

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.

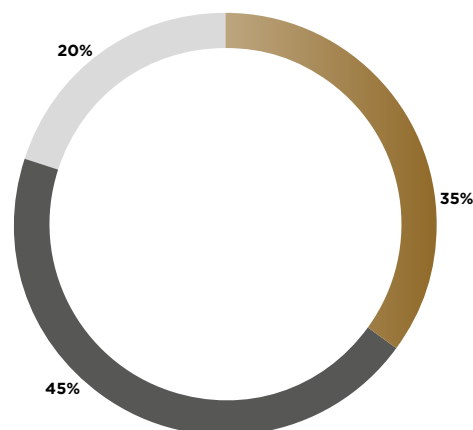
Directors of the company and its subsidiaries have the benefit of a directors' and officers' liability insurance policy.

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:

- Strategy and planning
- Corporate governance
- Performance review



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 through 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