

## 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 and we also highlight their bearing on our response to the impact of COVID-19 on our business. 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. 2020 was the first year in which risk has been managed through a refreshed risk management framework which has generated greater visibility about how individual risks might impact the Company's delivery of individual elements of its

3Cs strategy and associated key areas of focus; revised the process for identifying and bringing key risks to the Board's attention including the standardisation of processes and risk assessments by each functional management team. The emergence of new risks is considered at every meeting of the Risk Committee, supported by regular reviews by each functional management team and long-term planning through IBP.

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 41 and 72, respectively.

## COVID-19 PANDEMIC – ASPECTS OF PRINCIPAL RISKS AND UNCERTAINTIES

There was considerable focus in 2020 within our business to address risks and uncertainties in connection with the COVID-19 pandemic. The immediate impact of those risks on our business has been and continues to be managed through our Incident Management Plan, led by our Executive Management Team. The experiences we gained from dealing with the impact of COVID-19 on our Chinese business prior to the wider emergence of the pandemic have benefited and informed our global approach.

The risks we have faced in connection with the pandemic since that time have primarily been those which we had already identified and were monitoring prior to the pandemic but which, in some cases, have assumed a higher priority. They can be categorised as risks which we are addressing in our immediate and current response to the pandemic and those which we have considered may have an impact on our business in the longer-term.

### RISKS ADDRESSED IN OUR IMMEDIATE AND CURRENT RESPONSE TO THE PANDEMIC

- **Operational disruption:** The safety of our employees and of our manufacturing base has been our highest priority and we have closely monitored the risk of disruption to our operations and consequent ability to meet customer demand, caused by higher levels of employee absences.

#### Mitigation

*Through our Incident Management Plan we have taken account of staffing levels in order to optimise our global production plans. The early implementation of comprehensive COVID-19 specific health & safety measures, in many cases at standards which exceeded those mandated in the countries where we operate, including strict limits on access to our sites, has mitigated the risk to individuals and sites alike. This has been reinforced by pandemic-specific employee engagement and support to promote a shared responsibility for acting safely and cautiously in the face of the pandemic. Since the start of the pandemic, we have been able to maintain sufficient production levels to meet all customer demands.*

- **Sales downturn due to customers' business disruption:** The pandemic has continued to generate greater volatility in demand from individual customers as a result of their own staffing difficulties, sourcing obstacles and restrictions imposed on parts of their customer base, most notably food service channels.

#### Mitigation

*There is little indication that overall consumer demand for our customers' products has materially changed and this is reflected by the cumulative sales we have achieved in 2020 across our wide customer base. We have managed the volatility in demand from individual customers through effective demand planning and IBP processes (overseen by our Incident Management Team).*

- **Disruption to supply or increase in price of key raw materials:** Some of our suppliers' businesses have experienced disruption, most notably hide split suppliers and glycerol producers. This, in turn, has impacted their capacity to supply us. Though there has been a plentiful supply of cattle hide splits, one of our most important raw materials, from which collagen is extracted, our suppliers have experienced disruption due to the adverse impact particularly at the outset of the pandemic on the automotive sector, which under normal circumstances, forms a significant part of hide suppliers' customer base.

#### Mitigation

*Our global Procurement team continues to assess and monitor our supply chain vulnerabilities. We address these by seeking and maintaining multiple sources for key raw materials and cultivating equitable long-term commercial relationships with suppliers. We have long-standing contractual relationships with multiple hide suppliers across the world and, in response to the pandemic, a dedicated team has overseen the management of those relationships to ensure continuity of supply. While it was necessary to accept a higher level of cost during the initial stage of the pandemic in order to achieve this, we have sought to mitigate this through engagement with our entire supplier base (including hide suppliers) to settle on competitive and sustainable commercial terms.*

## RISK TREND

▲ INCREASED ▼ DECREASED = BROADLY UNCHANGED

### ASPECTS OF PRINCIPAL RISKS WHICH MAY IMPACT OUR BUSINESS IN THE LONGER-TERM

If a sustained global economic downturn follows the pandemic, or our customers continue to experience inflationary cost pressures in dealing with COVID-19 on their businesses, they will likely seek greater efficiencies in their own businesses and from their suppliers. This may result in Devro facing increased competition and a corresponding higher risk of the loss of profit margins or sales volumes.

#### Mitigation

*Devro is well positioned to support customers in their drive for further efficiencies. We are able to deliver for them (particularly those switching from gut to collagen casing applications), manufacturing efficiencies, based on over 85 years of experience, our global presence, a wide collagen casings product range, customer intimacy and superior technical service.*

⋮ If COVID-19 restrictions persist, temporary changes in consumer demand may become more established. There is evidence of a significant increase in 'at-home' consumption of sausages during COVID-19 lockdowns while foodservice demand (dine-in or on the go) has reduced, (with the rise in takeaway/delivery and the uplift in retail offsetting this to a degree).

#### Mitigation

⋮ Overall consumer demand for protein continues to grow, this trend being particularly pronounced in emerging markets, where there is corresponding growth in sausage consumption. Our product range, global presence and intimacy with a wide customer base equips us to detect, respond to and benefit from changing customer and market demands. We have casings and gel manufacturing facilities across six locations (the UK, Netherlands, Czech Republic, the US, Australia and China) and are able to leverage our collagen expertise across regional markets as well as partner with sausage manufacturers with global reach.

⋮ For more information about the short, medium and longer term impact on Devro's marketplace, see Understanding our Markets on pages 14 to 19.

KEY RISK	IMPACT	MITIGATION	MOVEMENT
<p><b>LOSS OF PROFIT MARGINS / VOLUME DUE TO INCREASED COMPETITIVE PRESSURES</b></p> <p>The Group operates in competitive markets throughout the world.</p>	<p>Any increase in effective competition risks sales loss via volume and/or price decline.</p>	<p>To Win with the Winning Customers is a key pillar of our 3Cs strategy and in 2020 we have continued to develop our global commercial organisation to gain greater insights into customer requirements and into responding with value propositions to drive customer satisfaction.</p> <p>The transition to a global commercial organisation in 2019 has facilitated a more rapid transfer of successful customer offerings and more agile trouble shooting.</p> <p>In 2020, net cost savings of £6.0 million have been delivered in order to keep our cost base competitive.</p> <p>We also aim to continue expanding the total collagen casings market by developing products which convert gut applications to collagen casing.</p>	=

## Principal Risks &amp; Uncertainties (continued)

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KEY RISK	IMPACT	MITIGATION	MOVEMENT
<p><b>DEVELOPMENT OF NON-CASING TECHNOLOGIES</b></p> <p>More than 80% of the Group's revenue is derived from the manufacture and sale of edible collagen casing, primarily for sausages.</p> <p>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 2020 we have detected a greater readiness for fresh sausage producers to consider non-collagen co-extrusion solutions.</p>	<p>If there were to be a significant conversion to co-extrusion, there could be an adverse effect on sales of casing, revenues and profits.</p>	<p>The Group makes substantial investments in product development and manufacturing processes to sustain competitive advantage. It invested £6.3 million in research and development activities in 2020, to extend and differentiate the product range.</p> <p>Where there have been conversions to co-extrusion for fresh 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.</p> <p>We continue to invest in the development of innovative gel (non-casing) solutions.</p>	▲
<p><b>IT SYSTEMS/CYBER RISK</b></p> <p>IT systems are central to our business operations. Vulnerability to an external attack, a risk faced by companies and institutions globally, has grown in 2020, particularly as reliance on online connectivity has increased in order to accommodate different ways of working during the pandemic.</p>	<p>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.</p>	<p>We commissioned an external audit in 2020 of our IT systems to identify how we can continue to ensure they are appropriately secured. We are acting on the recommendations of the audit by investing to remediate known vulnerabilities and to implement an Information Security corporate governance structure that will counter future cyber security risk and vulnerability.</p> <p>Employees are regularly trained to detect, avoid and mitigate cyber risks and information security risks.</p>	▲
<p><b>DISRUPTION TO SUPPLY OR INCREASE IN PRICE OF KEY RAW MATERIALS</b></p> <p>Inflationary cost pressures that cannot be mitigated by cost reduction or passing on price risks reduced margins and profitability.</p>	<p>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 cost of goods.</p> <p>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.</p>	<p>The Group manages the collagen sourcing risk by, where possible, entering into long-term arrangements with specialised suppliers in various parts of the world.</p> <p>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.</p>	=
<p><b>FOOD REGULATORY RISK</b></p> <p>Food safety concerns risks additional regulation and restrictions.</p>	<p>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.</p>	<p>We actively monitor planned and actual changes to regulations in all key jurisdictions in order to minimise disruption to our business.</p> <p>The Group is a member of various industry bodies, including the Collagen Casings Trade Association, which monitor global regulations.</p> <p>Supplier approval and traceability are under constant review.</p>	=

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<p><b>CHANGES IN CONSUMER DEMAND</b></p> <p>Consumer preferences evolve over time and are influenced by a number of issues outside our control, including economic factors and health considerations.</p> <p>Preferences may be affected both as a result of long-term trends such as calls advocating consumers to reduce their meat consumption and shorter-term trends such as those triggered by restrictions on food service channels or social gatherings in response to the COVID-19 pandemic.</p>	<p>A decline in consumer demand for sausage could lead to increased competition in the marketplace and reduced sales revenue/profitability.</p> <p>It may be more difficult to respond to volatility in demand for sausage caused by the implementation at short-notice of regulatory restrictions on particular sales channels which could lead to reduced sales.</p>	<p>Devro's wide range of products and geographical presence allows flexibility to respond to customer and market demands.</p> <p>Our demand planning and IBP procedures assist us to react to changes in consumer demand at speed.</p> <p>We continue to invest in our products and processes with the aim of producing differentiated products while reducing our cost base to remain competitive.</p>	=
<p><b>FOREIGN EXCHANGE RISK</b></p> <p>c.90% of the Group's revenues are invoiced in currencies other than sterling.</p>	<p>Adverse foreign exchange rate movements, could reduce revenues and the sterling value of reported profits.</p> <p>Sterling exchange rate volatility may be impacted in 2021 by ongoing trading tensions between leading industrial nations.</p>	<p>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.</p>	=
<p><b>OPERATIONAL DISRUPTION</b></p> <p>The Group is at risk of disruption to its manufacturing capability from poor operational performance, or major disruptive events, such as fire or flooding.</p>	<p>Prolonged operational disruption could result in sustained loss of capacity or capability and could affect our ability to deliver to customers.</p> <p>This, in turn, could adversely affect the Group's financial performance.</p>	<p>The Group maintains industry-leading operational processes and procedures to ensure effective operational management at each of our plants.</p> <p>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.</p> <p>Appropriate insurance policies are in place.</p>	=

## Principal Risks & Uncertainties (continued)

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RISK	IMPACT	MITIGATION	MOVEMENT
<p><b>PEOPLE</b></p> <p>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.</p>	<p>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.</p> <p>The Company had undergone considerable organisational change since 2016, aimed at embedding a global integrated platform, the success of which is dependent on continued engagement with employees.</p>	<p>We offer a competitive pay package to our employees and we continue to pursue an Employee Value Proposition to promote the benefits of employment with the Group. The important role of the Company in the food supply chain during the COVID-19 pandemic has brought additional focus on the benefits of employment within the Group.</p> <p>We engage regularly with employees and undertake annually an employee engagement survey, from which actions to enhance engagement are formulated and implemented.</p> <p>See page 52 for our employee engagement initiatives.</p>	=
<p><b>INCREASED FUNDING REQUIREMENTS OF PENSION SCHEMES</b></p> <p>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.</p>	<p>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.</p>	<p>The position and performance of each of the pension schemes are continually monitored by the Group, in conjunction with pension trustees and professional advisers.</p> <p>All defined benefit schemes are closed to new entrants, and the Group is actively working to match assets to expected future cash flow.</p>	=
<p><b>PRODUCT CONTAMINATION</b></p> <p>Raw materials and ingredients may contain impurities, contamination or disease.</p>	<p>Contamination could lead to a product recall, loss of reputation, or significant costs of compensation.</p>	<p>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.</p>	=
<p><b>BREXIT</b></p> <p>Regulatory changes to arrangements governing trading between the UK and the EU, following the conclusion of the trade and co-operation agreement reached between the UK and the EU in December 2020, risks disruption to some Company sales.</p>	<p>This risk primarily impacts sales from product made in Scotland exported to the EU and Northern Ireland, which represents max. 6% of Group output. (The majority of Devro Group production and trade is unaffected by this risk.)</p> <p>Since the December 2020 trade and co-operation agreement between the UK and EU came into effect, the scope for operational disruption remains, due to the introduction of new regulations. However, the potential adverse impact of this risk is lower than the risks previously associated with a 'no-deal' scenario.</p>	<p>Comprehensive plans developed to mitigate the effects of the UK's departure from the EU were successfully implemented prior to the December 2020 expiry of the Brexit transition period. The Company's framework for managing the risk of an abrupt departure of the UK from the EU without a trading deal, has been adapted to address and resolve quickly individual queries and obstacles which have arisen on the implementation of regulatory changes introduced on the expiry of the transition period following the UK's departure from the EU.</p> <p>We have substantial manufacturing operations in the Czech Republic from where we continue to be able to supply most EU customers.</p>	▼