DEVRO

DEVRO PLC ANNUAL REPORT & ACCOUNTS 2019

DEVRO IS ONE OF THE LEADING GLOBAL SUPPLIERS OF COLLAGEN CASINGS FOCUSED ON SUPPORTING OUR CUSTOMERS WITH PRODUCTS AND EXPERTISE TO MAKE THE BEST POSSIBLE SAUSAGES

LOOKING FORWARD

PURPOSE

The Devro story starts with great science and ends with the sizzle of a great sausage. In between, it's all about people. Making good products and looking after our customers properly are the givens of our business. Without them, we'd fail. But being a responsible business today means more than that. It involves looking after the interests of anyone who has a part to play in our story.

That means our customers, the people who work for us, the people who trust us enough to invest in our business, who supply the products and services we rely on and whose lives are indirectly affected by what we do. We try to be respectful of them all and deal fairly and honestly. We also do our best to make Devro a safe and fulfilling place to work.

The rest is about being aware that we're part of something bigger. Another way of saying that is that we take our corporate social responsibilities seriously.

HIGHLIGHTS OF THE YEAR

REVENUE (£'M)

£250.0

19	250.0
18	253.4
17	256.9
16	241.1
15	230.2

UNDERLYING* OPERATING PROFIT BEFORE NON-RECURRING ITEMS** (£'M)

£39.1

19	39.1
18	40.0
17	38.1
16	38.1
15	33.3

OPERATING PROFIT/(LOSS) (£'M)

£(14.0)

19	(14.0)
18	26.9
17	33.0
16	15.4
15	19.2

UNDERLYING* EARNINGS PER SHARE (PENCE)

15.2P

19	15.2
18	14.6
17	14.2
16	14.7
15	16.6

BASIC EARNINGS PER SHARE (PENCE)

(24.8)P

19	(24.8)
18	7.5
17	9.3
16	1.3
15	8.8

DIVIDENDS PER SHARE (PENCE)

9.0P

19	9.0
18	9.0
17	8.8
16	8.8
15	8.8

* 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 26 to 31. 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 of £nil (2018: £0.8 million); see Alternative Performance Measures section of the Financial Review for definition and explanation.

The Group adopted IFRS 16 (leases) on 1 January 2019 as disclosed in Note 1 of the Consolidated Financial Statements and comparative financial measures have not been restated.

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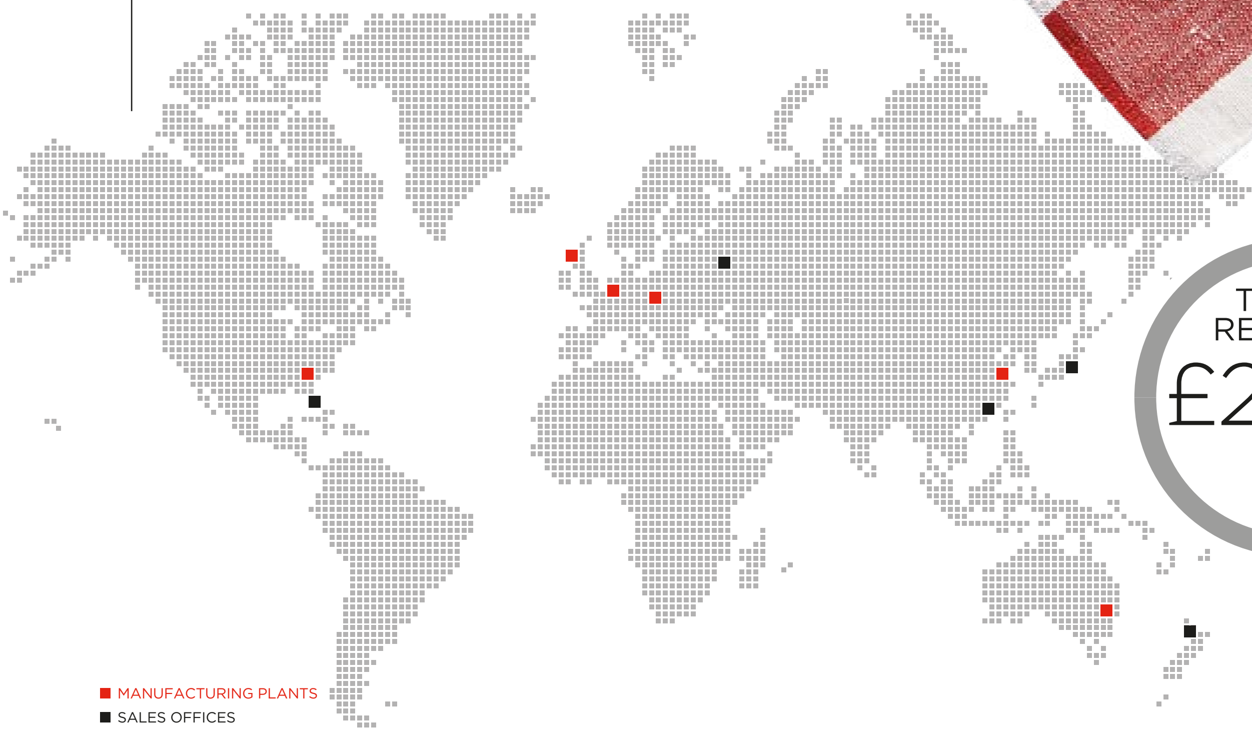
DEVRO AT A GLANCE

DEVRO IS ONE OF THE WORLD'S LEADING SUPPLIERS OF COLLAGEN CASINGS FOR FOOD, USED BY CUSTOMERS IN THE PRODUCTION OF A WIDE VARIETY OF SAUSAGES AND OTHER MEAT PRODUCTS

WHERE WE OPERATE



TOTAL REVENUE

£250M

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

DEVRO GROWTH PRODUCTS
EDIBLE CASINGS

FINE
Ideal for smoked and cooked sausages, with excellent processing and optimal smoke uptake. Tailored range to suit wide range of global processed sausage applications. Superb machining on high-speed production systems.

SELECT
Developed from a consumer perspective to deliver exceptional 'knack' and a tender bite while maintaining the productivity associated with traditional collagen casings. Attractive gut conversion product as sausage producers can achieve significant reductions in manufacturing costs and have consumers praising the finished sausage.

ULTRA
The new generation of universally applicable sausage casings that shows no ruptures after deep fat frying and offers a sausage with a tender bite, while increasing the productivity associated with traditional collagen casings.

STIX
Our Stix product range is used for a variety of snack sticks, i.e. dried and semi-fermented sausages. It offers superior yields and bite characteristics and provides multiple options for a customised appearance on supermarket shelves.

DEVRO INVESTMENT CASE

LEADING THE WAY

MARKET-LEADING POSITIONS

- No.1 in many countries, gaining share elsewhere
- Provider of premium edible collagen casings
- Helping customers to increase yield and gels with superior technical support

SIGNIFICANT LONG-TERM GROWTH POTENTIAL

- Underlying market growth estimated at 2-4% p.a. globally
- Increasing protein consumption, driven by urbanisation and higher living standards
- 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 each year

HIGHLY CASH GENERATIVE

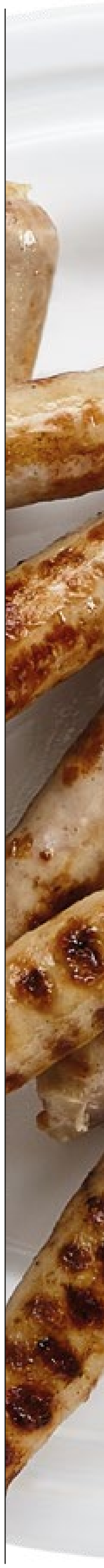
- Well-invested high margin, tightly managed Group
- Major capital expenditures completed
- Potential to grow capacity substantially with low level investments
- Material cost per unit reduction opportunity as volumes grow, given high level of operational gearing

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: the majority of Executive Management Team have 'Blue Chip' experience



WE ARE TARGETING EDIBLE COLLAGEN GROWTH OF 2-4%, WITH MATURE MARKETS GROWING BETWEEN 0-2% AND EMERGING MARKETS GROWING BETWEEN 6-10%.

RUTGER HELBING
CEO

CHAIRMAN'S STATEMENT

AS THE NEW CHAIR, I HAVE INHERITED A GROUP WITH A CLEAR STRATEGY THAT FOCUSES ON PROFITABLE, CASH GENERATIVE GROWTH.

STEVE GOOD
CHAIRMAN

RETAINING OUR FOCUS

INTRODUCTION

Since becoming Chair in June 2019, I have visited many of our sites around the world, meeting our people and engaging with the management team and my fellow Directors. The Group has a long and proud history with people all around the world who are hardworking, talented, and enthusiastic about the Group and its prospects. I have found the Group to be well managed with a clear strategy for growth as set out in our 3Cs strategy, defending and building on its strong positions in mature markets and targeting to increase its share in emerging markets. In support of this, during the last two years, the Group has undergone a significant organisational change to build the structures, capabilities and competencies necessary to successfully execute its growth plans. This has been a major undertaking and these important building blocks are now largely in place across the Group.

FINANCIAL HIGHLIGHTS

Group volumes for the year were flat, with modest edible collagen volume growth from the second quarter onwards after a slower start to the year. Emerging markets[1 2] growth for the year was strong at 7%, offset by decline in the mature markets[3] of 3% where demand was weak.

Underlying operating profit for the year of £39.1 million was marginally below 2018, with the benefit of cost savings and FX offset by the impact of less favourable country mix and sales from other products.

Free cash flow generation for the year was strong and the net debt to EBITDA covenant ratio improved materially and finished the year at 1.9x. Underlying basic earnings per share increased by 4% to 15.2 pence.

On a statutory basis we recorded an operating loss of £14.0 million (2018: £26.9 million profit), largely as a result of the review of the global manufacturing footprint which led to the decision to close Bellshill, and the related non-cash accounting impairment of the Group's manufacturing assets in US and China.

DIVIDEND

The Board is proposing a final dividend of 6.3p per share (2018: 6.3p) bringing the total for the year to 9.0p per share (2018: 9.0p). Subject to shareholder approval at the Annual General Meeting in April, the dividend will be paid on 7 May 2020, to those shareholders on the register at 27 March 2020.

GOVERNANCE AND BOARD

The Board leads an ongoing programme to ensure the highest standards of corporate governance and integrity across the Group. We regard this as critical to the Group's success and viability. Since I joined the Board the interactions and communication flows between Executives and Non-Executive Directors have been excellent and as a result the Board is well placed to challenge, guide and support the Executives in the delivery of the 3Cs strategy. The Board considers that it has fully applied the principles of the UK Corporate Governance Code during 2019.

During the fourth quarter of the year we conducted a Board evaluation. The result was positive. An important output from the review was a requirement to refresh the Board during 2020 given the long tenure of two Board members and to ensure that the Board has the appropriate mix of skills and experience to both challenge and support the development and execution of the Group's growth strategy. The recruitment programme is well underway.

PEOPLE

Our employees are at the heart of delivering our plans and are key to our success. In 2019 we continued to see the organisation develop. We embedded our new global commercial structure, made the changes necessary to deliver our cost savings programmes and established new ways of working, particularly associated with our new Integrated Business Planning process. All employees are contributing to making these important changes happen and to deliver our results and, on behalf of the Board, I would like to thank each and every employee for their commitment and professionalism.

SUMMARY

As the new Chair, I have inherited a Group with a clear strategy that focuses on profitable, cash generative growth. Following a period of transformation, including significant progress this year, the necessary structures, capabilities and competencies have been built, and the Group is well placed to capitalise on its strong position in the growing edible casings market with profitable revenue growth at the top of the Group's agenda.

STEVE GOOD
CHAIRMAN

1 During 2019 and in prior periods the Board has reviewed the Group's revenues and edible collagen volumes on a geographical segment basis splitting the business into three operating segments (Americas, Asia Pacific and EMEA). As we go forward we will also analyse Group revenues and edible collagen volumes between emerging markets and mature markets as this categorisation reflects our strategy of defending and building upon our strong market positions in mature markets and targeting to increase our share in emerging markets. For segmental purposes we continue to report on a regional basis.
2 Devro emerging markets include: Latin America, Russia & East, Middle East & Africa, South East Asia and China.
3 Devro mature markets include: North America, Continental EU, UK & Ireland, Japan, Australia & NZ.

BUSINESS REVIEW

DURING 2019 WE CONTINUED TO EXECUTE OUR GROWTH PLANS AS SET OUT IN OUR 3Cs STRATEGY, DEFENDING AND BUILDING UPON OUR STRONG MARKET POSITIONS IN MATURE MARKETS AND TARGETING TO INCREASE OUR SHARE IN EMERGING MARKETS.

RUTGER HELBING
CHIEF EXECUTIVE OFFICER

We are targeting edible collagen growth on average of 2-4% per annum, with mature markets growing on average between 0-2% per annum and emerging markets growing on average between 6-10% per annum. Our three year plan and global structure are in place and we are well positioned to deliver on this range, recognising however that year on year growth can be impacted by specific market events.

BUSINESS PERFORMANCE

We continued to execute our growth plans throughout the year, defending and building upon our strong market positions in mature markets and targeting to increase our share in emerging markets. Once again, we increased the share of emerging markets as a percentage of our total edible collagen volumes. Emerging markets growth for the year was 7%, markedly different from the decline of 3% in mature markets where the demand environment was weaker. After a slow start to the year, we saw modest edible collagen volume growth from the second quarter onwards, resulting in Group volumes for the full year being flat. Group revenue was down 1% on 2018 impacted by less favourable country/product mix, and some declines in other product revenues that were partly offset by favourable FX.

MATURE MARKETS

In 2019 we experienced strong performance of snacking in North America where volumes were up 7%. Given the heritage of the Group we have strong positions in mature markets, notably the UK & Ireland, Western Europe and Australia & NZ. In 2019 market demand in these regions was challenging, primarily driven by an increase in pork prices due to African Swine Fever. This resulted in reduced promotional activity by our customers and, where our route to market is via distributors (as in Western Europe), we also saw some destocking by our distributor partners to reflect the lower activity levels. Consequently, we saw volume declines in UK & Ireland and Western Europe. Volumes also declined in Japan, due to the continued impact of lower sheep gut prices.

EMERGING MARKETS

In 2019 emerging markets share of Group volumes increased by two percentage points, aligned with our overall growth ambition. Whilst volumes for the year were up 7%, there was a particularly strong performance in the second half, with volumes up 13%. Sales momentum improved in most of the emerging markets and performance was particularly strong in China, with a second half volume increase of 41% and of 33% for the full year. Latin America momentum also improved with key customer wins achieved in the latter part of the year expected to contribute into 2020. In South East Asia we saw good performance in Singapore and Vietnam and modest growth for the year. Middle East and Africa had a strong year with volumes up 20%, where markets recovered from the listeria outbreak in 2018.

FINANCIAL PERFORMANCE

Underlying operating profit for the year was marginally below 2018, with positive impact of costs savings and FX offset by the impact of less favourable country mix, sales from other products delivering an underlying operating profit before non-recurring items of £39.1 million versus £40.0 million for 2018.

Underlying basic earnings per share increased by 4% to 15.2 pence.

Cash generation for the year was strong and the covenant net debt/EBITDA ratio finished the year at 1.9 times.

NON-CASH IMPAIRMENTS

In the second half of 2019 the Group undertook a review of its global manufacturing footprint with the aim to access further efficiency improvements, as well as to better align available capacity to the Group's growth plans. As a result of this review, the Group will close its Bellshill site in Scotland during 2020. Whilst this initiative improves the cash generation capability of the Group, it also triggered an impairment review which resulted in the revision of key assumptions underpinning calculations of net present value from cash flow forecasts for US and China manufacturing operations. As a consequence, in the year we made a non-cash impairment write down associated with those operations and the closure of the Bellshill site of £45.9 million.

SAFETY

In 2019, we continued to roll out the Hearts & Minds programme and we had our second Group-wide safety month. Whilst the Group safety performance continues to be well ahead of the average in comparable industries, we are committed to driving further improvement and the objectives continue to be to 'Think Safe, Work Safe and Go Home Safe, owning our Zero'.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Devro recognises that in combination with a strong financial performance it has a responsibility to its people, suppliers, customers, the environment and wider stakeholders. It takes these responsibilities very seriously. The Group continues to take specific actions to improve its ESG credentials. During 2020 we intend to build more detailed Group-wide ESG plans and report on these going forward on a regular basis.

CORONAVIRUS

Following the outbreak of Covid-19 in China, our main priority is the health and safety of our colleagues. We are committed to put in place all measures we can to help to contain the outbreak and support the wellbeing of our employees.

We are closely monitoring the current and potential impacts of the Covid-19 on our manufacturing and commercial operations and global supply chain. At this point in time our manufacturing location in Nantong, China, is operating at normal capacity and is not facing labour or supply shortages. We have put in place precautionary measures and are reviewing our business continuity plans for the Group.

OUTLOOK

In 2020 we expect to achieve good volume growth in emerging markets. In our mature markets we expect volume growth in the North American snacking market and, whilst we anticipate a continuation of the challenging market conditions in the UK and Europe (particularly in the first half), we expect Group volumes to be ahead of 2019. In addition, cost savings are expected to more than offset inflationary cost pressures. Absent any material adverse impact of Covid-19, the Board expects good progress in 2020.

RUTGER HELBING
CHIEF EXECUTIVE OFFICER

STRATEGIC PRIORITIES (3Cs)

Our growth strategy is built around our 3Cs strategy, and good progress in the year was made in many areas.

WIN WITH THE WINNING CUSTOMERS

On the commercial side, the new organisation has been fully embedded and three-year commercial plans have been completed for each of the regional sales areas. These plans have been developed in the context of our category strategy which, taking into account consumer mega trends, is built around our growth pillars of snacking & convenience, yield quality & performance; and clean & sustainable. Based on these pillars and overall drivers of market growth (being in particular GDP per capita growth and urbanisation) our plans are to target an increase in our share of sales from emerging markets, as well as selected growth opportunities in mature markets, particularly in snacking and gut conversion. To deliver our growth plans, the alignment of resources behind the most significant growth opportunities remains key. Furthermore, with the implementation of our global operating model during 2019, we have been able to invest in commercial resources to strengthen our platform for growth. Additionally, innovation continues to be an important part of our growth delivery and in 2019 we launched Avem™, the first poultry collagen gel available in any market, and we fully commercialised our Fine Ultra range in Europe.

FOCUS ON THE CORE PROFITABILITY DRIVERS

We continue to focus on incremental capacity and ongoing efficiency projects at all manufacturing sites. In our US manufacturing facility we tested a reconfiguration of our modern lines to provide further capacity for growth. The project was successfully completed in the fourth quarter with initial results demonstrating performance in line with our expectations. We intend to roll this out in our other sites over the medium term, utilising current footprints to provide further capacity for growth. These projects can provide up to 25% additional capacity over the next few years and should help to further improve our cost competitiveness.

During the year we achieved cost savings of £7.4 million, of which £6.2 million relates to our Devro 100 (D100) programme and £1.2 million to operating cost savings as a result of the new global operating model. For the D100 programme we have now achieved total savings over the three year period of £17.7 million which is ahead of the original guidance of between £13.0 – £16.0 million. 2019 was the last year of our D100 programme, however we have created a cost saving culture across the Group and will continue to look for savings opportunities that will largely mitigate inflationary cost pressures.

In the second half of the year we undertook a review of our global manufacturing footprint with the aim to pursue further efficiency improvements, as well as to align available capacity to the Group's growth plans. As a result, we announced our intention to close our Bellshill site in Scotland, which will result in £5.0 million of annualised cost savings, and these will be fully realised in 2021.

STRENGTHENING COMPETENCIES

In the later part of 2019, we reviewed the longer-term vision for the Group. Opportunities were identified to defend and grow the current core business, which continues to be the focus of the 3Cs strategy, but we also identified potential adjacent areas for growth and potential extensions beyond the current core business. These opportunities will be further developed in 2020 and beyond. In 2019 we also designed and piloted the Integrated Business Planning process for Devro. This is our vehicle to manage the global business more efficiently and effectively and it further underpins the delivery of our strategy. We continue to focus on improving our capabilities across the business and we appointed new postholders in 20% of the roles reporting directly into the Executive Management Team through a combination of recruitment of external talent and internal promotion.

Q&A WITH THE CHAIRMAN AND CEO

STEVE GOOD AND RUTGER HELBING ANSWER SOME FREQUENTLY ASKED QUESTIONS ABOUT THE STRATEGIC DIRECTION OF THE COMPANY

Q
WHY DID YOU JOIN THE BOARD?

A: STEVE

After my initial discussions with Rutger and other members of the Board about the purpose and strategy of the business, I felt that I could draw on my experience of guiding other international manufacturing businesses to lead Devro through its next phase of development. Continuing to make good products and look after customers properly are the foundation stones but it's the 3Cs strategy through which the business can develop. It's the opportunity to shape that development which particularly resonates with me. I am confident that the 3Cs strategy can help us to deliver growth in the next few years to ensure the business is competitive for the long term and it remains a successful, responsible and sustainable business for the benefit of all its key stakeholders.

Q
IN THE 3CS STRATEGY YOU TALK, AMONGST OTHER ELEMENTS, ABOUT THE IMPORTANCE OF THE GLOBAL STRUCTURE TO DELIVER THE STRATEGY – CAN YOU EXPLAIN A BIT MORE ABOUT IT?

A: RUTGER

Over the last few years, Devro has targeted as a priority its transition from a regionally focused business to a fully integrated global one, believing this to be the best structure for meeting the needs of our customers worldwide and to deliver in the most effective way on our growth plans.

A good example is how we now manage the global supply chain and the opportunities that provides. In 2019 we undertook a review of the global manufacturing footprint to access further efficiency improvements as well as to align available capacity to our growth plans. As a result, we will close our plant in Bellshill in Scotland. Clearly this has not been an easy decision, but it will increase our manufacturing options to support our commercial growth plans, with, as part of the closure plan, increased capacity in our Czech plant. These plans will provide savings to the business and enhance overall cash generation as well as de-risk in the short to mid-term some of the commercial plans. This has had an accounting implication in 2019, with a partial write down of our Bellshill assets as well as an expected shift in forecast cash generation between our US, Czech and Chinese entities, leading to a non-cash impairment charge of, in total, £45.9 million. It is only in a truly global structure that we are able to review these options to optimise our manufacturing footprint and take these decisions.

As another example, the adoption in 2019 of a global commercial organisation will help us deliver successful product offerings across our entire customer base more easily, and to ensure customers benefit from the cumulative learnings of the entire commercial team. Furthermore, in 2020, we will continue the rollout of our Integrated Business Planning process, which is key to manage the business more efficiently and effectively and the vehicle to manage the delivery of our 3Cs strategy.

Q
CAN YOU GIVE AN OVERVIEW OF THE HIGHLIGHTS IN TERMS OF ACHIEVEMENTS WITH THE 3CS STRATEGY IN 2019?

A: RUTGER

We have made progress in 2019 on each element of our 3Cs strategy. I have talked about this in more detail in my Business Review but let me give you a couple of highlights. Within our 'Win with the Winning Customers' in 2019 we developed detailed and robust three-year commercial plans for each of our sales areas, taking into account the trends we identified in the category strategy (which was also finalised in 2019). This provides a solid foundation for the growth plans going forward.

In terms of the 'Core Profitability Drivers' we continued to deliver significant cost savings in the supply chain and with the D100 programme we have now delivered over £17 million of savings from the start in 2016, which is ahead of the original forecasted

range. Also, we implemented our 'Fit For Growth' programme, again providing savings as well as funds for investments in the commercial organisation, in particular in our emerging markets.

Lastly, our launch of a poultry collagen gel, Avem™, demonstrated that we continue to be market leaders for innovation and reflects the investment we have made in recent years to 'Strengthen our Competencies'.

Q

ONE OF THE KEY ENABLERS YOU TALK ABOUT IS WORKFORCE ENGAGEMENT – CAN YOU EXPLAIN WHY AND WHAT YOU HAVE DONE IN 2019 TO FACILITATE THIS?

A: STEVE

The Board considers that an engaged and aligned workforce is an essential element in delivering the Company's strategy aimed at building a sustainable business for the benefit of all its stakeholders. The Board actively seeks the input and viewpoint of employees on the business' development and it also has mechanisms in place for employees to raise concerns with them directly.

In 2019, the Board visited our largest manufacturing site in the Czech Republic where they heard from local management about key priorities while the Board was able to articulate how activities in Jilemnice contributed to the delivery of the Group's global strategy. They participated in a site tour followed by a town hall meeting at which all employees had the opportunity to put questions and provide feedback to the Board. The success of this visit has been reflected by the results of the subsequent annual Board evaluation survey in which Directors recognised the value of continuing site visits as a means to engage with the workforce. Two such visits are scheduled for 2020.

As well as visits of the entire Board to company sites, I and my fellow Non-Executive Directors have also committed to holding open forum meetings with employees when we visit sites individually. It was invaluable to me as part of my induction to hear from Nantong colleagues when Rutger and I visited China in the Autumn.

We have introduced a standing agenda item at Board meetings on engagement and the early results of the 'TellDev!' Survey, which all employees had been invited to complete last Autumn, were reviewed by the Board at its meeting in December. The Board will oversee the action plans which are being formulated by teams across the business in response to the results of the latest survey.

Q

CAN YOU ELABORATE MORE ABOUT GROWTH OPPORTUNITIES IN MATURE AND EMERGING MARKETS?

A: RUTGER

Devro historically has had strong positions in a number of mature markets, and it is our intention to continue delivering added value and superior customer service offerings in order to defend our positions in those markets and, where possible, to grow, capitalising for example on snacking trends and further gut conversion opportunities.

It is, however, clear that market growth in emerging markets is higher, benefiting from the positive impact of GDP per capita growth and urbanisation on sausage consumption. As a consequence, Devro has, over the last few years, increased the share of emerging markets as a percentage of our total edible collagen volumes. In 2019 it increased from 30% to 32%, and within the three-year commercial plans this trend is expected to continue.

GROWTH PLANS

UNDERSTANDING OUR MARKETS

DEVRO – WHERE LOCAL KNOWLEDGE MEETS GLOBAL AMBITION

Devro has been a global leader in edible collagen casing for over 85 years. From its beginnings during World War II, use of collagen as a natural resource has evolved from a groundbreaking pharmaceutical innovation in healing wounds into one of the most loved of household foods, the humble sausage.

CHANGING CONSUMER LIFESTYLES WITH AN APPETITE FOR CONVENIENCE

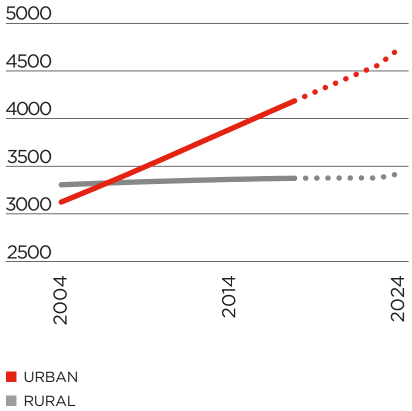
Over the years, Devro's passion for the craft of sausage-making has enabled it to retain and grow many long-standing relationships with major players in the global sausage market. With the strapline 'Consistently better', Devro has invested in a growing presence in emerging markets. It has also invested in new technology to meet the changing protein needs of a dynamic and convenience-driven consumer marketplace in more mature markets, driving the growth in snacking.

Macro drivers such as health and wellbeing, digital technology, sustainability and ethics have risen up the consumer agenda to underpin modern societal needs such as convenience, value for money, enjoyment and experience. Sausages, whether consumed in or outside the home, can tap into these long-term trends to ensure relevance to new generations of consumers.

MEAT CONSUMPTION TRENDS

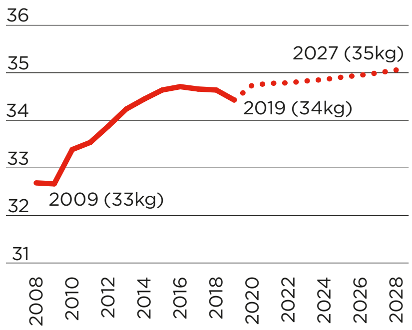
As a global company with six production facilities in six different countries, Devro has developed a global outlook which means we adapt to the individual life-cycle of the regional markets in which we operate, capitalising on the opportunities presented. Collagen casing trends are driven by meat consumption which is stimulated both by organic population growth and the rising tide of urbanisation in emerging markets such as South East Asia, where convenience and snacking are driving forces.

GLOBAL POPULATION GROWTH (2004-2024) (millions)



Source: FAOSTAT, UN, 2020

MEAT CONSUMPTION PER CAPITA 2008-2028 (kg per year)



Source: OECD-FAO Agricultural Outlook 2019-2028

LOCAL PRESENCE

GLOBAL REACH

THREE DRIVERS OF GROWTH

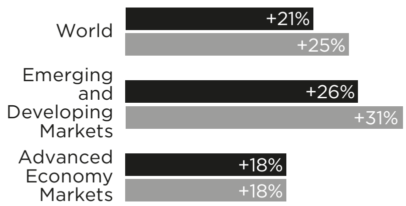
UNDERLYING MARKET GROWTH	COLLAGEN MARKET GROWTH	DEVRO GROWTH
01	02	03
GDP per capita Urbanisation Food trends	Cost savings Consistency Labour shortage	Customer intimacy Product performance Cost savings
INCREASING SAUSAGE CONSUMPTION	**GUT TO COLLAGEN CONVERSION**	**MARKET SHARE GAINS**

UNDERSTANDING OUR MARKETS continued

RISE IN CONSUMERISM

Meat consumption is widely used as an indicator of economic wellbeing. Increased disposable income, combined with increased availability of meat products, has created significant opportunities for collagen casing in both developing and emerging markets. In 2016, Devro expanded its production footprint into China and North America to capitalise on these regional opportunities. As a group, advanced economies are expected to slow this year, however emerging market and developing economies will see growth accelerate to 4.1% from 3.5% last year (World Bank Global Economic Prospects, January 2020). While income growth has been strong worldwide over the past five years, GDP per capita has risen by 26% in emerging and developing markets, and is set to accelerate in the next five years.

GDP PER CAPITA GROWTH*



■ 2004-19
■ 2019-24

*Gross domestic product based on purchasing-power-parity (PPP) per capita GDP

Source: International Monetary Fund (IMF) – World Economic Outlook Database, October 2019

By 2030, the global middle class is expected to reach 5.3 billion people, translating to more than 2 billion people with higher purchasing power. Over four-fifths of these additional consumers will be in the Asia region. Over a third (and growing) of Devro's edible collagen sales in 2019 are in the APAC region.

FIT FOR GROWTH – INNOVATION STRATEGY

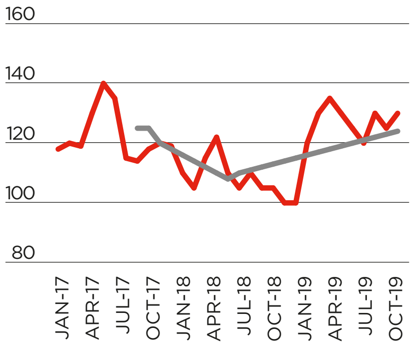
In more mature markets like North America, the UK and Australia, health and wellbeing is having a more pervasive influence on consumer eating habits. Consumers want to feel in control of their food choices, whether it's clean label for ingredient transparency, high protein snacks or portion control for weight management, occasional plant-based choices, or paying a little extra for a great-tasting food experience. Devro's investment in Research & Development (R&D) is directly aligned with how we can help our customers respond to consumer needs in an increasingly competitive marketplace. R&D platforms include optimising product performance, clean label initiatives and broadening our protein portfolio.

STRENGTHENING THE CASE FOR COLLAGEN

Consumers can be price sensitive when it comes to household staples which they buy frequently and consume often. Rising prices have put the spotlight on pork during 2018/19, challenging its affordability for households, and thus putting pressure on retailers. The ramifications of African Swine Fever (ASF) will continue to influence global trade flows in 2020 in the context of rising raw material (hog) prices.

While certainly not immune to this threat, this raises new opportunities for Devro to convert customers from natural gut casing to collagen casing, as well as broaden its portfolio to incorporate new protein casings and gels.

RABOBANK FIVE-NATION HOG PRICE INDEX 2017-2019 (JAN 2015=100)

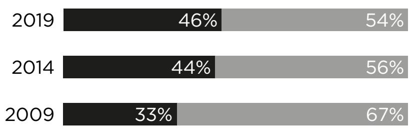


■ RABOBANK INDEX
■ 12-MONTH MOVING AVERAGE

Source: National Statistic | Rabobank (Five Nations refers to China, Canada, Brazil, the US and the EU)

As food retailers operate in increasingly competitive environments, the drive to deliver value for consumers has never been greater. 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



■ EDIBLE COLLAGEN
■ GUT

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

WHERE LOCAL KNOWLEDGE MEETS GLOBAL AMBITION

With casings and gel manufacturing facilities across six locations (the UK, Netherlands, Czech Republic, the US, Australia and China), Devro has significant global reach. This enables us to leverage our collagen expertise in new and existing regional markets. Having a 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.

During 2019, and in prior periods, the Board has reviewed the Group's revenues and edible collagen volumes on a geographical segment basis, splitting the business into three operating segments (Americas, Asia Pacific and EMEA). As we go forward we will also analyse Group revenues and edible collagen volumes between emerging markets and mature markets as this categorisation reflects our strategy of defending and building upon our strong market positions in mature markets and targeting to increase our share in emerging markets. For segmental purposes we continue to report on a regional basis.

MATURE MARKETS

Within Devro we define the markets of the more developed economies we operate in as our mature markets. As such, we include in those the North American, UK & Ireland, Continental Europe, Japanese and Australian & NZ markets. Historically Devro has had, and continues to have, strong market positions in these markets and, as such, at the moment these represent about two-thirds of our sales volume.

Market growth in these markets is less impacted by GDP per capita growth and, or, urbanisation but more so by trends related to convenience, yield and consistent quality and performance, as well as clean and sustainable. The extent to which collagen casings have penetrated these markets varies but is most significant in the UK & Ireland and Australia & NZ. There has been less penetration in Continental Europe and Japan, but with yield, quality and performance benefits from using collagen casings this provides further opportunities for gut conversion.

In North America in particular, but also in Japan, we have seen the positive impact of convenience trends driving growth in meat snacks and Devro is well positioned to continue to benefit from that.

EMERGING MARKETS

The main developing markets that Devro operates in are Latin America, Middle East and Africa, Russia, China and South East Asia. Overall, sausage market growth in these markets have been, and are expected to continue to be, ahead of most mature markets. Whilst there is some impact of convenience trends, the key drivers of growth in collagen casings are changed lifestyles through increases in GDP per capita and urbanisation.

The markets are mainly in processed sausages, and Devro can grow both through participating in the overall market growth and with further share gain opportunities. With deep fat frying properties relevant in many of the markets our Fine Ultra platform is supporting our share ambition. Also, although the extent of overall penetration of collagen in emerging markets is above global average levels, in some of the markets there continue to be gut conversion opportunities.

AMERICAS

The Americas region remains a strong market for edible collagen casing with approximately 40% of the market in collagen. In North America, the meat snacks market is particularly dynamic and Devro is proud to partner the leading brands in this sector. 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. The UK & Ireland market is dominated by fresh sausages while processed and meat snacks are growing categories across Europe.

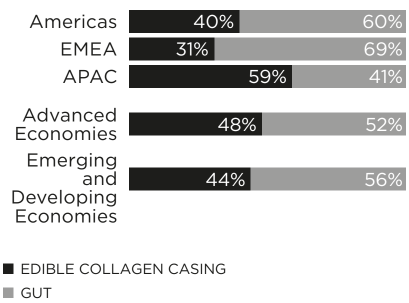
Many markets still use traditional processing methods, and offer sizeable opportunities to convert gut to collagen to deliver production efficiencies. As Devro's new generation of edible collagen products, which deliver even faster filling speeds and a more tender bite, roll out, we are confident more and more producers will be attracted by the cost savings opportunities of converting to collagen.

ASIA PACIFIC

In the Asia Pacific region, edible collagen accounts for approximately 59% of the market. Sausage consumption and snacking in South East Asia and China continue to increase, mainly driven by rising GDP per capita growth and urbanisation. Asia is a dynamic region in meat snack innovation, second only to the US. The 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.

REGIONAL MARKETS OFFER SCOPE FOR GUT CONVERSION

REGIONAL SAUSAGE MARKETS SPLIT BY EDIBLE COLLAGEN AND GUT CASING



Source: Devro plc estimates.

BUSINESS MODEL

DEVRO SELLS PREMIUM COLLAGEN PRODUCTS BOTH DIRECTLY TO FOOD MANUFACTURERS AND, IN SOME MARKETS, THROUGH LOCAL DISTRIBUTORS. WE SUPPLY COLLAGEN CASING, GEL AND FILM 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.

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.

OUR PEOPLE

Devro employs nearly 2,000 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.

EXTRACT

EXTRACTING COLLAGEN

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

INNOVATE

APPLIED TECHNOLOGY

The production of collagen casing is a complex technological process. Devro combines over 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.

REINVEST

REINVESTING IN OUR BUSINESS

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

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.

SELL

SALES, MARKETING AND DISTRIBUTION
Devro products are sold in over 100 countries across all continents. We sell directly to food manufacturers and via 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.

ADDING VALUE

INVESTORS

Devro is well placed to benefit from underlying market growth potential of 2-4% globally. We are highly cash generative which allows us to offer investors an attractive dividend.

CUSTOMERS

We deliver value to our customers by offering them innovation, efficient processing and cost savings and by helping them to supply products with great consumer appeal.

SUPPLIERS

The long-term relationships we have built with many of our key suppliers is underpinned by the commitment in our business conduct policy to act professionally, fairly and with integrity in all our business dealings wherever we operate.

COMMUNITIES

We employ almost 2,000 people globally and we do our best to make Devro a safe and fulfilling place to work. We have a long-standing presence in many of the communities in which our employees are located, where we aim to maintain the trust of all those affected by what we do, mindful, in particular, of the importance of reducing our environmental impact.

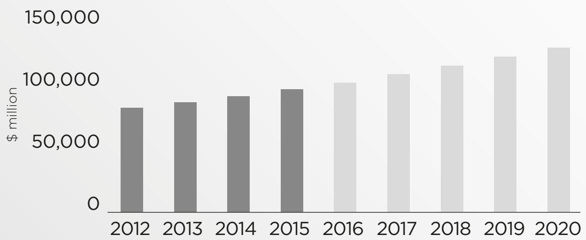
BUSINESS MODEL IN ACTION

SNACK

SNACKING IS A KEY GROWTH DRIVER FOR THE FOOD INDUSTRY. SAVOURY SNACKING IS EXPECTED TO GROW 6% IN CAGR[1] TO 2021, REACHING $129 BILLION

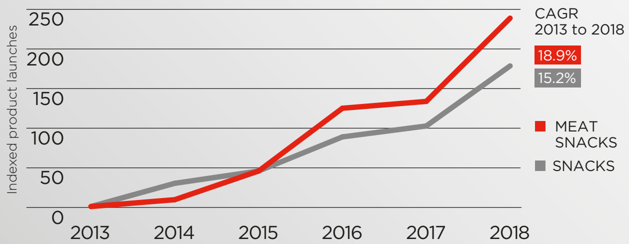
AN EXCITING AND GROWING MARKET

GLOBAL SAVOURY SNACKS MARKET VALUE AND FORECAST[2]



Meat snacking is currently worth $2.9 billion[2] and based on its current share of the savoury snacking market, is estimated to reach $4 billion by 2021, up 35%.

RELATIVE DEVELOPMENT OF MEAT SNACKS[3]
LAUNCHES VS SNACKS CATEGORY



Meat snacking product launches are outpacing snacking launches with CAGR 2013 to 2018 of 18.9% vs. snacking 15.2%.

Source:
1 CAGR: Compound Annual Growth Rate.
2 MarketLine Industry Profile Global Savory Snacks July 2017.
3 Innova: CR Meat Snacks Trends Analysis 2019.

DRIVEN BY CONSUMER TRENDS

Growth in meat sticks is driven by several factors.

THE WAY WE CONSUME MEAT STICKS ARE:

- Compact for on the go consumption
- A convenient replacement for a meal
- Tasty and available in a variety of flavours, textures and meats
- Widely available in multiple formats and outlets in more mature markets

HEALTHY HALO – 'BETTER FOR YOU' MEAT STICKS ARE:

- High in protein, low in carbohydrates
- Suitable for meat-based regimes
- Available in cleaner label options
- Available in healthier options using leaner meats or lower fat varieties

DELIVERED WITH THE UNIQUE DEVRO DIFFERENCE

Devro is the market leader in small calibre sticks casing.

PROVIDING A HIGH QUALITY, RELIABLE PRODUCT:

- Delivering a range that caters to the needs of markets and products globally
- Providing different lengths, colours and finishes to maximise product differentiation
- Producing across multiple sites to provide contingency of supply
- Providing product traceability

PROVIDING EXPERTISE:

- Local on-site technical support to optimise product quality and productivity
- Supporting product development through our four global Product Application Testing Laboratories
- Providing market leadership and insight
- Commissioning new products and delivering training and support

DEVRO IS WELL POSITIONED TO MEET RAPIDLY GROWING DEMAND IN THE GLOBAL SNACKING SECTOR

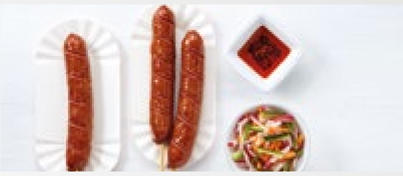
BUSINESS MODEL IN ACTION continued

SIZZLE

HISTORICALLY, COLLAGEN CASING FOR PROCESSED SAUSAGES HAS STRUGGLED TO MEET THE CHALLENGING DEMANDS OF FRYING IN OIL AND GRILLING

SHOWCASING INNOVATION, DRIVING GROWTH

Fine-TC Ultra
For: European style sausages
Cooking: Pan frying, grilling and BBQ



Fine-JC Ultra
For: Japanese jumbo wieners
Cooking: Microwave then deep fat frying

FINE ULTRA

The new Fine Ultra product platform has been developed to deliver a better frying sausage with a tender bite, accommodating the diverse cooking and regulatory requirements around the world.

KEY BENEFITS OF ULTRA:

- Significantly improved performance during frying, including deep fat frying
- Improved performance on BBQ and grill
- Improved tenderness of bite
- A versatile casing for multiple products and applications
- High stuffing speeds

INTRODUCING AVEM™

At the end of 2019, Devro brought the Avem™ collagen gel to the market for poultry-based sausages. This product launch is meeting a growing demand for clean label, especially from consumers around the world who prefer a healthier lifestyle. It is the first poultry-based collagen gel in the world and is based on years of research and development, thus cementing our leading position as an innovator in edible casings.

BUSINESS MODEL IN ACTION continued

YIELD
THE CASE FOR COLLAGEN IS CLEAR

IMPROVING YIELD BENEFITS EVERYONE

FOR PRODUCERS
Cost savings can be applied in:
- Higher meat quality and content
- Better prices to the retailer
- Marketing and brand building activities

FOR RETAILERS
Cost savings can be invested in:
- Better value for customers
- In-store promotions
- Tastings and other marketing activities

WHICH FOR CONSUMERS MEANS:
- A great quality sausage at a reasonable price
- A safe and reliable product
- Investment in new product development and promotions

THE CASE FOR COLLAGEN IS CLEAR

IT DELIVERS SIGNIFICANT PRODUCTION SAVINGS
- Fully automatic sausage filling machines can be used effectively

Outputs can reach **450KG** per hour per person[1]

Outputs with gut are **33%–50%** of the collagen levels per person

IT IS CONSISTENT
- The production process delivers consistency regardless of the season
- Consistently longer lengths reduces waste and times in changeovers

IT PROVIDES PRICE STABILITY
- Our customers can budget, plan and cost their products effectively while gut continues to suffer from price volatility

CONTINUOUS IMPROVEMENT WITH THE DEVRO DIFFERENCE

PROVIDING ON-SITE EXPERTISE
- Expert staff, who understand the industry
- Factory audits and technical support to optimise productivity
- Problem solving on processing issues

DEVRO OFF-SITE SUPPORT
- Delivering training and development
- Supporting development through our four Product Application Testing Laboratories

DELIVERING THE RIGHT PRODUCT TO OPTIMISE PRODUCTIVITY
- A wide range of casings that cater to the needs of markets and products globally
- Providing different lengths, calibres and finishes to optimise productivity

PROVIDING A HIGH QUALITY, SECURE PRODUCT
- We offer full bovine collagen traceability back to the individual animal within our range

1 Based on UK sausage output

"DRAWING ON OUR EXPERTISE WE AIM TO BRING THE MANY BENEFITS OF COLLAGEN CASINGS TO OUR CUSTOMERS

KEY PERFORMANCE INDICATORS

MEASURING OUR PERFORMANCE

We monitor our performance against 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

1 3

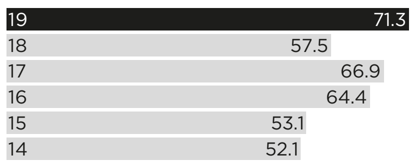
VOLUME GROWTH OF EDIBLE COLLAGEN CASINGS (%)

A key element underpinning the Group’s strategy is to deliver growth in sales revenue. There are several components to revenue growth, including changes in sales volumes and in price/mix. As a result, the Group monitors sales volume growth separately, and changes in price/mix are monitored through revenue growth. Devro sells to markets around the world from strategically located commercial operations and through an extensive network of distributors and agents.

UNDERLYING[1] OPERATING CASH FLOW

1 2 3

CASH GENERATED FROM UNDERLYING OPERATIONS BEFORE PENSION DEFICIT FUNDING (£'M)



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

CONSTANT CURRENCY REVENUE GROWTH[2]

1 3

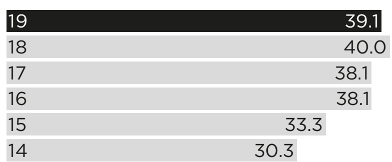
VALUE GROWTH AT CONSTANT CURRENCY (%)

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[2] 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[1] OPERATING PROFIT (BEFORE NON-RECURRING ITEMS[3])

1 2 3

OPERATING PROFIT BEFORE EXCEPTIONAL ITEMS AND NON-RECURRING ITEMS (£'M)



While the Group aims to take a long-term perspective on shareholder value, it also monitors the financial performance 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 26 to 31.

LINK TO STRATEGY:

1 WIN WITH THE WINNING **CUSTOMERS**

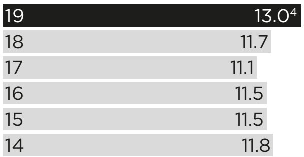
2 FOCUS ON **CORE** PROFITABILITY DRIVERS

3 STRENGTHEN **COMPETENCIES**

RETURN ON CAPITAL EMPLOYED

1 2 3

UNDERLYING OPERATING PROFIT/AVERAGE CAPITAL EMPLOYED (%)

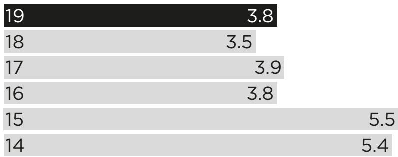


Return on capital employed (ROCE) represents underlying operating profit as a percentage of average capital employed. Capital employed is defined as fixed assets plus current assets less current liabilities, excluding all balances related to interest-bearing assets and liabilities, any derivative financial 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

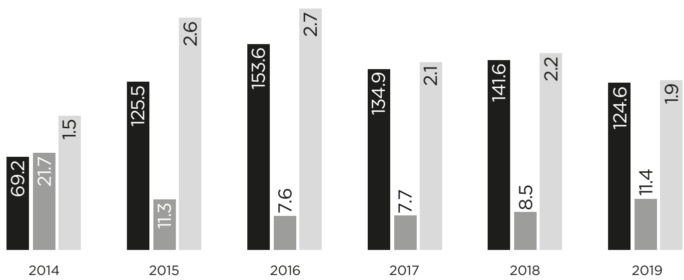
TOTAL RECORDABLE INJURY RATE (LWDI AND RECORDABLE) PER MILLION HOURS WORKED



Health and safety matters are discussed further on pages 40 and 41. 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



■ NET DEBT (£'m)
■ UNDERLYING EBITDA/NET INTEREST (TIMES)
■ COVENANT NET DEBT/UNDERLYING EBITDA (TIMES)

Covenant net debt[5]/EBITDA[6] measures the liquidity of the Group. Underlying EBITDA/net interest payable measures our ability to service our net debt.

Covenant EBITDA is defined, explained and reconciled to equivalent statutory measures in the Financial Review on pages 26 to 31.

Covenant net debt EBITDA and covenant 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 included derivative financial liabilities and is defined, explained and reconciled to equivalent statutory measures in the Financial Review on pages 26 to 31.

1 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 26 to 31. Underlying figures for 2017 and earlier years have been restated to exclude net finance cost on pensions, where applicable.
2 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.
3 Non-recurring items relate to Board change costs of £nil (2018: £0.8 million), see Alternative Performance Measures in Financial Review section for definition and explanation.
4 Adjusted for the impact of impairments, revised ROCE is 12.1%.
5 Covenant net debt is shown before the impact of IFRS 16 (2019: £0.8 million).
6 EBITDA for covenant purposes is shown on underlying basis (before exceptional items) and before the impact of IFRS 16 (2019: £0.6 million).

FINANCIAL REVIEW

WORKING CAPITAL EFFICIENCIES HELPED DELIVER STRONG CASH GENERATION WITH FREE CASH FLOWS OF £30.8 MILLION AND THE COVENANT NET DEBT/EBITDA RATIO REDUCING TO 1.9 TIMES.

JACKIE CALLAWAY
CHIEF FINANCIAL OFFICER

During 2019 and in prior periods the Board reviewed the Group's revenues and edible collagen volumes on a geographical segment basis splitting the business into three operating segments (Americas, Asia Pacific and EMEA). In future we will analyse Group revenues and edible collagen volumes between emerging markets[1] and mature markets[2] as this categorisation reflects our current strategy of defending and building upon our strong market positions in mature markets and targeting to increase our share in emerging markets. For segmental purposes we will continue to report on a regional basis.

After a slower start in the first half of 2019, sales volumes in emerging markets grew 13% in the second half and 7% for the full year. Whilst volumes in North America grew 7%, this was not sufficient to offset weaker demand in Japan from lower sheep gut prices and in Europe from weak market sentiment, higher pork prices as a result of African Swine Fever and distributor destocking. As a result, in the year, sales volumes in mature markets declined 3% and Group sales volumes were flat.

The 2019 financial results delivered underlying operating profit before non-recurring items of £39.1 million versus £40.0 million for 2018. Underlying operating profit margin before non-recurring items was 15.6% (2018: 15.8%). These earnings, together with working capital efficiencies helped deliver strong cash generation with free cash flow of £30.8 million (2018: £11.2 million) and the covenant net debt/EBITDA ratio reducing to 1.9 times at 31 December 2019, compared with 2.2 times at 31 December 2018. Underlying basic earnings per share increased by 4% to 15.2 pence (2018: 14.6 pence).

Exceptional items for the year were £53.1 million (2018: £12.3 million) of which £45.9 million was due to the closure of the Bellshill site and related non-cash impairment of the manufacturing assets in the US and China (further details are set out below).

REVENUE

	2019 £'m	2018 £'m	Change	Change at constant currency
Revenue	250.0	253.4	–1.3%	–2.6%

REVENUE BRIDGE

	2019 vs 2018	2018 vs 2017
Volume (EC*)	0.0%	0.2%
Country/product mix (EC*)	-1.5%	1.0%
Other products	-1.1%	-1.0%
Foreign exchange	1.3%	-1.6%
Total	-1.3%	-1.4%

* EC – edible collagen.

Revenue for the year was marginally lower than 2018. Strong sales growth in China resulted in an adverse country/product mix. Revenue was also impacted by lower sales of other products, primarily co-ex gel, where in North America one of our customers moved to dual sourcing, and non-edible collagen products due to general market weakness in European sales. Foreign exchange benefited from the strengthening of the Japanese Yen and the US Dollar during the year.

EDIBLE COLLAGEN VOLUMES

As noted above Group sales volumes were flat for the year with 7% growth in emerging markets offset by a 3% decline in mature markets.

In emerging markets 2019 sales volumes grew 13% in the second half and 7% for the full year, driven by a very strong performance in China, up 33% comprising growth from existing customers and some market share gains. South East Asia and Russia & East both showed second half volume growth of 2% and 6% respectively, with full year volumes for South East Asia flat and Russia slightly down (2%) on prior year. Latin America's second half performance continued to be impacted by distributor destocking, albeit at a lower rate than the first half (H1: -30%, H2: -10%, FY: -21%). Recent contract wins in Brazil will support growth in Latin America in 2020.

In mature markets, 2019 volumes in North America grew 7% due to strong snacking growth, however, this was not enough to offset challenging market conditions in Japan (down 7%), Continental Europe (down 3%) and UK & Ireland (down 4%). Market conditions in UK & Ireland were softer due to higher pork prices and a move by some consumers towards meat-free alternatives. In Australia & NZ (down 6%) there was an isolated loss of a customer due to pricing. As a result, sales volumes in mature markets declined by 3%.

1 Devro emerging markets include: Latin America, Russia & East, Middle East & Africa, South East Asia and China.
2 Devro mature markets include: North America, Continental EU, UK & Ireland, Japan and Australia & NZ.

Analysis of emerging and mature markets edible collagen is set out below:

	Volume	Price/mix	Foreign exchange
Mature	-3%	-1%	1%
Emerging	7%	-6%	2%

In volume terms (Mm) mature markets account for two thirds and emerging markets account for one third of the portfolio.

Details of changes to edible collagen by segmentation is noted as follows:

	Volume	Price/mix	Foreign exchange
Americas	1%	-1%	5%
EMEA	-3%	0%	-1%
Asia Pacific	4%	-5%	2%

OPERATING PROFIT

Operating (loss)/profit for the year can be analysed as follows:

	2019 £'m	2018 £'m	Change
Underlying EBITDA before non-recurring items	65.5	65.6	-0.2%
Depreciation & amortisation	(26.4)	(25.6)	-3.1%
Underlying operating profit before non-recurring items	**39.1**	**40.0**	**-2.3%**
Non-recurring items	–	(0.8)	
Underlying operating profit after non-recurring items	**39.1**	**39.2**	**-0.3%**
Exceptional items	(53.1)	(12.3)	
Operating (loss)/profit	**(14.0)**	**26.9**	

Underlying operating profit before non-recurring items of £39.1 million (2018: £40.0 million) was impacted by country/product mix and lower revenues from other products and inflationary pressure on utilities and salaries. These negative impacts were partly offset by the D100 programme and operating costs savings of £7.4 million (2018: £5.4 million) and foreign exchange benefits of £1.8million (2018: £1.2 million adverse impact).

An analysis of the overall movement in underlying operating profit is set out below:

	£'m
2018 underlying operating profit before non-recurring items	**40.0**
Country/product mix (EC)	(3.9)
Volumes (EC)	-
Contribution from other products	(1.3)
Utility and salary inflation	(4.3)
D100 costs savings	6.2
Operating expense savings (global operating model)	1.2
Other	(0.6)
Foreign exchange	1.8
2019 underlying operating profit before non-recurring items	**39.1**

Commentary on volumes, country/product mix and other products is set out above.

As expected, utility and salary inflation largely in China and Czech Republic continued during 2019. This was more than offset by the D100 programme and operating cost savings of £7.4 million, which were ahead of plan. These savings included contributions from the sourcing of raw materials, further optimisation of operational structures at the plants, investments to improve energy efficiency and operating cost savings from implementation of the new global operating model.

Devro has operations around the world in multiple currencies. Movements in exchange rates had a positive impact on underlying operating profit of £1.8 million. Foreign exchange benefited from the strengthening of the Japanese Yen and the US Dollar during the year.

Taking account of the factors above underlying operating margin before non-recurring items decreased by 20 bps to 15.6%.

FINANCIAL REVIEW continued

Reported operating loss for the period was £14.0 million as a result of exceptional items compared with 2018 as set out below.

EXCEPTIONAL ITEMS

	2019 £'m	2018 £'m
Restructuring costs	7.2	11.4
Guaranteed Minimum Pensions (GMP) equalisation	–	0.9
Impairment of property, plant and equipment	44.9	-
Impairment of intangible assets	1.0	-
	53.1	**12.3**

Restructuring costs include costs associated with the closure of the Bellshill site of £5.6 million and £1.6 million (2018: £4.9million) relating to the implementation of the new global operating model. In 2018 restructuring costs also included £6.5 million related to the D100 programme.

Details on the non-cash impairment of property, plant and equipment is set out as follows:

	Value of impairment £'m	Remaining assets carrying value at the end of 2019 £'m
US site	(23.0)	47.8
China site	(18.0)	32.2
Bellshill site	(4.9)	7.5
	(45.9)	**87.5**

In the second half of 2019 the Group undertook a review of its global manufacturing footprint with the aim to access further efficiency improvements, as well as to align available capacity to the Group's growth ambitions. As a result of this review, the Group will close its Bellshill site in Scotland during 2020 and move the remaining operating assets to other sites. Whilst this initiative improves the cash generation capacity of the Group's asset base, it also triggered an impairment review which impacted key assumptions underpinning calculations of net present value from cash flow forecasts for US and China manufacturing operations.

As a result of the global supply chain optimisation project, plans for production of certain higher margin products historically forecast in China were reallocated to other operations. The impact of these production changes were partially offset by lower cost forecasts reflecting the Group's track record of cost savings. However, this resulted in a decrease in margins and profits leading to lower cash flow forecasts and a write down of £18.0 million (36% of book value) of the China manufacturing assets.

The global supply chain optimisation project also resulted in the decision to permanently decommission the pilot line in the US which was put in place when the facility was initially constructed. This resulted in lower absorption of plant fixed costs and consequently higher than previously forecasted production costs per unit. The impact of these production changes together with refinement of cost forecasts resulted in a decrease in margins and profits leading to lower cash flow forecasts and a write down of £23.0 million (33% of book value) of the US manufacturing assets.

As a result of the non-cash write down of assets in 2019 of £45.9 million, depreciation for 2020 is expected to be reduced by approximately £2.5 – £3.0 million.

CAPITAL INVESTMENT

	2019 £'m	2018 £'m
Capital investment	13.9	11.2

Capital investment was up to £13.9 million compared to £11.2 million in 2018. The main investments related to a project in our US manufacturing facility to reconfigure our modern line to provide further capacity and upgrade of a production line in Australia.

Capital investment for 2020 is expected to be approximately £18.0 million with the increase over 2019 primarily relating to the investment to transfer and upgrade assets from Bellshill to other parts of the Group.

WORKING CAPITAL

	2019 £'m	2018 £'m
Inventories	39.1	38.2
Trade and other receivables	27.9	36.0
Trade and other payables	(29.4)	(29.3)
Provisions	(5.6)	(5.2)
	32.0	**39.7**

Working capital decreased by £7.7 million during the year primarily due to lower receivables offset slightly by higher inventory.

In 2018, receivables were higher than normal due to changes in customer mix, some extended payment terms and the impact of transitioning activities around the Group to the newly-created finance shared services centre. 2019 closing receivables include the benefit of standardisation of the receivables practices within the new finance shared services centre.

The increase in inventory was mainly driven by stock build to support the transition of capacity from Bellshill to other sites.

CASH FLOW AND NET DEBT

Devro continues to be a highly cash generative business.

In 2019 we saw strong cash generation with the covenant net debt/EBITDA ratio reducing to 1.9 times at 31 December 2019, compared with 2.2 times at 31 December 2018. The main driver was positive working capital movements following standardisation of the payables and receivables practices within the finance shared services centre.

The underlying EBITDA/net interest payable ratio was 11.6 times at 31 December 2019 (2018: 8.5 times), meaning that both this and the covenant net debt/EBITDA ratios were well within the covenant.

Key financial measures are as follows:

	2019	2018
Net debt	£124.6m	£141.6m
Covenant net debt/EBITDA ratio	1.9 times	2.2 times
Underlying operating cash flow before pension funding deficit and exceptional items	£71.3m	£57.5m
Operating cash flow	£59.7m	£46.1m
Return on capital employed (ROCE)	13.0%	11.7%

Return on capital employed (ROCE) of 13.0% improved due to both positive working capital movements and the reduction in assets values following the impairment write downs. Excluding these impairment write downs from the calculation results in an adjusted ROCE of 12.1%.

FINANCE COSTS

	2019 £'m	2018 £'m
Net interest cost (incl. lease liabilities)	6.0	7.1
Net finance cost on pensions	1.8	2.3
Total finance cost	**7.8**	**9.4**

Net finance cost for the year (excluding pensions) was £6.0 million. This represents a decrease from 2018 of £1.1 million, due to restructuring of borrowings drawn down in Chinese Renminbi to support our investment in China (in H1 2018), together with one-off costs in H1 2018 associated with the refinancing of the revolving credit facility and lower net debt balances.

Net finance costs on pensions for the year reduced by £0.5 million, due to lower brought forward net pension deficit at the start of 2019, compared with the start of 2018.

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:

	2019 £'m	2018 £'m
Fair value of scheme assets	245.2	232.8
Present value of scheme liabilities	(309.3)	(287.2)
Net pension obligations	**(64.1)**	**(54.4)**

The Group's net pension obligations increased by £9.7 million and this primarily related to a decrease in the discount rates used in the UK and US schemes.

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 2019 the Group made pension deficit funding contributions of £5.3 million (2018: £4.9 million). In 2020, pension deficit funding contributions are expected to increase to £7.5 million. The increase over 2019 relates to the phasing out of the legislative taper relief on US plan discount rates resulting in higher funding liabilities and consequently higher deficit funding payments for the US scheme.

Further analysis of movements in net pension liabilities is set out in Note 26 to the attached Financial Statements.

TAX

	2019 £'m	2018 £'m
Tax charge on underlying profit before tax	7.7	7.7
Tax charge/(credit) on exceptional items & exceptional tax charge	11.9	(2.7)
Tax charge in income statement	**19.6**	**5.0**

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 comparable to 2018.

In 2019, deferred tax assets have not been recognised on accumulated historical losses in the US and China as a result of uncertainty over the timing of recoverability. The Group's review of the global manufacturing footprint in 2019 impacted not only impairment testing of the US and China plants, but also profits forecasts of the US and China statutory entities introducing greater uncertainty over the timing of future recoverability of accumulated losses. This led to full de-recognition of deferred tax assets on carried forward losses in the US and China. The unwind of the previously recognised deferred tax assets on losses has been recognised in exceptional tax.

EARNINGS PER SHARE

	2019	2018
Underlying basic earnings per share	15.2p	14.6p
Basic earnings per share	(24.8)p	7.5p

We have presented an adjusted underlying 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).

Underlying basic EPS increased by 0.6p, as a result of a reduction in underlying operating profit (-0.1p) offset by lower finance charges (+0.7p).

The reduction in basic EPS reflects the impairment charges in 2019, more than offsetting the factors resulting in higher underlying basic EPS.

DIVIDEND

	2019 £'m	2018 £'m
Interim per share	2.7p	2.7p
Final per share	6.3p	6.3p
Total	**9.0p**	**9.0p**

The Board is recommending a final dividend in line with 2018.

FINANCIAL REVIEW continued

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', 'non-recurring items', 'earnings before interest, tax, depreciation and amortisation (EBITDA)', 'covenant 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 (Note 4) and net finance cost on pensions. Devro has undergone a major transformation including the D100 programme which was completed in 2019. 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. In the second half of 2019 the Group undertook a review of its global manufacturing footprint, and this resulted in decision to close Bellshill site. This also triggered an impairment review which impacted key assumptions underpinning calculations of net present value from cash flow forecasts for US and China manufacturing operations.

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

	2019				2018			
	Underlying	**Exceptional items**	**Net finance cost on pensions**	**Reported**	Underlying	Exceptional items	Net finance cost on pensions	Reported
Operating profit before non-recurring items (£'m)	39.1	(53.1)	–	(14.0)	40.0	(12.3)	–	27.7
Non-recurring items (£'m)	–	–	–	–	(0.8)	–	–	(0.8)
Operating profit (£'m)	*39.1*	*(53.1)*	–	*(14.0)*	*39.2*	*(12.3)*	–	*26.9*
Operating margin (%)	*15.6%*	*(21.2)%*	–	*(5.6)%*	*15.5%*	*(4.9)%*	–	*10.6%*
Profit before tax (£'m)	33.1	(53.1)	(1.8)	(21.8)	32.1	(12.3)	(2.3)	17.5
Basic earnings per share (p)	15.2p	(39.1)p	(0.9)p	(24.8)p	14.6p	(5.8)p	(1.3)	7.5p

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 £nil in 2019 (2018: £0.8 million) 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. No equivalent costs were incurred 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:

	2019			2018		
	Underlying	**Exceptional items**	**Reported**	Underlying	Exceptional items	Reported
Operating profit after non-recurring items (£'m)	39.1	(53.1)	(14.0)	39.2	(12.3)	26.9
Depreciation & amortisation (£'m)	26.4	–	26.4	25.6	–	25.6
EBITDA (£'m)	65.5	(53.1)	12.4	64.8	(12.3)	52.5
EBITDA margin (%)	*26.2%*		*5.0%*	*25.6%*		*20.7%*
Less: Impact of IFRS 16 (£'m)	(0.6)			–		
Covenant EBITDA (£'m)	64.9			64.8		

NET DEBT

Net debt is defined as the excess of total borrowings over cash and cash equivalents. It is a measure that provides additional information on the Group's financial position and is a measure in common use elsewhere. A reconciliation from reported figures is presented below:

	2019 £'m	2018 £'m
Current borrowings	(1.2)	(4.7)
Non-current borrowings	(148.1)	(146.8)
Total borrowings	(149.3)	(151.5)
Cash and cash equivalents	24.7	9.9
Net debt	(124.6)	(141.6)
Add back: impact of IFRS 16	0.8	–
Covenant net debt	**(123.8)**	**(141.6)**

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:

	2019 £'m	2018 £'m	2017 £'m
Intangible assets	10.5	10.5	10.4
Property, plant and equipment	213.8	278.8	291.1
Inventories	39.1	38.2	32.3
Trade and other receivables	31.8	41.4	35.1
Trade and other payables	(31.9)	(32.3)	(34.5)
Total capital employed	263.3	336.6	334.4
Average capital employed*	300.0	335.5	342.3
Underlying operating profit	39.1	39.2	38.1
Return on capital employed	**13.0%**	**11.7%**	**11.1%**

* 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 2019 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

PRINCIPAL RISKS & 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 emerging and 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.

In addressing and overseeing risk, the Board is supported by the Risk Committee and by the Executive Management Team through additional integrated business planning structures introduced during the latter part of 2019. The Committee commissioned a report in 2019 about how the Company could enhance its risk management framework. This has resulted in greater visibility about how individual risks might impact the Company's delivery of individual elements of our 3Cs strategy and associated key areas of focus. The process for identifying, and bringing to the Board's attention, key risks has also been updated. In addition to existing structures for functional teams to report the highest risks to the Risk Committee, a process for each functional team to formalise its assessment of all known material risks is being introduced which will assist the Board to monitor emerging risks.

Broadly speaking, our risk profile is unchanged, although we have identified this year as an emerging environmental risk, potential future water shortages at two of our manufacturing locations, in response to which initiatives to reduce our water usage and to increase our water recycling are underway, alongside an investigation into alternative sustainable sources of water supply.

In 2020 we have also monitored as a developing risk to the business, the outbreak of COVID-19 virus. Our assessment is that it has the potential:

- to disrupt manufacturing, should restrictions take effect which obstruct the supply of raw materials or of labour;
- to hamper customer deliveries; and
- to cause a sales downturn in affected areas, if logistical obstacles also disrupt our customers' businesses or consumer access to their products.

At the date of this report, our one manufacturing site in China is operating at normal capacity and is not facing labour or supply shortages. We are actively reviewing developments both in China and outside of China in order to maintain business continuity plans aimed at mitigating the 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 36 and 50, respectively.

Key Risk	Impact	Mitigation	Movement
LOSS OF PROFIT MARGINS/ VOLUME DUE TO INCREASED COMPETITIVE PRESSURES The Group operates in competitive markets throughout the world.	Any increase in effective competition risks sales loss via volume and/or price decline.	To Win with the Winning Customers is a key pillar of our 3Cs strategy and in 2019 we have continued to develop value propositions to drive customer satisfaction. The transition to a global commercial organisation in 2019 has facilitated a more rapid transfer of successful customer offerings and more agile troubleshooting. In 2019, savings of £7.4 million have been delivered in order to keep our cost base competitive. We also aim to continue expanding the total collagen casings market by developing products which convert gut applications to collagen casing.	=

RISK TREND

^ Increased | v Decreased | = Broadly unchanged

Key Risk	Impact	Mitigation	Movement
DISRUPTION TO SUPPLY OR INCREASE IN PRICE OF KEY RAW MATERIALS Inflationary cost pressures that cannot be mitigated by cost reduction or passing on price risks reduced margins and profitability.	The Group's most important raw material is collagen, a naturally occurring animal protein obtained from cattle and sow hides. It represents up to 20% of the Group's total operating cost of goods. 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.	The Group manages the collagen sourcing risk by, where possible, entering into long-term arrangements with specialised suppliers in various parts of the world. There continues to be an ongoing focus on cost reduction and manufacturing efficiencies, led by our global procurement function, to address inflationary pressures across the entire business.	=
FOOD REGULATORY RISK Food safety concerns risks additional regulation and restrictions.	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.	As a supplier to the food industry, the Group complies with all relevant food safety regulations. We actively monitor 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.	=
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. Preferences may be affected both as a result of long-term trends, such as calls advocating consumers to reduce their meat consumption, and short-term trends such as those prompted by the expected temporary effect of African Swine Fever (ASF) on the cost and availability of pork to our customers.	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 and geographical presence 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. ASF may cause (i) an upturn in the number of sausage producers switching production using gut casings to production using collagen; and (ii) consumers to increase their consumption of sausage over higher-priced pork cuts.	^
IT SYSTEMS/CYBER RISK IT systems are central to our business operations. Vulnerability to an external attack is an emerging 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 financial penalties.	We continually review our systems to ensure they are appropriately secured, and we have invested in firewalls and other security features. Employees are regularly trained to detect, avoid and mitigate cyber risks. External auditing of systems is conducted.	=

PRINCIPAL RISKS & UNCERTAINTIES continued

Key Risk	Impact	Mitigation	Movement
DEVELOPMENT OF NON-CASING TECHNOLOGIES More than 80% of the Group's revenue is derived from the manufacture and sale of edible collagen casing, primarily for sausages. For many years, several manufacturers of machinery used in the food industry have been promoting 'co-extrusion' systems for sausages which do not require casing. Both collagen and non-collagen co-extrusion gels can be used on such systems. In 2019, there was some evidence of greater acceptance by fresh sausage producers of non-collagen co-extrusion solutions.	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. It invested £7.3 million in research and development activities in 2019, to extend and differentiate the product range. Where there have been conversions to co-extrusion for processed sausages 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.	=
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. Sterling exchange rate volatility may be impacted in 2020 by negotiations between the UK and the EU on future trading arrangements between them and by ongoing trading tensions between leading industrial nations.	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.	=

RISK TREND

^ Increased | V Decreased | = Broadly unchanged

Risk	Impact	Mitigation	Movement
BREXIT Regulatory changes to arrangements governing trading between the UK and the EU, beyond the current transition period, risks disruption to some Company sales.	An abrupt change to current trading arrangements between the UK and the EU at the end of the current transition period post the UK's withdrawal from the EU may cause short-term disruption of our export sales from Scotland to the EU and of sourcing of raw materials for production in Scotland; while any change to trading arrangements may also be on disadvantageous terms compared to current conditions. This risk impacts sales from product made in Scotland exported to the EU, which represents max. 7% of Group output. (The majority of Devro Group production and trade is unaffected by this risk.)	Comprehensive plans developed to mitigate the effects of an abrupt departure by the UK from the EU have been maintained. These include actions to address identified vulnerabilities such as the build of inventory stocks of key raw materials in the UK and of buffer stocks of UK-manufactured finished goods for sale in the EU. We have substantial manufacturing operations in the Czech Republic from where we continue to be able to supply most EU customers. We continue to engage with trade bodies and with the UK Government to ensure that collagen food products do not get overlooked in trade deal negotiations.	=
PEOPLE Shortage of people with relevant expertise and any failure by management to engage with all employees risks obstacles to the delivery of the Company's strategy.	There is competition for highly trained staff in certain areas. Devro's strategy of significant investment in the Company's manufacturing base requires the recruitment and retention of highly skilled technical managers and employees. The Company has undergone considerable organisational change since 2016, aimed at embedding a global integrated platform, the success of which is dependent on continued engagement with employees.	We offer a competitive pay package to our employees and have launched an Employee Value Proposition to promote the benefits of employment with the Group. See page 47 for our employee engagement initiatives.	=
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. There is currently an increased risk to the liabilities of the US scheme due to the proposed removal of the discount rate tapering in the US.	Any significant deterioration in the schemes' asset values or unforeseen increases in scheme liabilities might increase the Group's funding obligations and could deflect investment in the business.	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.	^

PRINCIPAL RISKS & UNCERTAINTIES continued

Risk	Impact	Mitigation	Movement
OPERATIONAL DISRUPTION The Group is at risk of disruption to its manufacturing capability from poor operational performance, or major disruptive events, such as fire or flooding.	Prolonged operational disruption could result in sustained loss of capacity or capability and could affect our ability to deliver to customers. This, in turn, could adversely affect the Group's financial performance.	The Group maintains industry-leading operational processes and procedures to ensure effective operational management at each of our plants. With six manufacturing operations in various locations, the Group has manufacturing flexibility and this enables effective contingency planning. Our business continuity and disaster recovery plans are regularly tested and continually updated. Appropriate insurance policies are in place.	=
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 8 and 9. 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 2022 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 2022.

SECTION 172 STATEMENT

Each Director of the Company continues to be mindful of his/her statutory duty to promote the success of the Company for the benefit of the members as a whole, and in doing so having regard (amongst other matters) to those factors set out in section 172(1)(a)-(f) of the Companies Act 2006 (as set out in the table below). Collectively, the Board recognises how having regard to these and other relevant factors and stakeholder groups in their decision-making, contributes to the success of the Company. Depending on the matter in question, the relevance of different stakeholder interests and other factors will inevitably vary and the Board may have to make difficult decisions based on competing priorities which means that it may not always be possible to provide a favourable outcome for all stakeholders.

On appointment to the Board, the Directors are provided with a detailed induction programme. This includes a briefing on the Directors' statutory duties and Directors are also provided with various opportunities to meet key stakeholders. Ahead of all Board meetings, the Directors are supplied with detailed papers which highlight relevant stakeholder considerations and other factors considered relevant to the matter under consideration. Members of the Executive Management Team and other key employees attend and make presentations as appropriate at meetings of the Board including in relation to the outcome of stakeholder engagement. A programme of strategic and other reviews, together with training provided during the year, ensures that the Directors continually update their skills and knowledge. In 2020, additional training is planned to refresh the Board's understanding of its section 172 responsibilities.

In addition, in 2019, the Company introduced into its approval process for both capital projects and its most substantial contracts, requirements for those seeking approval to consider and report how the factors in the table below had been taken into account.

The Company's key stakeholders are our employees, customers, distributors and suppliers. The Company has in place the following framework to ensure Directors have regard to our key stakeholders and those other matters referenced in section 172(1) in their decision-making:

The likely consequences of any decision in the long-term	The Board regularly reviews its long-term strategy and has spent over 30% of its meeting time in 2019 reviewing this – see page 46. This has encompassed not only the current phase of strategic development, but also future areas of growth. Input is regularly taken from specialists within the business and external advisers about what issues might frame the commercial environment in which the Company will operate in future and the Board regularly considers how it can best respond to that framework. The resulting assessment of future development helps inform the Board's decision-making and the balance between short-term and long-term measures and actions. In 2019 items on the Board's agenda have regularly been linked explicitly to the relevant aspect of strategy and the proposed timeframe for delivery of the expected action, as has the Company's framework for risk management. See our Corporate Governance Report on pages 46 to 51 for more information about the work of the Board during 2019.
The interests of the Company's employees	The Board continued in 2019 to promote engagement with its global workforce, codifying many of its existing practices. These are described more fully on page 47. This approach to engagement is underpinned by the Company's global people statement about which the Board seeks regular feedback as part of its annual review of this and of its other global statements. The global HR director presented to the Board on a number of occasions in 2019 including making presentations on employee engagement and on corresponding policies and practices which aim to drive more effective employee engagement. In the second half of 2019, the Board had particular regard to employee interests in reaching a decision to seek the closure of the Company's Bellshill site as a result of a review of the Group's global manufacturing footprint, aimed at accessing further efficiency improvements and the alignment of available capacity to the Group's growth ambitions. Since the intention to close the site was announced, consultation with affected employees and their representatives, has ensured that their interests have continued to be considered.

SECTION 172 STATEMENT continued

The need to foster the Company's business relationships with suppliers, customers and others	Winning with the Winning Customers is a key element of the Company's 3Cs strategy – see page 9 – and the new global commercial structure which has been implemented in 2019 has facilitated greater scope for customer focus, interaction and communication/feedback. The new commercial structure, which is now headed by one global commercial director in place of three regional commercial directors, has also helped the Board to gain a deeper understanding of customer relationships and to support more effectively the further development of these. The global commercial director has presented to the Board on a number of occasions in 2019 to share insights about the implementation of stronger value propositions and of initiatives to maintain and further develop customer intimacy. Directors (in particular, our Executive Directors), together with members of the Executive Management Team, continue to meet customers on a regular basis and to share with the rest of the Board insights gained from such meetings. In 2019, this included attendance by Executive Directors at the global meat industry exhibition which takes place every three years in Frankfurt and their participation (to coincide with the exhibition) in a seminar with over 80 of the Company's distributors. In response to customer feedback we have also completed in 2019 the reorganisation of our R&D activities. Teams are now structured to focus on particular customer applications – fresh, snacking and processed products – while a separate team continues to undertake research into market needs for new casing properties. And in order to support our customers who told us they were targeting a particular sector of the undergoing considerable innovation, we provided last year training and technical advice aimed at enhancing their casing and productivity knowledge. A number of key customers expressed their recognition in 2019 of the value of interaction with the Company and this is shaping further engagement with customers in 2020. The Company continues to cultivate its relationships with its supplier base and the establishment of a global procurement function has facilitated the easier flow of information to the Board about the 'supplier voice'. In particular, the introduction of category management in 2019 has helped us to focus our activities to build closer relationships with suppliers and to achieve additional efficiencies. We also commenced last year a review of our supplier policies, the output from which is bringing greater clarity to the commitments of both the Company and its suppliers to each other. Supplier auditing including processes to verify the provenance of raw materials has continued to take place in 2019, the results of which are referenced in the Company's Modern Slavery Statement, which is reviewed by the Board on an annual basis and which is available on the Company's website.
The impact of the Company's operations on the community and the environment	The Company continues to pursue a programme to reduce the impact of its operations on the environment, measuring and reporting its performance against the global targets that it has set for itself. This is more fully described on pages 42 to 43. The Board reviews on an annual basis the Company's environmental commitments recorded in its global environmental management statement. The Board and individual Directors endorsed through the 2019 Board evaluation exercise, the commitment to visit the Company's main operating locations on a regular basis and during each such visit they set aside time to hear about community and environmental issues. In 2019 this included a visit to the Company's Moodiesburn site during which a new Combined Heat and Power system that was being installed there was examined by members of the Health & Safety Committee and a visit to one of the Company's Czech manufacturing sites when local management updated the Board about local environmental initiatives.
The desirability of the Company maintaining a reputation for high standards of business conduct	The Board reviews on an annual basis the Company's global statement on business conduct and it oversees each year a compliance survey, in order to verify how business conduct standards are being maintained. The Company's policies on a wide range of business and ethics related practices are regularly reviewed and updated as necessary so as to ensure continued compliance with legal and regulatory requirements and good industry practice. The reporting of concerns raised through the Company's third party hosted SpeakUp! service also provides the Board with a further insight into business conduct issues affecting the business.
The need to act fairly as between members of the Company	The Company's approach to engagement with it's shareholders is described on page 47.

The Board will continue to keep engagement methods under review to ensure they remain effective.

CORPORATE SOCIAL RESPONSIBILITY REPORT

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 we ran our second global Employee Engagement and Experience survey, 'TellDev!', 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 2,019 people, on average, around the world during 2019 (2018: 2,157). As at 31 December 2019 the Group employed 1,970 people (2018: 2,125).

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 2019 we were training seven apprentices around the world. During the course of the year, no apprenticeships were completed, however, as at 31 December 2019, 14 people who had successfully completed apprenticeships with us were still employed by the Group.

In 2019, we continued to focus effort on building scientific and technical capability, recognising that investing in these areas allows us to attract and retain the right talent to power the future. Notably, a Company-wide effort to raise the bar on problem-solving and decision-making skills has delivered significant benefits.

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 continue to address any imbalance including the roll out of unconscious bias training to key managers across the business.

	As at 31 December 2019			As at 31 December 2018		
	Male	Female	Total	Male	Female	Total
Board of Directors	4 67%	2 33%	6	4 67%	2 33%	6
Executive Management Team (excluding Directors)	3 60%	2 40%	5	3 60%	2 40%	5
Other senior managers	31 66%	16 34%	47	40 74%	14 26%	54
Other employees	1,209 63%	703 37%	1,912	1,325 64%	735 36%	2,060
Total	**1,247** **63%**	**723** **37%**	**1,970**	**1,372** **65%**	**753** **35%**	**2,125**

CORPORATE SOCIAL RESPONSIBILITY REPORT continued

HEALTH AND SAFETY

Safety is our number one value; we ask all employees to have the shared view that we will all THINK SAFE, WORK SAFE and GO HOME SAFE. We want all employees to go home in the same condition in which they arrived.

2019 SUCCESSES

- Lowest number of Lost Working Day incidents in five years
- Four sites did not report a LWDI in 2019
- Increase in the reporting of near misses across the Group
- Safety Community month across the Group with the launch of our Life Saving Rules and the My Zero concept
- All employees participated in our Hearts & Minds programme
- Engaged with over 1,500 employees for the safety culture survey
- Increased focus on mental health and wellbeing with Mental Health First Aiders being trained throughout the Group

Our aim is to create a Zero Accident workplace community and ensure everyone goes home safely every day. To accomplish this, we focus on three areas of safety: firm foundation, Discipline Discipline and internalised safety behaviours.

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. In 2019, we started to audit our compliance against these new global standards.

Safety underpins all our operational procedures with accountability for safety at every level of the organisation. Our aim is to ensure that safe systems of work are in place for all tasks and that risk assessments are documented and reviewed periodically. During 2020, there will be a critical review to ensure that they reflect the actual practices taking place in all parts of the organisation.

We ensure that the whole Group adhere to a formal Management of Change process so that safety needs are addressed in advance of changes being made.

Our internalised safe behaviours component recognises that safety should be a value internalised and actively practiced by each employee. To help us achieve this we launched our Hearts & Minds programme in 2018. In 2019, we continued our Hearts & Minds journey by delivering workshops to all employees across the organisation, and conducted a safety culture survey to check our progress to date.

We held a safety community month across the business in October. 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.

In 2018, we introduced our Safety Community Pledge. This captures succinctly the core beliefs and practices that all employees must have towards safety to enable us to build safe workplace communities. In 2019, we built on this by introducing Our Lifesaving Rules and the My Zero concept.

The purpose of the Life Saving Rules is to ensure we all WORK SAFE by clearly defining the safety critical rules, applicable to all, that we must all apply in our day-to-day work to ensure everyone goes home safe every day, everywhere.

One of our key beliefs is to strive for zero accident workplace communities. Our My Zero concept was introduced as Devro understands that the Zero does not belong to the Company but to our employees and their families. Going home safely each day without harm is our personal choice and responsibility. We asked all of our employees to accept their Zero, THINK before they act WORK to protect their Zero. We want everyone to be completely un-accepting of practices, conditions and pressures that could cause them harm and risk their Zero to ensure we all GO HOME SAFE.

To launch Our Lifesaving Rules and My Zero we created a safety video featuring hundreds of employees from across the organisation. We had wellness topics each week covering mental health, breast cancer, stroke awareness, travel safety and health and wellbeing. In addition, we provided free fruit each week, updated employees weekly in our global newspaper 'The Safety Community Post', we ran a safety drawing competition for the children of our Devro employees and finally, we ran a safety crossword competition for all employees.

SAFETY DRAWING COMPETITION WINNERS

1 2 years old – Netherlands.
2 14 years old – Czech Republic.
3 10 years old – Australia.
4 8 years old – China.
5 3 years old – United States.
6 7 years old – Scotland.

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 2020.

Last year we introduced our Just and Fair Standard as part of our Discipline Discipline area. 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. Over the course of the year we conducted over 200 Just and Fair reviews.

During the course of 2019, there were 7,900 training course attendances in various health and safety topics across the regions by our 2,019 employees. In addition to this, every office and remote worker also participated in the My Zero 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 2019 to review progress.

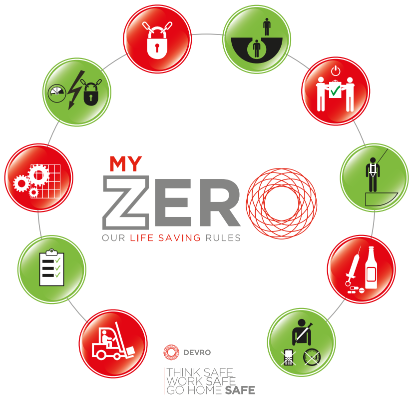
Overall, in 2019, following steady and significant improvements in our safety performance over the past decade, the number of injuries per million working hours – the total recordable case frequency – has increased slightly compared to 2018. We did, however achieve a decrease in the level of injuries that led to time off work in 2019. The severity of the lost time incidents increased as there was an increase in the number of working days lost.

We externally benchmark our performance against the OSHA total recordable cases (TRC) rate. Devro had a TRC in 2019 of 0.8. The most recent OSHA food manufacturing TRC rate was 4.2.

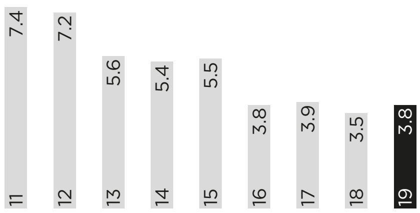
2019 SAFETY STATISTICS
We also measure our performance by looking at the number of recordable injuries, those that need more attention than basic first aid and require the attention of a health professional. In 2019, there were 15 recordable incidents reported which was the same as the 15 reported in 2018.

We recorded seven lost working day incidents in 2019 which was an improvement on the nine reported in 2018. The number of working days lost due to injury was 99 which was an increase from 57 in 2018.

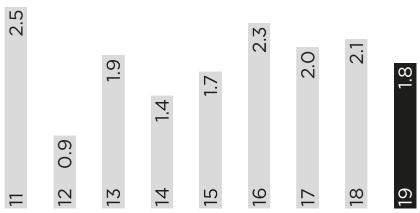
Following every serious incident, a full report is drafted with all remedial actions put in place as soon as is practical, with the circumstances shared at all sites to ensure the chance of recurrence elsewhere in the Group is minimised.



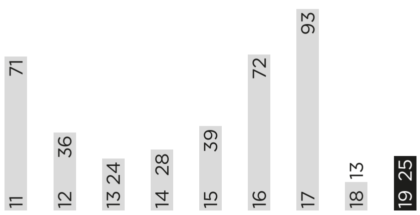
TOTAL RECORDABLE INCIDENTS
PER MILLION HOURS WORKED



TOTAL NUMBER OF LOST WORKING DAY INCIDENTS
PER MILLION HOURS WORKED



TOTAL NUMBER OF DAYS LOST
PER MILLION HOURS WORKED



2019 VS 2018 STATISTICS

	2019	2018
Number of LWDIs	**7**	9
Number of days lost	**99**	57
Number of cases of occupational illness	**6**	8
Number of dangerous incidents	**3**	3
Number of recordable injuries	**15**	15
Number of first aid cases	**111**	96
Number of minor incidents	**88**	88
Number of near misses	**416**	287
Total hours worked	**3,975,890**	4,296,486

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 cooperation 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 four main measures:

- energy consumption per million metres of production;
- 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 four 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

We meet and continue to surpass the targets we set in 2011, which was a 10% reduction per km product in CO_2 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 2019, our CO_2 emissions per million metres of casing produced, reduced by 14% and this reduction keeps us on track to achieve our 30% reduction goal from 2015 to 2020 as shown on the chart opposite.

ENERGY CONSUMPTION

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

In Scotland, our Combined Heat and Power (CHP) system that was commissioned in July 2018, continues to give significant benefits. In 2019, now that we have completed the first full year of operation, the CHP system has exceeded projections and continues to generate more than 90% of the Moodiesburn plant's requirement for electricity while utilising the waste heat from the exhaust to replace steam previously generated from the gas fired boiler.

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. Similar to our energy and emissions profile, we made significant reductions per million metres of casing produced. In 2019 we reduced our global consumption by 9% which means we have now reduced our water consumption by almost 30% since 2015 hence, significantly exceeding our target set for a 10% reduction by 2020.

As the chart opposite shows we have reduced water usage in all but one of the last nine years and our current rate of water required to produce our products has now been reduced by half since 2005. Water consumption will continue to reduce in 2020 as we implement two capital projects saving water in both Scotland and Bathurst.

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 goal and 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. Again we made some significant progress in 2019 by reducing our waste to landfill by 32% compared to 2018. We continue to send the vast majority of our collagen waste to composting and hence, energy generation. This trend continued across all plants throughout 2019. As a result we have now reduced landfill by 91% against our 2015 benchmark and are well positioned to achieve our goal of zero to landfill 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 are accredited with the ISO 14001 Standard. The plants continue to upgrade against the requirements of the ISO Standard (14001:2015) with the Scottish plants achieving their accreditation in May 2018.

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 below cover all of these activities except where we rent an office where the energy use is not measured separately. The impact of this on our numbers is not material.

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)

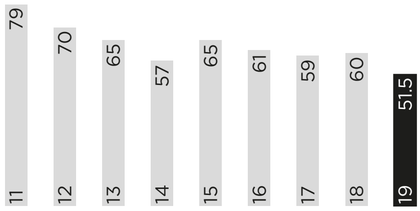
Despite the slight reduction in turnover vs 2018, our normalised emissions continue to show a year-on-year improvement now at 512 tonnes of CO_2e per £'m turnover.

	2019	2018	2017
Scope 1 emissions (tes)	**61,988**	59,932	62,438
Scope 2 emissions (tes)	**65,975**	79,738	75,877
Scope 1 + 2 emissions (tes)	**127,963**	139,670	138,315
Intensity measure (£'m turnover)	**250**	253	257
Normalised emissions (tonnes of CO_2e per £'m turnover)	**512**	551	538

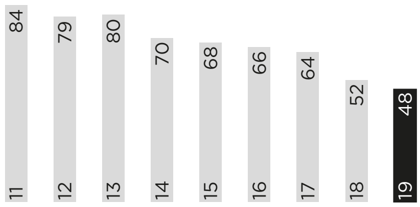
The Strategic Report, comprising pages 1 to 43 inclusive, was approved by the Board of Directors of the Company on 3 March 2020.

ANDREW MONEY
COMPANY SECRETARY
3 March 2020

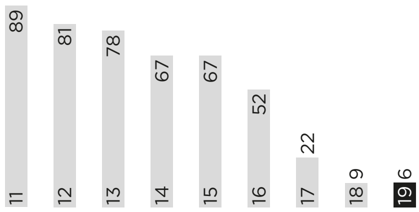
CO_2 EMISSIONS
(TONNES CO_2/MILLION METRES EQUIVALENT CASING SOLD)
2005 = 100; 2020 TARGET = 45.5



WATER USE
(M^3 WATER/MILLION METRES EQUIVALENT CASING SOLD)
2005 = 100; 2020 TARGET = 61.2



TONNES WASTE
(CONVERTED TO A SOLIDS BASIS) (SENT TO LANDFILL/ MILLION METRES EQUIVALENT CASING SOLD)
2005 = 100; 2020 TARGET = 0



DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

STEVE GOOD
CHAIRMAN
Steve joined Devro on 1 June 2019.

EXPERIENCE
Steve has international experience in speciality chemicals businesses, manufacturing and diverse industrial markets. Steve was Chief Executive Officer at Low & Bonar plc from 2009 to 2014. Prior to joining Low & Bonar, Steve spent 10 years with BTP plc (now part of Clariant) in a variety of leadership positions managing international speciality chemicals businesses. He is the Non-Executive Chairman of Zotefoams plc and he is also a Non-Executive Director of Elementis plc, where he chairs the Remuneration Committee, and he is a Non-Executive Director of Dialight plc[1]. Previously Steve was a Non-Executive Director at both Cape plc and Anglian Water Services Ltd.

SKILLS
Steve brings with him from both his executive and non-executive career considerable experience of international and industrial businesses. He is a Chartered Accountant.

Steve is Chairman of the Nomination Committee.

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
Prior to joining the Company, Jackie was 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 R&D, product portfolio and partnership. 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 current role she will continue to 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.

1 As announced on 27 February 2020, it is Steve's intention to step down from the Board of Dialight plc with effect from 31 March 2020.

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 Tyman plc, and has served as Senior Independent Director at Keller Group plc, 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, International-EMEA and Chief Administrative Officer of McCormick & Company Inc., a global leader in flavour listed on the New York Stock Exchange. He leads McCormick's Flavor Solutions business globally as well as the Europe, Middle East, and Africa (EMEA) Region. He also oversees Corporate Strategy, Corporate Development, Corporate Communications, Global Quality, and McCormick's Sustainability Strategy. He was previously responsible for all of McCormick's operations outside the Americas.

SKILLS
Malcolm brings his expertise in the food industry to the Devro Board in both the consumer and industrial sectors, along with significant experience of international business.

Malcolm is Chairman of the Health and Safety Committee.

KEVIN SHOEMAKER
GROUP SUPPLY CHAIN DIRECTOR
Kevin joined Devro in September 2016 as we transitioned to a global supply chain. He brings 39 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.

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 new role of Global Commercial Director. He has a wealth of experience in global commercial roles in business-to-business environments, and has worked for companies including Dow, Trinseo and Amcor.

He has overall responsibility for leading our global commercial team to enable the achievement of 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. 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.

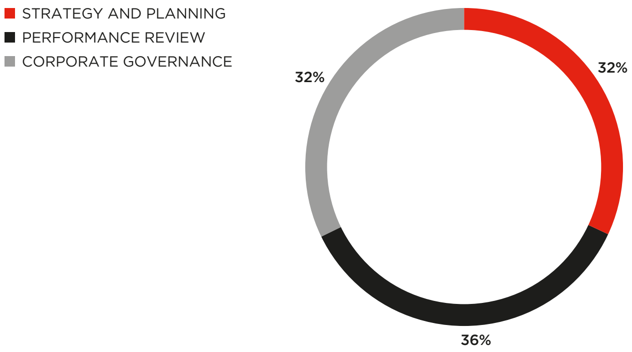
STEVE GOOD
CHAIRMAN

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. It's 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 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, 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.

CORPORATE GOVERNANCE REPORT continued

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.

Dr P N Withers has been Senior Independent Director since 26 April 2017. In 2019 he acted as Interim Chairman between Mr Hoetmer's retirement from the Board and Mr Good's appointment.

The Board considers the Senior Independent Director's role to provide an important channel through which shareholders can engage with the Company on occasions when alternatives to the normal channels through the Chairman and Chief Executive Officer are necessary. The Company's major shareholders are reminded that the Senior Independent Director is willing to meet with them if they wish. The Board also recognises the role played by the Senior Independent Director in providing counsel and feedback to the Chairman, particularly during periods of transition.

There is a clear division of authority and responsibility through the separation of the roles of the Chairman and the Chief Executive Officer.

The Board undertook a review in December 2018 of its responsibilities, together with those of its Committees, its Chairman, the Chief Executive Officer and Senior Independent Director. The resulting updated statements of responsibilities which have been effective as of 1 January 2019 are available on the Company's website.

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

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 Market Abuse Regulations.

In order to discharge these responsibilities, the Board and its committees meet on a regular basis throughout the year.

In 2019, the Board held eight formal meetings. Full details of the Board and Committee attendance are shown in the table below:

	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

CORPORATE GOVERNANCE REPORT continued

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

AUDIT COMMITTEE REPORT

AS CHAIRMAN OF THE AUDIT COMMITTEE, I AM PLEASED TO PRESENT THE REPORT IN RESPECT OF 2019.

THE COMMITTEE CONTINUES TO FOCUS ON RISK MANAGEMENT AND THE GROUP'S GLOBAL STANDARDISATION OF PROCESSES AND CONTROLS.

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 25 of the Code.

Ms J A Lodge chaired the Committee throughout the period under review. The other members of the Committee in 2019 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 24 of the Code. In the course of the year there were five 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 2019, generating no fees (2018: £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 (2018: 0:1). The Committee noted that there was no 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 2019 audit process.

SIGNIFICANT ISSUES

The significant issues considered by the Committee during 2019, and how these were addressed, are as follows:

IMPAIRMENT OF 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.

In the second half of 2019 the Group undertook a review of its global manufacturing footprint with the aim to access further efficiency improvements, as well as to align available capacity to the Group's growth ambitions. As a result of this review, the Group made a decision to close its Bellshill site in Scotland during 2020 and move the remaining operating assets to other sites. Whilst this initiative improves the cash generation capacity of the Group's asset base, it also triggered an impairment review which impacted key assumptions underpinning calculations of net present value from cash flow forecasts for US and China manufacturing operations.

As a result of this review, in the year we have seen a non-cash write down associated with those operations and the closure of the Bellshill site of £45.9 million. These non-cash impairments have been presented as exceptional items due to their significant nature in the consolidated statement of profit or loss.

The Committee reviewed and discussed the appropriateness of the assumptions, in the context of their knowledge of the performance of the business in 2019, plans for future business growth and also risks associated with execution of the business plan. In addition, the Committee reviewed the results of sensitivity analysis performed by management in relation to the discounted cash flow calculations. The statutory auditors have also examined this area and have reported their assessment to the Committee.

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.

In prior periods, the Group recognised deferred tax assets in the US and China related to carried forward losses. These deferred tax assets were calculated by estimating the probable future taxable profits, against which the tax losses would be utilised, and applying the tax rates substantively enacted as at the statement of financial position date. Group review of sourcing strategy conducted in 2019 impacted not only impairment testing of the US and China plants, but also profit forecasts of the US and China statutory entities, introducing greater uncertainty over the timing of future recoverability of accumulated losses. This led to full de-recognition of deferred tax assets on carried forward losses in the US and China. This non-cash write down has been presented as an exceptional item due to its significant nature in the consolidated statement of profit or loss. Deferred tax on losses will be recognised at such time when there is reasonable certainty over the timing of future recoverability indicated by profit forecasts and will be recognised through exceptional items.

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.

PRESENTATION OF EXCEPTIONAL ITEMS

Included in the presentation of exceptional items are the impairment of assets relating to the China and US plants and planned closure of the Bellshill site. Also included within the presentation of exceptional items are restructuring costs that include costs associated with the closure of the Bellshill site, implementation of the new global operating model and a strategic review.

The costs associated with these impairments and restructuring costs 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.

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 examined this area and have reported their assessment to the Committee.

PARENT COMPANY RECOVERABILITY OF INVESTMENT IN SUBSIDIARIES AND INTRA-GROUP RECEIVABLES

The parent Company holds investments in its subsidiaries amounting to £348 million and receivables of £69 million.

Due to the materiality of these balances in the context of Company Statement of financial position as a whole, and this year specifically due to the impairment of assets in China and the US, the Group conducted recoverability testing.

This was performed by comparing the carrying value for each investment in, and amounts due from subsidiary, to the recoverable amount. This recoverable amount has been assessed with reference to the discounted net present value of estimated future cash flows likely to be generated by the relevant entities.

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 recoverability of investment in subsidiaries and intra-Group receivables.

The statutory auditors have also carefully examined this area and have reported their assessment to the Committee.

AUDIT COMMITTEE REPORT continued

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 2019:

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.

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 2019 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 77.

JANE LODGE
CHAIRMAN, AUDIT COMMITTEE
3 March 2020

DIRECTORS' REMUNERATION REPORT

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ON BEHALF OF THE BOARD, I AM PLEASED TO PRESENT THE DIRECTORS' REMUNERATION REPORT FOR 2019.

DR PAUL WITHERS
CHAIRMAN, EXECUTIVE DIRECTORS' REMUNERATION COMMITTEE

At our AGM on 30 April 2020, we are seeking shareholder approval for a new Directors' Remuneration Policy as the current Policy comes to the end of its three-year term. Details of the proposed Policy are set out in this Annual Statement and the following remuneration report, together with how the Policy will be operated for the year ahead and remuneration paid for 2019. This new Policy will be subject to a binding shareholder vote, and this Annual Statement and the Annual Report on Remuneration to an advisory shareholder vote, at the forthcoming AGM.

OVERVIEW OF POLICY AND LINK TO OUR BUSINESS STRATEGY

The Committee sets the strategy, structure and levels of remuneration for the Executive Directors and other members of senior management. It does so in the context of the Group's overall strategy and performance with the aim of supporting and rewarding the leaders of our business to achieve our strategy and promote and deliver long-term sustainable success as well as aligning the Executive Directors and other senior management with longer-term shareholder interests.

PAY FOR PERFORMANCE IN 2019

During the year, the organisational changes to build the structures, capabilities and competencies necessary to successfully execute growth plans were largely completed and, after a slow start, there was modest edible collagen volume growth from the second quarter onwards. This resulted in Group volumes for the full year being flat and overall underlying operating profit for the year marginally below 2018. Free cash flow generation for the year was strong.

The Chief Executive Officer and Chief Financial Officer both received salary increases of 2%, effective 1 April 2019, in line with the salary increases received by the UK workforce in 2019.

The annual bonus for 2019 was based on (i) EBIT (60%) (ii) net debt (20%) and (iii) individual strategic objectives (20%).

The EBIT performance targets were not met and the strong performance against the net debt targets resulted in a formulaic bonus of 11.8% of the maximum 20%. Performance against the individual strategic objectives of 12.5% and 13.5% for the CEO and CFO respectively out of a total of 20% resulted in an overall bonus of 24% and 25% of salary for the CEO and CFO. The Committee has reviewed this formulaic outcome in the context of the underlying performance of the business, performance in achieving the strategic objectives, the fact that EBIT fell short of the threshold target and the overall cost of the bonus programme for all employees, and determined that bonuses should be limited to £33,000 for the CEO and £24,000 for the CFO, just under one-third of the formulaic outcome. Further details of the targets set and performance against them is set out on page 68.

The performance period for the Performance Share Plan awards granted on 2 August 2017 ended on 31 December 2019. The performance targets for these awards based on (i) underlying EPS growth (40%), (ii) TSR relative to a comparator group (40%) and (iii) ROCE (20%) were not met and the awards have therefore lapsed. Full details of the performance metrics and performance against them are shown on page 69.

The Committee is comfortable, in reviewing the remuneration for 2019 against performance, that there has been an appropriate link between reward and performance and that the exercise of discretion to limit the bonus payments was appropriate. The Committee also considered whether there were any relevant environmental, social, and governance matters that it needed to take account of when reviewing the remuneration outcomes and concluded that there were no such factors that needed to be taken into account.

The Committee further concluded that the Policy has operated as intended and that no changes are needed as a result of the review of operation in 2019.

REMUNERATION POLICY REVIEW

During 2019, the Committee reviewed the current Policy and operation to ensure it continues to support and reward the senior leadership team to achieve our strategy both operationally and over the longer term. In addition, the Committee took into account the updated UK Corporate Governance Code, market practice and investor views which have evolved since the Policy was last renewed in 2017.

As part of the Policy review, the Committee wrote to over 70% of our shareholder base inviting them to consult on our Policy and operation. The feedback from shareholders was welcomed and provided very helpful context and input into the Policy review. The level of support from our investors was also very welcome.

The Committee concluded that fundamental changes to the structure of the Remuneration Policy are not required and, accordingly, there is no change to the quantum or structure of incentives. However, we have taken the opportunity to update some aspects of the Policy and to ensure it is in line with current investor expectations and best practice

DIRECTORS' REMUNERATION REPORT continued

corporate governance. A summary of the key changes to the Policy are set out below:

Pension

- Pension provision for new Executive Directors will be aligned to the pension provision available to the majority of the workforce at the time of appointment in their country of appointment. This is likely to be the UK where the pension for the majority of employees is currently 6%. The average is just below 10% of salary which reflects the fact that a number of our employees are still receiving defined benefit arrangements. New joiners have the opportunity to receive between 6% and 10% of salary depending on their role.
- The pension provision for the incumbent Executive Directors is capped at 10% of salary and our Executive Directors are at this level which is aligned to the UK workforce average. The Committee will keep under review both the pension provision at Devro and market practice in terms of alignment of incumbent Directors to workforce pension.

Incentives

- The operation of the annual bonus deferral mechanism is being changed to encourage greater share ownership and alignment of the Executive Directors with shareholders including post-cessation of employment. Under the new mechanism, 40% of any bonus earned will be used to purchase shares which will be subject to a holding period. This will ensure that any bonus shares are acquired every year that a bonus is paid, whereas the current Policy only requires bonus paid in excess of target to be deferred into shares. One-third of the shares must be held for one, two and three years and the holding period will continue to apply post cessation of employment, as will clawback. The shares will not be forfeit on cessation of employment which enables them to be retained as part of the post cessation of employment shareholding requirement. Once the one, two and three-year holding period expires, shares must continue to be retained until the in-service shareholding requirement is met. These shares also count as part of the post employment shareholding requirement – see later.
- The exceptional PSP award limit of 200% of salary has been removed so that awards under the new Policy will not be granted in excess of the 'normal' Policy maximum of 150% of salary. Actual grant levels (currently 110% of salary for the CEO and 100% of salary for the CFO) will not be increased without prior consultation with the Company's major shareholders.
- The Committee will have discretion to adjust the formulaic outcome of incentives where they are not considered appropriate in the context of broader business performance and other relevant factors. The underpin for non-financial measures is not required in addition to this discretion and has therefore been removed.
- The circumstances in which clawback and malus apply have been broadened to include failure of risk management, corporate failure and reputational damage and are set out in the new Policy.

Shareholding requirements

- The shareholding requirement for the Executive Directors will be increased from 150% to 200% of salary.
- Post-cessation of employment shareholding requirements will be introduced, requiring the executives to retain, for one-year post-cessation of employment, shares equal in value to the lower of 100% of salary and their actual holding on cessation. The Committee will retain discretion to adjust the requirement in exceptional circumstances. Shares acquired from the executive's own funds are excluded from this holding requirement as the Committee believes that this may discourage executives from making their own share purchases. Annual bonus shares are included in the requirement. There is additional post employment alignment with shareholders achieved through the holding periods for the annual bonus shares and performance share awards which will continue post employment. These holding periods are for up to three years.

Areas of Policy clarification

Policy on cessation of employment: We have taken the opportunity to clarify that the Company has the ability to pay outplacement, legal and other reasonable relevant costs associated with termination and to settle any claim or potential claim relating to the termination. The Policy also now confirms that the normal approach on cessation of employment is for incentive awards to continue with performance being tested at the usual time (and not on cessation).

Policy on change of control: The Policy clarifies that PSP awards would vest with performance being determined at that time and awards pro-rated but with the discretion to reduce the pro-rating, including to zero.

Non-Executive Directors fee: Clarification that in addition to the base fee, supplemental fees may be paid for additional responsibilities and activities.

IMPLEMENTATION OF POLICY FOR 2020

The structure of remuneration arrangements for 2020 will remain largely unchanged from that applied in 2019.

Executive Directors' base salaries will be increased by 2%, effective 1 April 2020, in line with the increases received by the wider UK workforce.

Pension contributions for both Executive Directors will remain at 10% of salary and benefits in line with those received in 2019. The pension contribution is aligned to the UK workforce average and will be kept under review, as will market practice in the area of aligning incumbent Directors to workforce pension.

The maximum annual bonus opportunity remains at 100% of base salary for both Executive Directors. A revenue target is introduced for 2020 to acknowledge the importance of revenue growth in achieving the Company's EBIT targets. As such the metrics for 2020 will be (i) EBIT (40% reduced from 60% in 2019); (ii) revenue (20%); (iii) net debt (20%); and (iv) individual strategic objectives (20%).

The PSP grant levels and metrics also remain unchanged at 110% of salary for the CEO and 100% of salary for the CFO. The performance metrics are (i) EPS (40%), (ii) ROCE (40%) and (iii) relative TSR (20%). Targets for the 2020 awards are set out on page 65 and are stretching in light of both the business plan and market forecasts.

NON-EXECUTIVE DIRECTORS' AND CHAIRMAN FEES
Fees for the Non-Executive Directors and Chairman remain unchanged for 2020 other than an increase in the Committee Chair fee to acknowledge the time commitment for this role and a fee for the role of Senior Independent Director, again acknowledging the additional time required for this role. No additional fee has been paid for the role of SID previously.

CORPORATE GOVERNANCE CODE AND NEW REPORTING REQUIREMENTS
Our remuneration reporting includes all of the new reporting requirements for 2019 and some of those required by the EU Shareholder Rights Directive as incorporated into UK regulation and required for 2020. We have also included the additional reporting requirements of the UK Corporate Governance Code. Our reporting for 2020 will comply with all of the regulations effective at that time.

CONCLUSION
The Committee believe that the revised Remuneration Policy, which is subject to a binding shareholder vote at the 2020 AGM, and its application for 2020, continue to support the alignment of the Executive Directors' Remuneration Policy with the strategy and performance of the business. I look forward to receiving your support for the binding resolution on our Policy and advisory vote on this Statement and our Annual Report on Remuneration at the forthcoming AGM.

DR PAUL WITHERS
CHAIRMAN, EXECUTIVE DIRECTORS' REMUNERATION COMMITTEE
3 March 2020

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 and the Companies (Miscellaneous Reporting) Regulations 2018 (the 'Regulations').

This Directors' Remuneration Policy will be put to a binding shareholder vote at the Company's AGM on 30 April 2020. Once approved, the Policy will apply for a three-year period, unless shareholder approval is sought for earlier changes.

The changes from the current Policy are set out in the Chairman's Annual Statement on pages 55 to 57.

THE REMUNERATION POLICY

The Directors' Remuneration Policy is designed to enable it to attract and retain leaders with the skills, experience and drive to execute the Company's business strategy to promote the long-term sustainable success of the Company and to be aligned to the Company's long-term strategic goals, reflecting the culture and values of the business and consistent with the risk policies and controls of the business. The Policy is structured within a framework which is aligned to the interests of the Company's shareholders, for example, through annual bonus shares, through the award of long-term incentives and shareholding requirements. The Executive Directors' Remuneration Committee (the 'Committee') believes that a significant proportion of Executive Directors' remuneration should be performance-related.

Decision-making process for determination, review and implementation of the Directors' Remuneration Policy

The Committee reviews the Policy and operation of the Policy to ensure it continues to support and reward the Executive Directors to achieve the business strategy both operationally and over the longer term. It reviews the structure and quantum and takes into account the UK Corporate Governance Code, market practice, institutional investor and investor representative body views generally and those of its own shareholders. The Committee also has regard to the remuneration arrangements, policies and practices of the workforce as a whole which it reviews as part of its annual agenda.

The Policy is reviewed annually by the Committee to ensure that changes are not required prior to the triennial shareholder vote. When the Committee determines that changes are required it will formulate proposals to consult with its shareholders about. Shareholder feedback is then taken into consideration in finalising the Policy changes.

Operation of the Policy is considered annually for the year ahead, including metrics for incentives, weightings and targets. The Committee reviews operation for the prior year and considers whether, in light of the strategy, changes are required for the year ahead. Targets for the annual bonus and PSP awards are also reviewed and consideration is given to whether these remain appropriate or need to be recalibrated. Shareholders views will be sought depending on the changes proposed.

Engaging with shareholders

The Committee welcomes dialogue with shareholders and seeks the views of its major investors and investor bodies when considering significant changes to the Directors' Remuneration Policy and its operation. Any views and feedback from our shareholders is considered by the Committee as part of its annual review of Policy and operation. The Committee also considers shareholder feedback received in relation to the Directors' Remuneration Report each year following the AGM. Detail about specific engagement with shareholders in determining the Policy and its operation from year to year is set out in the Annual Report on Remuneration.

Wider workforce considerations

Devro is committed to providing an inclusive working environment and to provide fair, transparent and appropriate reward. As part of its wider remit under the Code the Committee reviews wider workforce remuneration and related policies and the alignment of rewards and incentives to culture, and has taken these into consideration when setting the Directors' Remuneration Policy to ensure consistency of approach throughout the Group. Annual bonus and annual bonus share investment and long-term incentive awards provide alignment between senior management and our shareholders. The Committee also considers average base salary increases awarded to the overall employee population and the cascade of pay structures throughout the business. The Remuneration Policy for all employees is determined in line with best practice and aims to ensure that the Company is able to attract and retain the best people. This principle is followed in the development of our Directors' Remuneration Policy. Although employees were not directly consulted on the Directors' Remuneration Policy, the Group HR director attends Committee meetings by invitation to provide additional perspective on Group HR policies and practices including from an employee perspective.

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, skills and personal contribution to Group strategy. Set at a level to facilitate recruitment and retention of suitably experienced executives.	Salaries are reviewed annually with changes effective on 1 April. Our Policy is for salaries to be around those paid by other companies comparable on the basis of size and complexity, but also taking 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	Rewards performance against specific near-term goals which are consistent with the strategic direction of the business. Acquisition of shares with bonus facilitates share ownership and aligns the interests of executives and shareholders. Clawback and acquisition of shares discourage excessive risk-taking and encourage a long-term view.	Performance assessed by the Committee over a one-year period against the audited results of the Company, where relevant. 40% of any bonus earned (after tax) is invested in the Company's shares and one-third retained for one, two and three years. The holding period, except in exceptional circumstances, continues post-cessation of employment. The Committee retains discretion to adjust the bonus that is payable if it considers the formulaic outcome (for both the financial and non-financial element) is not appropriate in the context of the underlying performance of the Company, investor experience or employee reward outcome. Clawback and malus may be applied to all of the bonus (cash and share element), in the event of: (i) material misstatement of the Company's accounts; (ii) an error in the computation of a bonus amount; (iii) termination of service for gross misconduct; (iv) reputational damage; (v) corporate failure; or (vi) failure of risk management.	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. For financial metrics, no more than 20% of maximum bonus will vest for threshold and no more than 50% of maximum for target performance. In relation to non-financial individual/strategic targets, the structure of the target will vary based on the nature of the target set and it will not always be practicable to set targets using a graduated scale. Vesting may therefore take place in full if specific criteria are met in full.

DIRECTORS' REMUNERATION REPORT continued

POLICY REPORT continued

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. Vested awards are subject to a holding period of two years (subject to the right to sell sufficient shares to cover tax charges arising on vesting) which, except in exceptional circumstances, continues post-cessation of employment. The Committee retains discretion to adjust the level of vesting under the PSP if it considers the formulaic outcome is not appropriate in the context of the underlying performance of the Company, investor experience or employee reward outcome. 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; (iii) termination of service for gross misconduct; (iv) reputational damage; (v) corporate failure; or (vi) failure of risk management. The Committee has discretion under the PSP rules to pay dividend equivalents for the vesting period in respect of any awards which vest.	Maximum opportunity is 150% 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. No more than 25% of an award will vest for threshold performance.
BENEFITS	To remain competitive in the market place, 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 facilitate retirement planning.	Payment is made either into a pension scheme, or paid as cash to the individual in lieu.	10% of base salary for incumbent Directors. New Executive Directors will receive a contribution in line with that available to the majority of the workforce, at the time of appointment, in their country of appointment. In the UK this is currently 6%.	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 a basic annual fee. Supplemental fees may be paid for additional responsibilities and activities, including for a Committee Chairman and the Senior Independent Director. The Chairman's fee is inclusive of all of his responsibilities. Fee levels are determined and reviewed taking into account experience, skills, 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 a temporary role or increase in time commitment or responsibility) or an increase in the scope or size of the role. Reasonable expenses incurred by the Non-Executive Directors in carrying out their duties will be reimbursed, including any tax thereon 'grossed up', where appropriate.	No performance-related element of remuneration.

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. 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 and weightings 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. Stretching targets are set taking into account the business plan and market conditions.

SHAREHOLDING REQUIREMENTS

To provide alignment between shareholders and Directors, the Executive Directors are required to build up a holding over time of shares in the Company of 200%. Any shares vesting from share incentive plans and annual bonus shares must be retained (subject to sales to meet tax and incidental costs of sale) until the requirement is reached.

A post-cessation of employment shareholding requirement requires the Executive Directors to hold the lower of the shares they hold on cessation of employment and 100% of salary for one year post cessation. Shares purchased by the Executive Directors from their own funds outside of the terms of this Directors' Remuneration Policy are excluded from the requirement. Shares acquired with annual bonus under the terms of this Policy are included in the requirement. The holding periods for annual bonus shares and PSP shares except in exceptional circumstances continue post cessation of employment. In exceptional circumstances the Committee has the discretion to adjust this requirement.

REMUNERATION AWARDED PRIOR TO THE EFFECTIVE DATE

For the avoidance of doubt, authority is 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 page 72. 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 as detailed below but always within the shareholder approved Policy as set out above (albeit with quantum and performance targets restricted to the descriptions detailed above):

- 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 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.

The Committee also has the discretion to amend the Policy for minor or administrative matters where it would in the opinion of the Committee be disproportionate to seek shareholder approval.

All historic awards that were granted under any current or previous share schemes operated by the Company, but remain outstanding, detailed on page 72, remain eligible to vest based on their original award terms.

PAYMENT UNDER DIFFERENT SCENARIOS

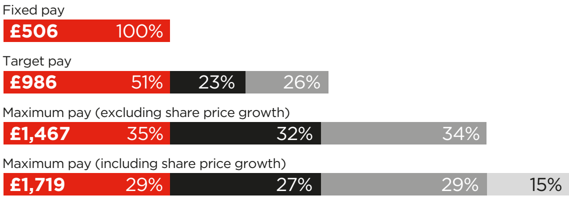
Under the Regulations, we are required to show a bar-chart indicating the level of remuneration which would be received by the Executive Directors in 2020 under different scenarios. Three scenarios are shown below:

- **'Fixed pay'** is based on salary at 1 April 2020, 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. The potential payout under the PSP with 50% share price growth is also illustrated.

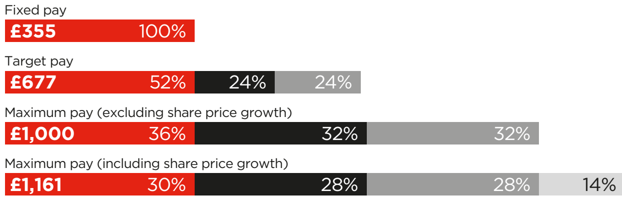
DIRECTORS' REMUNERATION REPORT continued

POLICY REPORT continued

CHIEF EXECUTIVE OFFICER
(£'000)



CHIEF FINANCIAL OFFICER
(£'000)



Assumptions
1 Based on Policy to be applied for financial year 2020.
2 Salaries are based on those in force on 1 April 2020.
3 Maximum example assumes LTIP share price appreciation of 50% during the performance period.

■ FIXED PAY
■ ANNUAL BONUS
■ LTIP
■ LTIP VALUE WITH 50% SHARE PRICE GROWTH

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	The Company may make a payment of salary and benefits in lieu of notice (PILON) through equal monthly instalments with such payments being discontinued or reduced to the extent that alternative employment is obtained. Pro-rata bonus may be paid for the period of active service based on performance tested at the usual time along with vesting of outstanding share awards (in certain circumstances – see below). In all cases performance targets would apply.
CHANGE OF CONTROL	On a change of control, PSP awards will vest with performance being determined at that time and awards will be pro-rated to the date of the change of control. The Committee retains discretion to reduce the proration including to zero.

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 the original vesting date, subject to the satisfaction of the relevant performance conditions tested at the end of the performance period and reduced pro-rata to reflect the proportion of the three-year period actually served. However, the Committee has discretion in exceptional circumstances to determine that awards vest at an earlier date and/or to disapply time pro-rating. Except in exceptional circumstances, the post-vesting holding period continues to apply post-cessation of employment.

The default treatment under the 2009 Deferred Share Bonus Plan (under which awards have been made under the prior Policy) is that any awards lapse on cessation of employment. However, good leavers are entitled to retain their awards which vest after leaving, subject to the rules of the Plan.

Annual bonus shares are owned from the day of acquisition, are not forfeit on cessation of employment, and count towards the post employment shareholding requirement. The holding period (except in exceptional circumstances) continues post-cessation and clawback applies.

Legal fees, or a contribution towards them, in connection with any settlement agreement and other reasonable relevant costs associated with termination including outplacement consultancy fees may be paid if this is considered appropriate. The Company may also make a payment to settle any claim or potential claim in relation to the termination of employment.

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; change of control provision under share schemes as detailed above
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 awards under the Devro plc Performance Share Plan may be made up to the Plan maximum of 150% of salary. 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 award structure, 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. The Non-Executive Chairman has a notice period of three months and the Non-Executive Directors have a notice period of one month. 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 on which the Non-Executive Directors were first appointed are as follows:

Name	Date of appointment	Date term due to expire
S P Good	1 June 2019	AGM 2022
J A Lodge	1 March 2012	AGM 2021
M S Swift	26 April 2016	AGM 2020
P N Withers	28 April 2011	AGM 2020

DIRECTORS' REMUNERATION REPORT continued

ANNUAL REPORT ON REMUNERATION

HOW THE POLICY WILL BE IMPLEMENTED IN 2020:

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

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

From 1 April 2020 the salaries will be increased by 2% as follows, in line with the increase for the UK workforce:

Chief Executive Officer: £457,776
Chief Financial Officer: £322,524

NON-EXECUTIVE DIRECTORS' FEES

The fees for Non-Executive Directors are as set out below. An increase, effective 1 January 2020, was made to the Board Committee Chair fee to take account of the time spent by the Non-Executive Directors in these roles. An additional fee has also been paid, from 1 January 2020, to the Senior Independent Director reflecting his time commitment. No fee has been paid for this role where it was held by a Committee Chair, which does not take account of the time and responsibilities of the role:

	1 January 2020	1 January 2019
Chairman fee	£138,750	£138,750
Non-Executive Director base Board fee	£45,000	£45,000
Board Committee Chair fee	£7,000	£5,200
SID fee	£5,000	£-

ANNUAL BONUS

The maximum annual bonus opportunity for Executive Directors in 2020 will remain at 100% of base salary.

For 2020 an additional revenue metric has been introduced to acknowledge the importance that revenue growth has alongside managing costs in achieving our EBIT targets. The measures and weightings for 2020 are therefore 40% EBIT, 20% revenue, 20% net debt and 20% individual strategic objectives.

EBIT and revenue targets will use budgeted exchange rates.

The Executive Directors' 2019 strategic objectives were focused on the building blocks for future growth. As in 2019, 2020 strategic objectives target value creation, value delivery and people initiatives, and they are weighted towards the delivery of stakeholder value through an aligned and global team.

The individual strategic objectives will be:

CEO individual strategic objectives:

VALUE CREATION – STRATEGY (2%)
Specific objectives focusing on new business opportunities.

VALUE DELIVERY (10%)
Execution of year one of three-year value plan focusing on pricing and product mix.
Successful completion of supply chain rationalisation programme (Bellshill).

PEOPLE (8%)
Enhancing engagement and delivery through our people.

CFO individual strategic objectives:

VALUE CREATION – STRATEGY (6%)
Enhancing investor communications particularly to ensure a clear understanding of our position on CSR.
Developing and implementing a road map for Global Business Services for Finance, IT and HR.

VALUE DELIVERY (10%)
Working capital management.
Enhancing and streamlining forecasting and budgeting systems and processes.

PEOPLE (4%)
Enhancing engagement and delivery within Finance and IT.

The Committee has the discretion under the new Policy to adjust the level of formulaic bonus payment (in respect of both the financial measures and the individual strategic objectives) if it is not considered appropriate in the context of the underlying performance of the Company and other relevant factors.

The Committee considers that the actual targets for the 2020 bonus are commercially sensitive, but full details will be disclosed in the 2020 report.

LONG-TERM INCENTIVE PLAN

Award levels remain at 110% of base salary for the Chief Executive Officer and 100% of base salary for the Chief Financial Officer. The performance measures for these awards will be tested over a three-year period commencing 1 January 2020 and remain the same as for the 2019 awards, underlying EPS (40%), TSR (20%) and ROCE (40%) as follows:

Underlying EPS for the final year of the performance period	Performance shares vesting percentage (of total award)
Less than 17.5p	0%
17.5p	10%
Between 17.5p and 21.0p	On a straight-line basis between 10% and 40%
21.0p 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 17.0%	0%
17.0%	10%
Between 17.0% and 19.0%	On a straight-line basis between 10% and 40%
19.0% or above	40%

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

The underlying EPS and ROCE ranges for the 2020 awards are considered stretching and are based on the Committee's assessment of the market conditions and growth opportunities over the next three years. The EPS and ROCE ranges also take account of the 2019 non cash impairments of US and China manufacturing operations.

PENSION AND OTHER BENEFITS

The Executive Directors will continue to receive a pension contribution of 10% of base salary and benefits consistent with 2019, in line with Policy.

THE REMUNERATION COMMITTEE

The members of the Executive Directors' Remuneration Committee in 2019 were Dr P N Withers (Committee Chairman), Mr G J Hoetmer to 25 April 2019 and Mr S P Good from 1 June 2019, Ms J A Lodge and Mr M S Swift.

During 2019, the Committee received advice from:
- the Company Secretary (as Secretary to the Committee); and
- Korn Ferry as independent adviser to the Committee.

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 is set by the Non-Executive Directors' Remuneration Committee which comprises the Executive Directors.

THE WORK OF THE EXECUTIVE DIRECTORS' REMUNERATION COMMITTEE

Set out below are those areas of the Committee's work that it is required to report under the Code and reporting regulation and which are not covered elsewhere in this Remuneration Report.

Engagement with stakeholders

During 2019 the Committee Chairman wrote to shareholders of over 70% of the Company to explain the proposed changes to the Directors' Remuneration Policy and to seek feedback on the proposals. As part of this consultation exercise shareholders were able to provide feedback on all aspects of the Directors' remuneration. The Committee considered the feedback provided in determining the Policy to be brought to shareholders for approval at the 2020 AGM and operation of Policy for the financial year 2020. Support for the Remuneration Policy at the 2017 AGM and the 2018 Remuneration Report at the 2019 AGM were above 99% and there were no material concerns for the Committee to consider from the AGM voting outcomes.

DIRECTORS' REMUNERATION REPORT continued

ANNUAL REPORT ON REMUNERATION continued

As set out on page 47 the Company has a number of different channels for engaging with its workforce. The Committee has considered how engagement will be carried out with the wider workforce within the existing framework to explain broader pay policies and practices and the alignment to the Executive Directors' Remuneration Policy. Information has been shared through the Company's intranet and through other existing communication channels. Further engagement on remuneration is also planned when the Company launches in 2020 the employee value proposition it has developed and as part of the Chief Executive Officer's forthcoming annual tour of all of the Company's sites to engage with the workforce.

Policy and operation of Policy

In determining the Directors' Remuneration Policy and operation the Committee has considered the six factors listed in the Code as follows:

- CLARITY – our Policy is well understood by our management team and has been clearly articulated to our shareholders through direct engagement and our remuneration reporting. A key part of our Group HR director's role, which is supported by our CEO, is engaging with our wider employee base on all our 'People Matters' (including remuneration). We monitor the effectiveness of this process through the feedback received by the Board.
- SIMPLICITY – the Committee is mindful of the need to avoid overly complex remuneration structures. The Committee's focus is to ensure the Executive Directors' remuneration policies and practices are simple and straightforward and that the objectives and deliverables are clear. We only operate two incentive plans, an annual bonus and long-term incentive and with our new Policy have moved to the simpler approach of investment of bonus in shares instead of the more traditional deferred share awards. We set metrics based on our business KPIs and measure performance against them, tracking and rewarding progress toward achieving our strategy and longer-term sustainable growth.
- RISK – our remuneration Policy is designed to ensure that reputational, behavioural and other risks are managed and will not be rewarded via (i) the balanced use of fixed and variable pay, of both short and long-term incentive plans which employ a blend of financial, non-financial and shareholder return targets, (ii) the significant role played by equity in our incentive plans (together with shareholding guidelines in service and post service) and (iii) malus/clawback provisions.
- PREDICTABILITY – our incentive plans are subject to individual caps, with our share plans also subject to market standard dilution limits. The scenario charts on page 62 illustrate how the rewards potentially receivable by our Executive Directors vary based on performance delivered and share price growth. The Remuneration Committee also has the discretion to adjust any vesting outcomes if they are not considered appropriate.
- PROPORTIONALITY – there is a clear link between individual awards, delivery of strategy and our long-term performance. In addition, the significant role played by incentive/'at-risk' pay, together with the structure of the Executive Directors' service contracts, ensures that poor performance is not rewarded.
- ALIGNMENT TO CULTURE – Our incentive schemes drive behaviours consistent with Devro's purpose, values and strategy by using metrics in both the annual bonus and PSP that underpin the delivery of our strategy. Employee personal success is directly linked to the success of our clients and business through the short and long-term incentive plans and targets we operate.

Determining Executive Director Remuneration

The Committee considers the appropriateness of the Executive Directors' remuneration not only in the context of overall business performance and environmental, governance and social matters but also in the context of wider workforce pay conditions (taking into account workforce policies and practices as well as the ratio of CEO pay to all-employee pay) and the external market to ensure that it is fair and appropriate for the role, experience of the individual, responsibilities and performance delivered.

Further the Committee is comfortable, in reviewing the remuneration for 2019 against performance, that there has been an appropriate link between reward and performance and that the discretion applied was appropriate. The Committee also considered whether there were any relevant environmental, social, and governance matters that it needed to take account of when reviewing the remuneration outcomes and concluded that there were no such factors that needed to be taken into account.

The Committee is comfortable that the Policy has operated as intended, that there was a strong link between pay and performance and that no changes to the Policy are needed as a result of the review of operation in 2019.

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. Fees incurred in respect of advice provided to the Committee by Korn Ferry during the year amounted to £46,424. Korn Ferry provided other human capital related services during the year through a separate part of the business. The Committee is comfortable that the controls in place at Korn Ferry do not result in the potential for any conflicts of interest to arise.

STATEMENT OF SHAREHOLDING VOTING AT AGM

At the AGM held on 25 April 2019, votes cast by proxy and at the meeting in respect of the Directors' remuneration were as follows:

Resolution	Votes for	% For	Votes against	% Against	Total votes cast	Votes withheld (abstentions)
Approval of Remuneration Report	119,753,895	99.93	79,061	0.07	119,832,956	67,203

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

TOTAL REMUNERATION

	Base salaries/ fees in payment at 31 December		Benefits in kind[1]		Pension contributions / payments in lieu of pension contributions		Total fixed pay		Annual Bonus[5]		Long-term incentives		Total variable pay		Total remuneration	
Director	**2019 £'000**	2018 £'000	**2019 £'000**	2018 £'000	**2019 £'000**	2018 £'000	**2019 £'000**	2018 £'000	**2019 £'000**	2018 £'000	**2019 £'000**	2018 £'000	**2019 £'000**	2018 £'000	**2019 £'000**	2018 £'000
R A Helbing	**447**	419	**2**	1	**45**	42	**494**	462	**33**	42	**–**	–	**33**	42	**527**	504
J W Callaway[2]	**315**	207	**–**	–	**32**	21	**347**	228	**24**	21	**–**	–	**24**	21	**371**	249
S P Good[3]	**81**	–	**3**	–	**–**	–	**84**	–	**–**	–	**–**	–	**–**	–	**84**	–
G J Hoetmer[4]	**45**	136	**–**	4	**–**	–	**45**	140	**–**	–	**–**	–	**–**	–	**45**	140
J A Lodge	**50**	49	**3**	1	**–**	–	**53**	50	**–**	–	**–**	–	**–**	–	**53**	50
M S Swift	**50**	49	**1**	4	**–**	–	**51**	53	**–**	–	**–**	–	**–**	–	**51**	53
P N Withers	**50**	49	**–**	1	**–**	–	**50**	50	**–**	–	**–**	–	**–**	–	**50**	50
P W B Page[6]	**–**	78	**–**	1	**–**	8	**–**	87	**–**	–	**–**	–	**–**	–	**–**	87
TOTAL	**1,038**	987	**9**	12	**77**	71	**1,124**	1,070	**57**	63	**–**	–	**57**	63	**1,181**	1,133

1 Benefits in kind for Mr R A Helbing relate to medical insurance. Taxable benefits for the Non-Executive Directors relate to travel and subsistence expenses.
2 Ms J W Callaway joined the Board on 1 May 2018.
3 Mr S P Good joined the Board on 1 June 2019.
4 Mr G J Hoetmer retired from the Board at the AGM on 25 April 2019.
5 The bonus for 2018 and 2019 is payable entirely in cash as under the current Policy only bonus in excess of 50% of maximum is deferred into shares (under the new Policy 40% of the bonus payable is invested in shares).
6 Mr P W B Page ceased to be an employee on 10 December 2018.

DETAILS OF VARIABLE PAY EARNED IN THE YEAR

SUMMARY OF 2019 ANNUAL BONUS

Set out below are the targets which applied to the 2019 Annual Bonus Plan and performance against them. The formulaic bonus outcome results in a bonus for the CEO of 24% of maximum (£108,000) and for the CFO, 25% of maximum (£80,000). Taking into account good cash performance, performance against the strategic objectives, but also the fact that the EBIT threshold target was not met, and the overall cost of the bonus programme for all employees, the Committee determined that bonuses shall be limited to £33,000 for the CEO and £24,000 for the CFO.

Performance condition	% of maximum	Actual performance achieved	Performance target for threshold vesting	Performance target for target vesting	Performance target for maximum vesting	Resulting bonus % of maximum (of that element) R A Helbing	Resulting bonus % of maximum (of that element) J W Callaway
EBIT[1]	60%	£37.3m	£40m[2]	£43.0m[2]	£47.3m[2]	0.0	0.0
Net debt target[4]	20%	£44.4m	£39.2m[3]	£43.6m[3]	£48.0m[3]	11.8	11.8
Individual strategic objectives[5]	20%	See below	N/A	N/A	N/A	12.5	13.5
Total	**100%**	**–**	**–**	**–**	**–**	**24.3**	**25.3**

1 Adjusted to exclude exceptional items and non-recurring items and recalculated using budgeted exchange rates.
2 0% 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 Net debt is defined is defined as "net debt movement adjusted for capex, exceptional items, FX on net debt, dividends and significant one-off items".
5 Payment in respect of the individual strategic objectives is subject to the Committee being satisfied the level of payment is appropriate in the context of the underlying financial performance of the Company.

DIRECTORS' REMUNERATION REPORT continued

ANNUAL REPORT ON REMUNERATION continued

The individual strategic objectives for 2019 were linked to key strategic milestones, as follows:

RUTGER HELBING

Objectives and weighting	Performance achieved	Scoring
Value Creation – Strategy (8%)		
Develop 2020-2025 Vision and Strategy – agreed by Board Q4 2019	Achieved	4/4
Progress Must Win Battles in 2019 in line with plans	Good progress including embedding Global commercial structure, developing three-year commercial plan, innovation projects, profitability projects, Vision 2025 developed and agreed, with good cost savings but overall growth short of plan	3/4
Value Delivery – 2019 (8%)		
Deliver defined revenue growth on specific products in specific geographies	Good progress in some geographies but overall revenue target missed	0/4
Roll out Integrated Business Planning (IBP)	Achieved, with some further process efficiencies planned for 2020	3/4
People – 2019 (4%)		
Improve Group engagement score by 5%	Not achieved	0/1
Manage effective induction of new Chairman to the business, develop EMT and CEO – 2 key roles succession planning	Chairman onboarded, talent and succession review completed and implemented, ongoing recruitment and development planning	2.5/3
Overall 2019 rating		**12.5/20**

JACKIE CALLAWAY

Objectives and weighting	Performance achieved	Scoring
Value Creation – Strategy (6%)		
Capital Markets Day and IR communications	Capital Markets Day completed in March 2019. IR communications partially achieved.	3/6
Value Delivery – 2019 (10%)		
Deliver Fit For Growth budgeted savings	Achieved	4/4
Reduce net debt < 2.0 times EBITDA	Achieved	2/2
Roll out Integrated Reconciliation as part of IBP	Achieved, with some further process efficiencies planned for 2020	3/4
People – 2019 (4%)		
Improve Finance engagement score by 10%	Not achieved	0/2
Finance organisation fully implemented by H2 – shared service centre and business partners	Shared service centre established, and business partners recruited. Further efficiencies planned for 2020	1.5/2
Overall 2019 rating		**13.5/20**

THE DEVRO PLC PERFORMANCE SHARE PLAN

2017 PERFORMANCE SHARE PLAN AWARDS

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 2 August 2017 ended on 31 December 2019. The performance conditions which applied, and performance achieved against them, are set out below resulting in 0% vesting.

Metric	Weighting	Threshold target (25% of max vesting)	Maximum target (100% of maximum vesting)	Actual performance	Vesting (% of element)	Vesting (% of max)
Annual underlying EPS growth	40%	6%	14%	1.1%[2]	0	0
TSR ranking relative to comparator group[1]	20%	Median	Upper quartile	37.6% ranking	0	0
ROCE target for final year of performance period	40%	13%	15%	11.9%	0	0
Total	**100%**				**0**	**0**

1 The comparator group is the 100 listed companies (excluding investment trusts) closest to the Company in terms of market capitalisation at the beginning of the performance period (i.e. 50 above and 50 below).
2 2019: 15.2 pence, 2016 base year: 14.7 pence.

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

Director	Date of grant	Number of shares eligible to vest	Number of shares vesting	Value of shares vesting
R A Helbing	2 August 2017	142,990	0	£nil
P W B Page[1]	2 August 2017	107,452	0	£nil

1 Number of shares eligible to vest represents the pro-rated amount as a result of P W B Page leaving the Company.

PERFORMANCE SHARE PLAN AWARDS GRANTED IN 2019

	Scheme	Date of grant	Basis of award granted	Face value of award £000[1]	Maximum vesting (% of face value)	Percentage vesting for threshold performance	Vesting and performance period
R A Helbing	The Devro plc Performance Share Plan	8 April 2019	110% of salary 265,705 shares	494	100%	25% if the threshold for each of the metrics is reached	Performance period three financial years from 1 January 2019. Vesting period three years from date of grant[2]
J W Callaway	The Devro plc Performance Share Plan	8 April 2019	100% of salary 170,182 shares	316	100%		

1. Based on share price of 185.8p on 5 April 2019, being the trading day before the date of grant.
2. Vested shares must be held for two years post vesting (subject to sales to pay taxes).

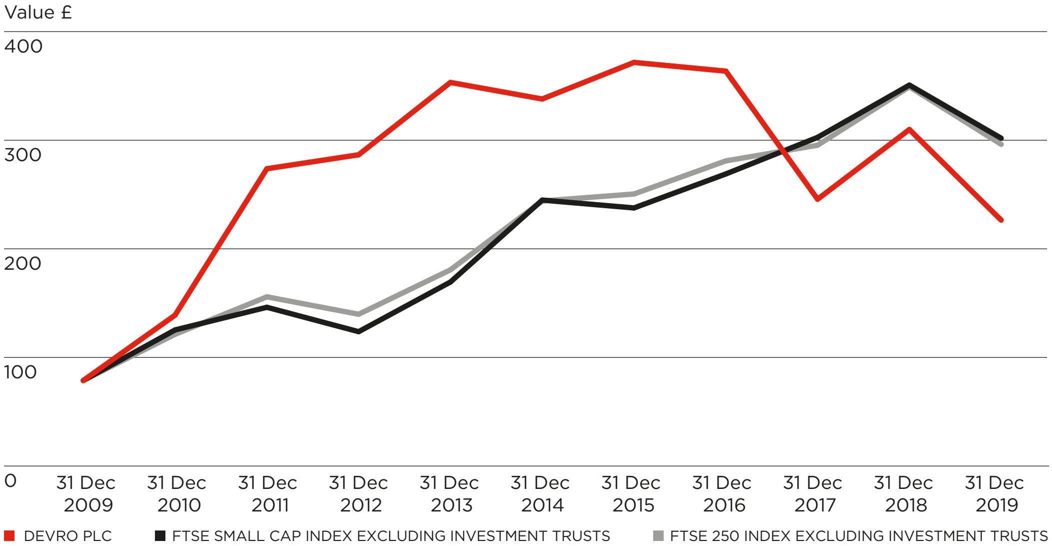
Further details regarding the Performance Share Plan awards, together with the performance conditions applying to the above awards are set out on page 72.

DIRECTORS' REMUNERATION REPORT continued

ANNUAL REPORT ON REMUNERATION continued

PERFORMANCE GRAPH

TOTAL SHAREHOLDER RETURN



This graph shows the value, by 31 December 2019, of £100 invested in Devro plc on 31 December 2009 compared with the value of £100 invested in the FTSE 250 and FTSE SmallCap indices (excluding Investment Trusts) on the same date.

TABLE OF HISTORIC DATA

The following table sets out the total remuneration and the amount vesting under short-term and long-term incentives (as a percentage of the maximum that could have been achieved) in each of the past ten 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 %
2019	**526**	**7.3**	**0**
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

CHIEF EXECUTIVE OFFICER TO EMPLOYEE RATIO

Financial year	25th percentile	50th percentile	75th percentile
2019	1:18.8	1:14.2	1:10.7

The pay for the individuals for 2019 is set out in the table below.

	CEO	25th percentile	50th percentile	75th percentile
Salary	£447,000	£27,000	£33,000	£39,000
Total pay	**£526,000**	**£28,000**	**£37,000**	**£49,000**

We have used 'Option A' to calculate the CEO to employee ratio.

The table above sets out the CEO pay ratio for 2019. The ratios have been calculated in accordance with Option A, as this is the most accurate method of calculation. The CEO pay is compared to the pay of our UK employees at the 25th, 50th and 75th percentile, calculated based on full-time equivalent base pay data as at 31 December 2019. At the time the ratio was calculated, data was not available for 2019 benefits and therefore 2018 benefits have been used as a best estimate. As benefits do not account for a significant proportion of total pay, the Committee is satisfied that this adjustment to the method does not materially affect the ratios. Annual bonus based on 2019 performance is determined in early 2020 and included in the calculations.

Part time employees and leavers and joiners have been converted to full time equivalents on a time apportioned basis. The reward policies and practices for our employees are aligned to those set for the Executive Directors, including the CEO and on this basis the Committee is satisfied that the median pay ratio is consistent with the pay, reward and progression policies across all of the Devro employees.

RELATIVE IMPORTANCE OF SPEND ON PAY

	Total remuneration of all employees of the Devro Group £'000	Dividends paid £'000
2019	**81,893 (-5.9%)**	**15,022 (+2.3%)**
2018	87,040 (+1.5%)	14,681 (0.0%)

PERCENTAGE CHANGE IN CHIEF EXECUTIVE OFFICER'S REMUNERATION

	2019 £	2018 £	% change
Salary	**446,600**	444,639	0
Benefits	**1,608**	1,268	+27
Bonus	**32,674**	41,826	-22

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.

PERCENTAGE CHANGE IN AVERAGE REMUNERATION OF ALL DEVRO GROUP EMPLOYEES

	2019 £	2018 £	% change
Salary	**34,286**	32,981	+4
Benefits	**2,098**	1,789	+17
Bonus	**364**	523	-30

PAYMENTS TO PAST DIRECTORS AND PAYMENTS FOR LOSS OF OFFICE
There were no payments to past Directors or payments for loss of office made during the year.

AUDITED INFORMATION
The information on pages 69 and 72 has been audited by the Company's statutory auditors, KPMG LLP.

COMPANY PENSIONS AND LIFE ASSURANCE POLICY REGARDING EXECUTIVE DIRECTORS
Mr R A Helbing and Ms J W Callaway both elected to receive a monthly cash payment in lieu of pension.

The contributions for each in respect of 2019 are shown in the table on page 67.

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 £1.75 million) depending on whether or not they are a member of the company pension scheme.

DIRECTORS' REMUNERATION REPORT continued

ANNUAL REPORT ON REMUNERATION continued

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 2019	Number of shares awarded during year	Number of shares exercised during year	Number of shares lapsed during year	Number of shares at 31 December 2019	Earliest normal vesting date
R A Helbing	8 April 2016	288p	N/A	209,621	–	–	209,621	–	8 April 2019
	2 August 2017	230p	N/A	142,990	–	–	–	142,990[2]	2 August 2020
	9 April 2018	199.8p	N/A	242,242	–	–	–	242,242	9 April 2021
	8 April 2019	185.8p	N/A	–	265,705	–	–	265,705	8 April 2022
J W Callaway	14 May 2018	223.5p	N/A	138,702	–	–	–	138,702	14 May 2021
	8 April 2019	185.8p	N/A	–	170,182	–	–	170,182	8 April 2022
P W B Page[1]	8 April 2016	288p	N/A	157,624	–	–	157,624	–	8 April 2019
	2 August 2017	230p	N/A	107,452	–	–	–	107,452[2]	2 August 2020

1 Mr P W B Page stepped down from the Board on 28 February 2018.
2 These shares lapsed following a review of the relevant performance conditions by the Committee in February 2020.

Conditional nil-priced options under the Devro plc Performance Share Plan are considered for award annually, with earliest vesting occurring generally after three years and normally being dependent on both continued employment with the Group and the extent to which the performance conditions set out below are met.

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

Underlying EPS for the final year of the 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 and 50 below).

The awards made in 2019 were granted as nil-priced options subject to the EPS performance condition set out below and the same TSR and ROCE performance condition as the 2018 award.

Underlying EPS for the final year of the performance period	Performance shares vesting percentage (of total award)
Less than 16.2p	0%
16.2p	10%
Between 16.2p and 21.5p	On a straight-line basis between 10% and 40%
21.5p or more	40%

DIRECTORS' INTERESTS

The interests, all of which are beneficial, of the Directors (and their immediate families) in the share capital of the company (Ordinary Shares of 10 pence each), and details of awards held under the Devro plc Performance Share Plan (which has performance conditions) at the beginning and end of the financial year, are as follows:

Director	Total number of Ordinary Shares beneficially held 1 January 2019	Total number of Ordinary Shares beneficially held 31 December 2019	Performance Share Plan 1 January 2019	Performance Share Plan 31 December 2019
G J Hoetmer[2]	235,000	235,000	–	–
S P Good[2]	–	–	–	–
R A Helbing	52,500	60,000	594,853	650,937[1]
J W Callaway	15,000	35,000	138,702	308,884
J A Lodge	37,893	37,965	–	–
M S Swift	5,063	16,613	–	–
P N Withers	140,000	140,000	–	–

1 Includes 142,990 shares which lapsed following a review by the Committee in February 2020.
2 Mr G J Hoetmer stepped down from the Board on 25 April 2019 and his holding is shown as at that date. Mr S P Good joined the Board on 1 June 2019 and there is no holding therefore shown as at 1 January 2019.

There have been no changes to the Directors' interests from 31 December 2019 to the date of this report.

SHAREHOLDING REQUIREMENT

To provide alignment between shareholders and Directors, the Executive Directors are required to build up a shareholding equivalent to 200% of base salary over time (increased from 150% in the Policy to be approved by shareholders at the 2020 AGM). Any shares vesting from share incentive plans and shares acquired under the Policy with annual bonus must be retained (subject to sales to meet tax and incidental costs of sale) until the requirement is met. The shareholding requirement has not yet been met by either Executive Director.

Director	Number of shares held including family interests as at 31 December 2019	Shares held as a % of salary[1]	Number of shares vested under share schemes, but unexercised (net of shares required to pay tax on exercise)
R A Helbing	60,000	23.9	Nil
J W Callaway	35,000	19.7	Nil

1 Calculated on basis of three-month average share price to 31 December 2019, using salaries at 31 December 2019.

The Company operates an employee share ownership plan ('ESOP'). All employees of the Group, including the Executive Directors, are beneficiaries of the ESOP and are deemed to be interested in the shares held by the ESOP which, at 31 December 2019, amounted to 20,854 Ordinary Shares.

On behalf of the Board

PAUL WITHERS
CHAIRMAN, EXECUTIVE DIRECTORS' REMUNERATION COMMITTEE
3 March 2020

DIRECTORS' REPORT

INTRODUCTION

The Directors of Devro plc (the 'Company') are pleased to present this Directors' Report for the year ended 31 December 2019 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 46 to 51 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 1 to 43:

- 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;
- employee equality, diversity and involvement;
- engagement with employees; and
- engagement with suppliers, customers and others in a business relationship with the Company.

No information is required to be included in the Annual Report under LR9.8.4R.

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 2019 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 2019, are set out on pages 44, 45 and 48.

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 2019, 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 2019 are shown on page 73.

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 2019 (2018: 166,949,022) as shown in Note 27 to the Financial Statements.

DIVIDENDS
The Board is recommending a final dividend in respect of 2019 of 6.3 pence per share (2018: 6.3 pence), making a total dividend for the year of 9.0 pence per share (2018: 9.0 pence). If approved, the final dividend will be payable to shareholders on the register as at 27 March 2020.

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 2019, 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 2019 (2018: Nil).

POST BALANCE SHEET EVENTS
There have been no material events from 31 December 2019 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 2019, 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.	26,971,339	16.16
Marathon Asset Management	11,492,268	7.06
Franklin Templeton Institutional, LLC	8,903,473	5.33
Neptune Investment Management Limited	8,346,007	4.99
Standard Life Aberdeen plc	8,038,838	4.82
Blackmoor Investment Partners LLC	6,850,227	4.10

ANNUAL GENERAL MEETING

The AGM of the Company will be held on 30 April 2020 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 44 and 45 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

ANDREW MONEY
COMPANY SECRETARY
3 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER

		2019			2018		
	Note	Underlying £'m	Non-underlying £'m	Reported £'m	Underlying £'m	Non-underlying £'m	Reported £'m
Revenue	2	**250.0**	**–**	**250.0**	253.4	–	253.4
Operating profit/(loss)	3, 4	**39.1**	**(53.1)**	**(14.0)**	39.2	(12.3)	26.9
Finance cost	7	**(6.0)**	**–**	**(6.0)**	(7.1)	–	(7.1)
Net finance cost on pensions	7	**–**	**(1.8)**	**(1.8)**	–	(2.3)	(2.3)
Profit/(loss) before tax	8	**33.1**	**(54.9)**	**(21.8)**	32.1	(14.6)	17.5
Income tax	9	**(7.7)**	**(11.9)**	**(19.6)**	(7.7)	2.7	(5.0)
Profit/(loss) for the year attributable to owners of the Company		**25.4**	**(66.8)**	**(41.4)**	24.4	(11.9)	12.5
Earnings per share							
Basic	12			**(24.8)p**			7.5p
Diluted	12			**(24.8)p**			7.4p

All results relate to continuing operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER

	Note	2019 £'m	2018 £'m
(Loss)/profit for the year attributable to the owners of the Company		**(41.4)**	12.5
Other comprehensive income/(expense) for the year			
Items that will not be reclassified to profit or loss			
Pension obligations:			
– remeasurements	26	**(13.1)**	30.3
– movement in deferred tax	25	**2.3**	(3.2)
– remeasurement of an insurance asset held to fund pension obligations		**(0.2)**	–
		(11.0)	27.1
Items that are or may be reclassified subsequently to profit or loss			
Cash flow hedges:	29		
– net fair value gains/(losses)		**2.1**	(2.5)
– tax on fair value movements		**(0.4)**	0.4
Net investment hedges:	29		
– fair value gains		**3.4**	0.5
– tax on fair value movements		**–**	(0.1)
Net exchange adjustments	29	**(9.0)**	(4.7)
		(3.9)	(6.4)
Other comprehensive (expense)/income for the year, net of tax		**(14.9)**	20.7
Total comprehensive (expense)/income for the year attributable to owners of the Company		**(56.3)**	33.2

CONSOLIDATED AND COMPANY STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER

	Note	Group 2019 £'m	Group 2018 £'m	Company 2019 £'m	Company 2018 £'m
ASSETS					
Non-current assets					
Property, plant and equipment	13	**213.8**	278.8	**0.7**	–
Intangible assets	14	**10.5**	10.5	**3.3**	2.2
Investments	15	**–**	–	**347.6**	253.0
Deferred tax assets	25	**25.5**	34.2	**1.3**	0.4
Trade and other receivables	17	**3.9**	5.4	**63.7**	153.6
		253.7	328.9	**416.6**	409.2
Current assets					
Inventories	16	**39.1**	38.2	**–**	–
Trade and other receivables	17	**27.9**	36.0	**7.1**	19.0
Derivative financial instruments	23	**1.4**	0.2	**1.9**	1.8
Current tax assets		**–**	–	**9.9**	–
Cash and cash equivalents	18	**24.7**	9.9	**1.4**	0.5
		93.1	84.3	**20.3**	21.3
Total assets		**346.8**	413.2	**436.9**	430.5
LIABILITIES					
Current liabilities					
Trade and other payables	19	**(29.4)**	(29.3)	**(3.3)**	(6.1)
Current tax liabilities		**(1.6)**	(0.3)	**–**	–
Borrowings	22	**(1.2)**	(4.7)	**(0.1)**	(8.6)
Derivative financial instruments	23	**(0.6)**	(1.6)	**(2.3)**	(1.7)
Provisions for other liabilities and charges	21	**(5.6)**	(5.2)	**(0.5)**	–
		(38.4)	(41.1)	**(6.2)**	(16.4)
Non-current liabilities					
Borrowings	22	**(148.1)**	(146.8)	**(148.0)**	(142.9)
Pension obligations	26	**(64.1)**	(54.4)	**–**	–
Deferred tax liabilities	25	**(16.0)**	(17.6)	**–**	–
Other payables	20	**(2.5)**	(3.0)	**(54.7)**	(47.8)
Provisions for other liabilities and charges	21	**(2.8)**	(3.8)	**–**	–
		(233.5)	(225.6)	**(202.7)**	(190.7)
Total liabilities		**(271.9)**	(266.7)	**(208.9)**	(207.1)
Net assets		**74.9**	146.5	**228.0**	223.4
EQUITY					
Ordinary shares	27	**16.7**	16.7	**16.7**	16.7
Share premium		**9.3**	9.3	**9.3**	9.3
Other reserves	29	**72.2**	77.1	**44.9**	45.5
Retained earnings		**(23.3)**	43.4	**157.1**	151.9
Equity attributable to the owners of the Company		**74.9**	146.5	**228.0**	223.4

The Financial Statements on pages 78 to 128 were approved by the Board of Directors and signed on its behalf by:

JACKIE CALLAWAY
CHIEF FINANCIAL OFFICER
3 March 2020

Company registration No.: SC129785

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

Group	Note	Ordinary shares £'m	Share premium £'m	Other reserves £'m	Retained earnings £'m	Total equity £'m
Balance at 1 January 2019		**16.7**	**9.3**	**77.1**	**43.4**	**146.5**
Adjustment on initial application of IFRS 16 (net of tax)		**–**	**–**	**–**	**0.1**	**0.1**
Adjusted balance at 1 January 2019		**16.7**	**9.3**	**77.1**	**43.5**	**146.6**
Comprehensive expense						
Loss for the year		**–**	**–**	**–**	**(41.4)**	**(41.4)**
Other comprehensive expense		**–**	**–**	**(3.9)**	**(11.0)**	**(14.9)**
Total comprehensive expense		**–**	**–**	**(3.9)**	**(52.4)**	**(56.3)**
Transactions with owners of the Company						
Performance Share Plan credit, net of tax	29	**–**	**–**	**(0.4)**	**–**	**(0.4)**
Performance Share Plan credit in respect of awards lapsed	29	**–**	**–**	**(0.6)**	**0.6**	**–**
Dividends paid	11	**–**	**–**	**–**	**(15.0)**	**(15.0)**
Total transactions with owners of the Company		**–**	**–**	**(1.0)**	**(14.4)**	**(15.4)**
Balance at 31 December 2019		**16.7**	**9.3**	**72.2**	**(23.3)**	**74.9**
Balance at 1 January 2018		16.7	9.3	83.4	17.8	127.2
Comprehensive income/(expense)						
Profit for the year		–	–	–	12.5	12.5
Other comprehensive income/(expense)		–	–	(6.4)	27.1	20.7
Total comprehensive income/(expense)		–	–	(6.4)	39.6	33.2
Transactions with owners of the Company						
Performance Share Plan charge, net of tax	29	–	–	0.8	–	0.8
Performance Share Plan credit in respect of awards lapsed	29	–	–	(0.7)	0.7	–
Dividends paid	11	–	–	–	(14.7)	(14.7)
Total transactions with owners of the Company		–	–	0.1	(14.0)	(13.9)
Balance at 31 December 2018		16.7	9.3	77.1	43.4	146.5

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

Company	Note	Ordinary shares £'m	Share premium £'m	Other reserves £'m	Retained earnings £'m	Total equity £'m
Balance at 1 January 2019		**16.7**	**9.3**	**45.5**	**151.9**	**223.4**
Comprehensive income						
Profit for the year		**–**	**–**	**–**	**19.8**	**19.8**
Total comprehensive income		**–**	**–**	**–**	**19.8**	**19.8**
Transactions with owners of the Company						
Performance Share Plan credit, net of tax	29	**–**	**–**	**(0.2)**	**–**	**(0.2)**
Performance Share Plan credit in respect of awards lapsed	29	**–**	**–**	**(0.4)**	**0.4**	**–**
Dividends paid	11	**–**	**–**	**–**	**(15.0)**	**(15.0)**
Total transactions with owners		**–**	**–**	**(0.6)**	**(14.6)**	**(15.2)**
Balance at 31 December 2019		**16.7**	**9.3**	**44.9**	**157.1**	**228.0**
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
Total comprehensive income		–	–	–	25.7	25.7
Transactions with owners of the Company						
Performance Share Plan charge, net of tax	29	–	–	0.5	–	0.5
Performance Share Plan credit in respect of awards lapsed	29	–	–	(0.4)	0.4	–
Dividends paid	11	–	–	–	(14.7)	(14.7)
Total transactions with owners of the Company		–	–	0.1	(14.3)	(14.2)
Balance at 31 December 2018		16.7	9.3	45.5	151.9	223.4

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER

		Group	
	Note	2019 £'m	2018 £'m
Cash flows from operating activities			
Cash generated from operations	30	**59.7**	46.1
Interest paid		**(5.6)**	(7.6)
Tax paid		**(9.2)**	(12.5)
Net cash generated from operating activities		**44.9**	26.0
Cash flows from investing activities			
Purchase of property, plant and equipment		**(12.5)**	(11.3)
Purchase of intangible assets		**(1.2)**	(0.9)
Proceeds from disposal of property, plant and equipment and software		**0.2**	–
Net cash used in investing activities		**(13.5)**	(12.2)
Cash flows from financing activities			
Proceeds from borrowings		**7.2**	–
Repayments of borrowings		**(3.8)**	(0.6)
Payment on settlement of derivatives		**(0.1)**	(2.6)
Payment of lease liabilities	24	**(0.5)**	–
Dividends paid	11	**(15.0)**	(14.7)
Net cash from financing activities		**(12.2)**	(17.9)
Net increase/(decrease) in cash and cash equivalents		**19.2**	(4.1)
Net cash and cash equivalents at 1 January	31	**5.2**	9.3
Net increase/(decrease) in cash and cash equivalents		**19.2**	(4.1)
Exchange loss on cash and cash equivalents		**(0.5)**	–
Net cash and cash equivalents at 31 December	31	**23.9**	5.2
Cash and cash equivalents	18	**24.7**	9.9
Bank overdrafts	22	**(0.8)**	(4.7)
Net cash and cash equivalents at 31 December	31	**23.9**	5.2

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

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. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
A) BASIS OF PREPARATION
BASIS OF ACCOUNTING
Group
These consolidated Financial Statements have 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 16 Leases has 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.

Company
The Company's Financial Statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). In preparing these Financial Statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ('IFRS'), but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In the transition to FRS 101 from Adopted IFRS, the Company has made no measurement and recognition adjustments.

The Company has applied the exemptions available under FRS 101 in respect of the following disclosures:
- a cash flow statement and related notes;
- comparative period reconciliations for share capital, tangible fixed assets and intangible assets;
- disclosures in respect of transactions with wholly-owned subsidiaries;
- disclosures in respect of capital management;
- the effects of new but not yet effective IFRSs; and
- disclosures in respect of the compensation of key management personnel.

As the Financial Statements of Devro plc (pages 78 to 128) includes the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:
- IFRS 2 'Share Based Payments' in respect of Group-settled share-based payments; and
- certain disclosures required by IFRS 13 'Fair Value Measurement' and the disclosures required by IFRS 7 'Financial Instrument Disclosures'.

The Company's Financial Statements have been prepared on the historical cost basis, except for the revaluation of financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for the assets. The principal accounting policies are set out below.

As permitted by s408 of the Companies Act 2006, the Company has elected not to present its own statement of profit or loss account or statement of comprehensive income for the year. The profit attributable to the Company is disclosed in the Company's statement of changes in equity.

BASIS OF CONSOLIDATION
The consolidated Financial Statements include the Financial Statements of the Company and all its subsidiary undertakings made up to 31 December 2019. 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.

GOING CONCERN
The Group's business activities, together with the factors likely to affect its future development, performance and position are described in more detail in the Strategic Report on pages 1 to 43, 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.

Key factors to support the going concern basis of accounting include the following:
- as at 31 December 2019 the Group was operating within the £105m (2018: £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.

SIGNIFICANT ACCOUNTING 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
The Group excludes certain items from underlying reported amounts that are considered to be:
- significant in nature or quantum (either individually or in aggregate) that relate to a Group wide programme; or
- treatment as an exceptional item provides stakeholders with additional useful information to better assess the underlying trading performance of the Group.

The Group exercises judgement in assessing whether restructuring items should be classified as exceptional. This assessment covers the nature of the item, cause of occurrence and scale of impact of that item on the reported performance. In some situations the umbrella programme to which costs relate is also taken into account in this assessment.

For an income or expense to meet the Group's criteria as exceptional it must be:
- directly related to an exceptional item; and
- incremental to the Group's ongoing income or expense.

Details of the accounting policies applied in respect of exceptional items are set out on page 93.

Tax
The calculation and recognition of temporary differences giving rise to deferred tax assets require judgements in assessing whether 'convincing other evidence' exists in order to recognise certain amounts of these deferred tax assets. In the second half of 2019 deferred tax assets have not been recognised on losses in the US and China as a result of uncertainty over recoverability. The Group's review of sourcing strategy conducted in 2019 impacted not only impairment testing of the US and China plants (Notes 13 and 14), but also profit forecasts of the US and China statutory entities, introducing greater uncertainty over future recoverability of accumulated losses. It was therefore deemed that there was no longer convincing other evidence to recognise deferred tax assets and had led to full derecognition of deferred tax assets on carried forward US and China losses. Given the inherent uncertainty in the long-term nature of forecasting, it is reasonably possible that developments could require a material increase to the carrying amount of these unrecognised assets within the next financial year. The assumptions and estimates which have been applied specifically in relation to both the US and China in the determination of taxation are detailed in Notes 9 and 25. Details of the accounting policies applied in respect of taxation are set out on pages 90 and 91.

ESTIMATES
Impairment testing
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.

Details of the sensitivity and the assumptions used in these impairment reviews are set out in Note 13. Details of the accounting policies applied in respect of property, plant & equipment and intangible assets are set out on pages 88 and 89.

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 31 DECEMBER 2019

1. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued
A) BASIS OF PREPARATION continued
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. Details of the accounting policies applied in respect of retirement benefit plans are set out on page 92.

Goodwill
Goodwill arising on business combinations is allocated to the relevant CGU. Impairment reviews in respect of the relevant CGUs are performed at least annually or more regularly if events indicate that this is necessary. Impairment reviews are based on a value in use model with future cash flows discounted using the weighted average cost of capital for the relevant CGU with terminal values calculated applying a long-term growth rate. The future cash flows, which are based on operating company forecasts, the long-term growth rates and the discount rates used, are dependent upon management estimates. Future events could cause the assumptions used in impairment reviews to change with a consequential adverse impact on the results and net position of the Group.

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. Details of the accounting policies applied in respect of provisions are set out on page 90.

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 statement of financial position, 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. Details of the accounting policies applied in respect of inventories are set out on page 89.

Tax
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.

The Group's tax charge is based on the profit for the year and tax rates effective at the statement of financial position 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 statement of financial position date.

The calculation and recognition of temporary differences giving rise to deferred tax assets require estimates 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. Details of the accounting policies applied in respect of taxation are set out on pages 90 and 91.

CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES
New standards, amendments to standards and interpretations effective in 2019
In the current year the Group has applied a number of new standards and amendments to IFRSs issued by the International Accounting Standards Board. Details of the new standard that has had a material impact on the Group's statement of financial position are set out below.

	Effective date
IFRS 16 – Leases	1 January 2019

The Group leases only a few assets, including properties, production equipment and IT equipment. As a leasee, the Group previously classified these leases as operating leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Group recognises right of use assets and lease liabilities for most leases. Previously, these leases were off-statement of financial position.

CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES continued
Under IFRS 16, the previous operating lease charge has been replaced by the depreciation of the right of use asset and interest on the lease liability.

The Group has applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. The details of the changes in accounting policies are described below.

As a practical expedient, the Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and short-term leases (i.e. < 12 months). The Group recognises the lease payments on these leases as an expense on a straight-line basis over the lease term.

Details of the Group's lease accounting policy are provided on page 90.

The overall impact on transition on 1 January 2019 for the Group is as follows:

Impact on the Financial Statements on transition	1 January 2019 £'m
Right-of-use assets presented in 'property, plant and equipment'	1.2
Lease liabilities presented in 'loans and other borrowings'	(1.1)
Net increase in retained earnings	0.1

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using the incremental borrowing rate at 1 January 2019. The weighted average rate applied was approximately 4%.

Reconciliation of operating lease commitment to recognition of lease liability	1 January 2019 £'m
Operating lease commitment at 31 December 2018 as disclosed in the Group's Financial Statements	1.7
Discounted using incremental borrowing rate at 1 January 2019	1.6
Recognition exemption for leases of low value, with less than 12 months of lease term at transition or cancellable on short notice	(0.5)
Lease liability recognised at 1 January 2019	1.1

Impact on the 2019 statement of profit or loss and EBITDA	Year ended 31 December £'m
Operating lease payments	0.6
Depreciation on right-of-use assets	(0.5)
Net increase on profit before and after tax	0.1
Add back: Depreciation on right-of-use assets	0.5
Increase in EBITDA	0.6

New standards, amendments to standards and interpretations not applied

At the date of approval of these Financial Statements, there were no new significant standards, amendments to standards and interpretations that were in issue but have not been applied in these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER 2019

1. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

B) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these Group consolidated and individual Company Financial Statements are set out below. These policies have been consistently applied to the years presented, unless otherwise stated.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. 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. Leasehold land is depreciated over the period of the lease.

Assets under construction are transferred to the appropriate asset category when they come into use. Depreciation on assets 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 statement of financial position 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 statement of profit or loss.

Property, plant and equipment are reviewed for impairment where indicators of impairment exist. An impairment loss is recognised in the statement of profit or loss 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.

Impairment losses recognised in prior periods are assessed at each reporting date for any indicators that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or, if no impairment loss had been recognised.

Repairs and maintenance costs are charged to the statement of profit or loss during the year in which they are incurred.

GRANTS

Grants relating to property, plant and equipment are included in current and non-current liabilities as appropriate and credited to the statement of profit or loss on a straight-line basis over the expected useful lives of the related assets.

Grants relating to costs are deferred and recognised in the statement of profit or loss over the period necessary to match them with the costs they are intended to compensate.

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 at the acquisition date as the sum of the 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.

INTANGIBLE ASSETS

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 is recognised in the statement of profit or loss 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. 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.

OTHER INTANGIBLE ASSETS

Other 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:

Customer contracts and relationships	12 years
Computer software	4-5 years
Development costs	15 years

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred.

In general, research and development expenditure is charged to the statement of profit or loss in the year in which it occurred unless certain strict criteria are met for capitalisation. These criteria include:
- demonstration of its commercial and technological feasibility;
- intent of completing a new intangible asset that is separable; and
- the asset will generate probable future economic benefits.

At the point where expenditure meets the criteria, development costs are capitalised and amortised over the useful economic lives of the assets to which they relate.

Other intangibles assets are reviewed for impairment where indicators of impairment exist. An impairment loss is recognised in the statement of profit or loss 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.

FIXED ASSET INVESTMENTS

The Company's investments in subsidiary undertakings are shown at historical cost less provision for any impairment in value.

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 AND OTHER RECEIVABLES

Trade receivables and other receivables are carried at original invoice amount (which is considered a reasonable proxy for fair value) and subsequently measured at amortised cost, less provision for estimated irrecoverable amounts. The provision for impairment of receivables is based on lifetime expected credit losses are calculated based on historical credit loss experience, adjusted for factors specific to the receiving company and reflect information about current condition and forecasts of future economic conditions. The movement in provision is recognised in the statement of profit or loss.

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.

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 31 DECEMBER 2019

1. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued
B) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued
OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES
Financial assets and liabilities are offset and the net amount presented in the statement of financial position 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 statement of financial position date. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more event that has occurred after initial recognition of an asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows or the financial asset or group of financial assets that can be reliably estimated.

TRADE AND OTHER PAYABLES
Trade and other payables are recognised at the amounts expected to be paid to counterparties and subsequently held at amortised cost.

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 statement of financial position 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.

LEASES
At the inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A right-of-use asset and the corresponding lease liability is recognised at the lease commencement date.

The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses and adjusted for certain remeasurement of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounting using the interest rate implicit in the lease, or, if that rate cannot be readily determined as is often the case, the Group's incremental borrowing rate.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in estimate of the amount expected to be payable under residual guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, to the extent that the right-of-use asset is reduced to nil, with any further adjustment required from the remeasurement being recorded in the statement of profit or loss.

TAXATION
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 statement of financial position date.

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to tax authorities. Tax benefits are not recognised unless it is likely that the tax positions are substantiable. Once considered to be likely, tax benefits are reviewed to be assessed whether a provision should be made based on prevailing circumstances.

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 statement of financial position 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 statement of profit or loss, 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.

TAXATION continued
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.

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 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 remeasured. 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 statement of profit or loss, 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 statement of profit or loss.

The trading results of foreign currency denominated subsidiaries are translated into sterling, the presentation currency of the Group and functional currency of the Company, using average rates of exchange for the year. The statement of financial position 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 relating to that entity is recognised in the statement of profit or loss. All other translation differences are taken to the statement of profit or loss, 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 statement of profit or loss.

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 statement of profit or loss over the period of the borrowings using the effective interest method.

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

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 statement of financial position 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.

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 statement of financial position 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 statement of profit or loss 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.

NOTES TO THE FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER 2019

1. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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 the statement of other comprehensive income. Gains or losses relating to any ineffective part of changes in fair value are taken immediately to the statement of profit or loss. Amounts accumulated in equity are transferred to the statement of profit or loss 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 statement of profit or loss.

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 statement of profit or loss 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 statement of profit or loss 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 the statement of other comprehensive income. Gains or losses relating to any ineffective portion are taken immediately to the statement of profit or loss. Amounts accumulated in equity are transferred to the statement of profit or loss when the foreign operation is partially disposed of or sold.

EMPLOYEE BENEFITS

The Group operates a number of defined contribution and defined benefit pension plans. All defined benefit pension plans are now closed to new entrants.

Defined contribution plans

Payments to defined contribution pension plans are charged as an expense in the periods during which services are rendered by employees.

Defined benefit plans

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 statement of financial position represent the fair value of external plan assets less the present value of the defined benefit obligations.

Amounts recorded in the 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 statement of profit or loss credits or charges can arise for special events, such as a past service benefit improvement or settlement and curtailment of plan liabilities.

Remeasurements 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 the statement of other comprehensive income. Actuarial gains and losses on liabilities occur due to changes in actuarial assumptions at the statement of financial position 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.

Short term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Share based payments
The Group operates a number of equity-settled share-based incentive plans as consideration for services received from employees in both the Company and its subsidiaries. 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 include any market performance conditions, but exclude the impact of any service or non-market performance vesting conditions and are 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 statement of profit or loss 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 statement of profit or loss, with a corresponding adjustment to equity.

The social security contributions payable on share awards granted is recognised in the statement of profit or loss over the vesting period and is treated as a cash-settled transaction.

REVENUE RECOGNITION
Revenue is measured based on fair value of the consideration specified in a contract with a customer, net of returns, rebates and discounts, and which excludes value added tax and other sales-related taxes.

The Group generates revenue primarily from the sale of collagen products to its customers. In general, Devro agreements with customers and the wholesale market (distributors) do not contain complex terms or separately identifiable performance obligations outside of delivering product to customers and distributors. The performance obligation continues to be the supply of product to the customer and distributors and therefore the transaction price relates to this performance obligation. Revenue is recognised when control of the product has transferred, being when the product has either been shipped to the customer or distributor, or, on delivery, in line with terms agreed with individual customers or distributors.

Payment is normally due immediately, at the point that the performance obligation is completed.

INTEREST RECEIVABLE
Interest income is recognised on a time-proportion basis using the effective interest method.

DIVIDEND RECEIVABLE
Dividend income is recognised by the Company in the statement of profit or loss on the date the entity’s right to receive payment is established.

DIVIDEND PAYABLE
The liability for final dividends is recorded when the dividends are approved by the Company’s shareholders.

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, as explained further in ‘critical estimates and judgements’ on page 85.

NOTES TO THE FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER 2019

2. SEGMENT INFORMATION

The chief operating decision maker has been identified as the Board. The Board reviews the Group's financial results on a geographical segment basis because they require different products and marketing strategies, 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 EU, Russia & East, UK & Ireland and Middle East & Africa

In the future, the Board will also review Group revenue and edible collagen volume between emerging markets and mature markets where emerging markets include Latin America, Russia & East, Middle East & Africa, South East Asia and China and mature markets include North America, Continental EU, UK & Ireland, Japan and Australia & NZ.

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

		Americas		Asia Pacific		EMEA		Total Group	
	Note	**2019 £'m**	2018 £'m	**2019 £'m**	2018 £'m	**2019 £'m**	2018 £'m	**2019 £'m**	2018 £'m
Revenue from external customers		**62.5**	60.8	**82.8**	82.9	**104.7**	109.7	**250.0**	253.4
Underlying operating profit before non-recurring items								**39.1**	40.0
Non-recurring items								**–**	(0.8)
Underlying operating profit								**39.1**	39.2
Exceptional items	4							**(53.1)**	(12.3)
Operating (loss)/profit								**(14.0)**	26.9
Finance cost	7							**(6.0)**	(7.1)
Net finance cost on pensions	7, 26							**(1.8)**	(2.3)
(Loss)/profit before tax								**(21.8)**	17.5

Recognition of sales to emerging and mature markets:

	2019 £'m	2018 £'m
Mature	**187.3**	192.4
Emerging	**62.7**	61.0
Total	**250.0**	253.4

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

	2019 £'m	2018 £'m
US	**54.4**	51.2
Other Americas	**8.5**	10.4
Total Americas	**62.9**	61.6
Australia	**16.9**	18.7
Other Asia Pacific	**64.4**	62.0
Total Asia Pacific	**81.3**	80.7
UK and Ireland	**30.3**	31.6
Other EMEA	**75.5**	79.5
Total EMEA	**105.8**	111.1
Total	**250.0**	253.4

Other segment information:

	Americas		Asia Pacific		EMEA		Global		Total Group	
	2019 £'m	2018 £'m	2019 £'m	2018 £'m	2019 £'m	2018 £'m	2019 £'m	2018 £'m	2019 £'m	2018 £'m
Additions to property, plant and equipment	**2.8**	1.4	**3.9**	2.4	**5.7**	6.5	**0.3**	–	**12.7**	10.3
Additions to intangible assets	**–**	–	**–**	–	**–**	0.2	**1.2**	0.7	**1.2**	0.9
	2.8	1.4	**3.9**	2.4	**5.7**	6.7	**1.5**	0.7	**13.9**	11.2
Depreciation of property, plant and equipment	**(5.5)**	(5.2)	**(6.8)**	(7.0)	**(12.9)**	(12.4)	**(0.1)**	–	**(25.3)**	(24.6)
Impairment of property, plant and equipment	**(23.0)**	–	**(18.0)**	–	**(3.9)**	–	**–**	–	**(44.9)**	–
Amortisation of intangible assets	**(0.2)**	(0.2)	**(0.2)**	(0.2)	**(0.5)**	(0.5)	**(0.2)**	(0.1)	**(1.1)**	(1.0)
Impairment of intangible assets	**–**	–	**–**	–	**(1.0)**	–	**–**	–	**(1.0)**	–

Movements in plant, property and equipment are further explained in Note 13 and intangibles in Note 14.

Total non-current assets can be analysed as follows:

	2019 £'m	2018 £'m
Americas	**47.7**	75.7
Asia Pacific	**62.5**	88.3
EMEA	**116.4**	128.7
	226.6	292.7
Deferred tax assets	**25.5**	34.2
Pension assets	**1.6**	2.0
Total non-current assets	**253.7**	328.9

NOTES TO THE FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER 2019

3. OPERATING PROFIT

	2019			2018		
	Underlying £'m	**Non-underlying £'m**	**Reported £'m**	Underlying £'m	Non-underlying £'m	Reported £'m
Revenue	**250.0**	**–**	**250.0**	253.4	–	253.4
Cost of sales	**(162.7)**	**(49.5)**	**(212.2)**	(164.2)	(2.0)	(166.2)
Gross profit	**87.3**	**(49.5)**	**37.8**	89.2	(2.0)	87.2
Selling and distribution costs	**(18.2)**	**–**	**(18.2)**	(18.9)	(0.5)	(19.4)
Administrative expenses	**(22.3)**	**(3.6)**	**(25.9)**	(23.1)	(8.9)	(32.0)
Research and development expenditure	**(6.2)**	**–**	**(6.2)**	(6.4)	(0.9)	(7.3)
Other expenses	**(2.3)**	**–**	**(2.3)**	(2.9)	–	(2.9)
Total operating expenses	**(49.0)**	**(3.6)**	**(52.6)**	(51.3)	(10.3)	(61.6)
Other operating income	**0.8**	**–**	**0.8**	1.3	–	1.3
Net operating expenses	**(48.2)**	**(3.6)**	**(51.8)**	(50.0)	(10.3)	(60.3)
Operating profit/(loss)	**39.1**	**(53.1)**	**(14.0)**	39.2	(12.3)	26.9

An additional £1.1m (2018: £0.4m) of development expenditure has been capitalised within intangible assets (Note 14).

4. EXCEPTIONAL ITEMS

Exceptional charges included in operating profit were £53.1m (2018: £12.3m).

	Note	**2019 £'m**	2018 £'m
Restructuring costs		**7.2**	11.4
GMP equalisation	26	**–**	0.9
Impairment of property, plant and equipment	13	**44.9**	–
Impairment of intangible assets	14	**1.0**	–
Total exceptional items		**53.1**	12.3

In the second half of 2019 the Group undertook a review of its global manufacturing footprint with the aim to access further efficiency improvements, as well as to align available capacity to the Group's growth plans. As a result of this review, the Group made a decision to close its Bellshill site in Scotland during 2020 and move the remaining operating assets to other sites. Whilst this initiative improves the cash generation capacity of the Group's asset base, it also triggered an impairment review which impacted key assumptions underpinning calculations of net present value from cash flow forecasts for US and China manufacturing operations. Further details on the US (£23.0m) and China (£18.0m) impairment of assets is available in Note 13.

During the year and following the announcement of the closure of the Bellshill site, the Group recognised a restructuring provision of £4.2m (Note 21), associated costs of £0.6m, a curtailment charge associated with the additional pension obligation relating to the UK pension scheme of £0.8m (Note 26) and an impairment charge of £4.9m (Note 13 and Note 14).

Further costs of £1.6m (2018: £4.9m) were incurred in relation to implementation of the new global operating model and a strategic review. This involved restructuring the business support activities into global functions to realign the cost base for operating expenses with strategic priorities.

In 2018 the Group incurred costs of £6.5m relating to the Devro 100 programme 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.

In 2018 a charge amounting to £0.9m 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 Directors' Remuneration Report on pages 55 to 73.

Emoluments are summarised as follows:

	2019 £'m	2018 £'m
Aggregate emoluments (including long-term incentives with performance period ending during the year)	**1.1**	1.2
Payments in lieu of pension contributions	**0.1**	0.1

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

	2019 £'m	2018 £'m
Aggregate emoluments (including long-term incentives with performance period ending during the year)	**0.5**	0.5
Payments in lieu of pension contributions	**–**	0.1

6. EMPLOYEE INFORMATION

The average monthly number of persons (including Executive Directors) employed during the year was:

	Group		Company	
By employee category	2019	2018	2019	2018
Operations and engineering	**1,647**	1,773	**–**	–
Sales and marketing	**88**	86	**–**	–
Distribution	**35**	39	**–**	–
Administration	**162**	163	**35**	40
Research and development	**87**	96	**8**	6
	2,019	2,157	**43**	46

Staff costs were:

		Group		Company	
	Note	2019 £m	2018 £m	2019 £m	2018 £m
Wages and salaries (including bonus and other benefits)		**74.2**	76.8	**5.6**	6.0
Social security costs		**10.7**	11.3	**0.5**	0.7
Pension obligation costs	26	**8.0**	9.4	**0.1**	0.1
Performance Share Plan (credit)/charge	29	**(0.4)**	0.8	**(0.2)**	0.5
		92.5	98.3	**6.0**	7.3

Key management of the Group comprises the Directors and the Executive Management Team.

In addition to the staff costs noted above the Group incurred redundancy costs of £4.2m (2018: £6.1m).

7. FINANCE COST

	Note	2019 £'m	2018 £'m
Interest payable on loans and overdrafts		**(6.0)**	(7.1)
Net finance cost on pensions	26	**(1.8)**	(2.3)

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 31 DECEMBER 2019

8. PROFIT OR LOSS BEFORE TAX

	Note	2019 £'m	2018 £'m
Profit or loss before tax is stated after charging:			
Depreciation of property, plant and equipment	13	**25.3**	24.6
Impairment of property, plant and equipment	4, 13	**44.9**	–
Amortisation of intangible assets	14	**1.1**	1.0
Impairment of intangible assets	4, 14	**1.0**	–
Inventory recognised as an expense		**122.0**	124.9
Inventory written down or written off		**3.8**	3.8
Repairs and maintenance expense		**13.0**	13.8
Research and development expense		**6.2**	6.4
Expense relating to short-term leases		**1.1**	1.7
Net foreign exchange losses		**1.3**	1.3
Auditors' remuneration (see below)		**0.6**	0.4

The creation and release of provisions for impaired receivables is included in other expenses in the statement of profit or loss. Amounts provided are written off when there is no expectation of them being collected.

SERVICES PROVIDED BY THE COMPANY'S AUDITORS AND ITS ASSOCIATES

During the year the Group (including its overseas subsidiaries) obtained the following services from the Company's auditors and its associates:

	2019 £'m	2018 £'m
Group		
Fees payable to the Company's auditors and its associates for the audit of the parent Company and consolidated Financial Statements	**0.3**	0.1
Fees payable to the Company's auditors and its associates for other services:		
– The audit of the Company's subsidiaries	**0.3**	0.3
– Audit related assurance services £23,000 (2018: £22,000)	**–**	–
– Non-audit services £nil (2018: £nil)	**–**	–
	0.6	0.4

In addition to the above, in 2019 the Group incurred charges for services in relation to occupational pension scheme audits of £nil (2018: £15,000).

9. INCOME TAX

	2019			2018		
	Underlying £'m	Non-underlying £'m	Reported £'m	Underlying £'m	Non-underlying £'m	Reported £'m
Current tax						
UK corporation tax at 19.0% (2018: 19.0%)	**0.1**	**–**	**0.1**	0.1	(0.6)	(0.5)
Foreign tax	**10.3**	**–**	**10.3**	8.1	(0.4)	7.7
	10.4	**–**	**10.4**	8.2	(1.0)	7.2
Adjustments in respect of prior years	**0.1**	**–**	**0.1**	(0.1)	–	(0.1)
Total current tax charge/(credit)	**10.5**	**–**	**10.5**	8.1	(1.0)	7.1
Deferred tax						
Origination and reversal of temporary differences representing:						
UK corporation tax	**4.2**	**(5.0)**	**(0.8)**	0.5	(0.8)	(0.3)
Foreign tax	**(6.3)**	**16.9**	**10.6**	(0.7)	(0.9)	(1.6)
	(2.1)	**11.9**	**9.8**	(0.2)	(1.7)	(1.9)
Adjustments in respect of prior years	**(0.7)**	**–**	**(0.7)**	(0.2)	–	(0.2)
Total deferred tax (credit)/charge	**(2.8)**	**11.9**	**9.1**	(0.4)	(1.7)	(2.1)
Tax charge/(credit) in the statement of profit or loss	**7.7**	**11.9**	**19.6**	7.7	(2.7)	5.0
Tax on items charged/(credited) to statement of changes in equity or statement of other comprehensive income						
Deferred tax (credit)/charge on pension obligations (excluding rate changes)	**(2.3)**	**–**	**(2.3)**	3.2	–	3.2
Deferred tax charge/(credit) on net fair value losses on cash flow hedges	**0.4**	**–**	**0.4**	(0.4)	–	(0.4)
Deferred tax on items (credited)/charged to equity or other comprehensive income	**(1.9)**	**–**	**(1.9)**	2.8	–	2.8
Current tax credit on other hedges	**–**	**–**	**–**	0.1	–	0.1
Total tax on items (credited)/charged to equity or other comprehensive income	**(1.9)**	**–**	**(1.9)**	2.9	–	2.9
Total current tax charge/(credit) for the year	**10.5**	**–**	**10.5**	8.2	(1.0)	7.2
Total deferred tax (credit)/charge for the year	**(4.7)**	**11.9**	**7.2**	2.4	(1.7)	0.7

NOTES TO THE FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER 2019

9. INCOME TAX continued

	2019			2018		
	Underlying £'m	Non-underlying £'m	Reported £'m	Underlying £'m	Non-underlying £'m	Reported £'m
Profit or loss before tax	**33.1**	**(54.9)**	**(21.8)**	32.1	(14.6)	17.5
Profit before tax multiplied by the UK 19.0% (2018: 19.0%) corporation tax rate	**6.3**	**(10.4)**	**(4.1)**	6.1	(2.8)	3.3
Effects of:						
– Adjustments in respect of prior years	**(0.6)**	**–**	**(0.6)**	(0.3)	–	(0.3)
– Expenses not deductible	**1.5**	**5.0**	**6.5**	–	–	–
– Income not taxable	**(0.1)**	**–**	**(0.1)**	–	–	–
– Adjustments in respect of foreign tax rates	**0.6**	**0.5**	**1.1**	0.1	0.5	0.6
– Impact to tax rate change	**0.1**	**–**	**0.1**	0.4	–	0.4
– Temporary differences on which deferred tax not recognised/(previously unrecognised)	**(0.1)**	**16.8**	**16.7**	3.2	(0.5)	2.7
– Permanent differences	**–**	**–**	**–**	(1.8)	0.1	(1.7)
Tax charge for the year	**7.7**	**11.9**	**19.6**	7.7	(2.7)	5.0

The Group's underlying effective tax rate on profit before exceptional items is 23.3% (2018: 24.0%)

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 the mix of profits, changes to statutory tax rates or tax legislation and the foreign exchange rates applicable when those profits are translated into sterling.

In 2019, £25.3m of deferred tax assets has not been recognised on losses and other timing differences in the US and China as a result of uncertainty over the timing of recoverability. The Group's review of its global manufacturing footprint in 2019 impacted not only impairment testing of US and China plants, but also profit forecasts of US and China statutory entities introducing greater uncertainty over the timing of future recoverability of accumulated losses. This led to full de-recognition of deferred tax assets on carried forward US and China losses as well as a deferred tax asset on some other timing differences in the US. The unwind of previously recognised deferred tax assets has been recognised in exceptional tax.

The quantum of tax losses unrecognised in China is £27.0m (deferred tax asset of £6.7m). These tax losses have a five year expiry, with £7.9m expiring in 2021, £7.0m in 2022, £7.6m in 2023 and £4.5m in 2024. The quantum of unrecognised tax losses in the US is £75.3m (deferred tax asset of £15.8m) and unrecognised other timing differences are £13.2m (deferred tax asset of £2.8m). Losses arising prior to 2018 have a 20-year expiry with £6.4m expiring in 2034, £10.9m in 2035, £23.1m in 2036 and £17.9m in 2037. The remaining £17.0m of tax losses and £13.2m of other timing differences have no expiry date.

Additionally, unrecognised tax losses of £2.0m (2018: £2.0m) have not been recognised as a result of uncertainty over recoverability.

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. 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 statement of financial position date. Movements in uncertain tax provisions are included in permanent differences in the table above.

10. COMPANY PROFIT FOR THE YEAR

As permitted by Section 408 of the Companies Act 2006, the parent Company's statement of profit or loss and statement of comprehensive income have not been presented in these Financial Statements.

The parent Company profit for the year is £19.8m (2018: £25.7m).

11. DIVIDENDS

Group and Company	2019 £'m	2018 £'m
Final paid of 6.3 pence per share (2018: 6.1 pence)	**10.5**	10.2
Interim paid of 2.7 pence per share (2018: 2.7 pence)	**4.5**	4.5
	15.0	14.7

During the year, dividends totalling £nil (2018: £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 2019 which will absorb an estimated £10.5m of shareholders' funds. It will be paid on 7 May 2020 to shareholders who are on the register at close of business on 27 March 2020.

12. EARNINGS PER SHARE

	2019 £'m	2018 £'m
(Loss)/profit attributable to equity holders	**(41.4)**	12.5
Profit attributable to equity holders before exceptional items	**25.4**	24.4
Earnings per share		
– Basic	**(24.8)p**	7.5p
– Underlying basic	**15.2p**	14.6p
– Diluted	**(24.8)p**	7.4p
– Underlying diluted	**15.2p**	14.4p

	2019	2018
Shares in issue		
Weighted average number of shares in the year	**166,949,022**	166,949,022
Adjustments for:		
– Performance Share Plan	**–**	2,096,270
Weighted average number of shares adjusted for potential dilution	**166,949,022**	169,045,292

Basic earnings per share is calculated by dividing the (loss)/profit for the year attributable to owners of the Company of £(41.4)m loss (2018: £12.5m profit) by 166,949,022 (2018: 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. Given the loss for the year, the Performance Share Plan does not have a dilutive effect on earnings per share for 2019. For 2018, diluted earnings per share is calculated by dividing the profit for the year attributable to Ordinary shareholders of £12.5m by the average number of shares, including the effect of all dilutive potential shares, of 166,045,292.

Underlying earnings per share is calculated in order to eliminate the effect of exceptional items after tax in 2019 of £66.8m (2018: £11.9m) on the results. Underlying basic earnings per share is calculated by dividing the underlying profit attributable to Ordinary shareholders of £25.4m (2018: £24.4m) by 166,949,022 (2018: 166,949,022) shares, being the weighted average number of shares in issue throughout the year.

NOTES TO THE FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER 2019

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 2019	**158.1**	**354.2**	**16.0**	**8.8**	**537.1**
Recognition of right of use assets on initial application of IFRS 16	**0.6**	**0.6**	**–**	**–**	**1.2**
Adjusted balance at 1 January 2019	**158.7**	**354.8**	**16.0**	**8.8**	**538.3**
Additions	**0.6**	**4.7**	**0.4**	**7.0**	**12.7**
Disposals	**–**	**(2.8)**	**(0.4)**	**–**	**(3.2)**
Reclassification	**0.3**	**2.9**	**0.3**	**(3.5)**	**–**
Exchange differences	**(5.3)**	**(9.8)**	**(0.5)**	**(0.3)**	**(15.9)**
At 31 December 2019	**154.3**	**349.8**	**15.8**	**12.0**	**531.9**
Accumulated depreciation					
At 1 January 2019	**(45.4)**	**(201.0)**	**(11.9)**	**–**	**(258.3)**
Charge for year	**(3.7)**	**(20.3)**	**(1.3)**	**–**	**(25.3)**
Impairment (Note 4)	**(18.2)**	**(26.1)**	**(0.6)**	**–**	**(44.9)**
Disposals	**–**	**2.7**	**0.4**	**–**	**3.1**
Exchange differences	**1.3**	**5.6**	**0.4**	**–**	**7.3**
At 31 December 2019	**(66.0)**	**(239.1)**	**(13.0)**	**–**	**(318.1)**
Net book value at 31 December 2019	**88.3**	**110.7**	**2.8**	**12.0**	**213.8**
Cost					
At 1 January 2018	156.6	375.9	16.3	9.4	558.2
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)	–
Exchange differences	1.1	2.3	0.3	(0.1)	3.6
At 1 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)
Charge for year	(3.3)	(20.0)	(1.3)	–	(24.6)
Disposals	0.6	32.8	1.5	–	34.9
Exchange differences	0.1	(1.5)	(0.1)	–	(1.5)
At 1 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

In the statement of profit or loss, depreciation of £24.1m (2018: £23.3m) has been charged in cost of sales, £0.2m (2018: £0.1m) in selling and distribution costs, £0.8m (2018: £0.9m) in administrative expenses, £0.2m (2018: £0.1m) in research and development expenditure and £nil (2018: £0.2m) in other expenses.

Impairment of non-financial assets
In the second half of 2019 the Group undertook a review of its global manufacturing footprint with the aim to access further efficiency improvements, as well as to align available capacity to the Group's growth ambitions. As a result of this review, the Group made a decision to close its Bellshill site in Scotland during 2020 and move the remaining operating assets to other sites. Whilst this initiative improves the cash generation capacity of the Group's asset base, it also triggered an impairment review which impacted key assumptions underpinning calculations of net present value from cash flow forecasts for US and China manufacturing operations.

Assets used in US and China manufacturing operations were identified as the smallest group of assets that generate cash inflows that are largely independent of cash inflows from other assets or groups of assets and form separate cash generating units (CGUs).

The review of key assumptions underpinning calculations of discounted cash flow forecasts for US and China CGUs resulted in impairment of carrying values of assets down to their recoverable amounts.

Management determined key assumptions applied to impairment testing by linking future expectations aligned with new Group sourcing strategy and targeted markets strategy to external conditions.

For the purpose of the impairment test, a five-year forecast period was used.

US CGU assets were impaired by £(23.0)m down to £47.8m, and China CGU assets were impaired by £(18.0)m down to £32.2m. In addition, the planned closure of the Bellshill site in Scotland during 2020 resulted in a £3.9m impairment of its property, plant and machinery assets and £1.0m impairment of relevant intangible assets.

US assets impairment
The global supply chain optimisation project resulted in the decision to permanently decommission the pilot line in the US which was put in place when the facility was initially constructed. This resulted in lower absorption of plant fixed costs and consequently higher than previously forecasted production costs per unit. These production changes together with refinement of cost forecasts resulted in an overall decrease in margins and profits leading to a lower cash flow forecast resulting in a write down of £23.0m (33% of book value) of the US manufacturing assets.

The key assumptions used in the value in use calculations were:
- edible collagen volume sales projections built with reference to market growth and mix of product anticipated for the US portfolio, and restricted by current plant capacity;
- edible collagen sales pricing projections reflecting historical prices, prices secured in long-term contracts and market projections;
- edible collagen production and other cost projections subject to inflationary pressures offset by Group cost saving initiatives;
- long term growth rate reflecting growth of stix and gels market in North America; and
- post-tax discount rate calculated based on weighted average cost of capital and cash generating unit specific risks, including the size of business.

The forecast cash flows adopt sales volume growth rates and production cost increases (after taking account of cost saving projects) consistent with those achieved in the US on a historical basis. Terminal value growth rate adopted is 3.0% (2018: 2.5%) and the discount rate is 9.7% (2018: 10.2%).

China assets impairment
As a result of the global supply chain optimisation project, plans for production of certain higher margin products historically forecast in China were reallocated to other operations. These production changes were partially offset by lower costs forecasts reflecting the Group's track record of costs savings, but resulted in overall decrease in margins and profits leading to lower cash flow forecasts resulting in a write down of £18.0m (36% of book value) of the China manufacturing assets.

The key assumptions used in the value in use calculations were:
- volume sales projections built with reference to growth in mix of geographical markets targeted by strategy for China CGU, and restricted by current plant capacity;
- sales pricing projections based on historical prices, prices secured in long-term contracts and forecasted for the mix of strategically targeted markets;
- production and other cost projections subject to inflationary pressures offset by Group cost saving initiatives;
- long-term growth rate reflecting anticipated growth of markets strategic for China CGU; and
- post-tax discount rate calculated based on weighted average cost of capital and cash generating unit specific risks, including the size of business.

The forecast cash flows adopt sales volume growth rates and production cost increases (after taking account of cost saving projects) consistent with those achieved in China on a historical basis. Terminal value growth rate adopted is 3.0% (2018: 3.0%) and the discount rate is 10.8% (2018: 11.2%).

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FOR THE YEAR ENDED 31 DECEMBER 2019

13. PROPERTY, PLANT AND EQUIPMENT continued

Sensitivity analysis

The results of the Group impairment tests are dependent upon estimates and judgements, particularly in relation to the key assumptions described above. Sensitivity analysis to reasonably possible change in the key assumptions and their impact on impairment values were undertaken on the following key assumptions in isolation:

	Impairment value £'m
US CGU sensitivities	
Base case	**23.0**
Production cost savings partially achieved	**+2.3**
Discount rate increase by 1 ppt	**+5.9**
China CGU sensitivities	
Base case	**18.0**
Geographical expansion slower than anticipated	**+3.8**
Production cost savings partially achieved	**+2.2**
Discount rate increase by 1 ppt	**+3.1**

Company	Property, plant and equipment total £'m
Cost	
At 1 January 2019	0.9
Recognition of right-of-use assets on initial application of IFRS 16	0.5
Adjusted balance at 1 January 2019	1.4
Additions	0.3
Disposals	(0.3)
At 31 December 2019	1.4
Accumulated depreciation	
At 1 January 2019	(0.9)
Charge for year	(0.1)
Disposals	0.3
At 31 December 2019	(0.7)
Net book value at 31 December 2019	0.7

14. INTANGIBLE ASSETS

Group	Goodwill £'m	Customer contracts & relationships £'m	Computer software £'m	Development costs £'m	Total £'m
Cost					
At 1 January 2019	**3.1**	**2.1**	**9.2**	**7.1**	**21.5**
Additions	**–**	**–**	**0.1**	**1.1**	**1.2**
Disposals	**–**	**–**	**(0.7)**	**–**	**(0.7)**
Exchange differences	**0.6**	**0.4**	**(0.1)**	**(0.1)**	**0.8**
At 31 December 2019	**3.7**	**2.5**	**8.5**	**8.1**	**22.8**
Accumulated amortisation					
At 1 January 2019	**–**	**(0.5)**	**(8.5)**	**(2.0)**	**(11.0)**
Charge for year	**–**	**(0.2)**	**(0.5)**	**(0.4)**	**(1.1)**
Impairment (Note 4)	**–**	**–**	**–**	**(1.0)**	**(1.0)**
Disposals	**–**	**–**	**0.7**	**–**	**0.7**
Exchange differences	**–**	**(0.1)**	**0.1**	**0.1**	**0.1**
At 31 December 2019	**–**	**(0.8)**	**(8.2)**	**(3.3)**	**(12.3)**
Net book value at 31 December 2019	**3.7**	**1.7**	**0.3**	**4.8**	**10.5**
Cost					
At 1 January 2018	3.1	2.1	8.6	6.6	20.4
Additions	–	–	0.5	0.4	0.9
Exchange differences	–	–	0.1	0.1	0.2
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

Included in the net book value of intangible assets is £4.5m (2018: £4.8m) relating to internally generated development costs.

In the statement of profit or loss, amortisation of £0.5m (2018: £0.4m) is included in cost of sales and £0.6m (2018: £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 7% (2018: 8%). Based on these calculations there is sufficient headroom over the book value of goodwill.

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14. INTANGIBLE ASSETS continued

Company	Computer software £'m	Development costs £'m	Total £'m
Cost			
At 1 January 2019	3.9	1.7	5.6
Additions	0.1	1.1	1.2
At 31 December 2019	4.0	2.8	6.8
Accumulated amortisation			
At 1 January 2019	(3.4)	–	(3.4)
Charge for year	(0.1)	–	(0.1)
At 31 December 2019	(3.5)	–	(3.5)
Net book value at 31 December 2019	0.5	2.8	3.3

15. INVESTMENTS

Company	2019 £'m	2018 £'m
Interest in Group undertakings		
Cost and net book value at 1 January 2019	253.0	205.7
Additions	94.4	47.5
Movements relating to share options granted to subsidiary employees	0.2	(0.2)
Cost and net book value at 31 December 2019	347.6	253.0

Additions during the year have arisen due to the Company's investment in Devro Inc in its US subsidiary following a capitalisation of an inter-company loan and, a movement in the Performance Share Plan charges for employees within subsidiaries which will be settled with the Company's shares.

Additions in 2018 relate to the Company's investment in its China and Scotland subsidiaries and Performance Share Plan charges for employees within subsidiaries which will be settled with the Company's shares.

The Company's subsidiary undertakings at 31 December 2019 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	US	Holding	Common	100%		2711 Centerville Road, Suite 400, City of Wilmington 19808, County of New Castle, United States
Devro US Finance LLP	US	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%		Unit A 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	US	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, Netherlands
Plastic Casings Czech, s.r.o.	Czech Republic	Casings	Ordinary	100%		Okruzni 1438, 684 11 Slavkov u Brna, Czech Republic

* Dissolved in May 2019.

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
FOR THE YEAR ENDED 31 DECEMBER 2019

16. INVENTORIES
Details of inventories relating to the Group are as follows:

	2019 £'m	2018 £'m
Raw materials and consumables	**5.1**	5.0
Work in progress	**4.7**	4.9
Finished goods and goods for resale	**29.3**	28.3
	39.1	38.2

Amounts stated above are net of inventory provisions.

17. TRADE AND OTHER RECEIVABLES
The carrying amount of the following financial assets represent the maximum credit exposure.

	Group		Company	
	2019 £'m	2018 £'m	2019 £'m	2018 £'m
Amounts falling due after more than one year				
Amounts owed by subsidiary undertakings	**–**	–	**63.7**	153.6
Other receivables	**3.9**	5.4	**–**	–
Amounts falling due within one year				
Trade receivables	**22.9**	30.9	**–**	–
Amounts owed by subsidiary undertakings*	**–**	–	**5.5**	17.1
Other receivables	**2.1**	2.2	**0.1**	0.3
Prepayments and accrued income	**2.9**	2.9	**1.5**	1.6
	27.9	36.0	**7.1**	19.0

* Amounts receivable from subsidiary undertaking include tax losses surrendered. These amount to £nil (2018: £9.9m).

Other non-current receivables include German insurance asset held to fund pension obligations amounted to £1.6m (2018: £2.0m).

GROUP
At 31 December 2019, an expected credit loss on trade receivables amounted to £0.1m (2018: £0.1m) and is included within trade receivables.

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 2019, trade receivables of £2.8m (2018: £3.9m) were past due but not impaired. The Group believes the unimpaired amounts are collectable in full based on historical payment behaviour and an analysis of customer credit risk. The ageing of these receivables was as follows:

	2019 £'m	2018 £'m
Less than 30 days past due	**2.6**	3.3
30 to 90 days past due	**0.2**	0.6
	2.8	3.9

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:

	2019 £'m	2018 £'m
US dollar	**4.7**	5.9
Euro	**4.9**	9.2
Japanese yen	**5.3**	6.1
Sterling	**2.3**	2.3
Australian dollar	**2.3**	3.3
Czech koruna	**0.2**	1.0
Chinese renminbi	**1.6**	1.2
Other currencies	**1.6**	1.9
	22.9	30.9

COMPANY
At 31 December 2019, trade receivables of £nil (2018: £nil) were neither past due nor impaired.

At 31 December 2019, receivables due from subsidiary undertakings of £69.2m (2018: £170.7m) were neither past due nor impaired.

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

	2019 £'m	2018 £'m
US dollar	**19.2**	107.3
Chinese renminbi	**37.8**	39.9
Sterling	**1.2**	11.3
Japanese yen	**5.5**	5.8
Euro	**2.9**	2.3
Other currencies	**2.6**	4.1
	69.2	170.7

18. CASH AND CASH EQUIVALENTS

	Group		Company	
	2019 £'m	2018 £'m	2019 £'m	2018 £'m
Cash at bank and in hand	**24.7**	8.6	**1.4**	0.5
Short-term bank deposits	**–**	1.3	**–**	–
	24.7	9.9	**1.4**	0.5

19. TRADE AND OTHER PAYABLES

	Group		Company	
	2019 £'m	2018 £'m	2019 £'m	2018 £'m
Trade payables	**10.7**	9.3	**0.7**	1.5
Tax and social security payable	**2.3**	4.4	**–**	–
Accruals	**16.4**	15.6	**2.6**	4.6
	29.4	29.3	**3.3**	6.1

Accruals include £0.2m (2018: £0.1m) in respect of government grants payable within one year.

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FOR THE YEAR ENDED 31 DECEMBER 2019

20. OTHER PAYABLES – NON-CURRENT

	Group		Company	
	2019 £'m	2018 £'m	**2019 £'m**	2018 £'m
Amounts owed to subsidiary undertakings	**–**	–	**54.7**	47.8
Accruals	**2.5**	3.0	**–**	–

Accruals include £2.2m (2018: £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	Note	**2019 £'m**	2018 £'m
At 1 January 2019		**9.0**	3.8
Charge to the statement of profit or loss during the year	4	**4.2**	5.5
Released		**–**	(0.1)
Utilised during the year		**(4.6)**	(0.4)
Foreign exchange		**(0.2)**	0.2
At 31 December 2019		**8.4**	9.0
Non-current		**2.8**	3.8
Current		**5.6**	5.2
Total		**8.4**	9.0

The closing provision as at 31 December 2019 includes a redundancy provision of £4.8m (2018: £5.2m) and a decommissioning provision of £3.6m (2018: £3.8m).

The redundancy provisions relates to committed restructuring plans in place within the business. Costs are expected to be incurred within one year and there is little judgement in determining the amount.

The decommissioning costs relates to making sites safe following the cessation of the associated manufacturing activities. Costs are expected to be incurred within one to three years and are based on independent advice. There is little judgement in determining the amount.

The Company closing provision as at 31 December 2019 of £0.5m relates to a redundancy provision.

22. FINANCIAL LIABILITIES – BORROWINGS

	Group		Company	
	2019 £'m	2018 £'m	**2019 £'m**	2018 £'m
Current				
Bank overdrafts due within one year or on demand	**0.8**	4.7	**–**	8.6
Lease liabilities (2018: finance lease liabilities)	**0.4**	–	**0.1**	–
Total current borrowings	**1.2**	4.7	**0.1**	8.6
Non-current				
Unsecured bank loans	**72.0**	68.7	**72.0**	64.8
US dollar private placement	**75.7**	78.1	**75.7**	78.1
Non-current interest-bearing loans and borrowings	**147.7**	146.8	**147.7**	142.9
Lease liabilities (2018: finance lease liabilities)	**0.4**	–	**0.3**	–
Total non-current borrowings	**148.1**	146.8	**148.0**	142.9

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 years 2021 and 2026, with an average fixed interest rate of 4.48%.

Effective interest rates at the financial position date were as follows:

	Currency	Rate	2019	2018
Bank overdrafts:				
	Sterling*	Bank of England base rate plus 150 basis points	**–**	2.25%
	US dollar	US 1 month LIBOR plus 200 basis points	**–**	3.56%
	Czech koruna	PRIBOR plus 90 basis points	**3.00%**	2.78%
Bank borrowings:				
Floating rate	Sterling	LIBOR plus 140 basis points (2018: plus 140 basis points)	**2.10%**	2.13%
Floating rate	Australian dollar	BBSW plus 140 basis points (2018: plus 140 basis points)	**–**	3.45%
Average bank borrowings rate			**2.10%**	2.20%
Other debt payable:				
Fixed rate	US dollar		**4.48%**	4.48%
Finance leases	Various		**4.00%**	n/a

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

Borrowings were denominated in the following currencies:

	2019			2018		
Group	**Bank borrowings £'m**	**Other debt* £'m**	**Total £'m**	Bank borrowings £'m	Other debt* £'m	Total £'m
Sterling	**72.0**	**0.5**	**72.5**	66.3	–	66.3
Australian dollar	**–**	**–**	**–**	3.9	–	3.9
Czech koruna	**0.8**	**–**	**0.8**	3.2	–	3.2
US dollar	**–**	**76.0**	**76.0**	–	78.1	78.1
	72.8	**76.5**	**149.3**	73.4	78.1	151.5
Company						
Sterling	**72.0**	**0.4**	**72.4**	73.4	–	73.4
US dollar	**–**	**75.7**	**75.7**	–	78.1	78.1
	72.0	**76.1**	**148.1**	73.4	78.1	151.5

* Other debt includes lease liabilities on adoption of IFRS 16 and private placements

Amendments to IFRS 9, IAS 39 and IFRS 7; The replacement of 'Interbank Offering Rates' (IBOR) with 'Replacement benchmark interest rates' or 'Risk free rates' (RFR's). The adoption of this standard is not expected to have a material impact on the Group as the rates transition across to RFR's in the forthcoming years.

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23. CAPITAL AND FINANCIAL RISK MANAGEMENT, AND FINANCIAL INSTRUMENTS
FINANCIAL RISK MANAGEMENT
The Board reviews and agrees policies for managing each of the risks associated with capital, interest rates, foreign exchange, credit, and liquidity. It is the Group's policy that no speculative trading in financial instruments shall be undertaken. These policies have remained unchanged throughout the year, are consistent with the previous year, and are summarised below:

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

The covenants related to the Group's bank loan facilities determine a minimum 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 26 to 31. The Group had adequate headroom within both covenants throughout the years ending 31 December 2019 and 31 December 2018.

Another measure used to monitor the strength of the Group's financial position is the gearing ratio, which expresses the Group's net debt as a percentage of its equity. The covenant and gearing ratios which are not statutory measures at 31 December 2019 and 31 December 2018 were as follows:

	Note	2019 £'m	2018 £'m
Total borrowings	22	**149.3**	151.5
Less: cash and cash equivalents	18	**(24.7)**	(9.9)
Net debt	31	**124.6**	141.6
Less: lease liabilities	22	**(0.8)**	–
Covenant net debt (used in relation to banking covenant ratios)		**123.8**	141.6
Equity		**74.9**	146.5
Bank loan covenant ratios:			
Covenant net debt to EBITDA		**1.9**	2.2
Covenant EBITDA to net interest payable		**11.6**	8.5
Gearing ratio		**166.4%**	96.7%

Market risk
a) Interest rate risk
The Group's interest rate risk arises from borrowings and cash.

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 2019. The US dollar private placement 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 2019, would result in a movement in finance costs of £0.7m (2018: £0.7m) and finance income of £nil (2018: £nil). This would result in an adverse post-tax impact on the Group's Statement of profit or loss of £0.6m (2018: £0.6m) and a post-tax impact on the Group's equity of £0.6m (2018: £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 twenty four 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 2019. At the end of July 2019 a portion of the net investment in Devro Inc was hedged by the Group's $100m USPP issuance. The USPP was designated as a net investment hedge and subsequently will mitigate the foreign currency risk arising from the subsidiary's net assets. In 2019 no ineffectiveness was recognised from the hedge relationship. The Group's investments in other subsidiaries are not hedged.

The table below 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 2019 and 31 December 2018. 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 2019 and 31 December 2018 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 operating profits would be significant.

As at December 2019	**Impact upon operating profit from currency movement**						
Currency movement	**Sterling £'m**	**US dollar £'m**	**Euro £'m**	**Aus dollar £'m**	**JPY £'m**	**China £'m**	**CZK £'m**
Strengthening (10%)	**(3.9)**	**1.4**	**1.4**	**0.6**	**0.5**	**(0.3)**	**1.1**
Weakening (10%)	**4.8**	**(1.2)**	**(1.2)**	**(0.5)**	**(0.4)**	**0.2**	**(0.9)**

As at December 2018	Impact upon operating profit from currency movement						
Currency movement	Sterling £'m	US dollar £'m	Euro £'m	Aus dollar £'m	JPY £'m	China £'m	CZK £'m
Strengthening (10%)	(3.4)	0.8	1.5	0.5	0.6	(0.4)	1.1
Weakening (10%)	4.2	(0.6)	(1.2)	(0.4)	(0.5)	0.3	(0.9)

Credit risk

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

	Note	**2019 £'m**	2018 £'m
Cash and cash equivalents	18	**24.7**	9.9
Derivative financial instruments		**1.4**	0.2
Trade receivables	17	**22.9**	30.9
Other receivables	17	**2.1**	2.2
		51.1	43.2

The Group monitors its credit exposure using credit ratings, where applicable, and through its policy of requiring appropriate credit checks on potential customers before sales commence. These procedures limit the Group's exposure to any one party to approved levels. Exposure to banking counter-parties 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 £10.4m (2018: £3.4m). The Group does not hold any collateral as security.

Liquidity risk

Alongside the longer-term funding provided by the US dollar private placement completed during 2014, which was put in place to support the Group's two major investment projects, the Group has medium-term loan facilities which are regularly reviewed to ensure that they provide adequate liquidity for the Group. The facilities are managed on a centralised basis with appropriate local availability. Details of the undrawn committed borrowing facilities available at 31 December 2019 and 31 December 2018 are shown below:

	2019 £'m	2018 £'m
Expiring in more than two years	**33.0**	19.9

NOTES TO THE FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER 2019

23. CAPITAL AND FINANCIAL RISK MANAGEMENT, AND FINANCIAL INSTRUMENTS continued

At 31 December 2019, the Group had in place floating rate committed loan facilities totalling £105.0m (2018: £90.0m) with an accordion option of £5.0m, exercisable at any time. These facilities consist of a single syndicated revolving credit facility with four banks, negotiated in June 2018 and expiring on 20 June 2023.

In addition to the committed facilities, local uncommitted working capital facilities of £nil (2018: £5.0m) and Czech koruna 175.0m (2018: Czech koruna 175.0m) were also in place at 31 December 2019. These facilities are renewable within one year.

FINANCIAL INSTRUMENTS

Disclosures regarding financial instruments are set out below:

Fair value of derivative financial instruments

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 2019 (2018: 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 2019, the net fair value loss on open forward foreign exchange contracts that hedge the foreign currency risk of anticipated future sales and purchases amounted to £1.3m (2018: £1.5m gain). These will be transferred to the statement of profit or loss and recognised in other operating income or expense when the forecast sales and purchases occur during 2019.

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

	2019 £'m	2018 £'m
Forward foreign exchange contracts	**71.4**	67.6
Currency swaps	**30.0**	32.0

Fair values of non-derivative financial assets and liabilities

Group	Note	2019 FVOCI* £'m	FVTIC** £'m	Amortised cost £'m	Total £'m
Financial assets measured at fair value					
Forward exchange contracts used for hedging		**1.3**	**0.1**	**–**	**1.4**
Financial assets not measured at fair value					
Trade and other receivables	17	**–**	**–**	**25.0**	**25.0**
Cash at bank and in hand	18	**–**	**–**	**24.7**	**24.7**
Financial liabilities measured at fair value					
Forward exchange contract used for hedging		**(0.6)**	**–**	**–**	**(0.6)**
Financial liabilities not measured at fair value					
Trade and other payables	19	**–**	**–**	**(26.9)**	**(26.9)**
Borrowings	22	**–**	**–**	**(149.3)**	**(149.3)**

The amount included in financial assets noted above relates to cash flow hedges. The amount included in financial liabilities of £0.6m is an amount of £0.1m relating to cash flow hedges and £0.5m relating to net investment hedges.

Group	Note	2018 FVOCI* £'m	2018 FVTIC** £'m	2018 Amortised cost £'m	2018 Total £'m
Financial assets measured at fair value					
Forward exchange contracts used for hedging		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 liabilities measured at fair value					
Forward exchange contract used for hedging		(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 Statement of profit or loss

Included in financial assets noted above of £0.2m is an amount of £0.1m relating to cash flow hedges and £0.1m relating to net investment hedges. The amount included in financial liabilities relates to cash flow hedges.

The fair values of the Group's bank borrowings are equivalent to the carrying values reported in the statement of financial position as they are floating rate borrowings where interest rates are re-set to market rates at intervals of up to six months, except for the fixed rate borrowings of $100m. The fair value amounts to £82.9m.

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 2019 and 31 December 2018. The amounts disclosed in the tables are the relevant undiscounted cash flows.

Group	Note	Less than 1 year £'m	Between 1 and 2 years £'m	Between 2 and 5 years £'m	Over 5 years £'m
At 31 December 2019					
Bank borrowings		**2.4**	**1.5**	**75.1**	**–**
US dollar private placement		**3.4**	**21.9**	**44.9**	**20.3**
Derivative financial instruments		**0.6**	**–**	**–**	**–**
Trade and other payables	19	**27.1**	**–**	**–**	**–**
Provisions for other liabilities and charges	21	**5.6**	**2.8**	**–**	**–**
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	19	24.9	–	–	–
Provisions for other liabilities and charges	21	5.2	3.8	–	–

NOTES TO THE FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER 2019

23. CAPITAL AND FINANCIAL RISK MANAGEMENT, AND FINANCIAL INSTRUMENTS continued

Company	Note	Less than 1 year £'m	Between 1 and 2 years £'m	Between 2 and 5 years £'m	Over 5 years £'m
At 31 December 2019					
Bank borrowings		**1.5**	**1.5**	**75.1**	**–**
US dollar private placement		**3.4**	**21.9**	**44.9**	**20.3**
Derivative financial instruments		**2.3**	**–**	**–**	**–**
Trade and other payables	19	**3.1**	**–**	**–**	**–**
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	19	6.1	–	–	–

The amounts shown as borrowings in the above tables include the capital outstanding at each statement of financial position 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.

Group	2019 Less than 1 year £'m	2018 Less than 1 year £'m
Forward foreign exchange contracts – cash flow hedges		
Outflow	**(71.0)**	(63.3)
Inflow	**75.0**	65.6
Forward foreign exchange contracts – net investment hedges		
Outflow	**(23.3)**	(34.3)
Inflow	**22.9**	34.4
Forward foreign exchange contracts – other		
Outflow	**–**	(3.1)
Inflow	**–**	3.1
Company		
Forward foreign exchange contracts – cash flow hedges		
Outflow	**(146.0)**	(128.8)
Inflow	**146.0**	128.8
Forward foreign exchange contracts – other		
Outflow	**(23.3)**	(37.5)
Inflow	**22.9**	37.6

24. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

Group	1 January 2019 £'m	Recognition of lease liabilities on initial application of IFRS 16 £'m	New leases £'m	Cash flows £'m	Foreign exchange movement £'m	Movement in fair values of derivative financial instruments £'m	31 December 2019 £'m
Non-current interest-bearing loans and borrowings	**(146.8)**	**–**	**–**	**(3.4)**	**2.5**	**–**	**(147.7)**
Lease liabilities		**(1.1)**	**(0.2)**	**0.5**	**–**	**–**	**(0.8)**
Derivative financial instruments	**(1.6)**	**–**	**–**	**–**	**–**	**1.0**	**(0.6)**
Total liabilities from financing activities	**(148.4)**	**(1.1)**	**(0.2)**	**(2.9)**	**2.5**	**1.0**	**(149.1)**

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
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	(144.6)	0.6	(3.2)	(1.2)	(148.4)

The Group uses an invoice discounting facility to support management of working capital.

25. DEFERRED TAX

	Group		Company	
	2019 £'m	2018 £'m	**2019 £'m**	2018 £'m
Net asset at 1 January 2019	**16.6**	17.2	**0.4**	0.6
(Charge)/credit for the year to profit	**(9.8)**	2.1	**1.0**	(0.2)
Credit/(charge) to equity or other comprehensive income	**1.9**	(2.9)	**–**	–
Adjustments in respect of prior years	**0.7**	–	**(0.1)**	–
Exchange differences	**0.1**	0.2	**–**	–
Net asset at 31 December 2019	**9.5**	16.6	**1.3**	0.4

GROUP

Deferred tax assets can be analysed as follows:

	Pension obligations £'m	Losses and other £'m	Accelerated capital allowances £'m	Total £'m
At 1 January 2019	**10.6**	**21.2**	**2.4**	**34.2**
Credit for the year	**(0.7)**	**(12.3)**	**2.6**	**(10.4)**
Charge/(credit) to equity or other comprehensive income	**2.3**	**(0.4)**	**–**	**1.9**
Adjustments in respect of prior years	**–**	**–**	**0.2**	**0.2**
Exchange differences	**–**	**(0.4)**	**–**	**(0.4)**
At 31 December 2019	**12.2**	**8.1**	**5.2**	**25.5**
At 1 January 2018	13.8	19.1	2.4	35.3
Credit for the year	(0.1)	1.5	–	1.4
Charge to equity or other comprehensive income	(3.2)	0.3	–	(2.9)
Exchange differences	0.1	0.3	–	0.4
At 31 December 2018	10.6	21.2	2.4	34.2

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 31 DECEMBER 2019

25. DEFERRED TAX continued
Deferred tax liabilities can be analysed as follows:

	Accelerated capital allowances £'m	Other £'m	Total £'m
At 1 January 2019	(17.9)	0.3	(17.6)
Charge/(credit) for the year to profit	1.1	(0.5)	0.6
Adjustments in respect of prior years	0.1	0.4	0.5
Exchange differences	(0.1)	0.6	0.5
At 31 December 2019	**(16.8)**	**0.8**	**(16.0)**
At 1 January 2018	(17.9)	(0.2)	(18.1)
Credit for the year to profit	0.2	0.5	0.7
Exchange differences	(0.2)	–	(0.2)
At 31 December 2018	(17.9)	0.3	(17.6)

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.

The UK corporation tax rate is 19%. Further reductions to 17% from 1 April 2020 were substantively enacted in the Finance Act 2016 on 6 September 2016. This will reduce the Company's future current tax charge accordingly and is accordingly the rate at which deferred tax has been calculated in the UK.

£11.7m of deferred tax asset was recognised as at the end of 2018 and related to the US and China carried forward losses. This amount was calculated by estimating the probable future taxable profits, against which the tax losses would be utilised, and applying the tax rates substantively enacted as at the financial position date. A Group review of sourcing strategy conducted in 2019 impacted not only impairment testing of US and China plants, but also profit forecasts of US and China statutory entities, introducing greater uncertainty over the timing of future recoverability of accumulated losses. This led to full de-recognition of deferred tax assets on carried forward losses in the US and China.

Deferred tax on losses will be recognised at such time when there is greater certainty over the future recoverability indicated by profit forecasts and will be recognised through exceptional items.

Deferred tax assets continue to be recognised on US pension liabilities due the expectation of long-term viability of the business.

For details on deferred tax asset movement and unrecognised deferred tax assets please refer to Note 9.

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 (2018: nil).

COMPANY

	Temporary differences £'m
Asset at 1 January 2019	0.4
Debit for the year to profit	0.9
Asset at 31 December 2019	**1.3**
Asset at 1 January 2018	0.6
Credit for the year to profit	(0.2)
Asset at 31 December 2018	0.4

The Company deferred tax asset can be analysed as follows:

	2019 £'m	2018 £'m
Due after more than one year	1.3	0.4

26. PENSION

The amounts recognised as charges in the Statement of profit or loss are as follows:

	Note	2019 £'m	2018 £'m
Defined benefit schemes:			
– Current service cost		**1.1**	1.4
– Scheme administrative expenses		**1.4**	1.5
Defined benefit costs included within underlying operating profit		**2.5**	2.9
Curtailment charge	4	**0.8**	–
GMP equalisation charge	4	**–**	0.9
Defined benefit costs included within operating profit		**3.3**	3.8
Net finance cost on pensions	7	**1.8**	2.3
Total deferred benefit scheme costs		**5.1**	6.1
Defined contribution schemes		**2.9**	3.3
Total pension obligation costs		**8.0**	9.4

The curtailment charge relating to the UK pension was recognised following the announcement of the closure of the Bellshill site in order to reflect the additional pension obligation arising as a consequence of associated redundancies. This charge was recognised as an exceptional operating cost in 2019 (Note 4). Under the UK pension scheme terms, pensionable salaries are capped at 1%. Once individuals change their status from active to deferred members, relevant pension liabilities are required to increase in line with CPI inflation to the point of their retirement. As CPI is expected to be higher than 1% per annum capped, projected pensions increase, and so do the scheme liabilities.

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. This resulted in a £0.9m past service cost being recognised as an exceptional operating cost in 2018 (Note 4).

The amounts recognised as non-current liabilities in the financial position are as follows:

	2019 £'m	2018 £'m
Fair value of scheme assets	**245.2**	232.8
Present value of scheme liabilities	**(309.3)**	(287.2)
Pension obligations	**(64.1)**	(54.4)

The Group operates a number of pension schemes throughout the world. The major schemes are of the defined benefit type and, with the exception of Germany where book reserves are supported by insurance policies, the assets of the schemes are held in separate trustee-administered funds. The defined benefit schemes are closed to new entrants. The total pension obligation cost for the Group was £8.0m (2018: £9.4m), of which £2.1m (2018: £3.9m) related to the overseas schemes.

The most significant defined benefit scheme within the Group is the Devro Limited (UK) Pension Plan, which operates in the UK. The UK plan is managed by a Board of Trustees comprising of employee, employer and independent representatives. The Trustees act in the best interests of the plan's members and are responsible for the governance and investment strategy of the scheme. The Board delegates the day-to-day investment decisions to an investment committee comprising of Trustee members, which seeks to appropriately invest the scheme's return seeking assets and adequately hedge the fund against movements in interest and inflation rates. Hedging is undertaken through the use of bonds, gilts and derivatives with derivatives undertaken only to reduce investment risk or facilitate efficient portfolio management and are managed to avoid exposure to a single counterparty or other derivative operations.

The full actuarial 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 scheme. The last triennial valuation was performed as at 31 March 2017 and the next is planned for the end of March 2020. The deficit position measured on the trustees' funding basis on 31 March 2017 is not materially different to the IAS 19 accounting deficit measured as at the end of 2019.

In the US, the scheme is managed by a Board of Trustees from the company acting in the best interests of the members. The scheme is defensively managed with only 30% of assets invested in growth seeking assets. Interest rate and inflation risk is managed through the bond portfolio. 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 (2018: £2.5m). The Group will continue to make cash contributions of £2.5m per annum until 2024 subject to change following the funding valuation as at March 2020 as agreed with the Trustee at the 31 March 2017 funding valuation.

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 31 DECEMBER 2019

26. PENSION continued
Cash contributions to funding the deficit in the US plan of £2.8m have been made in the current year (2018: £2.4m). 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.

On advice of the actuaries, total cash contributions to the Group's defined benefit schemes are expected to be £9.4m for the year ending 31 December 2020, of which £7.7m relates to funding the deficits.

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 2019 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		US	
%	**2019**	2018	**2019**	2018	**2019**	2018
Discount rate	**2.10**	3.30	**1.95**	2.85	**2.95**	4.05
Rate of increase in salaries*	**2.50**	3.25	**1.00**	1.00	**–**	–
General inflation	**2.50**	2.25	**3.00**	3.20	**–**	–

* 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 US plan as the plan is now frozen. The Australia salary assumption has been revised to be in line with general inflation.

Demographic assumptions, such as mortality rates, are set having regard to the latest trends in life expectancy plan experience. These assumptions are under continual review. The mortality assumptions are based on the following tables and are expressed in years of life expectancy for current pensioners aged 65.

	2019		2018	
	Male	**Female**	Male	Female
UK – SAPS 'Normal' (YOB)*	**20.7**	**23.6**	21.2	24.1
US – Pri – 2012 with scale MP – 2019	**19.7**	**23.4**	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 2018 improvements using a long-term rate of 1.5% per annum.

The mortality assumptions for the US plan reflect the most recently available industry tables.

The Australian defined benefit scheme provides only for a lump sum payment on retirement and is managed by an independent trustee. The trustee selects funds from its own portfolio based upon company appetite for risk exposure. 65% of the defined benefit obligation relates to pensions already in payment.

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 2019, the value of the insurance asset was £1.6m (2018: £2.0m) and the value of the liability was £3.2m (2018: £3.1m). 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 one former executive in the US 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 US and Japan are included under the 'Other' heading in the table note.

The aggregate fair values of assets in the Group's defined benefit schemes at the end of the year were estimated to be:

	Australia		UK		US		Total	
	2019 £'m	2018 £'m	**2019 £'m**	2018 £'m	**2019 £'m**	2018 £'m	**2019 £'m**	2018 £'m
Equities	**4.2**	6.0	**37.3**	32.8	**14.4**	13.4	**57.2**	52.2
Bonds	**2.1**	1.3	**127.7**	118.6	**32.9**	30.7	**161.8**	150.6
Diversified growth funds	**–**	–	**21.6**	23.2	**–**	–	**21.6**	23.2
Other	**2.5**	2.3	**2.0**	4.1	**0.5**	0.4	**4.6**	6.8
	8.8	9.6	**188.6**	178.7	**47.8**	44.5	**245.2**	232.8

All equities and bonds have quoted prices in active markets. The bonds category includes liability driven investment (LDI) and 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 56% 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 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 the end of the year were as follows:

	Australia		UK		US		Other		Total	
	2019 £'m	2018 £'m	**2019 £'m**	2018 £'m	**2019 £'m**	2018 £'m	**2019 £'m**	2018 £'m	**2019 £'m**	2018 £'m
Total fair value of scheme assets (as above)	**8.8**	9.6	**188.6**	178.7	**47.8**	44.5	**–**	–	**245.2**	232.8
Present value of scheme liabilities	**(8.8)**	(9.6)	**(219.8)**	(200.6)	**(77.2)**	(73.6)	**(3.5)**	(3.4)	**(309.3)**	(287.2)
Deficit	**–**	–	**(31.2)**	(21.9)	**(29.4)**	(29.1)	**(3.5)**	(3.4)	**(64.1)**	(54.4)
Related deferred tax assets (Note 25)	**–**	–	**5.3**	3.7	**6.3**	6.4	**0.6**	0.5	**12.2**	10.6
Net pension liabilities	**–**	–	**(25.9)**	(18.2)	**(23.1)**	(22.7)	**(2.9)**	(2.9)	**(51.9)**	(43.8)

The increase 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:

	2019			2018		
	Liability	**Asset**	**Net**	Liability	Asset	Net
At 1 January	**(287.2)**	**232.8**	**(54.4)**	(329.6)	247.6	(82.0)
Interest income	**–**	**7.0**	**7.0**	–	6.4	6.4
Interest cost	**(8.8)**	**–**	**(8.8)**	(8.7)	–	(8.7)
Service cost	**(1.1)**	**–**	**(1.1)**	(1.4)	–	(1.4)
Scheme administrative expenses	**–**	**(1.4)**	**(1.4)**	–	(1.5)	(1.5)
GMP equalisation exceptional charge	**–**	**–**	**–**	(0.9)	–	(0.9)
Curtailment exceptional charge	**(0.8)**	**–**	**(0.8)**	–	–	–
Employer contributions	**–**	**7.2**	**7.2**	–	6.7	6.7
Member contributions	**(0.1)**	**0.1**	**–**	(0.1)	0.1	–
Benefits paid	**17.8**	**(17.8)**	**–**	14.8	(14.8)	–
Remeasurements – return on plan assets (excluding interest income)	**–**	**18.9**	**18.9**	–	(11.6)	(11.6)
Remeasurements – changes in financial assumptions	**(36.2)**	**–**	**(36.2)**	17.6	–	17.6
Remeasurements – experience adjustments	**(0.8)**	**–**	**(0.8)**	21.4	–	21.4
Remeasurements – restriction of surplus	**(0.7)**	**–**	**(0.7)**	1.1	–	1.1
Remeasurements – changes in demographic assumptions	**5.7**	**–**	**5.7**	1.8	–	1.8
Reclassification*	**–**	**–**	**–**	–	(2.0)	(2.0)
Exchange gains/(losses)	**2.9**	**(1.6)**	**1.3**	(3.2)	1.9	(1.3)
At 31 December	**(309.3)**	**245.2**	**(64.1)**	(287.2)	232.8	(54.4)

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

NOTES TO THE FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 31 DECEMBER 2019

26. PENSION continued
Amounts charged/(credited) to the statement of profit or loss were as follows:

	Australia		UK		US		Other		Total	
	2019 £'m	2018 £'m	2019 £'m	2018 £'m	2019 £'m	2018 £'m	2019 £'m	2018 £'m	2019 £'m	2018 £'m
Current service cost	**0.2**	0.3	**0.9**	1.1	**–**	–	**–**	–	**1.1**	1.4
Scheme administrative expenses	**0.2**	0.2	**0.5**	0.7	**0.7**	0.6	**–**	–	**1.4**	1.5
Curtailment charge	**–**	–	**0.8**	–	**–**	–		–	**0.8**	–
GMP equalisation charge	**–**	–	**–**	0.9	**–**	–	**–**	–	**–**	0.9
Net charge to operating profit	**0.4**	0.5	**2.2**	2.7	**0.7**	0.6	**–**	–	**3.3**	3.8
Interest income on pension scheme assets	**(0.3)**	(0.3)	**(5.0)**	(4.5)	**(1.7)**	(1.6)	**–**	–	**(7.0)**	(6.4)
Interest on pension scheme liabilities	**0.3**	0.3	**5.6**	5.6	**2.8**	2.7	**0.1**	0.1	**8.8**	8.7
Net interest cost	**–**	–	**0.6**	1.1	**1.1**	1.1	**0.1**	0.1	**1.8**	2.3
Net charge to profit	**0.4**	0.5	**2.8**	3.8	**1.8**	1.7	**0.1**	0.1	**5.1**	6.1

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

	Australia		UK		US		Other		Total	
	2019 £'m	2018 £'m	2019 £'m	2018 £'m	2019 £'m	2018 £'m	2019 £'m	2018 £'m	2019 £'m	2018 £'m
Return/(loss) on plan assets less interest income	**1.0**	(0.2)	**12.1**	(7.6)	**6.0**	(3.5)	**(0.2)**	(0.3)	**18.9**	(11.6)
Experience (losses)/gains on liabilities	**–**	(0.6)	**(0.6)**	18.6	**(0.2)**	2.7	**–**	0.7	**(0.8)**	21.4
Changes in demographic assumptions	**–**	–	**4.3**	1.5	**1.4**	0.3	**–**	–	**5.7**	1.8
Changes in financial assumptions	**(0.2)**	(0.2)	**(26.4)**	12.7	**(9.3)**	5.1	**(0.3)**	–	**(36.2)**	17.6
Restriction of surplus *	**(0.7)**	1.1	**–**	–	**–**	–	**–**	–	**(0.7)**	1.1
Remeasurements	**0.1**	0.1	**(10.6)**	25.2	**(2.1)**	4.6	**(0.5)**	0.4	**(13.1)**	30.3

* 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		US		Other		Total	
	2019 £'m	2018 £'m	2019 £'m	2018 £'m	2019 £'m	2018 £'m	2019 £'m	2018 £'m	2019 £'m	2018 £'m
Deficit in scheme at beginning of year	**–**	–	**(21.9)**	(47.2)	**(29.1)**	(33.0)	**(3.4)**	(1.8)	**(54.4)**	(82.0)
Movement in year: Pension charge	**(0.4)**	(0.5)	**(2.8)**	(3.8)	**(1.8)**	(1.7)	**(0.1)**	(0.1)	**(5.1)**	(6.1)
Employer contributions	**0.3**	0.4	**4.1**	3.9	**2.7**	2.4	**0.1**	–	**7.2**	6.7
Remeasurements	**0.1**	0.1	**(10.6)**	25.2	**(2.1)**	4.6	**(0.5)**	0.4	**(13.1)**	30.3
Reclassification	**–**	–	**–**	–	**–**	–	**–**	(2.0)	**–**	(2.0)
Exchange gains/(losses)	**–**	–	**–**	–	**0.9**	(1.4)	**0.4**	0.1	**1.3**	(1.3)
Deficit in scheme at end of year	**–**	–	**(31.2)**	(21.9)	**(29.4)**	(29.1)	**(3.5)**	(3.4)	**(64.1)**	(54.4)

The actual return on plan assets in 2019 was £25.9m (2018: loss of £5.2m).

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:

	2019 £'m
In the next year	**13.2**
In years 2-5	**53.7**
In years 6-10	**68.9**
	135.8

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 £10.6m
	Decrease by 0.25%	Increase by £10.6m
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 £3.7m
	Decrease by 0.25%	Decrease by £3.7m
Life expectancy	Increase by 1 year	Increase by £11.3m

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.

The Trustees' investment strategy includes holding in Liability Driven Investments which increase in value when interest rates fall or inflation rises and therefore protect against the impact of changes in market conditions. The sensitivity analysis shown above makes no allowance for changes in the value of the assets that would arise as a result of changes in market condition.

NOTES TO THE FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER 2019

26. PENSION continued

RISKS

Through its defined benefit pension obligations, the Group is exposed to a number of risks which could result in a requirement to provide additional cash funding to the schemes. 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 59%* of the schemes' funded liabilities are currently hedged against interest rates using liability-driven investments and derivatives, and the trustees have a step funding position in place.
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.
Longevity risk	Pensions paid from the UK, US and German plans are guaranteed for life, and therefore if members are expected to live longer, the liabilities will increase.	The cash funding target for the UK incorporates a margin for prudence to reflect uncertainty in future life expectancy. The Australian scheme allows for a lump sum payment on retirement so is not exposed to longevity risk.
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.	

* 90% 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. As noted above, the Australian scheme provides a lump sum benefit and so is not sensitive to changes in mortality assumptions.

27. ORDINARY SHARES

Group and Company	2019 £'m	2018 £'m
Issued and fully paid		
166,949,022 (2018: 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, 2018 and 2019 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 £1.50 (2018: £1.55) with the significant inputs to the model being the share price at the grant date, an expected volatility in the share price of 33.7% (based on historic trends), the term of three years, risk free interest rate of 0.69%, and expected dividend yield of 4.94%.

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 (2018: nil).

At 31 December 2019, the maximum number of shares which may vest under the PSP is as follows:

				Number of shares				
Grant date	Fair value per share	Normal vesting date	As at 1 January 2019	Awarded	Vested and exercised	Forfeited	Lapsed	As at 31 December 2018
8 April 2016	£1.915	8 April 2019	**1,045,399**	**–**	**–**	**–**	**(1,045,399)**	**–**
2 August 2017	£1.827	2 August 2020	**1,052,361**	**–**	**–**	**(22,644)**	**–**	**1,029,717**
9 April 2018	£1.548	9 April 2021	**1,092,794**	**–**	**–**	**(54,206)**	**–**	**1,038,588**
14 May 2018	£1.773	14 May 2021	**157,387**	**–**	**–**	**–**	**–**	**157,387**
8 April 2019	£1.500	8 April 2022	**–**	**1,380,887**	**–**	**(36,562)**	**–**	**1,344,325**
10 September 2019	£1.516	10 September 2022	**–**	**45,000**	**–**	**–**	**–**	**45,000**
			3,347,941	**1,425,887**	**–**	**(113,412)**	**(1,045,399)**	**3,615,017**

A more detailed summary of the performance conditions of the PSP is included in the Directors' Remuneration Report on pages 55 to 73.

There have been no exercises in the last five years.

NOTES TO THE FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER 2019

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 2019	**35.6**	**8.9**	**1.6**	**(1.6)**	**32.6**	**77.1**
Exchange adjustments	**–**	**–**	**–**	**–**	**(9.0)**	**(9.0)**
Cash flow hedges, net of tax	**–**	**–**	**–**	**1.7**	**–**	**1.7**
Net investment hedges, net of tax	**–**	**–**	**–**	**0.9**	**2.5**	**3.4**
Performance Share Plan credit, net of tax	**–**	**–**	**(0.4)**	**–**	**–**	**(0.4)**
Performance Share Plan credit in respect of awards lapsed	**–**	**–**	**(0.6)**	**–**	**–**	**(0.6)**
At 31 December 2019	**35.6**	**8.9**	**0.6**	**1.0**	**26.1**	**72.2**
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
Performance Share Plan charge, net of tax	–	–	0.8	–	–	0.8
Performance Share Plan 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

Company	Capital redemption reserve £'m	Special reserve £'m	Performance Share Plan £'m	Total £'m
At 1 January 2019	**35.6**	**8.9**	**1.0**	**45.5**
Performance Share Plan credit, net of tax	**–**	**–**	**(0.2)**	**(0.2)**
Performance Share Plan credit in respect of awards lapsed	**–**	**–**	**(0.4)**	**(0.4)**
At 31 December 2019	**35.6**	**8.9**	**0.4**	**44.9**
At 1 January 2018	35.6	8.9	0.9	45.4
Performance Share Plan charge, net of tax	–	–	0.5	0.5
Performance Share Plan credit in respect of awards lapsed	–	–	(0.4)	(0.4)
At 31 December 2018	35.6	8.9	1.0	45.5

The balance on the Capital redemption reserve represents the amount which arose at the time of the redemption of the preference share capital in 2002.

The balance on the Special reserve account represents the remaining undistributable proportion of the amount which arose on the acquisition of Teepak International Inc in 1996 under the merger relief provisions of the Companies Act 1985.

The balance on Performance Share Plan reserve represents the cumulative net expense recognised through the Statement of profit or loss 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 statement of profit or loss only when the hedged transaction impacts profit or loss.

The Cumulative translation reserve comprises all foreign currency differences arising from the retranslation of the financial position of foreign currency denominated subsidiaries.

30. RECONCILIATION OF PROFIT OR LOSS BEFORE TAX TO CASH GENERATED FROM OPERATIONS

	Note	Group 2019 £'m	Group 2018 £'m
(Loss)/profit before tax		**(21.8)**	17.5
Adjustments for:			
Finance cost	2, 7	**6.0**	7.1
Profit on disposal		**0.1**	–
Net finance cost on pensions	7, 26	**1.8**	2.3
Pension cost adjustment for normal contributions		**1.4**	1.1
Depreciation of property, plant and equipment	13	**25.3**	24.6
Impairment of property, plant and equipment	4, 13	**44.9**	–
Amortisation of intangible assets	14	**1.1**	1.0
Impairment of intangible assets	4, 14	**1.0**	–
Release from capital grants balance		**(0.2)**	(0.1)
Pension deficit funding		**(5.3)**	(4.9)
Performance Share Plan		**(0.4)**	0.8
Changes in working capital:			
Increase in inventories		**(2.0)**	(5.4)
Increase/(decrease) in trade and other receivables		**8.4**	(5.5)
(Decrease)/increase in trade and other payables		**(0.2)**	2.6
(Decrease)/increase in provisions		**(0.4)**	5.0
Cash generated from operations		**59.7**	46.1
Of which:			
Underlying operating cash flows (before pension deficit funding)		**71.3**	57.5
Pension deficit funding		**(5.3)**	(4.9)
Exceptional items		**(6.3)**	(6.5)
Cash generated from operations		**59.7**	46.1

31. ANALYSIS OF NET DEBT

	Note	Group 2019 £'m	Group 2018 £'m
Cash and cash equivalents	18	**24.7**	9.9
Bank overdrafts	22	**(0.8)**	(4.7)
Net cash and cash equivalents		**23.9**	5.2
Other bank borrowings	22	**(72.0)**	(68.7)
US dollar private placement	22	**(75.7)**	(78.1)
Lease obligations	22	**(0.8)**	–
Net debt		**(124.6)**	(141.6)

32. CAPITAL COMMITMENTS

Capital expenditure contracted for but not provided in the Group's Financial Statements related to property, plant and equipment and amounted to £1.3m as at 31 December 2019 (2018: £2.4m). The Company had no capital commitments as at 31 December 2019 (2018: nil).

33. CONTINGENT LIABILITIES

In the opinion of the Directors, the Group and Company have no material contingent liabilities as at 31 December 2019 (2018: nil).

NOTES TO THE FINANCIAL STATEMENTS continued

FOR THE YEAR ENDED 31 DECEMBER 2019

34. RELATED PARTY TRANSACTIONS

Key management are deemed to be the Executive and Non-Executive Directors and the Executive Management Team (EMT) 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:

	2019 £'m	2018 £'m
Emoluments payable to Executive and Non-Executive Directors		
Short-term employee benefits	**1.1**	1.2
Performance Share Plan (credit)/charge	**(0.2)**	0.3
Post-employment benefits	**0.1**	0.1
	1.0	1.6
Emoluments payable to remainder of the EMT		
Short-term employee benefits	**1.5**	1.6
Performance Share Plan (credit)/charge	**(0.1)**	0.2
Post-employment benefits	**0.1**	0.2
Compensation for loss of office	**0.1**	–
	1.6	2.0
Total emoluments payable to key management	**2.8**	3.6

Transactions with the Group's pension schemes are disclosed in Note 26. Amounts due to the pension schemes at 31 December 2019 are £0.2m (2018: £0.3m)

The Group had no further related party transactions.

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 2019 which comprise the Consolidated Statement of Profit or Loss, the Consolidated Statement of Comprehensive Income, the Group and Parent Company Statements of Financial Position, the Group 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 2019 and of the Group's loss 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;
- the parent Company Financial Statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; 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 five financial years ended 31 December 2019. 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	£1.5m (2018:£1.25m) 4.5% (2018: 4.1%) of Group profit before tax and exceptional items	
Coverage	96% (2018: 95%) of the total profits and losses that made up Group profit before tax	
Key audit matters		**vs 2018**
Recurring risks	Impairment of property, plant and equipment	↑
	Deferred tax assets	↔
	Presentation of exceptional items	↔
	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 (unchanged from 2018), 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	
IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT (Property plant and equipment in China (£32.2 million) and US (£47.8 million)). *Refer to page 52 (Audit Committee Report), page 85 (accounting policy) and page 103 (financial disclosures).*	FORECAST BASED VALUATION As described on pages 103, the Group has reassessed its manufacturing strategy during 2019 with the result that the volume and mix of products intended to be manufactured in China and the US has changed which will have an effect on the cash flows generated by those operations. The carrying values of the Group's property, plant and equipment in the manufacturing facilities (the "manufacturing assets") in China and the US have therefore been assessed with reference to the net present value of the cash flows expected to be generated from their operation as part of the related CGU and impaired by £18.0 million and £23.0 million respectively. These calculations are subject to significant estimation uncertainty as small changes in key assumptions can significantly impact the impairment charge. The Financial Statements (page 104) disclose the sensitivity estimated by the company. The effect of these matters is that, as part of our risk assessment for audit planning purposes, we determined that the carrying amount of the manufacturing assets in the US and China had a high degree of estimation uncertainty, with a potential range of reasonable outcomes possibly many times greater than our materiality for the Financial Statements as a whole.	Our procedures included: • Assessing forecasts: We performed the following procedures on the forecasts of cash flows of the relevant CGUs: – Our sector experience and knowledge of the business: We evaluated the assumptions used, in particular those relating to forecast revenue growth and profit margins, against what we view as achievable taking into account historic performance and the performance of the Group's other facilities; – Benchmarking assumptions: We compared the Group's assumptions in relation to key inputs such as projected economic growth and discount rate to externally derived data; – 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, with reference to that, challenging the rate used by the Group; and • Assessing transparency: Assessing the adequacy of the Group's disclosures in respect of property, plant and equipment, including assessing whether the disclosures reflect the sensitivity of the carrying amount to key assumptions. OUR RESULTS • We found the resulting estimate of the carrying amount of the manufacturing assets in China and the US to be acceptable (2018 result: acceptable)

The risk	Our response	
UNRECOGNISED DEFERRED TAX ASSETS RELATED TO LOSSES IN US AND CHINA (Unrecognised deferred tax assets in China (£6.7 million) and US (£15.8 million)). *Refer to page 53 (Audit Committee Report), page 90 (accounting policy) and page 100 (financial disclosures).*	ACCOUNTING TREATMENT In prior periods, the Group recognised deferred tax assets in the US and China related to losses. As the Group has a history of losses in these jurisdictions there is judgement involved in assessing whether "convincing other evidence" exists in order to recognise certain amounts of these deferred tax assets. If such evidence is available, there is significant uncertainty in forecasting probable taxable profits, which determine the extent to which deferred tax assets are recognised. As described on page 118, the Group has reassessed its manufacturing strategy during 2019, affecting the volume and mix of products intended to be produced in China and the US, which will have an effect on the future taxable profits generated by those operations. As a result, the Group has concluded that there is no longer sufficiently convincing other evidence to recognise deferred tax assets related to losses in China and the US and has impaired amounts recognised previously. The effect of this matter is that, as part of our risk assessment, due to the judgement in identifying whether convincing other evidence exists and 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. In conducting our final audit work, as a result of the impairment of amounts recognised previously, we reassessed there to be no estimation uncertainty.	Our procedures included: • Assessing forecasts and related conclusions: We evaluated the reliability of the assumptions and risk adjustments used in the Group's forecasts of future taxable profits in assessing whether there was sufficient convincing other evidence to recognise deferred tax assets related to losses, noting the recent history of tax losses in China and the US and the write down in 2019 of the property plant and equipment in both jurisdictions. We did this with reference to our knowledge of the business, externally derived data and the performance of established factories elsewhere in the Group; • Our tax expertise – We used our tax specialists to assist in assessing the evidence available to support the recognition of deferred tax assets related to losses in China and the US, focusing on the judgement as to whether there was sufficiently convincing other evidence, taking into account the recent history of tax losses, the Group's tax position and knowledge and experience of the application of relevant tax legislation; and • Assessing transparency – We evaluated the adequacy of the disclosures relating to deferred tax related to losses, including the judgement over their recognition. OUR RESULTS • We found the level of deferred tax assets recognised to be acceptable (2018 result: acceptable).

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DEVRO PLC continued

The risk	Our response	
PRESENTATION OF EXCEPTIONAL ITEMS (Exceptional restructuring costs of £7.2 million pre-tax; 2018: £12.3 million pre-tax charges). *Refer to page 53 (Audit Committee Report), page 85 (accounting policy) and page 96 (financial disclosures).*	PRESENTATION APPROPRIATENESS: Classification of restructuring costs as exceptional, which is not a term defined under IFRS, is an area of judgement. There is a risk that restructuring costs are inappropriately described as exceptional thus not providing an accurate reflection of the underlying (i.e., pre-exceptional) performance of the Group. Further, there is a risk that amounts are inconsistently classified as exceptional year on year.	Our procedures included: • Assessing principles: We have assessed 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 against the Group's policy, with reference to our expectations based on our knowledge of the business and the activities to which the charges relate; • Test of detail: We assessed, on a sample basis, the evidence supporting items disclosed as exceptional, considering their value and nature; • Assessing consistency: We assessed the consistency of the items classified as 'exceptional' year on year and in accordance with the Group's accounting policies; and • Assessing transparency: 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. OUR RESULTS • We found the presentation of exceptional items to be acceptable (2018 result: acceptable).
PARENT COMPANY – RECOVERABILITY OF INVESTMENT IN SUBSIDIARIES AND INTRA-GROUP RECEIVABLES (Investments in subsidiaries £347.6 million; 2018: £253.0 million. Intra-Group receivables £69.2 million; 2018: £170.7 million). *Refer to page 53 (Audit Committee Report), page 89 (accounting policy) and page 106 (financial disclosures).*	LOW RISK, HIGH VALUE: The carrying amount of the company's investments in subsidiaries and intra-Group receivables balances, represents 95% 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 and assessing whether those subsidiaries have historically been profit-making; • Assessing subsidiary audits: Assessing the work performed by the subsidiary audit teams on that sample of those subsidiaries and considering the results of that work, on those subsidiaries' profits and net assets; and • Comparing valuations: For the investments where the carrying amount exceeded the net asset value, comparing the carrying amount of the investment with the expected value of the business based on a suitable multiple of the subsidiaries' EBITDA. OUR RESULTS: • We found the carrying amount of the investment in subsidiaries and intra-Group receivables to be acceptable. (2018: acceptable)

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 £1.5m (2018: £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 which it represents 4.5% (2018: 4.1%). Materiality for the parent company Financial Statements as a whole was set at £0.5m (2018: £1.1m), determined with reference to component materiality. This is lower than materiality we would otherwise have determined by reference to company total assets, and represents 0.1% (2018: 0.3%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.075m, in addition to other identified misstatements that warranted reporting on qualitative grounds.

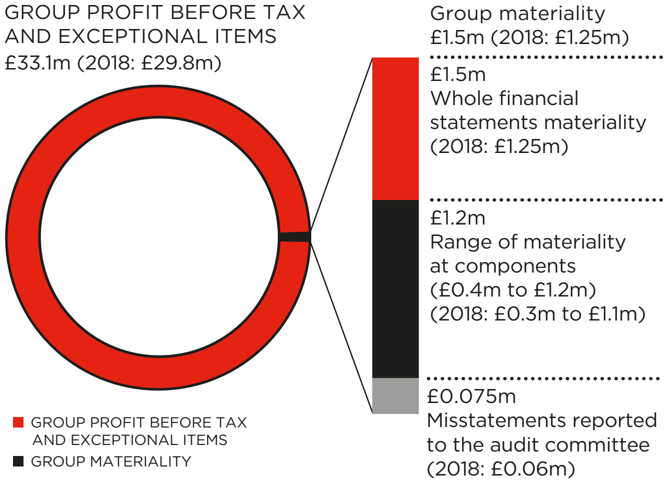
Of the Group's nine (2018: nine) reporting components, we subjected six (2018: six) to full scope audits for Group purposes. The components within the scope of our work accounted for the percentages illustrated opposite. For the residual components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these.

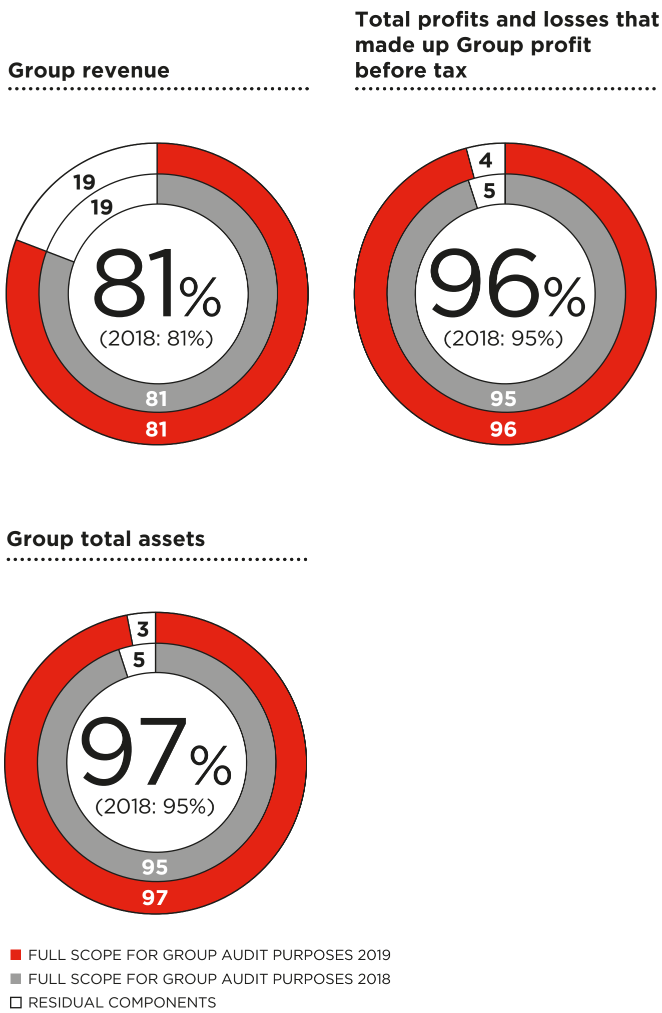
The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, which ranged from £0.4m to £1.2m (2018: £0.3m to £1.1m), having regard to the mix of size and risk profile of the Group across the components.

The work on four of the six components (2018: five of the six 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.

The Group team visited three (2018: nil) component locations in Czech Republic, US and Scotland to assess the audit risk and strategy. Video and telephone conference meetings were also held with these component auditors and others that were not physically visited. At these visits and meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

The Group team also routinely reviews the audit documentation of all component audits. This year for the one component in China, where the coronavirus prevented entry to the country and remote access to audit documentation is prohibited, we instead extended our oversight of those component teams through extended telephone discussion and expanded reporting.





INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DEVRO PLC continued

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 price 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 factory.

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 51 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 EMERGING AND 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 36 that they have carried out a robust assessment of the emerging and 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.

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 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 77, 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DEVRO PLC continued

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 other management and inspection of regulatory and legal correspondence, if any. Through these procedures, we became aware of actual or suspected non-compliance and considered the effect as part of our procedures on the related financial statement items. The identified actual or suspected non-compliance was not sufficiently significant to our audit to result in our response being identified as a key audit matter.

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
3 March 2020

FINANCIAL SUMMARY
FOR THE YEARS ENDED 31 DECEMBER

	2019 £'m	2018 £'m	2017 £'m	2016 £'m	2015 £'m
Revenue	**250.0**	253.4	256.9	241.1	230.2
Underlying operating profit before non-recurring*	**39.1**	40.0	38.1	38.1	33.3
Underlying operating profit*	**39.1**	39.2	38.1	38.1	33.3
Non-underlying items	**(53.1)**	(12.3)	(5.1)	(22.7)	(14.1)
Operating profit	**(14.0)**	26.9	33.0	15.4	19.2
Profit before tax	**(21.8)**	17.5	21.6	6.2	15.1
Profit after tax	**(41.4)**	12.5	15.6	2.2	14.6
Net assets	**74.9**	146.5	127.2	109.0	131.1
Earnings per share:					
– Underlying basic**	**15.2p**	14.6p	14.2p	14.7p	16.6p
– Non-underlying items**	**(40.0)p**	(7.1)p	(4.9)p	(13.4)p	(7.8)p
– Basic	**(24.8)p**	7.5p	9.3p	1.3p	8.8p
– Diluted	**(24.8)p**	7.4p	9.3p	1.3p	8.7p
Dividends per share	**9.0p**	9.0p	8.8p	8.8p	8.8p
Net assets per share	**44.9p**	87.8p	76.2p	65.3p	78.6p

* Underlying figures are stated before exceptional items. (see Alternative Performance Measures section of the Financial Review for definition and explanation).
** Underlying basic EPS are stated before exceptional items and net finance cost on pensions. 2017 and earlier underlying basic EPS was restated to exclude net finance cost on pensions and 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

30 April 2020	Annual General Meeting
7 May 2020	Final dividend paid
29 July 2020	Half year results and interim dividend announced
2 October 2020	Interim dividend paid
31 December 2020	Financial year end
March 2021	2020 results and proposed final dividend announced

DIVIDENDS

The final dividend will be paid on 7 May 2020 to shareholders on the register at close of business on 27 March 2020.

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 2020 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 3 MARCH 2020)

EXECUTIVE DIRECTORS
R A Helbing
J W Callaway

NON-EXECUTIVE DIRECTORS
S P Good
J A Lodge
M S Swift
P N Withers

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SOLICITORS
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