EMEA		Total group	
	2018 £'m	2017 £'m	**2018 £'m**	2017 £'m	**2018 £'m**	2017 £'m	**2018 £'m**	2017 £'m
Revenue sales to external customers	**60.8**	61.6	**82.9**	85.3	**109.7**	110.0	**253.4**	256.9
Underlying operating profit before non-recurring items							**40.0**	38.1
Non-recurring items							**(0.8)**	–
Underlying operating profit							**39.2**	38.1
Exceptional items							**(12.3)**	(5.1)
Operating profit							**26.9**	33.0
Finance cost							**(7.1)**	(8.6)
Net finance cost on pensions							**(2.3)**	(2.8)
Profit before tax							**17.5**	21.6

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:

	2018 £'m	2017 £'m
UK & Ireland	**31.6**	32.4
Other EMEA	**79.5**	80.8
Total EMEA	**111.1**	113.2
USA	**51.2**	51.6
Other Americas	**10.4**	10.0
Total Americas	**61.6**	61.6
Australia	**18.7**	19.6
Other Asia Pacific	**62.0**	62.5
Total Asia Pacific	**80.7**	82.1
Total	**253.4**	256.9

Other segment information:

	Americas		Asia Pacific		EMEA		Global		Total group	
	2018 £'m	2017 £'m	**2018 £'m**	2017 £'m	**2018 £'m**	2017 £'m	**2018 £'m**	2017 £'m	**2018 £'m**	2017 £'m
Additions to property, plant and equipment	**1.4**	0.8	**2.4**	2.3	**6.5**	6.0	**–**	–	**10.3**	9.1
Additions to intangible assets	**–**	–	**–**	–	**0.2**	0.1	**0.7**	1.2	**0.9**	1.3

3. Operating profit

	2018			2017		
	Underlying £'m	**Non-underlying items £'m**	**Reported £'m**	Underlying £'m	Non-underlying items £'m	Reported £'m
Revenue	**253.4**	**–**	**253.4**	256.9	–	256.9
Cost of sales	**(164.2)**	**(2.0)**	**(166.2)**	(166.3)	–	(166.3)
Gross profit	**89.2**	**(2.0)**	**87.2**	90.6	–	90.6
Selling and distribution costs	**(18.9)**	**(0.5)**	**(19.4)**	(19.6)	–	(19.6)
Administrative expenses	**(23.1)**	**(8.9)**	**(32.0)**	(23.6)	(5.1)	(28.7)
Research and development expenditure	**(6.4)**	**(0.9)**	**(7.3)**	(7.3)	–	(7.3)
Other expenses	**(2.9)**	**–**	**(2.9)**	(2.7)	–	(2.7)
Total operating expenses	**(51.3)**	**(10.3)**	**(61.6)**	(53.2)	(5.1)	(58.3)
Other operating income	**1.3**	**–**	**1.3**	0.7	–	0.7
Net operating expenses	**(50.0)**	**(10.3)**	**(60.3)**	(52.5)	(5.1)	(57.6)
Operating profit/(expense)	**39.2**	**(12.3)**	**26.9**	38.1	(5.1)	33.0

An additional £0.4m (2017:£1.2m) of development expenditure has been capitalised within intangible assets (Note 14).

Notes to the financial statements continued
for the year ended 31 December 2018

4. Exceptional items
Exceptional charges included in operating profit were £12.3m (2017: £5.1m).

	2018 £'m	2017 £'m
Devro 100 programme (i)	**6.5**	5.1
New global operating model (ii)	**4.9**	–
GMP equalisation (iii)	**0.9**	–
Total exceptional items	**12.3**	5.1

(i) The Devro 100 programme is focused on accelerating revenue growth through significantly improving sales capabilities, delivering substantial improvements in manufacturing efficiencies to reduce unit costs, and introducing the next generation of differentiated products. The incremental costs associated with implementing this transformation are significant and as a result have been classified as exceptional items.

(ii) Implementation of the new global operating model involved restructuring the business support activities into global functions, to realign the cost base for operating expenses with strategic priorities. These costs relate to redundancy and other incremental external costs, including professional fees.

(iii) The charge associated with the additional pension obligation that arose in relation to equalising pay for guaranteed minimum pensions (GMP), following the High Court ruling in October 2018 which impacted pension schemes in the UK.

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 48 to 63.

Emoluments are summarised as follows:

	2018 £'m	2017 £'m
Aggregate emoluments (including long-term incentives with performance period ending during the year)	**1.2**	1.4
Payments in lieu of pension contributions	**0.1**	0.1

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

	2018 £'m	2017 £'m
Aggregate emoluments (including long-term incentives with performance period ending during the year)	**0.5**	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:

By employee category	2018	2017
Operations and engineering	**1,773**	1,785
Sales and marketing	**86**	87
Distribution	**39**	37
Administration	**163**	160
Research and development	**96**	109
	2,157	2,178

The above total includes 46 persons (2017: 42) employed by the company.

Staff costs for the group were:

	2018 £'m	2017 £'m
Wages and salaries (including bonus and other benefits)	**70.7**	74.4
Social security costs	**11.3**	10.3
Pension obligation costs (Note 26)	**9.4**	9.1
Performance Share Plan charge	**0.8**	0.5
Redundancy costs included within exceptional items	**6.1**	1.7
	98.3	96.0

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

7. Finance cost

	2018 £'m	2017 £'m
Finance cost		
Interest payable and similar charges:		
On loans and overdrafts	**(7.1)**	(8.6)
Net finance cost on pensions	**(2.3)**	(2.8)

8. Profit before tax

	2018 £'m	2017 £'m
Profit before tax is stated after charging/(crediting):		
Depreciation of property, plant and equipment	**24.6**	25.0
Amortisation of intangible assets	**1.0**	1.0
Inventory recognised as an expense	**124.9**	122.4
Inventory written down or written off	**3.8**	7.0
Repairs and maintenance expenditure	**13.8**	12.9
Research and development expenditure	**6.4**	7.3
Hire of assets – operating leases	**1.7**	1.6
Net foreign exchange (gains)/losses	**1.3**	(0.4)
Auditors' remuneration (see below)	**0.4**	0.4

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.

Notes to the financial statements continued
for the year ended 31 December 2018

8. Profit before tax continued
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	2018 £'m	2017 £'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:	**0.3**	0.3
– The audit of the company's subsidiaries		
– Audit related assurance services £22,000 (2017: £21,000)	**–**	–
– Non-audit services £nil (2017: £nil)	**–**	–
	0.4	0.4

In addition to the above, in 2018 the group incurred charges for services in relation to occupational pension scheme audits of £15,000 (2017: £12,000).

9. Tax

	2018			2017		
	Underlying £'m	Non-underlying items £'m	Reported £'m	Underlying £'m	Non-underlying items £'m	Reported £'m
Current tax						
UK corporation tax at 19.00% (2017: 19.25%)	**0.1**	**(0.6)**	**(0.5)**	0.1	(0.1)	–
Foreign tax	**8.1**	**(0.4)**	**7.7**	12.3	(0.2)	12.1
	8.2	**(1.0)**	**7.2**	12.4	(0.3)	12.1
Adjustments in respect of prior years	**(0.1)**	**–**	**(0.1)**	–	–	–
Total current tax charge/(credit)	**8.1**	**(1.0)**	**7.1**	12.4	(0.3)	12.1
Deferred tax						
Origination and reversal of temporary differences representing:						
UK corporation tax	**0.5**	**(0.8)**	**(0.3)**	(0.6)	–	(0.6)
Foreign tax	**(0.7)**	**(0.9)**	**(1.6)**	(5.9)	0.5	(5.4)
	(0.2)	**(1.7)**	**(1.9)**	(6.5)	0.5	(6.0)
Adjustments in respect of prior years	**(0.2)**	**–**	**(0.2)**	(0.1)	–	(0.1)
Total deferred tax charge/(credit) (Note 25)	**(0.4)**	**(1.7)**	**(2.1)**	(6.6)	0.5	(6.1)
Tax charge in the income statement	**7.7**	**(2.7)**	**5.0**	5.8	0.2	6.0
Tax on items charged/(credited) to equity or other comprehensive income						
Deferred tax charge on pension obligations (excluding rate changes)	**3.2**	**–**	**3.2**	4.4	–	4.4
Deferred tax (credit)/charge on net fair value losses on cash flow hedges	**(0.4)**	**–**	**(0.4)**	0.4	–	0.4
Rate changes – US federal rate (on pension obligations)	**–**	**–**	**–**	4.0	–	4.0
Deferred tax on items charged to equity or other comprehensive income	**2.8**	**–**	**2.8**	8.8	–	8.8
Current tax charge/(credit) on other hedges	**0.1**	**–**	**0.1**	(0.4)	–	(0.4)
Total tax on items charged to equity or other comprehensive income	**2.9**	**–**	**2.9**	8.4	–	8.4
Total current tax charge/(credit) for the year	**8.2**	**(1.0)**	**7.2**	12.0	(0.3)	11.7
Total deferred tax charge/(credit) for the year	**2.4**	**(1.7)**	**0.7**	2.2	0.5	2.7

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

	2018			2017		
	Underlying £'m	**Non-underlying items £'m**	**Reported £'m**	Underlying £'m	Non-underlying items £'m	Reported £'m
Profit before tax	**32.1**	**(14.6)**	**17.5**	29.5	(7.9)	21.6
Profit before tax multiplied by the UK 19.00% (2017: 19.25%) corporation tax rate	**6.1**	**(2.8)**	**3.3**	5.7	(1.5)	4.2
Effects of:						
– Adjustments in respect of prior years	**(0.3)**	**–**	**(0.3)**	–	–	–
– Adjustments in respect of foreign tax rates	**0.1**	**0.5**	**0.6**	(1.2)	(0.2)	(1.4)
– Overseas tax	**0.4**	**–**	**0.4**	0.2	–	0.2
– Changes in tax rates (US federal rate)	**–**	**–**	**–**	–	4.2	4.2
– Temporary differences on which deferred tax not recognised/(previously unrecognised)	**3.2**	**(0.5)**	**2.7**	0.4	(2.6)	(2.2)
– Permanent differences*	**(1.8)**	**0.1**	**(1.7)**	0.7	0.3	1.0
Tax charge for the year	**7.7**	**(2.7)**	**5.0**	5.8	0.2	6.0

* Permanent differences for 2017 have been restated to reflect the reclassification of net finance cost on pensions from underlying to non-underlying items.

The group's underlying effective tax rate on profit before exceptional items is 24.0% (2017: 21.6%).

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

In 2018, £2.7m of deferred tax assets have not been recognised on losses in the year. In 2017, net additional deferred tax assets in respect of previously unrecognised losses have been recognised in the year as a result of an increase in projected taxable profits in the relevant jurisdictions, including the effects of a review of the internal funding structure. To the extent that additional deferred tax assets related to losses were previously charged to exceptional items, the associated tax credit has also been reported as an exceptional item.

The group has recognised potential liabilities in respect of uncertain tax positions as described in the group accounting policies. In determining such liabilities, having regard to the specific circumstances of each tax position and external advice where appropriate, the group assesses the range of potential outcomes and makes judgements in regards to estimates whether additional tax may be due. Tax uncertainties and associated risks are increasing for all multinational groups as a consequence of changes to local and international tax rules, for example the OECD's Base Erosion & Profit Shifting project and other changes such as tax reform in the US in 2017. In these circumstances tax risk can arise from unclear regulations and differences in interpretation, but most significantly where tax authorities apply diverging standards in assessing intra-group cross-border transactions. The group does not currently anticipate any material changes to the amounts recorded in respect of these liabilities as at the balance sheet date. Movements in uncertain tax provisions are included in permanent differences in the table above.

Recognition of uncertain tax provisions has been reviewed in line with IFRIC 23 guidance. The group does not anticipate that adoption of IFRIC 23 will have significant impact on determination of uncertain tax provisions in 2019.

The UK corporation tax rate of 20% reduced to 19% from 1 April 2017 giving a blended rate for 2017 of 19.25%. Further reductions to 17% from 1 April 2020 were substantively enacted in September 2017. This will reduce the company's future current tax charge accordingly.

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

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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 £25.7m (2017: £54.1m).

11. Dividends

Group and company	2018 £'m	2017 £'m
Final paid of 6.1 pence per share (2017: 6.1 pence)	**10.2**	10.2
Interim paid of 2.7 pence per share (2017: 2.7 pence)	**4.5**	4.5
	14.7	14.7

During the year, dividends totalling £nil (2017: £nil) were waived in respect of shares owned by the Devro Employee Share Ownership Trust.

The directors propose a final dividend of 6.3 pence per share in respect of the financial year ended 31 December 2018 which will absorb an estimated £10.5m of shareholders' funds. It will be paid on 10 May 2019 to shareholders who are on the register at close of business on 29 March 2019.

12. Earnings per share

	2018 £'m	2017 £'m
Profit attributable to equity holders	**12.5**	15.6
Underlying profit attributable to equity holders*	**24.4**	23.7
Earnings per share		
– Basic	**7.5p**	9.3p
– Underlying basic*	**14.6p**	14.2p
– Diluted	**7.4p**	9.3p
– Underlying diluted*	**14.4p**	14.1p

	2018	2017
Shares in issue (unit) Weighted average number of shares in the year	**166,949,022**	166,949,022
Adjustments for: – Performance Share Plan	**2,096,270**	1,691,003
Weighted average number of shares adjusted for potential dilution	**169,045,292**	168,640,025

* Underlying earnings per share for 2017 have been restated to exclude net finance cost on pensions.

Basic earnings per share is calculated by dividing the profit for the year attributable to owners of the parent of £12.5m (2017: £15.6m) by 166,949,022 (2017: 166,949,022) 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 £12.5m (2017: £15.6m) by the average number of shares, including the effect of all dilutive potential shares, of 169,045,292 (2017: 168,640,025).

Underlying earnings per share is calculated in order to eliminate the effect of exceptional items after tax in 2018 of £11.9m (2017: £8.1m) on the results. Underlying basic earnings per share is calculated by dividing the underlying profit attributable to ordinary shareholders of £24.4m (2017: £23.7m) by 166,949,022 (2017: 166,949,022) shares, being the weighted average number of shares in issue throughout the year.

13. Property, plant and equipment

Group	Freehold land and buildings £'m	Plant and machinery, and motor vehicles £'m	Fixtures and fittings, and computer equipment £'m	Assets in the course of construction £'m	Total £'m
Cost					
At 1 January 2018	**156.6**	**375.9**	**16.3**	**9.4**	**558.2**
Exchange differences	**1.1**	**2.3**	**0.3**	**(0.1)**	**3.6**
Additions	**0.4**	**3.6**	**0.4**	**5.9**	**10.3**
Disposals	**(0.6)**	**(32.9)**	**(1.5)**	**–**	**(35.0)**
Reclassification	**0.6**	**5.3**	**0.5**	**(6.4)**	**–**
At 31 December 2018	**158.1**	**354.2**	**16.0**	**8.8**	**537.1**
Accumulated depreciation					
At 1 January 2018	**(42.8)**	**(212.3)**	**(12.0)**	**–**	**(267.1)**
Exchange differences	**0.1**	**(1.5)**	**(0.1)**	**–**	**(1.5)**
Charge for year	**(3.3)**	**(20.0)**	**(1.3)**	**–**	**(24.6)**
Disposals	**0.6**	**32.8**	**1.5**	**–**	**34.9**
At 31 December 2018	**(45.4)**	**(201.0)**	**(11.9)**	**–**	**(258.3)**
Net book value at 31 December 2018	**112.7**	**153.2**	**4.1**	**8.8**	**278.8**
Cost					
At 1 January 2017	155.5	374.9	17.0	7.5	554.9
Exchange differences	1.6	(1.0)	(0.9)	1.0	0.7
Additions	0.1	2.8	0.5	5.7	9.1
Disposals	(1.7)	(4.4)	(0.4)	–	(6.5)
Reclassification	1.1	3.6	0.1	(4.8)	–
At 31 December 2017	156.6	375.9	16.3	9.4	558.2
Accumulated depreciation					
At 1 January 2017	(39.5)	(195.1)	(11.7)	–	(246.3)
Exchange differences	(1.1)	(0.5)	(0.1)	–	(1.7)
Charge for year	(3.5)	(21.0)	(0.5)	–	(25.0)
Disposals	1.3	4.3	0.3	–	5.9
At 31 December 2017	(42.8)	(212.3)	(12.0)	–	(267.1)
Net book value at 31 December 2017	113.8	163.6	4.3	9.4	291.1
Cost at 1 January 2017	155.5	374.9	17.0	7.5	554.9
Accumulated depreciation at 1 January 2017	(39.5)	(195.1)	(11.7)	–	(246.3)
Net book value at 1 January 2017	116.0	179.8	5.3	7.5	308.6

In the income statement, depreciation of £23.3m (2017: £23.6m) has been charged in cost of sales, £0.1m (2017: £0.2m) in selling and distribution costs, £0.9m (2017: £0.9m) in administrative expenses, £0.1m (2017: £0.1m) in research and development expenditure and £0.2m (2017: £0.2m) in other expenses.

No borrowing costs were capitalised to property, plant and equipment in 2018 (2017: £nil).

Notes to the financial statements continued
for the year ended 31 December 2018

13. Property, plant and equipment continued

Company	Plant and machinery, and motor vehicles and total £'m
Cost	
At 1 January 2018	**0.9**
At 31 December 2018	**0.9**
Accumulated depreciation	
At 1 January 2018	**(0.9)**
At 31 December 2018	**(0.9)**
Net book value at 31 December 2018	**–**
Cost	
At 1 January 2017	0.9
At 31 December 2017	0.9
Accumulated depreciation	
At 1 January 2017	(0.8)
Charge for year	(0.1)
At 31 December 2017	(0.9)
Net book value at 31 December 2017	–
Cost at 1 January 2017	0.9
Accumulated depreciation at 1 January 2017	(0.8)
Net book value at 1 January 2017	0.1

14. Intangible assets

Group	Goodwill £'m	Customer contracts & relationships £'m	Computer software £'m	Development costs £'m	Total £'m
Cost					
At 1 January 2018	**3.1**	**2.1**	**8.6**	**6.6**	**20.4**
Exchange differences	**–**	**–**	**0.1**	**0.1**	**0.2**
Additions	**–**	**–**	**0.5**	**0.4**	**0.9**
At 31 December 2018	**3.1**	**2.1**	**9.2**	**7.1**	**21.5**
Accumulated amortisation					
At 1 January 2018	**–**	**(0.4)**	**(8.0)**	**(1.6)**	**(10.0)**
Charge for year	**–**	**(0.1)**	**(0.5)**	**(0.4)**	**(1.0)**
At 31 December 2018	**–**	**(0.5)**	**(8.5)**	**(2.0)**	**(11.0)**
Net book value at 31 December 2018	**3.1**	**1.6**	**0.7**	**5.1**	**10.5**
Cost					
At 1 January 2017	3.1	2.1	8.4	5.6	19.2
Exchange differences	–	–	0.1	(0.2)	(0.1)
Additions	–	–	0.1	1.2	1.3
At 31 December 2017	3.1	2.1	8.6	6.6	20.4
Accumulated amortisation					
At 1 January 2017	–	(0.2)	(7.3)	(1.3)	(8.8)
Exchange differences	–	–	(0.2)	–	(0.2)
Charge for year	–	(0.2)	(0.5)	(0.3)	(1.0)
At 31 December 2017	–	(0.4)	(8.0)	(1.6)	(10.0)
Net book value at 31 December 2017	3.1	1.7	0.6	5.0	10.4
Cost at 1 January 2017	3.1	2.1	8.4	5.6	19.2
Accumulated amortisation at 1 January 2017	–	(0.2)	(7.3)	(1.3)	(8.8)
Net book value at 1 January 2017	3.1	1.9	1.1	4.3	10.4

Included in the net book value of intangible assets is £4.8m (2017: £4.4m) relating to internally generated development costs.

In the income statement, amortisation of £0.4m (2017: £0.4m) is included in cost of sales and £0.6m (2017: £0.6m) in administrative expenses.

The group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. The group's goodwill entirely relates to the acquisition of PV Industries B.V. which was completed during 2015, and represents a single cash generating unit. The recoverable amount of this cash generating unit is determined from value in use calculations, and the key assumptions are those regarding the discount rate, profit margin and sales growth rates. The group prepares cash flow forecasts for the next five years derived from the most recent financial budgets approved by management, based on expected market growth rates and prior experience, with an estimated long-term growth rate of 3% per annum assumed at the end of the five year forecast period. The rate used to discount the forecast cash flows is 8% (2017: 9%). Based on these calculations there is sufficient headroom over the book value of goodwill.

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for the year ended 31 December 2018

14. Intangible assets continued

Company	Computer software £'m	Development costs £'m	Total £'m
Cost			
At 1 January 2018	**3.8**	**1.5**	**5.3**
Additions	**0.4**	**0.2**	**0.6**
Disposals	**(0.3)**	**–**	**(0.3)**
At 31 December 2018	**3.9**	**1.7**	**5.6**
Accumulated amortisation			
At 1 January 2018	**(3.6)**	**–**	**(3.6)**
Charge for year	**(0.1)**	**–**	**(0.1)**
Disposals	**0.3**	**–**	**0.3**
At 31 December 2018	**(3.4)**	**–**	**(3.4)**
Net book value at 31 December 2018	**0.5**	**1.7**	**2.2**
Cost			
At 1 January 2017	3.8	0.4	4.2
Additions	–	1.1	1.1
At 31 December 2017	3.8	1.5	5.3
Accumulated amortisation			
At 1 January 2017	(3.5)	–	(3.5)
Charge for year	(0.1)	–	(0.1)
At 31 December 2017	(3.6)	–	(3.6)
Net book value at 31 December 2017	0.2	1.5	1.7
Cost at 1 January 2017	3.8	0.4	4.2
Accumulated amortisation at 1 January 2017	(3.5)	–	(3.5)
Net book value at 1 January 2017	0.3	0.4	0.7

15. Investments

Company	2018 £'m	2017 £'m
Interest in group undertakings		
Cost and net book value at 1 January	**205.7**	204.0
Additions	**47.3**	1.7
Cost and net book value at 31 December	**253.0**	205.7

Additions in 2018 have arisen related to the company's investments in its China and Scotland subsidiaries in order to fulfil their funding requirements and also related to Performance Share Plan charges for employees within subsidiaries which will be settled with the company's shares.

Additions in 2017 relate to 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 2018 are shown below:

Name of undertaking	Country of incorporation or registration	Nature of business	Class of shares held	Proportion of nominal value of issued shares & voting rights held by: Group	Company	Registered office address
Devro (Scotland) Limited	Scotland	Casings	Ordinary		100%	Moodiesburn, Chryston, G69 0JE, Scotland
Devro New Holdings Limited	Scotland	Holding	Ordinary		100%	Moodiesburn, Chryston, G69 0JE, Scotland
Devro Acquisition Corp	USA	Holding	Common	100%		2711 Centerville road, Suite 400, City of Wilmington 19808, County of New Castle, United States
Devro US Finance LLP	USA	Finance	Common	100%		2711 Centerville road, Suite 400, City of Wilmington 19808, County of New Castle, United States
Devro Asia Limited	Hong Kong	Casings	Ordinary	100%		7/F CKK Commercial Center 289 Hennessy Road Wanchai, Hong Kong
Devro Pty Limited	Australia	Casings	Ordinary	100%		139 Sydney Road, Kelso NSW 2795 Australia
Devro KK	Japan	Casings	Ordinary	100%		Yasuda Shibaura Bldg., No.2, 3-2-12 Kaigan, Minato-Ku, Tokyo, Japan
Devro Inc	USA	Casings	Common	100%		2711 Centerville road, Suite 400, City of Wilmington 19808, County of New Castle, United States
Devro s.r.o	Czech Republic	Casings	Ordinary	100%		Vochovska 830, Hrabacov, 51401, Jilemnice, Czech Republic
Devro Trading (Beijing) Co. Limited	China	Casings	Ordinary	100%		Room F18 Tower C, 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
Plastic Casings Czech, s.r.o	Czech Republic	Casings	Ordinary	100%		Okruzni 1438,684 11 Slavkov u Brna, Czech Republic

Devro Pty Limited has a branch located in New Zealand. Devro also has a representative office in Russia (Moscow).

Notes to the financial statements continued
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16. Inventories
Details of inventories relating to the group are as follows:

	2018 £'m	2017 £'m
Raw materials and consumables	**5.0**	4.7
Work in progress	**4.9**	4.9
Finished goods and goods for resale	**28.3**	22.7
	38.2	32.3

The amounts stated above are net of inventory provisions.

17. Trade and other receivables

	Group		Company	
	2018 £'m	2017 £'m	2018 £'m	2017 £'m
Amounts falling due after more than one year				
Amounts owed by subsidiary undertakings	**–**	–	**153.6**	128.9
Other receivables	**5.4**	4.5	**–**	–
Amounts falling due within one year				
Trade receivables	**31.1**	26.4	**–**	–
Less: provision for doubtful debts	**(0.2)**	(0.2)	**–**	–
Trade receivables – net	**30.9**	26.2	**–**	–
Amounts owed by subsidiary undertakings*	**–**	–	**17.1**	16.0
Other receivables	**2.2**	2.1	**0.3**	0.2
Prepayments and accrued income	**2.9**	2.3	**1.6**	1.3
	36.0	30.6	**19.0**	17.5

* Amounts receivable from subsidiary undertaking include tax losses surrendered. This amounts to £9.9m (2017: £9.3m).

Other non-current receivables include German insurance assets held to fund pensions obligations, reclassified from net pension liabilities in 2018, of £2.0m.

Group
At 31 December 2018, trade receivables of £0.1m (2017: £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:

	2018 £'m	2017 £'m
Less than 30 days past due	**0.1**	–
Greater than 90 days past due	**–**	0.2
	0.1	0.2

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

	2018 £'m	2017 £'m
At 1 January	**0.2**	0.2
Receivables impaired	**(0.1)**	–
At 31 December	**0.1**	0.2

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

At 31 December 2018, trade receivables of £3.9m (2017: £3.8m) were past due but not impaired. The group believes the unimpaired amounts are collectible in full based on historical payment behaviour and an analysis of customer credit risk. The ageing of these receivables was as follows:

	2018 £'m	2017 £'m
Less than 30 days past due	**3.3**	3.3
30 to 90 days past due	**0.6**	0.5
	3.9	3.8

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:

	2018 £'m	2017 £'m
US dollar	**5.9**	2.1
Euro	**9.2**	8.1
Japanese yen	**6.1**	6.1
Sterling	**2.3**	3.9
Australian dollar	**3.3**	2.3
Czech koruna	**1.0**	1.0
Chinese renminbi	**1.2**	0.8
Other currencies	**1.9**	1.9
	30.9	26.2

Company

At 31 December 2018, trade receivables of £nil (2017: £nil) were neither past due nor impaired.

At 31 December 2018, receivables due from subsidiary undertakings of £170.7m (2017: £144.9m) were neither past due nor impaired.

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

	2018 £'m	2017 £'m
US dollar	**107.3**	90.5
Chinese renminbi	**39.9**	34.2
Sterling	**11.3**	10.3
Japanese yen	**5.8**	4.5
Euro	**2.3**	2.2
Other currencies	**4.1**	3.2
	170.7	144.9

18. Cash and cash equivalents

	Group		**Company**	
	2018 £'m	2017 £'m	**2018 £'m**	2017 £'m
Cash at bank and in hand	**8.6**	10.3	**0.5**	0.3
Short-term bank deposits	**1.3**	0.5	**–**	–
	9.9	10.8	**0.5**	0.3

Notes to the financial statements continued
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19. Trade and other payables – current

	Group		Company	
	2018 £'m	2017 £'m	**2018 £'m**	2017 £'m
Trade payables	**9.3**	11.0	**1.5**	1.1
Tax and social security payable	**4.4**	2.3	**–**	–
Accruals	**15.6**	17.9	**4.7**	4.2
	29.3	31.2	**6.2**	5.3

Accruals include £0.1m (2017: £0.2m) in respect of government grants payable within one year.

20. Other payables – non-current

	Group		Company	
	2018 £'m	2017 £'m	**2018 £'m**	2017 £'m
Amounts owed to subsidiary undertakings	**–**	–	**47.8**	27.3
Accruals	**3.0**	3.3	**–**	–
	3.0	3.3	**47.8**	27.3

Accruals include £2.4m (2017: £2.4m) 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	**2018 £'m**	2017 £'m
At 1 January	**3.8**	4.4
Charge to the income statement during the year	**5.5**	2.6
Released	**(0.1)**	(0.5)
Utilised during the year	**(0.4)**	(2.6)
Foreign exchange	**0.2**	(0.1)
At 31 December	**9.0**	3.8
Non-current	**3.8**	3.6
Current	**5.2**	0.2
Total	**9.0**	3.8

The closing provision as at 31 December 2018 includes redundancy provisions of £5.2m (2017: £0.2m), which are expected to be paid before the end of 2019, and an estimated £3.8m (2017: £3.6m) for decommissioning costs. The decommissioning provision relates to 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, and is expected to be paid within 1-3 years. The decommissioning provision has been determined based on independent advice.

22. Financial liabilities – borrowings

	Group		Company	
	2018 £'m	2017 £'m	**2018 £'m**	2017 £'m
Current				
Bank overdrafts due within one year or on demand	**4.7**	1.5	**8.6**	1.2
Non-current				
Unsecured bank loans	**68.7**	69.8	**64.8**	34.4
US dollar private placement	**78.1**	74.4	**78.1**	74.4
	146.8	144.2	**142.9**	108.8

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

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

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

	Currency	Rate	2018	2017
Bank overdrafts:				
	Sterling*	Bank of England base rate plus 150 basis points	**2.25%**	2.00%
	US dollar	US 1 month LIBOR plus 200 basis points	**3.56%**	3.56%
	Czech koruna	PRIBOR plus 90 basis points	**2.78%**	1.54%
	Euro	EUR LIBOR plus 90 basis points	**0.90%**	0.90%
Bank borrowings:				
Floating rate	Sterling	LIBOR plus 140 basis points (2017: plus 140 basis points)	**2.13%**	1.90%
Floating rate	US dollar	US LIBOR plus 140 basis points (2017: plus 140 basis points)	**2.96%**	2.96%
Floating rate	Australian dollar	BBSW plus 140 basis points (2017: plus 140 basis points)	**3.45%**	3.11%
Floating rate	Chinese renminbi	CNH Hong Kong HIBOR plus 140 basis points (2017: plus 140 basis points)	**6.35%**	6.35%
Average bank borrowings rate			**2.20%**	3.40%
Other debt payable:				
Fixed rate	US dollar		**4.48%**	4.48%

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

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

Group	2018 Bank borrowings £'m	2018 Other debt £'m	2018 Total £'m	2017 Bank borrowings £'m	2017 Other debt £'m	2017 Total £'m
Sterling	**66.3**	**–**	**66.3**	34.4	–	34.4
Australian dollar	**3.9**	**–**	**3.9**	8.1	–	8.1
Chinese renminbi	**–**	**–**	**–**	27.3	–	27.3
Czech koruna	**3.2**	**–**	**3.2**	1.5	–	1.5
US dollar	**–**	**78.1**	**78.1**	–	74.4	74.4
	73.4	**78.1**	**151.5**	71.3	74.4	145.7
Company						
Sterling	**73.4**	**–**	**73.4**	35.6	–	35.6
US dollar	**–**	**78.1**	**78.1**	–	74.4	74.4
	73.4	**78.1**	**151.5**	35.6	74.4	110.0

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 is to be undertaken. These policies are summarised below:

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

The covenants related to the group's bank loan facilities determine a minimum of underlying EBITDA to net interest payable ratio and a maximum covenant of net debt to underlying EBITDA ratio. These measures are defined, explained and reconciled to the equivalent statutory measures in the Financial Review on pages 20 to 25. The group had adequate headroom within both covenants throughout the years ending 31 December 2018 and 31 December 2017.

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 2018 and 31 December 2017 were as follows:

	Note	2018 £'m	2017 £'m
Total borrowings	22	**151.5**	145.7
Less: cash and cash equivalents	18	**(9.9)**	(10.8)
Net debt	31	**141.6**	134.9
Equity		**146.5**	127.2
Bank loan covenant ratios:			
Covenant net debt to underlying EBITDA		**2.2**	2.1
Underlying EBITDA to net interest payable		**8.5**	7.7
Gearing ratio		**96.7%**	106.1%

Financial risk management

Market risk

a) Interest rate risk

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

The group borrows in the desired currencies at both floating and fixed rates of interest and may use forward rate agreements or interest rate swaps to generate the desired interest rate profile and manage the group's exposure to interest rate fluctuations. The group did not enter into any interest swap agreements in 2018. The US dollar private placement completed during 2014 means that around half of the group's debt is currently at a fixed rate of interest.

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

The sensitivity of net finance costs to a movement in interest rates is restricted by the level of fixed rate borrowing now in place. A variation of, for example, 100 basis points in interest rates applied to the group's borrowings, cash and short-term deposits at 31 December 2018, would result in a movement in finance costs of £0.7m (2017: £0.7m) and finance income of £Nil (2017: £nil). This would result in an adverse post-tax impact on the group's income statement of £0.6m (2017: £0.6m) and a post-tax impact on the group's equity of £0.6m (2017: £0.6m).

b) Foreign exchange risk

The group has several significant overseas subsidiary undertakings whose revenues and expenses are denominated in a variety of currencies. Group policy dictates that foreign currency exposures arising from future commercial transactions are reviewed by Group Treasury and hedging activities are undertaken as appropriate in order to manage the net foreign exchange risks arising. Group policy permits the hedging of up to a maximum of 75% of the net external currency transaction exposures for periods of up to fifteen months forward. It is not group policy to routinely hedge translation exposures apart from those created by inter-company loans or where foreign currency denominated assets are planned to be returned to the UK in the form of a dividend. Specific Board approval is required for any other translation exposure hedging.

A portion of the group's investment in its Czech subsidiary, Devro s.r.o. is hedged by a Czech koruna foreign exchange forward contract which mitigates the foreign currency risk arising from the subsidiary's net assets. The forward contract is designated as a net investment hedge. No ineffectiveness was recognised from the hedge in 2018. The group's investments in other subsidiaries are not hedged.

The table overleaf details the impact that 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 2018 and 31 December 2017. The impact is due to the translation of both subsidiary profits from their functional currency into sterling, the 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 2018 and 31 December 2017 include the impact that changes in foreign exchange rates would have on the translation of subsidiary net assets, as well as the effect of cash flow currency and net investment hedges.

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

Notes to the financial statements continued
for the year ended 31 December 2018

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

Foreign currency movement	Impact on group operating profit before exceptional items gains/(losses)		Impact on group profit after tax and exceptional items gains/(losses)		Impact on equity increase/(decrease)	
	Strengthening £'m	Weakening £'m	Strengthening £'m	Weakening £'m	Strengthening £'m	Weakening £'m
2018						
Australian dollar: 16%	**0.8**	**–**	**0.5**	**0.2**	**5.8**	**(3.8)**
Czech koruna: 14%	**2.6**	**(0.5)**	**2.0**	**(0.4)**	**12.8**	**(8.6)**
Euro: 14%	**3.7**	**(2.8)**	**2.9**	**(2.2)**	**1.4**	**(1.3)**
Japanese yen: 19%	**1.3**	**(0.9)**	**1.1**	**(0.7)**	**1.2**	**(0.9)**
US dollar: 17%	**2.9**	**(2.0)**	**1.0**	**(0.6)**	**(0.5)**	**0.3**
2017						
Australian dollar: 16%	1.6	(0.5)	1.1	(0.2)	5.5	(3.6)
Czech koruna: 14%	3.2	(1.0)	2.5	(0.8)	13.7	(9.2)
Euro: 14%	4.1	(3.1)	3.2	(2.4)	1.5	(1.4)
Japanese yen: 19%	1.4	(1.0)	1.1	(0.8)	1.2	(0.9)
US dollar: 17%	3.8	(2.7)	1.7	(1.1)	1.6	(1.3)

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

	2018 £'m	2017 £'m
Cash and cash equivalents	**9.9**	10.8
Derivative financial instruments	**0.2**	1.8
Trade receivables	**30.9**	26.2
Other receivables	**2.2**	2.1
	43.2	40.9

The group monitors its credit exposure, where applicable, using credit ratings and through its policy of requiring appropriate credit checks on potential customers before sales commence. These procedures limit the group's exposure to any one party to approved levels. Exposure to banking counterparties is only permitted with approved banks which have one minimum short-term rating of A1/P1/F1 with rating agencies S&P, Moody's or Fitch. At the reporting date no single banking exposure was greater than £3.4m (2017: £3.5m). 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, 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 2018 and 31 December 2017 are shown below:

	2018 £'m	2017 £'m
Expiring in more than two years	**19.9**	40.2

At 31 December 2018, the group had in place floating rate committed loan facilities totalling £90.0m with an accordion option of £20.0m, exercisable at any time (2017: £110.0m). These facilities consist of a single syndicated revolving credit facility with four banks, negotiated in June 2018 and expiring on 20 June 2023.

During the year the company restructured its investment in its China subsidiary by converting a portion of the debt funding into capital.

In addition to the committed facilities, local uncommitted working capital facilities of £5.0m (2017: £5.0m), US$nil (2017: US$2.0m), and CZK 175m (2017: CZK 175m) were also in place at 31 December 2018. These facilities are renewable within one year.

Financial instruments

Disclosures regarding financial instruments are set out below:

Fair value of derivative financial instruments

The fair values of derivative financial instruments were as follows:

	Group		Company	
	Assets £'m	Liabilities £'m	Assets £'m	Liabilities £'m
At 31 December 2018				
Forward foreign exchange contracts				
– cash flow hedge	**0.1**	**1.6**	**0.1**	**1.6**
– cash flow hedge held with subsidiaries	**–**	**–**	**1.6**	**0.1**
– net investment hedge	**0.1**	**–**	**0.1**	**–**
– other	**–**	**–**	**–**	**–**
	0.2	**1.6**	**1.8**	**1.7**
At 31 December 2017				
Forward foreign exchange contracts				
– cash flow hedge	1.6	0.1	1.6	0.1
– cash flow hedge held with subsidiaries	–	–	0.1	1.7
– net investment hedge	–	–	–	–
– other	0.2	0.3	0.2	0.3
	1.8	0.4	1.9	2.1

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

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

Level 1	Quoted prices (unadjusted) in active markets for identical assets and liabilities
Level 2	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (that is, as prices) or indirectly (that is, derived from prices)
Level 3	Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

All of the group and company's derivative financial instruments that are measured at fair value were classified as Level 2 as at 31 December 2018 (2017: Level 2). They have been valued using publicly available data such as forward foreign exchange rates. There are no financial instruments measured as Level 3.

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

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

	2018 £'m	2017 £'m
Forward foreign exchange contracts	**67.6**	70.4
Currency swaps	**32.0**	105.9

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for the year ended 31 December 2018

23. Capital and financial risk management, and financial instruments continued
Fair values of non-derivative financial assets and liabilities

Group	Note	FVOCI* £'m	FVTIC** £'m	Amortised cost £'m	Total £'m
Financial assets measured at fair value					
Forward exchange contract used for hedging	23	**0.2**	**–**	**–**	**0.2**
Financial assets not measured at fair value					
Trade and other receivables	17	**–**	**–**	**33.1**	**33.1**
Short-term bank deposits	18	**–**	**–**	**1.3**	**1.3**
Cash at bank and in hand	18	**–**	**–**	**8.6**	**8.6**
Financial liability measured at fair value					
Forward exchange contract used for hedging	23	**(1.3)**	**(0.3)**	**–**	**(1.6)**
Financial liabilities not measured at fair value					
Trade and other payables	19	**–**	**–**	**(24.7)**	**(24.7)**
Borrowings	22	**–**	**–**	**(151.5)**	**(151.5)**

* FVOCI – Fair value through other comprehensive income.
** FVTIC – Fair value through income statement.

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

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

Maturity of financial liabilities
The tables below analyse the group's and company's financial liabilities, which will be settled on a net basis, into relevant maturity groupings based on the remaining period to the contractual maturity dates at 31 December 2018 and 31 December 2017. 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 2018				
Bank borrowings	**7.9**	**1.6**	**76.6**	**–**
US dollar private placement	**3.5**	**3.5**	**27.9**	**61.2**
Derivative financial instruments	**1.6**	**–**	**–**	**–**
Trade and other payables	**24.7**	**–**	**–**	**–**
Provisions for other liabilities and charges	**5.2**	**3.8**	**–**	**–**
At 31 December 2017				
Bank borrowings	4.0	72.3	–	–
US dollar private placement	3.3	3.3	26.9	60.0
Derivative financial instruments	0.4	–	–	–
Trade and other payables	28.9	–	–	–
Provisions for other liabilities and charges	0.2	3.6	–	–

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 2018				
Bank borrowings	**2.8**	**1.4**	**68.9**	**–**
US dollar private placement	**3.5**	**3.5**	**27.9**	**61.2**
Derivative financial instruments	**1.7**	**–**	**–**	**–**
Trade and other payables	**6.2**	**–**	**–**	**–**
At 31 December 2017				
Bank borrowings	0.7	35.1	–	–
US dollar private placement	3.3	3.3	26.9	60.0
Derivative financial instruments	2.1	–	–	–
Trade and other payables	5.3	–	–	–

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

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

Maturity of derivative financial instruments

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

As at 31 December

Group	2018 Less than 1 year £'m	2017 Less than 1 year £'m
Forward foreign exchange contracts – cash flow hedges		
Outflow	**(63.3)**	(76.7)
Inflow	**65.6**	78.2
Forward foreign exchange contracts – net investment hedges		
Outflow	**(34.3)**	(31.2)
Inflow	**34.4**	31.2
Forward foreign exchange contracts – other		
Outflow	**(3.1)**	(70.2)
Inflow	**3.1**	70.1
Company		
Forward foreign exchange contracts – cash flow hedges		
Outflow	**(128.8)**	(154.9)
Inflow	**128.8**	154.9
Forward foreign exchange contracts – other		
Outflow	**(37.5)**	(101.4)
Inflow	**37.6**	101.2

Notes to the financial statements continued
for the year ended 31 December 2018

24. Changes in liabilities arising from financing activities

Group	1 January 2018 £'m	Cash flows £'m	Foreign exchange movement £'m	Movement in fair values of derivative financial instruments £'m	31 December 2018 £'m
Current interest-bearing loans and borrowings	**(1.5)**	**(3.2)**	**–**	**–**	**(4.7)**
Non-current interest-bearing loans and borrowings	**(144.2)**	**0.6**	**(3.2)**	**–**	**(146.8)**
Derivative financial instruments	**(0.4)**	**–**	**–**	**(1.2)**	**(1.6)**
Total liabilities from financing activities	**(146.1)**	**(2.6)**	**(3.2)**	**(1.2)**	**(153.1)**

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

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

25. Deferred tax

	Group		Company	
	2018 £'m	2017 £'m	**2018 £'m**	2017 £'m
Net asset at 1 January	**17.2**	20.9	**0.6**	0.5
Exchange differences	**0.2**	(1.2)	**–**	–
Credit/(charge) for the year to profit	**2.1**	6.1	**(0.1)**	0.1
Charge to equity or other comprehensive income	**(2.9)**	(8.9)	**–**	–
UK corporation tax rate change	**–**	0.3	**–**	–
Net asset at 31 December	**16.6**	17.2	**0.5**	0.6

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 2018	**13.8**	**19.1**	**2.4**	**35.3**
Exchange differences	**0.1**	**0.3**	**–**	**0.4**
(Charge)/credit for the year	**(0.1)**	**1.5**	**–**	**1.4**
Charge/(credit) to equity or other comprehensive income	**(3.2)**	**0.3**	**–**	**(2.9)**
At 31 December 2018	**10.6**	**21.2**	**2.4**	**34.2**
At 1 January 2017	22.1	16.3	1.9	40.3
Exchange differences	(0.8)	–	–	(0.8)
Credit for the year to profit before US federal rate change	0.6	7.5	0.5	8.6
Charge to equity or other comprehensive income before US federal rate change	(4.4)	(0.5)	–	(4.9)
US federal rate change – exceptional charge to profit	–	(4.2)	–	(4.2)
US federal rate change – charge to other comprehensive income	(4.0)	–	–	(4.0)
UK corporation tax rate change	0.3	–	–	0.3
At 31 December 2017	13.8	19.1	2.4	35.3

Deferred tax liabilities can be analysed as follows:

	Accelerated capital allowances £'m	Other £'m	Total £'m
At 1 January 2018	**(17.9)**	**(0.2)**	**(18.1)**
Exchange differences	**(0.2)**	**–**	**(0.2)**
Credit for the year to profit	**0.2**	**0.5**	**0.7**
At 31 December 2018	**(17.9)**	**0.3**	**(17.6)**
At 1 January 2017	(17.8)	(1.6)	(19.4)
Exchange differences	(0.5)	–	(0.5)
Credit for the year to profit	0.4	1.4	1.8
At 31 December 2017	(17.9)	(0.2)	(18.1)

Deferred tax assets and liabilities are only offset to the extent that there is a legally enforceable right to do so, as permitted by IAS 12.

A deferred tax asset of £11.7m (2017: £11.0m) has been recognised in respect of US and Chinese losses carried forward at 31 December 2018. This amount has been calculated by estimating the probable future taxable profits, against which the tax losses will be utilised, and applying the tax rates substantively enacted as at the balance sheet date. The estimates of probable future taxable profits reflect operational improvements, enhancements and changes in the business' funding structures and are risk-adjusted to reflect the inherent uncertainty in the long term nature of forecasting. Remaining gross losses of £49.1m (2017: £42.0m) have not been recognised at 31 December 2018 due to uncertainty over the timing of future taxable profits against which these losses can be recovered. Given the inherent uncertainty in the long term nature of forecasting, it is reasonably possible that developments could require a material increase or decrease to the carrying amount of these recognised and unrecognised assets within the next financial year. Recognition of deferred tax assets in China has been limited by the expiry of losses carried forward after five years. Carried forward losses do not expire in the US. Gross losses of £1.3m related to other temporary differences have also not been recognised at 31 December 2018.

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 (2017: Nil).

Notes to the financial statements continued
for the year ended 31 December 2018

25. Deferred tax continued
Company

	Temporary differences £'m
Asset at 1 January 2018	**0.6**
Charge for the year to profit	**(0.1)**
Asset at 31 December 2018	**0.5**
Asset at 1 January 2017	0.5
Credit for the year to profit	0.1
Asset at 31 December 2017	0.6

26. Pension obligations
The amounts recognised as charges in the income statement are as follows:

	2018 £'m	2017 £'m
Defined benefit schemes:		
– Current service cost	**1.4**	1.6
– Scheme administrative expenses	**1.5**	1.6
Defined benefit costs included within underlying operating profit	**2.9**	3.2
GMP equalisation exceptional charge	**0.9**	–
Defined benefit costs included within operating profit	**3.8**	3.2
Net finance cost on pensions	**2.3**	2.8
Total defined benefit scheme costs	**6.1**	6.0
Defined contribution schemes	**3.3**	3.1
Total pension obligation costs	**9.4**	9.1

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

	2018 £'m	2017 £'m
Fair value of scheme assets	**232.8**	247.6
Present value of scheme liabilities	**(287.2)**	(329.6)
Pension obligations	**(54.4)**	(82.0)

The group operates a number of pension schemes throughout the world. The major schemes are of the defined benefit type and, with the exception of Germany where book reserves are supported by insurance policies, the assets of the schemes are held in separate trustee-administered funds. The defined benefit schemes are closed to new entrants. The total pension obligation cost for the group was £9.4m (2017: £9.1m), of which £3.9m (2017: £4.2m) related to overseas schemes.

The most significant defined benefit scheme within the group is the Devro Limited (UK) Pension Plan, which operates in the UK. A full actuarial funding valuation is carried out on a triennial basis and the resulting calculation is used as the basis for the Trustees and group to agree the amount of cash contributions the group needs to put into the pension scheme. The last triennial valuation was performed as of 31 March 2017 and the next is planned for the end of March 2020. This deficit is different to the IAS 19 accounting deficit, as they are calculated at different dates and in different ways. The accounting position uses assumptions prescribed under IAS 19, reflecting the requirement for liabilities to be discounted using corporate bond yields, while the funding valuations uses expected yield on the schemes' asset portfolio, less a margin for prudence.

In the US, an annual valuation is carried out to determine the contributions that would be payable to the plan. This is based on assumptions that are fixed by the US regulatory regime.

Cash contributions to funding the deficit in the UK plan of £2.5m have been made in the current year. The group will continue to make cash contributions of £2.5m per annum from 2019 until 2024 as agreed with the Trustee at the 31 March 2017 funding valuation.

For the US plan, cash contributions of £2.4m have been made in the current year. The group will continue to make contributions in the future based on the results of the annual funding assessments and in line with the approach prescribed by the US regulatory regime.

The European Court of Justice decision 1990 required benefits to be equalised between males and females as pensions were determined to constitute pay under European law, but it was not clear whether the ruling applied to Guaranteed Minimum Pension (GMP). In October 2018 a landmark pensions case was handed down by the UK High Court which now requires that pension schemes equalise GMPs. The GMP equalisation uplift impact on the UK scheme has been estimated at £0.9m. This assumes equalisation back payments extend to 6 years and estimates that only around 10% of the overall liability relates to individuals within the scope of the 1990-97 equalisation period, and of those members only some require uplifts. This charge is disclosed as an exceptional (non-underlying) item given its one-off nature.

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 2018 by qualified independent actuaries. The major assumptions used by the actuaries in calculating the IAS 19 valuation for the following principal countries were:

	Australia		**UK**		**USA**	
%	**2018**	2017	**2018**	2017	**2018**	2017
Discount rate	**3.30**	3.60	**2.85**	2.45	**4.05**	3.40
Rate of increase in salaries*	**3.25**	3.25	**1.00**	1.00	**–**	–
General inflation	**2.25**	2.25	**3.20**	3.10	**–**	–

* As part of the changes to the UK plan agreed in 2010, future pensionable salary increases are capped at 1% per annum. No rate of increase in salaries has been assumed in respect of the USA plan as the plan is now frozen.

UK discount rates applied to the end of 2017 valuation were based on Merrill Lynch curve. As at the end of 2018, UK discount rates were based on PwC Core Corporate Bond curve. The change in the underlying curve was driven mainly by the exclusion of university issued bonds which are not considered to meet the definition of a corporate bond under IAS 19. The change in composition of the discount rate had no effect on the value of obligation.

Demographic assumptions, such as mortality rates, are set having regard to the latest trends in life expectancy and plan experience. These assumptions are under continual review. The mortality assumptions at 31 December 2018 are based on the following tables:

	Years of life expectancy for current pensioners aged 65			
	2018		2017	
	Male	**Female**	Male	Female
UK – SAPS 'Normal' (YOB)*	**21.2**	**24.1**	21.2	24.1
USA – RP-2014 and projection scale MP- 2018	**20.6**	**22.6**	20.6	22.6

* Adjusted by 110% for male non-pensioners (113% for male pensioners) and 94% for female non-pensioners (99% for female pensioners) with CMI 2017 improvements using a long-term rate of 1.5% per annum.

The Australian defined benefit scheme provides only for a lump sum payment on retirement.

In addition to the above schemes, the group operates a defined benefit pension plan in Germany which, in common with typical practice in that country, is supported by insurance policies. At 31 December 2018, the value of the insurance asset was £2.0m (2017: £2.0m) and the value of the liability was £3.1m (2017: £3.7m). 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 2018 the value of insurance assets was reclassified to non-current trade and other receivables (Note 17).

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 the table note.

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26. Pension obligations continued

The aggregate fair values of assets in the group's defined benefit schemes at 31 December 2018 were estimated to be:

	Australia		UK		USA		Other		Total	
	2018 £'m	2017 £'m	**2018 £'m**	2017 £'m	**2018 £'m**	2017 £'m	**2018 £'m**	2017 £'m	**2018 £'m**	2017 £'m
Equities	**6.0**	6.0	**32.8**	38.6	**13.4**	14.2	**–**	–	**52.2**	58.8
Bonds	**1.3**	2.0	**118.6**	95.8	**30.7**	32.7	**–**	–	**150.6**	130.5
Diversified growth funds	**–**	–	**23.2**	48.3	**–**	–	**–**	–	**23.2**	48.3
Other	**2.3**	2.1	**4.1**	5.4	**0.4**	0.5	**–**	2.0	**6.8**	10.0
	9.6	10.1	**178.7**	188.1	**44.5**	47.4	**–**	2.0	**232.8**	247.6

All equities and bonds have quoted prices in active markets. The bonds category includes bonds supporting structured equity investments. The diversified growth funds also have quoted prices. The 'Other' category primarily includes structured equity investments along with leveraged loans, cash and derivatives.

Investments in each of the main schemes are well diversified. Strategy is split between defensive 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 closely 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 was for 70% (from 2019: 58%) of the portfolio to be invested in growth assets, with the remainder invested in defensive, primarily fixed income assets. In all three schemes, the investment approach will be de-risked over time as the funding position improves and market conditions allow.

Net pension assets and liabilities at 31 December 2018 were as follows:

	Australia		UK		USA		Other		Total	
	2018 £'m	2017 £'m	**2018 £'m**	2017 £'m	**2018 £'m**	2017 £'m	**2018 £'m**	2017 £'m	**2018 £'m**	2017 £'m
Total fair value of scheme assets (as above)	**9.6**	10.1	**178.7**	188.1	**44.5**	47.4	**–**	2.0	**232.8**	247.6
Present value of scheme liabilities	**(9.6)**	(10.1)	**(200.6)**	(235.3)	**(73.6)**	(80.4)	**(3.4)**	(3.8)	**(287.2)**	(329.6)
Deficit	**–**	–	**(21.9)**	(47.2)	**(29.1)**	(33.0)	**(3.4)**	(1.8)	**(54.4)**	(82.0)
Related deferred tax assets	**–**	–	**3.7**	5.8	**6.4**	7.3	**0.5**	0.7	**10.6**	13.8
Net pension liabilities	**–**	–	**(18.2)**	(41.4)	**(22.7)**	(25.7)	**(2.9)**	(1.1)	**(43.8)**	(68.2)

The decrease in net pension liabilities during the year largely reflects an increase in discount rate assumptions in the US and the UK and changes in member assumptions in the UK scheme, partially offset by loss on plan assets. The group continues to pay contributions to pension schemes in accordance with local regulatory requirements and on the advice of qualified independent actuaries.

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

	2018			2017		
	Liability £'m	**Asset £'m**	**Net £'m**	Liability £'m	Asset £'m	Net £'m
At 1 January	**(329.6)**	**247.6**	**(82.0)**	(350.8)	254.8	(96.0)
Interest income	**–**	**6.4**	**6.4**	–	7.0	7.0
Interest cost	**(8.7)**	**–**	**(8.7)**	(9.8)	–	(9.8)
Service cost	**(1.4)**	**–**	**(1.4)**	(1.6)	–	(1.6)
Scheme administrative expenses	**–**	**(1.5)**	**(1.5)**	–	(1.6)	(1.6)
GMP equalisation exceptional charge	**(0.9)**	**–**	**(0.9)**	–	–	–
Employer contributions	**–**	**6.7**	**6.7**	–	4.4	4.4
Member contributions	**(0.1)**	**0.1**	**–**	(0.2)	0.2	–
Benefits paid	**14.8**	**(14.8)**	**–**	20.5	(20.5)	–
Re-measurements – (loss)/return on plan assets (excluding interest income)	**–**	**(11.6)**	**(11.6)**	–	7.8	7.8
Re-measurements – changes in financial assumptions	**17.6**	**–**	**17.6**	(9.5)	–	(9.5)
Re-measurements – experience adjustments	**21.4**	**–**	**21.4**	1.2	–	1.2
Re-measurements – restriction of surplus	**1.1**	**–**	**1.1**	(0.7)	–	(0.7)
Re-measurements – changes in demographic assumptions	**1.8**	**–**	**1.8**	13.9	–	13.9
Reclassification*	**–**	**(2.0)**	**(2.0)**	–	–	–
Exchange (losses)/gains	**(3.2)**	**1.9**	**(1.3)**	7.4	(4.5)	2.9
At 31 December	**(287.2)**	**232.8**	**(54.4)**	(329.6)	247.6	(82.0)

* The value of insurance assets that support German pensions plan was reclassified to non-current receivables (note 17).

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

	Australia		UK		USA		Other		Total	
	2018 £'m	2017 £'m	**2018 £'m**	2017 £'m	**2018 £'m**	2017 £'m	**2018 £'m**	2017 £'m	**2018 £'m**	2017 £'m
Current service cost	**0.3**	0.5	**1.1**	1.1	**–**	–	**–**	–	**1.4**	1.6
Scheme administrative expenses	**0.2**	0.2	**0.7**	0.7	**0.6**	0.7	**–**	–	**1.5**	1.6
GMP equalisation exceptional charge	**–**	–	**0.9**	–	**–**	–	**–**	–	**0.9**	–
Net charge to operating profit	**0.5**	0.7	**2.7**	1.8	**0.6**	0.7	**–**	–	**3.8**	3.2
Interest income on pension scheme assets	**(0.3)**	(0.4)	**(4.5)**	(4.8)	**(1.6)**	(1.8)	**–**	–	**(6.4)**	(7.0)
Interest on pension scheme liabilities	**0.3**	0.4	**5.6**	6.3	**2.7**	3.0	**0.1**	0.1	**8.7**	9.8
Net interest cost	**–**	–	**1.1**	1.5	**1.1**	1.2	**0.1**	0.1	**2.3**	2.8
Net charge to profit	**0.5**	0.7	**3.8**	3.3	**1.7**	1.9	**0.1**	0.1	**6.1**	6.0

Notes to the financial statements continued
for the year ended 31 December 2018

26. Pension obligations continued
Amounts (charged)/credited to other comprehensive income were as follows:

	Australia		UK		USA		Other		Total	
	2018 £'m	2017 £'m	**2018 £'m**	2017 £'m	**2018 £'m**	2017 £'m	**2018 £'m**	2017 £'m	**2018 £'m**	2017 £'m
(Loss)/return on plan assets less interest income	**(0.2)**	1.3	**(7.6)**	2.8	**(3.5)**	3.7	**(0.3)**	–	**(11.6)**	7.8
Experience (losses)/gains on liabilities	**(0.6)**	–	**18.6**	1.2	**2.7**	–	**0.7**	–	**21.4**	1.2
Changes in demographic assumptions	**–**	–	**1.5**	14.0	**0.3**	(0.1)	**–**	–	**1.8**	13.9
Changes in financial assumptions	**(0.2)**	(0.3)	**12.7**	(4.4)	**5.1**	(4.9)	**–**	0.1	**17.6**	(9.5)
Restriction of surplus*	**1.1**	(0.7)	**–**	–	**–**	–	**–**	–	**1.1**	(0.7)
Re-measurements	**0.1**	0.3	**25.2**	13.6	**4.6**	(1.3)	**0.4**	0.1	**30.3**	12.7

* Restriction of surplus represents changes in effect of asset ceiling or onerous liability. The surplus of assets in the Australian plan is not recoverable by group until retirement of the last member of the scheme.

Movements in the deficit during the year were as follows:

	Australia		UK		USA		Other		Total	
	2018 £'m	2017 £'m	**2018 £'m**	2017 £'m	**2018 £'m**	2017 £'m	**2018 £'m**	2017 £'m	**2018 £'m**	2017 £'m
Deficit in scheme at beginning of year	**–**	–	**(47.2)**	(61.1)	**(33.0)**	(33.1)	**(1.8)**	(1.8)	**(82.0)**	(96.0)
Movement in year:										
Pension charge	**(0.5)**	(0.7)	**(3.8)**	(3.3)	**(1.7)**	(1.9)	**(0.1)**	(0.1)	**(6.1)**	(6.0)
Employer contributions	**0.4**	0.4	**3.9**	3.6	**2.4**	0.4	**–**	–	**6.7**	4.4
Re-measurements	**0.1**	0.3	**25.2**	13.6	**4.6**	(1.3)	**0.4**	0.1	**30.3**	12.7
Reclassification	**–**	–	**–**	–	**–**	–	**(2.0)**	–	**(2.0)**	–
Exchange gains/(losses)	**–**	–	**–**	–	**(1.4)**	2.9	**0.1**	–	**(1.3)**	2.9
Deficit in scheme at end of year	**–**	–	**(21.9)**	(47.2)	**(29.1)**	(33.0)	**(3.4)**	(1.8)	**(54.4)**	(82.0)

The actual loss on plan assets in 2018 was £5.2m (2017: return of £14.8m).

The cumulative re-measurements in other comprehensive income are £58.2m loss (2017: £88.5m loss).

The weighted average duration of the defined benefit obligation is 14 years, with benefit payments over the next ten years expected to be as follows:

	2018 £'m
In the next year	**13.6**
In years 2-5	**54.2**
In years 6-10	**71.3**
	139.1

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 £10.3m
	Decrease by 0.25%	Increase by £10.3m
Rate of salary increase	Increase by 0.25%	Increase by £0.1m
	Decrease by 0.25%	Decrease by £0.1m
General inflation	Increase by 0.25%	Increase by £2.6m
	Decrease by 0.25%	Decrease by £3.3m
Life expectancy	Increase by 1 year	Increase by £10.7m

The above sensitivity analysis is 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. The inflation assumption sensitivity factors in the impact of inflation on the pension increases assumption.

Risks

Through its defined benefit pension obligations, the group is exposed to a number of risks, the most significant of which are detailed below:

Risk	Description	Mitigation
Interest rate risk	A decrease in corporate bond yields increases the present value of the IAS 19 defined benefit obligations.	The Trustees' investment strategy includes investing in liability-driven investments and bonds whose values increase with decreases in interest rates. Approximately 52%* of the schemes' funded liabilities are currently hedged against interest rates using liability-driven investments and derivatives, and the trustees have a step plan to incrementally increase this level of hedging as its funding position improves.
Inflation risk	An increase in inflation results in higher benefit increases for members which in turn increases the schemes' liabilities.	The Trustees' investment strategy includes investing in liability-driven investments and derivatives which will move with inflation expectations and hedge portion of total inflation linked liabilities. The growth assets held are expected to provide protection over inflation in the long term. The US scheme is frozen so that it is not sensitive to inflation.
Market risk	The schemes are invested in a range of assets, which are subject to fluctuations in value.	Investments are well diversified both through geography and asset class, such that the failure of any single investment would not have a material impact on the overall level of assets.
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.	

* 88% of inflation-linked liabilities of the UK scheme are hedged. No hedge ratios are set for the US and Australia plans as bonds in portfolios are matched to provide interest rate protection.

Notes to the financial statements continued
for the year ended 31 December 2018

27. Ordinary Shares

Group and company	2018 £'m	2017 £'m
Issued and fully paid		
166,949,022 (2017: 166,949,022) Ordinary Shares of 10 pence each	**16.7**	16.7

No Ordinary Shares were issued during the year.

28. Share-based payments

Under the Devro plc Performance Share Plan (PSP), the Executive Directors' Remuneration Committee made provisional allocations of Ordinary Shares in the company to employees of the group, including Executive Directors. No payment for an allocation is made by a participant. Allocations normally vest over a three-year period, are conditional on the continued employment of the participant and are subject to certain performance conditions. These performance conditions relate to growth in the company's earnings per share and the company's Total Shareholder Return in comparison to its peer group. For the 2017 and 2018 awards, a performance condition relating to ROCE was added.

For awards where vesting is subject to the growth in earnings per share, the fair value of an allocation represents the market value of the Ordinary Shares in the company on the date of the provisional allocation, less the discounted value of estimated dividends expected to be paid during the vesting period. A participant is not entitled to receive dividends during this period. The fair value of awards subject to the company's Total Shareholder Return performance is estimated based on a Monte Carlo option valuation methodology. The weighted average fair value of options granted during the year using this method was £1.55 (2017: £1.83) 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 0.87%, and expected dividend yield.

Amounts provided in the accounts are based on an estimate of the probability of the targets in respect of allocations being achieved.

During the year no shares vested under the PSP or its predecessor (2017: Nil). No options were exercised during the year.

At 31 December 2018, the maximum number of shares which may vest under the PSP is as follows:

			Number of shares – unit					
Grant date	Fair value per share	Normal vesting date	As at 1 January 2018	Awarded	Vested and exercised	Forfeited	Lapsed	As at 31 December 2018
25 March 2015	£2.005	25 March 2018	**948,345**	–	–	–	**(948,345)**	–
8 April 2016	£1.915	8 April 2019	**1,081,300**	–	–	**(35,901)**	–	**1,045,399**
2 August 2017	£1.827	2 August 2020	**1,135,442**	–	–	**(83,081)**	–	**1,052,361**
9 April 2018	£1.548	9 April 2021	–	**1,217,246**	–	**(124,452)**	–	**1,092,794**
14 May 2018	£1.773	14 May 2021	–	**168,702**	–	**(11,315)**	–	**157,387**
			3,165,087	**1,385,948**	–	**(254,749)**	**(948,345)**	**3,347,941**

A more detail on the performance conditions of the PSP is included in the Director's Remuneration Report on pages 48 to 63.

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 2018	**35.6**	**8.9**	**1.5**	**0.1**	**37.3**	**83.4**
Exchange adjustments	**–**	**–**	**–**	**–**	**(4.7)**	**(4.7)**
Cash flow hedges, net of tax	**–**	**–**	**–**	**(2.1)**	**–**	**(2.1)**
Net investment hedges, net of tax	**–**	**–**	**–**	**0.4**	**–**	**0.4**
PSP charge, net of tax	**–**	**–**	**0.8**	**–**	**–**	**0.8**
PSP credit in respect of awards lapsed	**–**	**–**	**(0.7)**	**–**	**–**	**(0.7)**
At 31 December 2018	**35.6**	**8.9**	**1.6**	**(1.6)**	**32.6**	**77.1**
At 1 January 2017	35.6	8.9	1.4	0.1	24.8	70.8
Exchange adjustments	–	–	–	–	12.5	12.5
Cash flow hedges, net of tax	–	–	–	1.8	–	1.8
Net investment hedges, net of tax	–	–	–	(1.8)	–	(1.8)
PSP charge, net of tax	–	–	0.5	–	–	0.5
PSP credit in respect of awards lapsed	–	–	(0.4)	–	–	(0.4)
At 31 December 2017	35.6	8.9	1.5	0.1	37.3	83.4

Company	Capital redemption reserve £'m	Special reserve £'m	Performance Share Plan £'m	Hedging reserve £'m	Total £'m
At 1 January 2018	**35.6**	**8.9**	**0.9**	**–**	**45.4**
PSP charge, net of tax	**–**	**–**	**0.5**	**–**	**0.5**
PSP credit in respect of awards lapsed	**–**	**–**	**(0.4)**	**–**	**(0.4)**
At 31 December 2018	**35.6**	**8.9**	**1.0**	**–**	**45.5**
At 1 January 2017	35.6	8.9	0.8	–	45.3
PSP charge, net of tax	–	–	0.3	–	0.3
PSP credit in respect of awards lapsed	–	–	(0.2)	–	(0.2)
At 31 December 2017	35.6	8.9	0.9	–	45.4

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 distributable 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.

Notes to the financial statements continued
for the year ended 31 December 2018

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

	Group		Company	
	2018 £'m	2017 £'m	**2018 £'m**	2017 £'m
Profit before tax	**17.5**	21.6	**25.5**	54.1
Adjustments for:				
Finance income	**–**	–	**(7.4)**	(6.1)
Finance cost	**7.1**	8.6	**6.8**	6.8
Dividends from subsidiaries	**–**	–	**(30.9)**	(59.5)
Net finance cost on pensions	**2.3**	2.8	**–**	–
Pension cost adjustment for normal contributions	**1.1**	1.8	**–**	–
Depreciation of property, plant and equipment	**24.6**	25.0	**–**	0.1
Amortisation of intangible assets	**1.0**	1.0	**0.1**	0.1
Release from capital grants balance	**(0.1)**	(0.2)	**–**	–
Pension deficit funding	**(4.9)**	(3.0)	**–**	–
Performance Share Plan	**0.8**	0.5	**0.5**	0.3
Changes in working capital:				
(Increase)/decrease in inventories	**(5.4)**	0.9	**–**	–
(Increase)/decrease in trade and other receivables	**(5.5)**	0.4	**(26.2)**	(24.6)
Increase/(decrease) in trade and other payables	**2.6**	(0.9)	**26.9**	6.7
Increase/(decrease) in provisions	**5.0**	(0.3)	**–**	–
Cash generated from/(used in) operations	**46.1**	58.2	**(4.7)**	(22.1)
Of which:				
Cash generated from/(used in) underlying operations before pension deficit funding	**57.5**	66.9	**0.4**	(19.3)
Pension deficit funding	**(4.9)**	(3.0)	**–**	–
Exceptional items	**(6.5)**	(5.7)	**(5.1)**	(2.8)
Cash generated from/(used in) operations	**46.1**	58.2	**(4.7)**	(22.1)

31. Analysis of net debt

	Group		Company	
	2018 £'m	2017 £'m	**2018 £'m**	2017 £'m
Cash and cash equivalents	**9.9**	10.8	**0.5**	0.3
Bank overdrafts	**(4.7)**	(1.5)	**(8.6)**	(1.2)
Net cash and cash equivalents	**5.2**	9.3	**(8.1)**	(0.9)
Other bank borrowings	**(68.7)**	(69.8)	**(64.8)**	(34.4)
US dollar private placement	**(78.1)**	(74.4)	**(78.1)**	(74.4)
Net debt	**(141.6)**	(134.9)	**(151.0)**	(109.7)

32. Capital commitments

Capital expenditure contracted for but not provided in the group financial statements related to property, plant and equipment and amounted to £2.4m as at 31 December 2018 (2017: £1.4m). The company had no capital commitments as at 31 December 2018 (2017: Nil).

33. Contingent liabilities

In the opinion of the directors, the group has no material contingent liabilities as at 31 December 2018 (2017: Nil).

34. Financial commitments

Operating leases

At 31 December 2018, the future aggregate minimum lease payments were as follows:

	Group		Company	
	2018 £'m	2017 £'m	**2018 £'m**	2017 £'m
No later than one year	**0.7**	0.7	**0.1**	0.1
Later than one year and no later than five years	**1.0**	1.1	**0.4**	0.5
	1.7	1.8	**0.5**	0.6

35. Related party transactions

Key management is 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:

	2018 £'m	2017 £'m
Emoluments payable to Executive and Non-Executive Directors		
Short-term employee benefits	**1.2**	1.4
PSP charge	**0.3**	0.2
Post-employment benefits	**0.1**	0.1
	1.6	1.7
Emoluments payable to remainder of the Executive Management Team		
Short-term employee benefits	**1.6**	1.8
PSP charge	**0.2**	0.1
Post-employment benefits	**0.2**	0.2
	2.0	2.1
Total emoluments payable to key management	**3.6**	3.8

Transactions with the group's pension schemes are disclosed in Note 26. Amounts due to the pension schemes at 31 December 2018 are £0.3m (2017: £0.6m).

The group had no further related party transactions.

Related party transactions carried out by the company during the year ended 31 December 2018 were as follows:

	2018 £'m	2017 £'m
Sale of services to subsidiary undertakings	**11.3**	10.8
Purchase of services from subsidiary undertakings	**0.2**	0.1
Interest received from subsidiary undertakings	**7.4**	6.1
Interest paid to subsidiary undertakings	**0.8**	0.1

Notes to the financial statements continued
for the year ended 31 December 2018

35. Related party transactions continued

Balances at 31 December arising from transactions with subsidiary undertakings:

	2018 £'m	2017 £'m
Derivative financial assets	**1.6**	0.1
Derivative financial liabilities	**0.1**	1.6
Receivables – current	**17.1**	16.0
– non-current	**153.6**	128.9
Payables – non-current	**47.8**	27.3

Current receivables from subsidiaries arise mainly on the sale of services and tax losses surrendered. The receivables are unsecured and do not bear interest. No provisions are held against receivables from subsidiaries, and all sales are made on an arm's length basis.

Non-current receivables and payables principally relate to loans to and from subsidiaries and interest is charged on them at commercial rates.

Independent Auditors' Report to the members of Devro plc

1. Our opinion is unmodified

We have audited the financial statements of Devro plc ("the company") for the year ended 31 December 2018 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the group and parent company Balance Sheets, the group and parent company Cash Flow Statements, the group and parent company Statements of Changes in Equity, and the related notes, including the accounting policies in Note 1.

In our opinion:

> the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 and of the group's profit for the year then ended;

> the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);

> the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and

> the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

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

We were first appointed as auditor by the directors on 29 April 2015. The period of total uninterrupted engagement is for the four financial years ended 31 December 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview

Materiality: group financial statements as a whole	£1.25m (2017:£1.25m) 4.1% (2017: 4.6%) of group profit before tax and exceptional items	
Coverage	95% (2017:98%) of absolute group profit before tax	
Key audit matters		**vs 2017**
Recurring risks	Presentation of exceptional items	▲
	New: Property, plant and equipment	▲
	New: Deferred tax assets	▲
	Parent company – Recoverability of investment in subsidiaries and intra-group receivables	◀▶

Independent Auditors' Report to the members of Devro plc continued

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

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

	The risk	Our response
Presentation of exceptional items (£12.3 million; 2017: £5.1 million) *Refer to page 46 (Audit Committee Report), page 74 (accounting policies) and page 86 (financial disclosures).*	**Presentation appropriateness:** The financial statements include costs of £12.3m which are disclosed as exceptional and primarily comprise the costs associated with the Devro 100 and other restructuring programs including provisions for restructuring of £5.2m. 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. There is also a risk around the timing of recognition of exceptional items for those items included in restructuring provisions.	**Our procedures included:** > **Assessing principles:** we have considered in detail the group's accounting policies and principles for recognising elements of income and expenditure as exceptional; > **Assessing application:** we have challenged the directors over the inclusion of costs and expenses within the exceptional categorisation by comparing those included to our own expectations based on our knowledge of the group and its operations, with particular focus on the non-recurring nature of any amounts; > **Test of detail:** We performed detailed testing on a sample basis (e.g. by assessing the evidence supporting items disclosed as exceptional and considering their value and nature including the timing of recognition), and have considered the appropriateness of recognising these items as exceptional with reference to the aforementioned group accounting policies; > **Assessing balance:** We assessed the consistency of the items classified as 'exceptional' year on year and in accordance with the group's accounting policies. 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; **Our results** We found the presentation of exceptional items to be acceptable (2017 result: acceptable).

	The risk	Our response

Property, Plant and Equipment
(Property, plant and equipment in China included in the group balances of £278.8 million; 2017: £267.1 million)
 	
Refer to page 47 (Audit Committee Report), page 75 (accounting policies) and page 91 (financial disclosures).
	Forecast based valuation
	The carrying value of the group's property, plant and equipment has been assessed with reference to the net present value of the cash flows expected to be generated from their operation which is subjective due to the inherent uncertainty in forecasting and discounting future cash flows. This uncertainty includes the impact of forecasting sales of new and existing products into new and emerging markets.
	
	The effect of these matters is that, as part of our risk assessment for audit planning purposes, we determined that the value in use of the China cash generating unit had a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. In conducting our final audit work, we reassessed the degree of estimation uncertainty to be less than that materiality.
		Our procedures included:
		> **Assessing forecasts:** We performed the following procedures on the forecasts of future profits:
		  > **Our sector experience:** We evaluated the assumptions used, in particular those relating to forecast revenue growth and profit margins;
		  > **Benchmarking assumptions:** We compared the group's assumptions to externally derived data in relation to key inputs such as projected economic growth. We assessed the assumptions based on the performance of established factory performance elsewhere in the group, the results of market research into new and emerging markets and sales of comparable products in other markets;
		  > **Sensitivity analysis:** We performed sensitivity analysis on the key assumptions noted;
		> **Our valuation expertise:** Use of our own valuation models to assist us in estimating an appropriate market discount rate; and
		> **Assessing transparency:** Assessing the adequacy of the group's disclosures in respect of property, plant and equipment.
		
		Our results
		> As a result of our work we concluded the carrying amount of property, plant and equipment in China was acceptable (2017 result: acceptable).

Independent Auditors' Report to the members of Devro plc continued

	The risk	Our response
Deferred tax assets (£11.7 million; 2017: £11.0 million) *Refer to page 47 (Audit Committee Report), page 75 (accounting policies) and page 106 (financial disclosures).*	**Forecast based valuation** The group has significant deferred tax assets in respect of tax losses carried forward of £11.7 million (2017: £11.0 million). There is significant uncertainty in forecasting probable future taxable profits, which determines the extent to which deferred tax assets are or are not recognised. The effect of this matter is that, as part of our risk assessment, due to the inherent uncertainty in long term forecasting, we determined that the level of deferred tax asset recognised is subject to significant estimation uncertainty with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (note 25) disclose the uncertainty in respect of these tax losses.	**Our procedures included:** > **Assessing forecasts:** We performed the following procedures on the forecasts of future taxable profits: > **Our sector experience:** We evaluated the assumptions used, in particular those relating to forecast revenue growth and profit margins. We considered the judgement applied by management in the risk adjustments applied to these forecasts against our own knowledge of the business including management's future plans, changes in the business' funding structure and the risks inherent in long term forecasting; > **Benchmarking assumptions:** We compared the group's assumptions to externally derived data, such as inflation forecasts, in relation to key inputs such as projected economic growth. We assessed the assumptions based on the performance of established factories elsewhere in the group and the historic trends of improvement in factory output. > **Sensitivity analysis:** We performed sensitivity analysis on the risk adjustments applied to future forecasts; > **Our tax expertise:** Use of our own tax specialists to assist us in assessing the recoverability of the tax losses against the forecast future taxable profits, taking into account the group's tax position, the timing of forecast taxable profits, and our knowledge and experience of the application of relevant tax legislation; and > **Assessing transparency:** Assessing the adequacy of the group's disclosures about the sensitivity of the recognition of deferred tax assets to changes in key assumptions. **Our results** > As a result of our work we found the level of deferred tax assets recognised to be acceptable (2017 result: acceptable).

	The risk	Our response
Parent company – Recoverability of investment in subsidiaries and intra-group receivables (Investments in subsidiaries £253.0 million; 2017: £205.7) (Intra-group receivables £170.7 million; 2017: £144.9) *Refer to page 80 (accounting policies) and page 94 (financial disclosures).*	**Low risk, high value:** The carrying amount of the company's investments in subsidiaries and intra-group receivables balances, held at cost less impairment, represents 98% of the company's total assets. We do not consider the recoverable amount of these investments/receivables to be at a high risk of significant misstatement, or to be subject to a significant level of judgement. However, due to their materiality in the context of the company financial statements as a whole, this is considered to be one of the areas which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our parent company audit.	**Our procedures included:** > **Tests of detail:** Comparing the carrying amount of the highest value investments in subsidiaries and receivables balances with the relevant subsidiaries' draft balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount; > **Tests of detail:** Assessing the directors' assumptions on the recoverability of intercompany receivables against our own knowledge of the trading performance and net assets of the relevant counterparty. **Our results:** > We found the assessment of the recoverability of the carrying amount of the cost of investment in subsidiaries and intra-group receivables to be acceptable. (2017: acceptable)

We continue to perform procedures over the valuation of inventory. However, following consideration of the level of judgement in determining provision levels, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

Independent Auditors’ Report to the members of Devro plc continued

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

Materiality for the group financial statements as a whole was set at £1.25m (2017: £1.25m), determined with reference to a benchmark of group profit before tax, normalised to exclude this year’s exceptional items as disclosed in Note 4 of £12.3m (of which it represents 4.2% (2017: 4.6%)). Materiality for the parent company financial statements as a whole was set at £1.1m (2017: £1.1m), determined with reference to a benchmark of total assets, of which it represents 0.3% (2017: 0.3%).

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

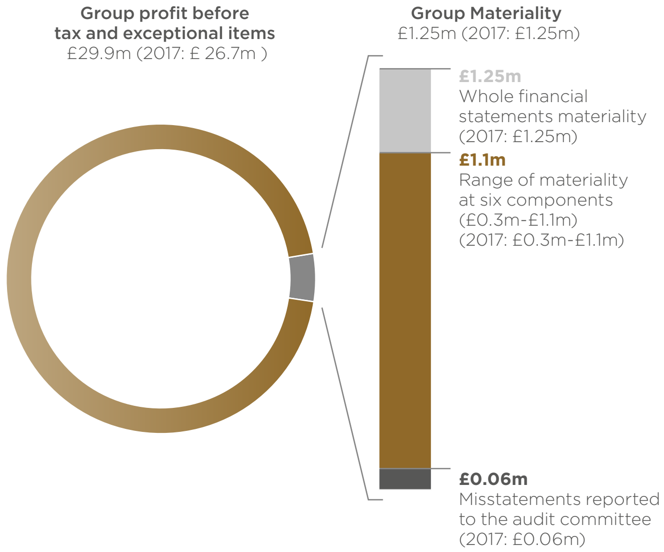
Of the group’s nine (2017: nine) reporting components, we subjected six (2017: six) to full scope audits for group purposes. The components within the scope of our work accounted for the percentages illustrated opposite. For the residual components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The group team and component auditors performed audits for group reporting purposes at five (2017: five) of the group’s nine (2017: eleven) reporting components and the group team performed the parent company audit. The group team approved the component materialities, which ranged from £0.3m to £1.1m (2017: £0.3m to £1.1m), having regard to the mix of size and risk profile of the group across the components.

The work on 5 of the 6 components (2017: 5 of the 6 components) was performed by component auditors and the rest, including the audit of the parent company, was performed by the group team. The group team performed procedures on the exceptional items excluded from normalised group profit before tax.

Group profit before tax & exceptional items

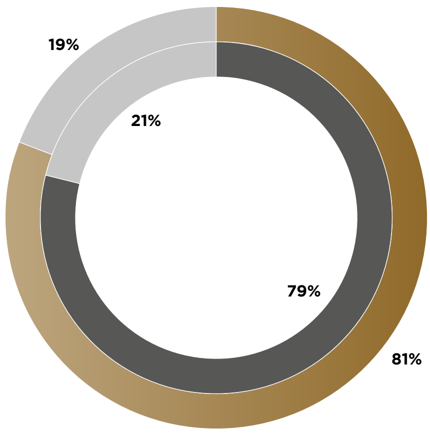
£29.8m (2017: £26.7m)



Telephone conferences were held with all component auditors. 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 all components.

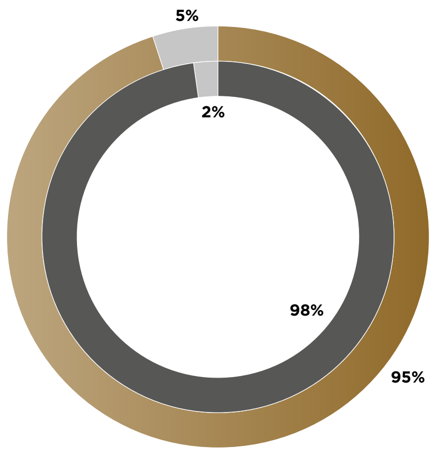
Group revenue

81% (2017: 79%)



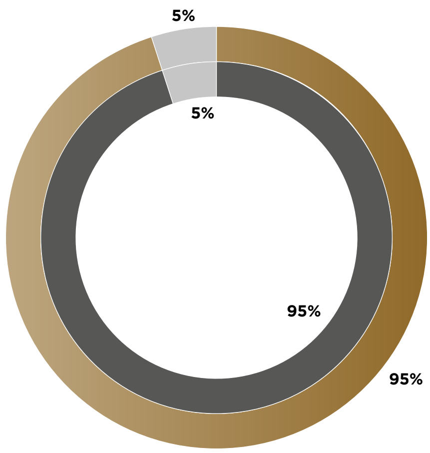
Group profit before tax

95% (2017: 98%)



Group total assets

95% (2017: 95%)



Full scope for group audit purposes 2018
Full scope for group audit purposes 2017
Residual components

4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or the group or to cease their operations, and as they have concluded that the company's and the group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period"). Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group and the company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the group's and company's business model and analysed how those risks might affect the group's and company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the group's and company's available financial resources over this period were:

> A decline in volumes and average selling prices due to adverse economic conditions.

As these were risks that could potentially cast significant doubt on the group's and the company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, such as the impact of Brexit on the group's UK plant.

Based on this work, we are required to report to you if:

> we have anything material to add or draw attention to in relation to the directors' statement in Note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the group and company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or

> the related statement under the Listing Rules set out on page 45 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

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

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

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

Strategic report and directors' report

Based solely on our work on the other information:

> we have not identified material misstatements in the strategic report and the directors' report;

> in our opinion the information given in those reports for the financial year is consistent with the financial statements; and

> in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

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

Disclosures of principal risks and longer-term viability

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

> the directors' confirmation within the viability statement page 31 that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency and liquidity;

> the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and

> the directors' explanation in the viability statement of how they have assessed the prospects of the group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the viability statement. We have nothing to report in this respect. Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the group's and company's longer-term viability.

Independent Auditors' Report to the members of Devro plc continued

Corporate governance disclosures

We are required to report to you if:

> we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy; or

> the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

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

We have nothing to report in these respects.

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

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

> adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or

> the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or

> certain disclosures of directors' remuneration specified by law are not made; or

> we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 66, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the group to component audit teams of relevant laws and regulations identified at group level.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the group is subject to many other laws and regulations, where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, food safety and employment law. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

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

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

Anthony Sykes (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
15 March 2019

Financial summary
for the years ended 31 December

	2018 £'m	2017* £'m	2016* £'m	2015* £'m	2014* £'m
Revenue	**253.4**	256.9	241.1	230.2	232.3
Underlying operating profit before non-recurring items**	**40.0**	38.1	38.1	33.3	30.3
Underlying operating profit**	**39.2**	38.1	38.1	33.3	30.3
Non-underlying items	**(12.3)**	(5.1)	(22.7)	(14.1)	(23.9)
Operating profit	**26.9**	33.0	15.4	19.2	6.4
Profit before tax	**17.5**	21.6	6.2	15.1	2.2
Profit after tax	**12.5**	15.6	2.2	14.6	4.4
Net assets	**146.5**	127.2	109.0	131.1	133.2
Earnings per share:					
– Underlying basic***	**14.6p**	14.2p	14.7p	16.6p	14.9p
– Non-underlying items***	**(7.1p)**	(4.9p)	(13.4p)	(7.8p)	(12.3p)
– Basic	**7.5p**	9.3p	1.3p	8.8p	2.6p
– Diluted	**7.4p**	9.3p	1.3p	8.7p	2.6p
Dividends per share	**9.0p**	8.8p	8.8p	8.8p	8.8p
Net assets per share	**87.8p**	76.2p	65.3p	78.6p	79.8p

* Underlying figures for 2017 and earlier years have been restated to exclude net finance cost on pensions.
** Underlying figures are stated before exceptional items (see Alternative Performance Measures section of the Financial Review for definition and explanation).
*** Underlying basic EPS is stated before exceptional items and net finance costs on pensions. 2017 and earlier years underlying basic EPS was restated to exclude net finance cost on pensions and to include this cost in non-underlying items.

Shareholder information

If you have sold or transferred all of your holding of Ordinary Shares, you should pass this document to the person through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

Financial calendar

25 April 2019	Annual General Meeting
10 May 2019	Final dividend paid
31 July 2019	Half year results and interim dividend announced
4 October 2019	Interim dividend paid
31 December 2019	Financial year end
March 2020	2019 results and proposed final dividend announced

Dividends
The final dividend will be paid on 10 May 2019 to shareholders on the register at close of business on 29 March 2019.

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 2019 should contact the Company Secretary.

Shareholder enquiries
For all share registration and dividend mandate enquiries contact:

The Registrar
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol
BS99 6ZZ
Telephone – 0370 889 4050
Website – www.investorcentre.co.uk

For other shareholder enquiries contact:

Company Secretary
Devro plc
Moodiesburn
Chryston
G69 0JE

Telephone – 01236 872261

Managing your shareholding online with Investor Centre
Investor Centre is a free, secure online service run by Computershare, giving you convenient access to information on your shareholdings. Manage your shareholding online and take advantage of all these features and more:

- View share balances and market values for all of your Computershare-managed holdings.
- Update dividend mandate bank instructions and view dividend payment history.
- Register to receive company communications online.
- Cast your proxy vote online for forthcoming general meetings.
- Update personal details, such as your address.

Registration is quick and easy. Just visit www.investorcentre.co.uk with your Shareholder Reference Number (SRN) to hand.

After registering you may be sent an activation code in the post, used to validate and gain full access to your account.

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

Directors and Advisers
(as at 15 March 2019)

Executive Directors
R A Helbing
J W Callaway

Non-Executive Directors
G J Hoetmer
J A Lodge
M S Swift
P N Withers

Company Secretary and registered office
J Meredith
Moodiesburn
CHRYSTON
G69 0JE
Registered number: SC129785

Statutory auditors
KPMG LLP
15 Canada Square
Canary Wharf
LONDON
E14 5GL

Solicitors
Clifford Chance LLP
10 Upper Bank Street
Canary Wharf
LONDON
E14 5JJ

Financial advisers
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50 Stratton Street
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Principal bankers
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Thames Valley
Corp. Banking Centre
5th Floor
Apex Plaza
READING
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LONDON
EC2N 1BR

Lloyds Bank plc
25 Gresham Street
LONDON
EC2V 7HN

Rabobank International
Thames Court
One Queenhithe
LONDON
EC4V 3RL

Stockbrokers
Investec Securities
30 Gresham Street
LONDON
EC2V 7QP

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Computershare Investor
Services PLC
The Pavilions
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BRISTOL
BS99 6ZZ

MIX
Paper from
responsible sources
FSC® C023105
FSC
www.fsc.org

Designed and produced by emperor
Visit us at emperor.works

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