

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

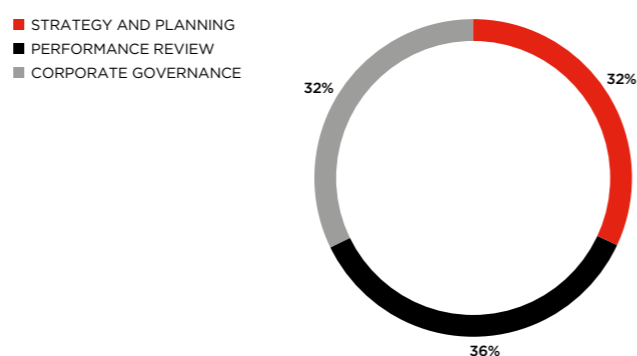
My fellow Directors and I fully appreciate the importance of sound governance in the efficient running of the Company, and in particular in the effectiveness and independence of the Board and the management of risks faced by the Group. The following report sets out how we do this. It covers how the Board and its committees operated in 2019, when it was subject to the Code.

STEVE GOOD
CHAIRMAN

BOARD LEADERSHIP AND COMPANY PURPOSE LEADERSHIP

I lead a Board which is able to draw on entrepreneurial skills and experiences from a wide variety of businesses to focus on delivering value for the benefit of all of the Company's stakeholders. This is encompassed 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:



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 about how to frame the values in a way which remains relevant to how we seek to operate.

As part of its activities to verify that behaviours across the Company continue to be aligned with those values, the Board oversees an annual survey of business conduct compliance. To the extent that this reveals any misalignments, executive management is tasked with addressing these, overseen by the Board.

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 registered 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.

The Board's approach to workforce engagement further assists it to monitor the alignment of Company purpose, values and strategy. Its approach to workforce engagement has undergone review in 2019 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 its Remuneration Committee to validate their alignment with the Company's purpose, values and strategy while the Nomination 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 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, 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. These consist of:

- The annual rollout of a global workforce engagement survey, insights from which are presented to the Board which also monitors 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 streamlined online 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 Jilemnice 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 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 a fair market rate for the contribution of each employee; and driving equity across the entire global workforce.

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.

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DIVISION OF RESPONSIBILITIES

BOARD COMPOSITION

During the year, the Board comprised Mr S P Good, Chairman, Mr R A Helbing, Chief Executive Officer, Ms J W Callaway, Chief Financial Officer, Ms J A 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 over half of the Board, 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. This was assessed with particular rigour by the Board when it invited Dr Paul 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 Paul Withers' independence, taking into account his character, his continued unbiased 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 again 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 initiative to refresh the composition of the Board in 2020.

No Director 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 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 undertaking 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.

	S P Good ²	G J Hoetmer ¹	R A Helbing	J W Callaway	J A Lodge	M S Swift ³	P N Withers
Board – 8 meetings	5	2	8	8	8	7	8
Audit Committee – 5 meetings	-	-	-	-	5	4	5
Executive Directors' Remuneration Committee – 5 meetings	1	1	-	-	5	5	5
Non-Executive Directors' Remuneration Committee – 1 meeting	-	-	1	1	-	-	-
Nomination Committee – 4 meetings	2	2	-	-	4	4	4
Health and Safety Committee – 4 meetings	-	-	4	-	-	4	4
Risk Committee – 3 meetings	-	-	3	3	-	-	-

1 Mr G J Hoetmer stepped down from the Board on 25 April 2019.
 2 Mr S P Good joined the Board on 1 June 2019.
 3 Mr M S Swift was unable to attend one Board meeting during the year due to the need to schedule it on short notice at a time when he had a prior engagement. Mr Swift ensured that his views on the business of the meeting were communicated at it.

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

The Audit, Remuneration, Nomination, Health and Safety and Risk Committees, all appropriately resourced, met a total of 22 times during the year.

The Chairman and the other Non-Executive Directors met informally during the year, providing an opportunity to review the business without the Executive Directors being present and to scrutinise the performance of management against agreed objectives.

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.

COMPOSITION, SUCCESSION AND EVALUATION

Following a review in December 2018, revised terms of reference for the Nomination Committee of the Board effective as of 1 January 2019 record its responsibilities for leading the process for appointments to the Board, for orderly succession planning of senior management positions, taking account of the benefits of supporting a diverse pipeline and promoting diversity and inclusion, and of supporting the annual formal evaluation of the performance of Board, its Committees and its Directors. The revised terms are published on the Company's website.

The report from the Nomination Committee describing its work in 2019 is set out below.

In line with the Code, each Director wishing to remain a Director is subject to election or re-election by shareholders at each AGM. All current Directors will stand for re-election at the 2020 AGM, with the exception of Mr S P Good who will stand for election for the first time. The Directors biographies set out on pages 44 and 45 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 sustainable success. All the Directors have had their performance reviewed recently, as described below, and the Chairman is satisfied that each continues to be effective and to demonstrate commitment to the role.

REPORT FROM THE NOMINATION COMMITTEE

The members of the Committee during the year were Ms J A Lodge, Mr M S Swift and Dr P N Withers with Mr S P Good joining the Committee as its Chairman on 1 June 2019. Mr G J Hoetmer stepped down as Committee Chairman when he left the Board on 25 April 2019. The Company Secretary acts as Secretary to the Committee.

In 2019, the Committee met formally on four occasions.

Following Mr G J Hoetmer's decision to stand down at the 2019 AGM as Chairman of the Board, a comprehensive search of external candidates using independent consultants, Korn Ferry, took place. This was overseen by the Committee, chaired by the Senior Independent Director, Dr P N Withers (in place of Mr G J Hoetmer). Consistent with the Company's commitment to develop a diverse pipeline for succession, Korn Ferry were asked to draw up a short list which forced diversity amongst candidates, while recognising that 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.

A number of strong contenders were identified. The Committee then reviewed the various candidates against the agreed specification before unanimously agreeing to nominate Mr S P Good to the Board for the post.

The Committee has also overseen activities to refresh the Board in the course of 2020, given the long tenure of two of its Non-Executive Directors. Korn Ferry has again been retained to advise on and coordinate a search for external candidates with the best skills and experience to promote the Company's long term sustainable success. The Company's commitment to promote diversity is one of the factors which has informed this recruitment process.

Korn Ferry also act as an independent adviser to the Company's Executive Directors' Remuneration Committee.

The Committee reviewed in the course of the year a regular update from the Group HR Director on the results of an increasingly structured and global approach taken to develop talent and plan for succession across the business, targeting in particular collaborative 'can-do' skills and behaviours best equipped to deliver the Company's globally integrated strategy.

Diversity in practice

The Nomination Committee also renewed in 2019 its commitment to promote diversity in its broadest sense, particularly regarding new appointments and succession planning. Devro recognises the value of diversity 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 three women in 2019, with five nationalities represented. In our business teams 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 oversee the development of 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 talent 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 at page 39 which shows some positive development in comparison with the position as at 31 December 2018, since when 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. The questionnaire surveyed not only the adequacy of Board governance and the skills and experience at Board and senior management levels to develop and deliver strategy, as in previous years, but also the Board's role in overseeing the alignment of culture with the Company's purpose, values and

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strategy including how this is reflected in executive and workforce remuneration policies.

The results of the questionnaire were collated (on a confidential basis) by the Company Secretary before review by the Chairman and discussion by the entire Board, from which actions to enhance the Board's effectiveness were formulated. In particular, the Board articulated as a priority actions to refresh the Board in 2020; and to support the continued focus on the delivery of growth ambitions, including through regular interaction with members of the Executive Management Team and engagement initiatives with the global workforce.

AUDIT, RISK AND INTERNAL CONTROL

How the Company applied the principles and corresponding provisions of the Code on audit, risk and internal control is set out in the Report of the Audit Committee on pages 52 to 54, the Report of the Risk Committee on page 51 and the Principle Risks and Uncertainties set out on pages 32 to 36.

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.

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 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 2019 the Group was operating within the £105 million (2018: £90 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 Helbing, Dr P N Withers, Ms F L Curran, the Company's Global Health and Safety Manager, and Mr K Shoemaker, Group Supply Chain Director.

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 its 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 Internalised Safe Behaviours. These are described in the Corporate Social Responsibility Report on pages 40 to 41.

REPORT FROM THE RISK COMMITTEE

An ongoing process is in place to identify, evaluate and manage the significant risks the Group faces and to identify emerging risks, which accords with the FRC's 2018 guidance and the Code. A Risk Committee was formed in 2010, 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 structures).

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 also aligned with the management of strategy. The schedule of meetings of the Committee have been updated to align with the four scheduled meetings of the Audit Committee each year, to facilitate better reporting and changes. The operation of the Risk Committee is also being mirrored 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 13(2)(c), (d), (f), (h) and (i) of Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410)) are included in the share capital 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