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. We welcome the standards introduced by the FRC’s 2018 UK Corporate Governance Code (the Code).

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 2019, when it was subject to the Code.

STEVE GOOD
CHAIRMAN

CORPORATE GOVERNANCE REPORT

BOARD LEADERSHIP AND COMPANY PURPOSE

LEADERSHIP

I lead a Board which is able to draw on entrepreneurial skills and experiences from the perspective of businesses to focus on delivering value for the benefit of all of the Company’s stakeholders. This is uncompromised by the Company’s purpose, values and strategy which are described on the opening page and in the Strategic Report on pages 1 to 43. The skills and experiences of my fellow Directors are described on pages 44 and 45 and our statement on pages 37 and 38 sets out in more detail how we have had regard to the interests of our stakeholders and regard to the other factors in section 172 of the Companies Act 2006 in our decision-making.

The Board has broadly divided its time in 2019 as follows:

- 32% strategic and planning
- 26% performance review
- 22% corporate governance
- 10% other

The graphic above recognises the importance of governance as an essential element of developing and implementing strategy effectively, the long-term sustainability of which is dependent on its delivery in keeping with the Company’s values.

Our values are defined by the six global statements on business conduct, environmental management, food safety, health and safety, people and quality which we display prominently at every one of our locations and which we communicate widely. Collectively they underpin the culture which we aim to maintain within the Company. In 2019, as in previous years, the Board has, on the renewal of its commitment to these values, sought input from the business framework which supports Devro’s long-term sustainable success by encouraging the involvement of employees in the Company’s performance. The principles underlying the framework are global consistency and transparency; paying success by encouraging the involvement of employees in the Company’s performance. The principles underlying the framework are global consistency and transparency; paying

The Board’s approach to workforce engagement further assists it in monitoring the alignment of Company purpose, values and strategy. It’s approach to workforce engagement has been reviewed and is summarised below. In keeping with the Company’s transition to a global structure, new workforce policies and practices have also continued to be embedded in the business in 2019, including policies on remuneration. These have been reviewed by the Board through the Remuneration Committee to validate their alignment with the Company’s purpose, values and strategy while the Nominations Committee reviewed talent management and succession planning to ensure that it had the appropriate resources in place to meet its objectives.

ENGAGEMENT 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 particularly 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, and has met in the course of 2019, with shareholders to discuss matters such as strategy, and governance and the Senior Independent Director is available in the event of shareholder concerns which cannot be addressed through the usual channels. In 2019 the Senior Independent Director, in his other capacity as chair of the Executive Directors’ Remuneration Committee has consulted with major shareholders on the Company’s proposed new remuneration policy (approval of which is being sought at this year’s AGM).

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.

ENGAGEMENT WITH THE WORKFORCE

In 2019, the Board codified many of its existing practices for engagement with the workforce. This consists of:

- The annual rollout of a global workforce engagement survey, insights from which are presented to the Board which guides the action plans formulated by management on a Company-wide basis to address the survey’s findings. Findings from the first survey conducted at the end of 2018 included calls for additional career development tools. Addressing this in 2019, the Executive Management Team has formalised a framework for identifying and developing talent, initially targeting individuals with highest potential. The Board is being updated at least twice a year on the progress of the talent agenda. A revised and updated performance management package was also successfully piloted in 2019 and it is being rolled out across the Group in 2020.
- A standing agenda item at every Board meeting for the CEO to update the Board on employee engagement initiatives.
- The inclusion in the Board’s meeting programme of visits each year to at least two of the Company’s sites with a corresponding agenda for those visits focused on discussing with management and employees their perspectives on the business. Most recently the Board spent a significant proportion of its visit to the Company’s largest manufacturing site, in the Czech Republic, hearing from management and engaging with the wider workforce at a town hall meeting. Members of the Board answered questions about their impressions of the Company; longer term plans for the development of the business and of the site; and preparations by the Company to address any impact of Brexit while the Board articulated to the workforce the importance of health and safety initiatives and of employees participating in the annual workforce engagement survey.
- The inclusion in any visit to a Company site by individual Non-Executives (and by the CEO on his annual visit to all sites) of open forum meetings at which employees have the opportunity to raise questions and concerns with the visiting Director. In 2019 the CEO made 20 site visits. On at least one occasion at every site, he held an open forum meeting, including his visit to Nantong on which he was also accompanied by the Chairman.
- The incorporation of personal objectives on workforce engagement for Executive Directors (and other members of the Executive Management Team), aimed at promoting and monitoring effective engagement with the workforce.
- The continued maintenance of an externally hosted mechanism for employees to raise concerns, including anonymously, if they wish. Any notification to the Company’s SpeakUp! service is reported to the Company Secretary who informs the Chairman and the Board (unless the concern relates to a particular Director). The Board has oversight of any subsequent investigation and follow-up action.
- Consulting employee representatives on a wide range of matters affecting employees’ current and future interests.

The Board considers these to be effective alternative arrangements to those prescribed in the Code, particularly taking account of the global nature of the business and having had the opportunity to gauge their effectiveness prior to them being formalised.

The Board reviewed in 2019 newly developed workforce policies and practices aimed at building a compensation framework that supports Devro’s long-term sustainable success by encouraging the involvement of employees in the Company’s performance. The principles underlying the framework are global consistency and transparency; paying success by encouraging the involvement of employees in the Company’s performance. The principles underlying the framework are global consistency and transparency; paying

ENGAGEMENT WITH OTHER KEY STAKEHOLDERS

How the Board has taken account of the interests of other key stakeholders and the matters set out in section 172 of the Companies Act 2006 in its discussions and decision-making is set out on pages 37 and 38.

The Company seeks to foster an environment in which its workforce can raise queries and concerns about business conduct at any time. The Company has a number of mechanisms to facilitate this including a third-party hosted SpeakUp! service, through which business conduct concerns (or indeed concerns about any topic) can also be raised anonymously. This service was used on a number of occasions in 2019. In each case, the concerns raised were reported promptly to the Board which monitored any subsequent investigation and actions to address the concerns.

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CORPORATE GOVERNANCE REPORT continued

DIVISION OF RESPONSIBILITIES
Boards of Directors
During the year, the Board comprised Mr S P Good, Chairman, Mr R A Helbing, Chief Executive Officer, Ms J W Catlaye, Chief Financial Officer, Ms J S Lodge, Non-Executive Director, Mr M S Swift, Non-Executive Director and Dr P N Withers, Non-Executive Director. Mr S P Good joined the Company and was appointed as Chairman on 1 June 2019, whilst all others had served as Directors throughout 2019. Mr G J Hoetmer, former Chairman, stepped down from the Board on 25 April 2019.

The Non-Executive Directors who collectively form very half of the Board are described as the ‘Independent Directors’. This opinion is based primarily on careful consideration of the nature of their judgement, and their contribution to the work of the Board and its committees. This was assessed with particular regard by the Board when it invited Dr P Withers to extend by 12 months his term as a Non-Executive Director of the Company, recognising that this would cause his tenure on the Board to exceed nine years. The Board, including the Company’s new Chairman, satisfied itself of Dr P Withers’ independence, taking into account his character, his avoidance of conflict of interests, and substantial contributions at meetings and other business of the Board and of its Committees; and the absence of any other business or other relationships that could materially affect the exercise of his judgement. The Board also took into account the other demands on Dr Withers’ time, having satisfied itself when it approved his request in December 2019 to accept a Non-Executive Director position at Tyman plc, effective from 1 February 2020, that his other commitments should not affect his contribution as a Non-Executive Director of the Company. The Board strongly supports his reappointment, recognising in particular the knowledge and experience he brings to the interplay of the related functions of the Chairman of the Board in 2020.

No Director holds any external position which would impose upon his or her independence or objectivity, nor are there any other circumstances such as are envisaged by Provision 10 of the Code.

Mr S P Good was considered independent on his appointment to the Board.

On the Board’s appointment of Mr S P Good as Chairman, when assessing other demands on his time, it took into account his willingness to reduce his commitments on other company boards in the course of the forthcoming 12 months. Mr S P Good has subsequently announced his intention to retire as a Non-Executive Director from the board of Dialight plc on which he sits as of 31 March 2020.

Diversity in Practice
The Nomination Committee also renewed in 2019 its commitment to promote diversity in its boardroom, particularly to enhance the breadth of perspectives brought to bear on the business.

Mr Hoetmer’s retirement from the Board and Mr Good’s appointment appeared to be an opportunity to re-examine the make-up of the Board in the context of the Company’s commitment to promote diversity, one of the factors which has informed this recruitment process. Mr Korn Ferry has again been retained to advise on and coordinate a search for external candidates with the best skills to promote the Company’s long-term sustainable success. The Committee’s commitment is to promote diversity in the Company’s broadest sense, and to see progress at various levels. Our Executive Management Team comprised of four men and three women in 2019, with five nationalities represented. In its press releases around the globe, we now see an encouraging mix.

While recognising that treating people in a fair and inclusive manner is embedded in our ‘People’ and ‘Business Conduct’ statements (which are displayed prominently at all sites and available on the Company’s website) the Nomination Committee resolved to take a more detailed policy on diversity and inclusion in the course of 2020, aimed at codifying additional tangible steps and objectives to ensure that the Company maximises its opportunity to recruit and retain employees from the widest and most competent pool.

The Committee examined in December the gender balance of those in senior management and their direct reports. The position as of 31 December 2019 is included in the Corporate Social Responsibility Report on page 39 which shows some positive development in comparison with the position as of 31 December 2018, which was at a low point. A programme of unconscious bias training has been rolled out to key managers across the business.

BOARD EVALUATION
As the composition of the Board changed in the course of 2019, it was judged too soon to benefit fully from external facilitation of the annual formal Board evaluation. The evaluation was conducted in the Autumn and it took the form of a detailed questionnaire which each Director was invited to complete separately. The Committee is satisfied that the Company’s Board governance and the skills and experience at Board and senior management level continues to deliver the necessary benefit to the Company, as in previous years, but also the Board’s role in overseeing the alignment of culture with the Company’s purpose, values and
Directors’ report

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. 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.

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 1 to 43, 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.

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 1 to 43, 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 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 of accounting in preparing the Financial Statements.

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

• As at 31 December 2019 the Group was operating within the £955 million (2018: £930 million) revolving bank facility negotiated in 2018 and due to expire in 2023, and the US$100 million 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.

remuneration

How the Company applied the principles in the Code on remuneration and addressed the corresponding provisions is set out in the Directors’ Remuneration Report on pages 55 to 73.

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, Mr R A Halling, Dr P N Withers, the Company’s Global Health and Safety Manager, and Mr K Shoemaker, Group Supply Chain Director. The Committee met four times in the year.

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

The Committee convened four times in 2019.

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. In the course of the year, it adopted a new approach to its agenda.

In the course of 2019 the Committee adopted a new structure for its meetings to reflect the three pillars of the programme aimed at achieving the principal objective that everyone who works in Devro goes home in the safe condition in which they arrived. The three pillars are Firm Foundation, Discipline Discipline and Institutionalised Safe Behaviour. These are described in the Corporate Social Responsibility Report on pages 40 to 41.

Report from the risk committee

As with the Committee’s previous reports, the Committee has continued to assist the Board in identifying, evaluating and manage the significant risks facing the Group and to identify emerging risks, which accords with the FRC’s 2018 guidance and the Code. A Risk Committee was formed in 2000, consisting of the members of the Executive Management Team (EMT) together with the Company Secretary. Its responsibilities encompass the assessment and monitoring of risk across the Group and the review of the Group’s processes for evaluating it. In 2019 the monitoring of risk has also been undertaken by the Committee through the Executive Management Team meeting structure (including on its introduction at the end of the year, Integrated Business Planning). The Committee commissioned in 2019 a report to assist it both to assess risks through the annual ‘bottom-up’ risk review and to identify how it could enhance the Company’s risk management framework. A revised Committee remit was adopted as a result and a new risk management policy introduced. This framework explicitly links individual risks to individual elements of the Company’s strategy, represented by the 3Cs and their associated key areas of focus; and responsibilities for managing risk are allocated at the management of strategy. The schedule of meetings of the Committee is aligned with the schedule of meetings each year, to facilitate better reporting and changes. The operation of the Risk Committee is also being reviewed in structures to manage risk by each of the Company’s functional teams which will assist the Committee to identify emerging risks sooner. Key elements of the Committee’s revised remit are:

• 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 at least twice a year.

• Process review

To review the Group process for evaluating risk; ensuring that any major decisions affecting the Group risk profile are understood; any areas of concern are reported immediately; function risk registers are reviewed; that the outcomes of EMT monitoring of risks to the delivery of strategic projects are also considered; and business continuity/disaster recovery plans are reviewed at least annually.

• ‘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 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 32 to 36.

Share capital

The disclosures regarding the Company’s share capital structure (required by paragraph 15(2)(c), (g), (i), (t) and (u) of Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/402)) are included in the share price section of the Directors’ Report on page 75 of this report.

Statement on compliance

This statement, together with the Directors’ Remuneration Report set out on pages 55 to 73, and the Audit Committee Report on pages 52 to 54, describes how, in respect of the year ended 31 December 2019, the Company has applied the provisions of corporate governance as set out in the Code. The Company has complied with all the Code’s provisions throughout the period in question.

Steve Good

Chairman

3 March 2020