DEVRO

Leading with Purpose

Devro plc
Annual Report and
Accounts 2021

Introduction

Devro is one of the leading global suppliers of edible films and coatings focused on supporting our customers with products and expertise, adding the layer of value.

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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.

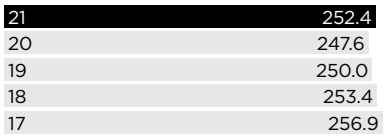
That means our customers, the people who work for us, the people who trust us enough to invest in our business, who supply the products and services we rely on and whose lives are indirectly affected by what we do. We try to be respectful of them all and deal fairly and honestly. We also do our best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

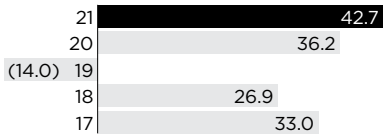
Revenue (£'m)

£252.4m



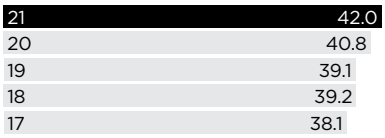
Operating profit/(loss) (£'m)

£42.7m



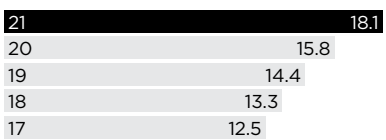
Underlying* operating profit (£'m)

£42m



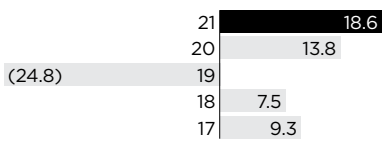
Underlying earnings per share (pence)**

18.1p



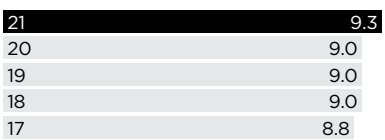
Basic earnings per share (pence)

18.6p



Dividends per share (pence)

9.3p



* Underlying measures are stated before exceptional items and they are defined, explained and reconciled to the equivalent statutory measures in the Alternative Performance Measures on pages 34 to 37.

** EPS for 2020 and earlier years have been restated. Restatement of prior period results relates to net finance cost on pensions, previously included within the non-underlying, now included within the underlying results.

Wide product variety

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 meat products, particularly sausages.

Revenue (£'m)

£252.4m

The Devro difference

- Over 85 years' experience in, and focus on, collagen casings
- Innovative quality products adapted to local customer needs
- Strong and long-standing customer relationships
- Expert technical support network – on-site and off-site
- Fully integrated global business

The Devro value proposition

01

More options with the broadest edible casing portfolio

- Fits the need of meat processors, whether naturally coloured or different calibres – the right bite for the right sausage
- With more than 1,000 active products there is at least one for every sausage type

02

Higher yields with superior technical service

- Global team with local experience
- Daily interactions with sausage manufacturers all over the world
- Supporting daily optimisations and larger changes to manufacturing setup

03

Improved brand loyalty with superior bite and quality

- With our extensive experience in casings we help create the exact consumer characteristics our customers desire
- Dedicated to edible casings, we manufacture high quality casings balancing the need for high efficiency and robustness as well as thin walled casings for a better bite

Where we operate



Purpose and Values

During 2021, we continued our employee-led journey to define and launch our Purpose which has set the scene for our priorities and will act as our North Star over a number of years.

After gathering views in 57 employee-led workshops in 2020, 2021 saw us launch our Purpose and refreshed global Values internally, engaging employees at all levels to connect with our Purpose and bring the Values to life. A team of colleagues from across the globe came together with the Executive Management Team ('EMT') to distill the themes, and finalise and launch the Purpose.

Our Purpose:

Creating the Added Layer of Value
Together Responsibly Better

We create the added layer of value with our products and services, with and for our customers, consumers, colleagues and shareholders through;

- Recognising that our customers are looking for ways to increase their value – both in monetary terms and in terms of how they contribute to, and are perceived by, society
- Providing additional elements of performance, service, and different approaches to solve our customers' problems
- Thoughtful consideration of how we add value in all that we do

And we will do this Together, Responsibly and Better:

Together: We collaborate with our customers, forming long term strategic partnerships where we identify and realise opportunities, and solve challenges together. We ensure everyone has a voice and is listened to, collaborating for shared benefit.

Responsibly: We work in an ethical way, respecting the world we live in, and working with customers who share a similar ethos; our customers and consumers are increasingly demanding suppliers who are ethical, responsible, and who demonstrate care – this is an area we want to lead in. Devro was founded on using renewable raw materials as a basis for how we go to market and how we operate and is fundamental to our innovation efforts. We'll conduct our lives and our business responsibly, caring for each other, our partners, communities and the world we live in.

Better: We exist in a competitive market, we are committed to working with our customers to develop new offerings, better products, develop new markets and look to the future. Through great customer focus, innovation and a focus on continuous improvement, we can out-perform our competition. An inherent focus, when we review our product portfolio, is looking at how we can do things better. With our sights set on the future, we'll adapt, improve and innovate as we strive for better. We aspire to be the best in everything we do.

We launched our Purpose through a series of global and regional events, reaching colleagues at all levels, building on the positive energy and momentum created during 2020, and giving everyone an opportunity to connect with our Purpose.

Refreshing our global Values

Having defined 'why' we exist through defining our Purpose, the next stage of our journey was to refresh our Values – 'how' we will behave to deliver our Purpose. We recognised we would need to actively shape the culture to succeed, to grow and live our Purpose in an enduring way. We took the time to understand our strengths and what gets in the way, the Values we need to become conscious of and change. We worked collaboratively, bringing the EMT together with the employees who closely shaped the Purpose story, to create one set of global Values which outline the behaviours we want to emphasise as we execute our strategy and create competitive advantage.

Our global Values reflect a mix of where we are now and the behaviours we want to develop and nurture to take us into the future. We want to amplify our strengths, for example in our care and commitment to a safe environment and in pockets of great collaboration, and focus on what we need to grow: an empowered environment characterised by curiosity and a focus on the future.

Our Values are

Curious...

- Future focused, imagining possibilities
- Experiment, create and embrace new ideas and solutions
- Strive for improvements, however small

We will be curious, this was originally part of our DNA and we want to build on these strong foundations; imagining possibilities for how we meet our customers' needs now and in the future.

Courageous...

- Boldly take action
- Willing to give it a go, take considered risks
- Move at pace and adapt quickly

We will have courage to step forward; to take considered risks and anticipate alternatives; to bring solutions not problems.

Committed...

- Do what we say we will, holding each other to account
- Drive for results, celebrate success
- Take pride in our work, delivering excellent service

We will be committed by doing what we say we will; taking accountability and pride in our work; recognising and celebrating success.

Connected...

- Globally minded, actively seeking diverse perspectives
- Openly sharing knowledge and expertise to learn from each other
- Collaborate, involve the right people at the right time

We will be connected by openly sharing knowledge and involving people at the right time; we consult to ensure those who are responsible for the work are involved in decisions about the work; and are empowered to make decisions at the right level.

Caring...

- Protect and nurture ourselves, each other, communities and our planet
- Embrace and celebrate our differences
- Do the right thing, always

We will continue to care for our people, our communities and the planet; we care about doing the right thing.

To bring these to life, we engaged our leaders, connecting them with what the Values meant for them and encouraging them to experiment with changes through a series of workshops in July and October. 90 leaders across the business attended and these leaders then engaged their teams, helping them to make sense of what the Values mean for their areas, roles, and to them personally. We also set up a network of Purpose Ambassadors to bring Purpose to life in their regions and functions, demonstrating how we live our Purpose and Values every day. Over 40 people across the globe volunteered and showcased the efforts in their areas.

Moving into 2022 we are now focused on integrating Values into how we recruit, manage, develop and reward our people, how we communicate and what we emphasise, so that we create the environment we need to live our Purpose and deliver success.

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



Global capacity

- Global commercial structure with products sold in over 100 countries
- Global manufacturing footprint with sites in the UK, Netherlands, Czech Republic, 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



Management team

- Dynamic and motivated team
- Refreshed: six out of seven EMT members joined since 2016
- Experienced: the majority of the EMT have blue chip experience



Attractive dividend

- Dividend covered by cash generation
- Potential to grow



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



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

Making solid progress

Devro delivered strong financial results, made substantial strategic progress and refreshed company Purpose and Values to articulate new ESG priorities during 2021. This was possible thanks to strong engagement across the entire workforce and key stakeholders.

Steve Good
Chairman

Introduction
I am pleased to report on our strong financial and strategic progress during 2021. In my second full year as Chair, we have benefited from and built upon the foundations for growth laid in recent years and delivered constant currency revenue growth of 5.5%, our best performance in many years.

The performance is particularly pleasing given the ongoing COVID-19 related challenges and I would again like to record my appreciation to the leadership team and all of their colleagues across the Group for their efforts to deliver this strong progress. I am particularly pleased with the focus placed in 2021 on engagement across the entire workforce and amongst other key stakeholders to refresh our corporate statement of purpose, to refine our values and to articulate new ESG priorities. These extensive

consultations have enhanced unity and alignment across our organisation, around a shared vision for success not only in 2021 but for the sustainable future of the business too.

The Group's improved financial performance in 2021 was underpinned by accelerated revenue growth, reflecting better volume, price and mix, driving higher operating margins and excellent cash generation resulting in a substantial reduction in net debt. As a result, your Board has recommended an increased full year dividend for the first time since 2018, to 9.3p per share.

The financial performance reflects the efforts of many of our team over a number of years to instill new and improved processes and energies into our commercial, operational and financial functions. We are confident that these enhanced disciplines position us well for continued momentum in 2022.

Sustainability

In September we hosted a well-received ESG seminar for investors. The event provided an update on Devro's long history of sustainability, our priorities, our new targets and actions to deliver improvements as well as our progress on meeting the information requirements of the financial community and of other key stakeholders. Devro takes its responsibility to all stakeholders seriously and while good progress has been made, we recognise that meeting what we judge to be ambitious environmental and social commitments will take many years to meet in full. We are investing and dedicating resources as required to meet these commitments.

Growth strategy

The Group continues to see good opportunities for growth in its core collagen casings market. Our assessment remains that mature markets offer, on average, 0-2% volume growth while emerging markets grow at 6-10% resulting in a 2-4% volume growth range for the Group. In 2021 volumes grew 4.9%, ahead of this target, with good momentum continuing into 2022. Selling prices are also increasing as the Group responds appropriately to inflationary headwinds.

To broaden growth beyond our core drivers, we increased investment in 2021 on product development to exploit new commercial opportunities based on alternative technologies and products. The increase in spend was relatively modest in 2021 however we are optimistic about how these products will be received by the market and therefore anticipate development costs to rise incrementally in forthcoming periods. We expect to report on these activities in more depth as commercial progress is made this year.

Dividend

Based on the Group's improved financial performance and the Board's confidence in the future we are proposing a final dividend of 6.5p per share bringing the total for the year to 9.3p per share. Subject to shareholder approval at the Annual General Meeting in April, the dividend will be paid on 22 July 2022, to those shareholders on the register on 10 June 2022.

Governance and Board

The Board continues to lead 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. The Board's interactions and communications with the Executive Management Team continues to be excellent and as the financial performance has improved, and the impact of COVID-19 has lessened, we have focused more on the long-term growth agenda. We have also placed a greater emphasis on understanding how the Group and its activities and supply chains can lessen the impact on climate change. We are also pleased to report that we were TCFD compliant by the year-end, and we will extend our analysis during 2022.

The composition of the Board underwent one change in 2021 as we welcomed Rikke Mikkelsen as a Non-Executive Director in December, following Chantal Cayuela's decision, on personal grounds, to retire as a Non-Executive Director of the Company with effect from 30 November. Rikke's appointment brings valuable skills and insights to the Board gained from her extensive experience of successful product innovation in international food manufacturing businesses. The Board is well positioned to support the further development and execution of the Company's growth strategy.

People

The Board and I would like to register our appreciation to the whole Devro team after what has been another year in which the business has also had to deal with the ongoing impact of COVID-19 and corresponding disruption to supply chains. The team has responded extremely well to these challenges.

The Group has also achieved higher levels of employee engagement with the annual 'TellDev!' survey seeing the highest ever participation. This is an important forum for our employees to tell us about their views and the opportunities and risks they foresee, and acts as a gauge for the Board in providing insights about how the Company is perceived by an important stakeholder.

Looking ahead

We are excited about 2022 and beyond. As a Group, Devro is performing well and increasingly confident about its future prospects. We will continue to focus on delivering and broadening our growth agenda while further building our sustainability efforts in the year ahead. We expect our actions to offer strong returns for shareholders.

Steve Good
Chairman

Meeting market demand

Three drivers of growth

Underlying market growth

01

GDP/capita
Urbanisation
Food trends

Increasing sausage consumption

Collagen market growth

02

Cost savings
Consistency
Labour shortage

Gut to collagen conversion

Devro growth

03

Customer intimacy
Product performance
Cost savings

Market share gains

Leading the way

The meat processing industry has entered its third year of COVID-19 headwinds; continued supply chain bottlenecks, putting pressure on raw materials, increasing commodity prices, and fuelling labour shortages.

Three core growth drivers nevertheless remain relevant to Devro now and in the years ahead; increasing sausage consumption, opportunities for gut to collagen conversion and market share gains.

01

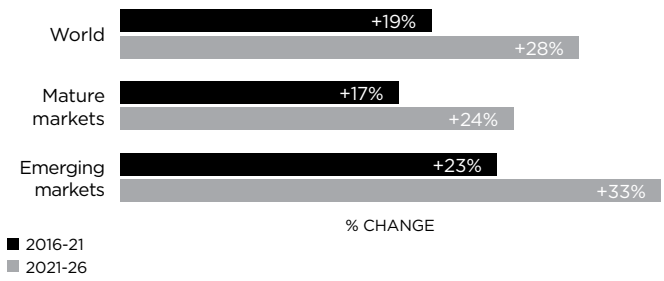
Increasing sausage consumption

Income per capita followed by rate of urbanisation are two of the most important drivers of meat and therefore also sausage consumption. Sausages become increasingly affordable and part of everyday diets. Where sausages are already affordable, their relevance and appeal to consumer diet and lifestyle trends also comes into play. Category (and casing) innovation should therefore be aligned with current food trends, reflecting consumer mega trends such as convenience, snacking, premiumisation, ethical and personal wellbeing.

GDP as an engine of growth

Rising household income has been shown to stimulate demand for animal protein-based diets and prepared foods such as sausages. Whereas we expect prevailing consumer and business uncertainty to take its toll on consumption as investment fades and state fiscal support is withdrawn, International Monetary Fund ('IMF') projections of per capita GDP reflect the acceleration anticipated in the coming years.

GDP per capita growth, 2016-2026*



*Gross domestic product based on purchasing-power-parity (PPP) per capita at current prices.

Source: IMF – World Economic Outlook Database, October 2021.

The global economy rebounded to grow by an estimated 5.5% in 2021 (source: World Bank Global Economic Prospects 2022), but is expected to slow to 4.1% in 2022, and 3.2% in 2023. The emergence of new variants of COVID-19 such as Delta and Omicron have meant economies are recovering at vastly different speeds, particularly those where there are lower vaccination rates and those hit hardest in 2020. Despite these setbacks, emerging and developing economies remain attractive growth markets for collagen-based sausage casings.

Building on strong demand for protein

COVID-19 has had a mixed impact on sausage consumption, with regional market performance depending on how sausage sales are split between retail and foodservice channels. Initially we saw a significant uplift in markets where supermarkets have the majority share of spend for sausages and snacks, prompting some customers to rethink their retail proposition. The COVID-19 pandemic saw households focusing on value, versatility, and convenience when it comes to meat, thus benefiting sausage sales.

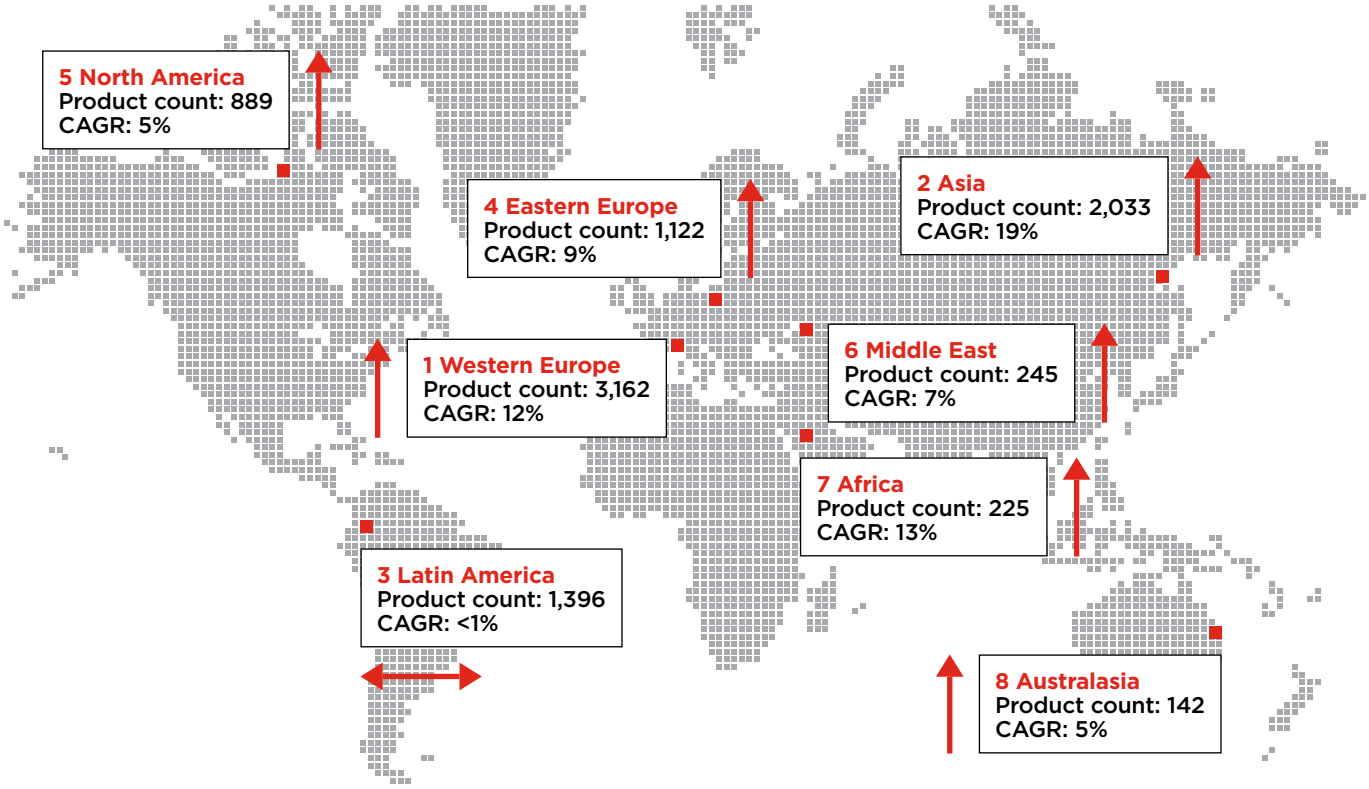
Offsetting this was the closure of foodservice outlets, while convenience stores and gas stations also felt the impact of reduced footfall and lower demand for food-to-go and impulse purchases. US consumer snacking habits however increased in frequency during the pandemic, with consumers stockpiling during this time even at convenience stores which meant c-store sales of meat snacks achieved robust sales despite the challenges. Food delivery and drive-thru channels benefited some food items but to a lesser extent sausage. According to Statista, global retail sausage consumption expanded by 9% in 2020, followed by a smaller shrinkage in 2021 (-5%). In the second half of 2021, Devro experienced some strengthening of demand as a result of slowly recovering foodservice markets, particularly in Continental Europe.

Category innovation is buoyant

Fuelling consumer motivation to buy sausages is the growth in category innovation across sausage and meat snack markets worldwide, particularly in EMEA and APAC (source: Innova New Products Database). Alongside increased interest in ethical concerns (recyclable packaging, less waste and animal welfare accreditations) are health and 'free from' claims such as high protein, no additives/ preservatives, reflecting an overall higher consciousness of what's in our food, where it comes from and how it is made. The trend towards greater transparency is helping to create a growing children's segment within the sausage category in Asia.

Understanding our Markets continued

Number of global retail sausage launches worldwide, 2017-21 (CAGR represents growth momentum in launch activity during this five-year period).



Source: Innova New Product Database/Devro.

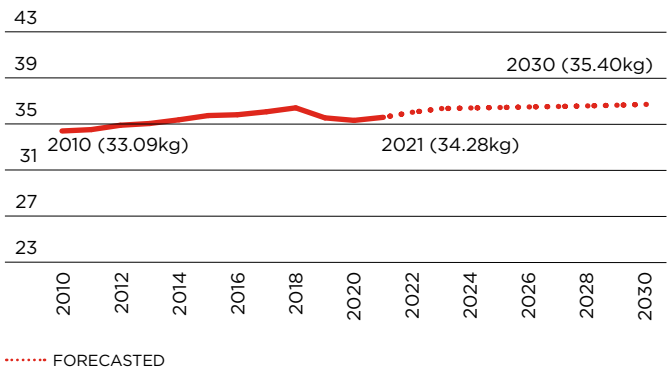
Global meat consumption outlook more favourable

In its latest Agricultural Outlook (July 2021), the OECD revised its meat consumption forecasts slightly upwards on the previous year, with a predicted 3.3% growth globally by 2030 (34.2kg to 35.4kg between 2021 and 2030 – just over an extra kilo per capita).

Two-thirds of this extra meat consumption is expected to be poultry-based, two-fifths pork, and less than 10% lamb, with beef continuing its decline. Concerns over climate change, environmental deterioration, animal and human health continue to motivate consumers to substitute red meat for poultry, reduce their meat consumption (inspired by flexitarianism) and embrace plant-based diets.

Poultry plays a significant role in the national diets of developing countries such as China. Its popularity across the world is due to affordability, less religious barriers, versatility and higher protein/lower fat content. Poultry sausages represent just one in six new retail sausage products launched in 2021 (source: Innova New Products Database), suggesting scope for continued innovation in this sector. Devro's recently launched Avem® poultry-based gel responded not only to higher poultry consumption but rising demand for clean label 'single species' solutions.

Meat consumption per capita, 2010–2030



Source: OECD-FAO Agricultural Outlook 2021-2030.

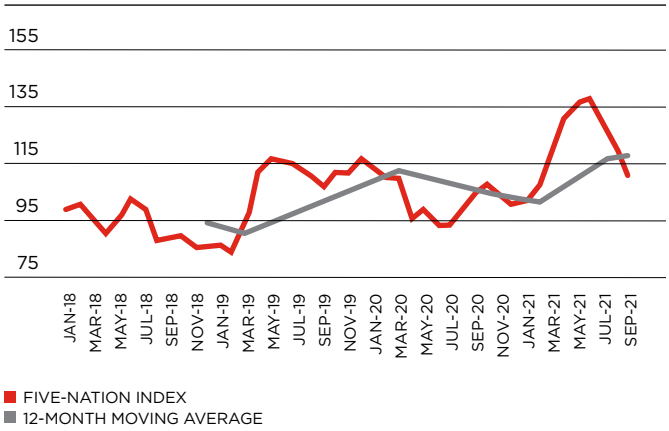
African Swine Fever ('ASF') disruption

The biggest demand deterrent for meat is higher prices, affected by tighter global supplies of animal feed and supply chain disruptions. This forces families to buy less meat and swap with other proteins such as eggs or carbohydrates such as rice or noodles. The United Nation's benchmark food and commodity prices index rose sharply through 2021; on average prices were 28% higher than in 2020, driven by vegetable oils and sugar. Meat prices rose comparatively less, by 12.7% throughout the year as a whole.

The price of pork has increased steadily since 2019, exacerbated by supply issues caused by ASF. The continued march of ASF in Europe and Asia has unsettled the balance of trade as well as local supply base affecting livelihoods and spending power. We may see technology or vaccine breakthroughs relating to ASF in 2022.

While pork's per capita growth rate lags slightly behind poultry, traditional pork consumption is expected to recover in countries which have been affected by ASF, particularly in Asia. China's domestic production of pork is recovering rapidly. We also see rising pork consumption elsewhere, in Mexico and Russia for example. While chicken is Mexico's preferred animal protein, pork consumption is forecast to grow by 2% in 2022 (USDA GAINS report July 2021). Pork consumption grew by an estimated 3% in 2021 in Russia, its highest level in 30 years (source: Rosselhozbank).

Rabobank five-nation hog price index 2018-2021 (Jan 2015=100)



Source: CME Group, CEPEA, CANSIM, European Commission, Macrobond, Rabobank 2021 (five-nations refers to China, Canada, Brazil, the US and the EU).

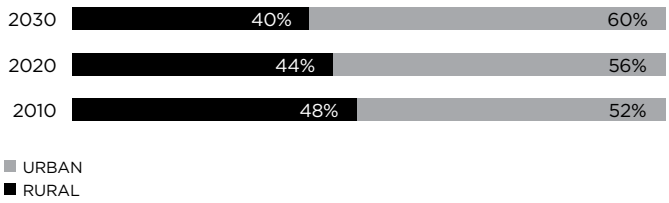
Urban megacities of the future

The megatrend of urbanisation is shaping consumer lifestyles now and in the future, with the largest urban population growth expected to take place in Asia, Africa and Latin America.

According to FAO statistics, approximately 57% of the world's population currently lives in urban areas and this is predicted to grow to 60% by 2030. By then, the UN estimates the world could have 43 so-called megacities (more than 10 million inhabitants), over a third more than today. Tokyo is the largest but most are in developing countries for example Shanghai, Mexico City and Sao Paolo.

Urban lifestyles create demand for faster and more convenient shopping channels which is a major focus for technological innovation in the food industry (online shopping, home delivery, drive throughs, food-centric petrol forecourts, unmanned automated convenience stores and robotic serving staff). Essentially consumers have less time for cooking at home and more disposable income, increasing the share of fully prepared food in their diet.

Global population trends



Source: FAOSTAT Annual population | CC BY-NC-SA 3.0 IGO. | January 2022.

Understanding our Markets continued

02

Opportunities for gut to collagen conversion

During 2020 and 2021, we have seen how the pressures of the pandemic have impacted on global labour markets. Despite the prevailing uncertainty, businesses have been forced to become more efficient, to rethink their product, business and operating models, and become more agile.

Within this increasingly competitive environment, Devro's experienced technical application teams are helping sausage producers achieve production efficiencies by converting from gut to collagen.

Labour shortages driving automation urgency
The ILO's World Employment and Social Outlook Trends 2022 (WESO) report warns of a slow and uncertain recovery, as COVID-19's impact across workers and countries varies hugely. At the national level, labour market recovery is strongest in high-income countries, while lower-middle-income economies are faring worst.

The appetite to reduce reliance on labour is partly in reaction to COVID-19 but largely an acceleration of a trend seen over the past couple of decades, for example using robotics to replace more manual operations in meat processing plants. Smart meat factories are using 'big data' information for increased traceability, to reduce safety hazards and generally exert greater control and efficiencies.

Sausage production was once a very labour-intensive process, however over the years, new equipment has been introduced that has helped the industry reduce downtime (e.g. automatic twisting and clipping). The market today expects fixed weight packaging, uniform links with less product give-away. Co-extrusion technology is also becoming more popular in a move away from traditional batch production to continuous processes. As advanced film and co-extruded gel experts since 1933, Devro is ideally equipped to help sausage manufacturers future-proof their business.

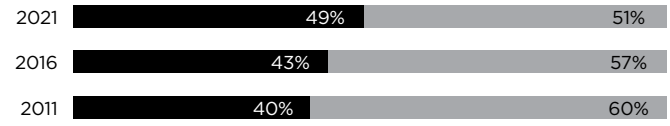
03

Market share gains

The pursuit of manufacturing efficiency coupled with growing consumer demand for affordable, yet higher quality, consistent and traceable food has increased collagen's relevance to today's marketplace. Sales of edible collagen casing have grown by over 60% in the last 10 years.

This reflects sausage market growth as well as successful gut to collagen conversion. In the fast-growing APAC region, collagen sales have almost tripled, largely due to rising consumption. Overall, collagen is steadily encroaching on natural gut usage, reaching an estimated 49% share of the edible casing market in 2021.

Collagen share of edible casings 2011-21



Source: Devro plc estimates

Regional viewpoint – defend and build market share
With casing manufacturing and co-extrusion gel facilities across six locations (UK, Netherlands, Czech Republic, US, Australia and China), Devro has significant global reach and access to state-of-the-art technology. This enables us to leverage our edible film and coating expertise across regional markets as well as partner with world-leading manufacturers.

Devro achieved growth in 2021 by supporting our customers in a challenging supply market, and offering essential contingency where needed. In 2022, while supply still faces challenges, we already see customer appetite returning to get our technical teams back on site to support on product development initiatives. Devro's growth strategy remains to defend strong market positions in mature markets and increase our share in emerging markets.

Mature markets

Within Devro's mature market classification, we include North America, Japan, Australia & New Zealand, the UK & Ireland and Europe. Combined, these markets represent around 60% share of Devro 2021 sales revenue, and growth opportunities typically arise from gut to collagen conversion and snacking.

Each market is diverse in terms of sausage application requiring different casing attributes. Many European markets still use traditional processing methods, and with the increased pressures on manufacturers to reduce costs and maximise production efficiencies, this presents a sizeable opportunity for gut to collagen conversion. Most have benefited from increased retail demand over the past year, however as foodservice recovers, maintaining these volumes will prove challenging. Labour shortages and volatile gut prices are causing producers to re-evaluate their casing strategy.

In order to realise new opportunities, we continue to develop products based on alternative technologies.

Snacking remains a dynamic growth area in North America with some emerging snack opportunities for Devro Stix in Europe and Australia & New Zealand. Consistent quality, performance and yield are important competitive advantages for Devro as well as clean label initiatives such as our growing natural colour library. Devro's success in the Japanese confectionery market presents further opportunities for growth in APAC and beyond.

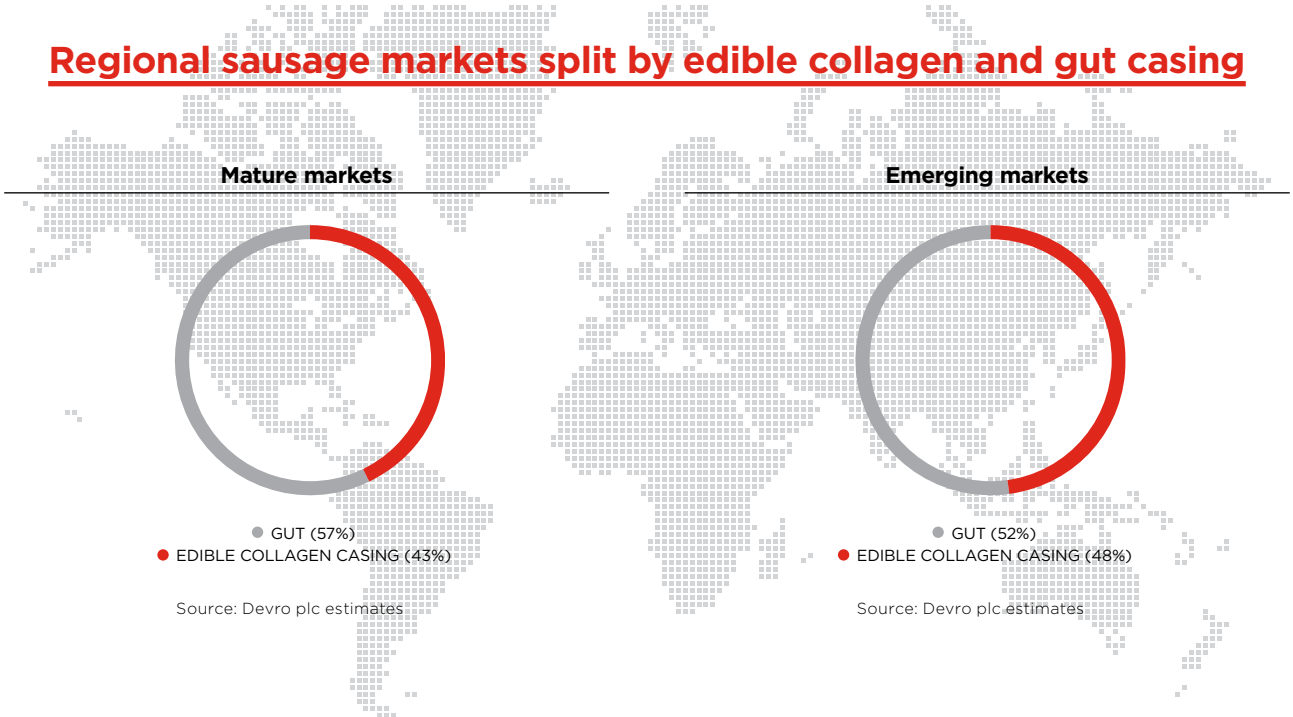
Emerging markets

Within Devro's emerging market classification, we include Latin America, Middle East and Africa, Russia, China and South East Asia. These markets represent a rising share of Devro sales, now almost one-third. Overall growth in sausage consumption here tends to be ahead of mature markets in line with GDP growth, increasing urbanisation and the drive for higher protein diets, convenient meal solutions and snacking.

In markets such as China and South East Asia, meat is still considered a luxury. In these markets, attitudes towards diet and nutrition revolve around counter trends of obesity and nutrition. Sausages provide a valuable source of protein but must also be part of a balanced diet and as an industry, we should strive towards offering healthy sausage options. Food security (availability and safety) and quality control are important. Overall the outlook is promising, not only from rising spending power and consumption per capita but also from evolving consumer and customer demand for transparent processes and greater consistency.

Devro continued to expand its customer base in Latin America during 2021, presenting new opportunities for product development. Our growth in South East Asia is significantly outpacing previous years, with existing and new customer opportunities flourishing in the region. We also continue to leverage our experience with global snack players to target opportunities in markets such as China and Russia.

Regional sausage markets split by edible collagen and gut casing



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

+1,000

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 mature 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

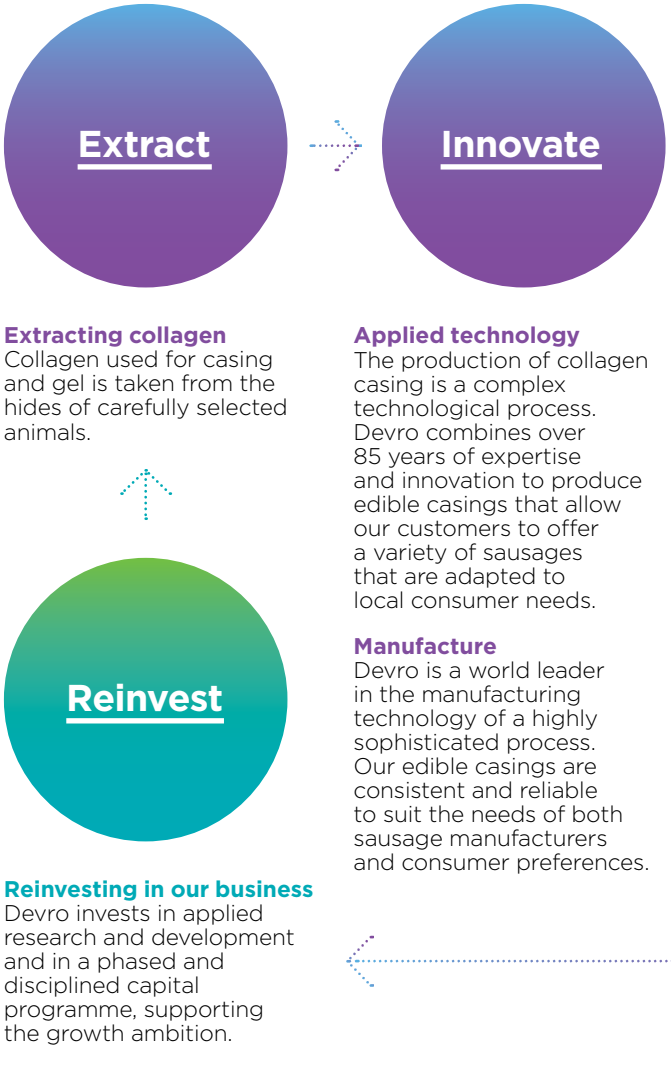
Devro employs nearly 2,000 people, with skills and knowledge ranging from chemical and electrical engineering to food technology, meat science and environmental health. Over 100 Devro employees work in customer-facing operations as sales and technical advisers.

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.



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.



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 are 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.

Customers

Creating the added layer...

In the APAC region, our Commercial, Technical and Product Development teams worked closely with customers to innovate and enhance production efficiencies.

Devro conducted needs analyses to identify customer pain points, collaboratively brainstormed to seek potential solutions and leveraged mutual resources to maximise synergies in breaking production limits, resulting in efficiency gains up to 30% and satisfied customers; as one customer stated "I think this is the greatest development I've seen".

In the Americas, our support and supply chain focus has reinforced our customer relationships and helped us build leverage for future business growth.

Amid unprecedented high retail demand, Devro's Commercial teams worked closely with our customers to manage supply and demand to ensure a seamless supply chain with no disruptions. Growth opportunities created by market shortages opened the door for our Technical teams to leverage Devro's value proposition to deliver productivity gains for the customer.

Across the globe, cross-functional teams worked together with our customers to deliver Devro's Added Layer of Value Together Responsibly Better.

...of value for our customers

In Europe, Devro supported one of its leading strategic customers in a journey to convert their premium sausages from natural gut casings to collagen casings.

Building on a relationship spanning over 20 years, Devro's Commercial, Technical and Research and Development teams worked together with the customer from concept to delivery and everything in between.

As a starting point, Devro provided the customer with consumer insights demonstrating acceptance of similar conversions in the marketplace. By leveraging Devro's intimate knowledge of the marketplace and its recent successes in gut conversions, the customer's initial concerns were mitigated and moved forward with initial scoping trials.

Devro's Commercial and Technical teams worked closely with the customer through multiple factory trials, highlighting optimisations to the customer's process, training its operators on the use of collagen casings and scale-up. The Research and Development team supported these efforts by enhancing products to better fit the customer's process and required product characteristics.

This collaboration between the customer and Devro has resulted in product approval through a series of taste panels and in-store consumer trials.

In parallel to these activities, the customer visited Devro's Moodiesburn production site in Scotland to review our capability to supply a key component of their premium sausages. During this visit, Devro shared its ways of working, its processes and innovation practices in order to gain the customer's confidence and build mutual trust.

Today, these premium sausages can be found in European supermarkets in Devro's collagen casings and our added layer of value has provided the customer with process efficiency gains, quality improvements and cost savings.

Employees

Purpose and Values brought to life...

During the year, necessary restrictions due to COVID-19 have been in place but as these begin to ease, our factory in Nantong, China made the most of celebrating their successes and showing how they are already living our Purpose.

Together: The annual year-end dinner at our Nantong plant is a great chance for colleagues to commemorate the year just ended and appreciate the efforts made by everyone. The evening consisted of prize draws, long service and special recognition awards and the highly anticipated 'red-carpet' talent show.

Responsibly: The show allowed individual teams who work together to perform together in order to meet the Company COVID-19 guidelines. The event was held in the spacious canteen area to allow for adequate social distancing and was a great success.

Better: The evening was also an opportunity for colleagues to share stories on how they have been living the Values, with votes being cast and awards presented for the favourites. Hearing the inspiring stories was a chance for everyone to strive to be better, to 'Be Devro'.

Working together to build relationships and to make sure that everyone has a voice and is heard.

...through global workshops

Over 40 people around the Group volunteered to become Purpose Ambassadors and worked with their local teams to demonstrate how they were living the Values.

A number of workshops took place in all locations around the Group with Purpose Ambassadors leading the way in heading up brainstorming sessions with their co-workers.

In Nantong, colleagues were encouraged to think about what each of the five Values meant to them and were asked to consider how they could practise each of these in turn by being:

Curious...

Courageous...

Committed...

Connected...

Caring...

The teams came up with an idea of creating a LOVE (Live Our Values Everyday) tree. The coloured petals directly corresponded with each of the individual Values with all five Values coming together to create a single flower. Almost 70% of colleagues took part in this initiative and created a beautifully coloured tree that takes pride of place in the tearoom where all can see their thoughts come to life and read about what the Values mean to others.

Environment

From harnessing the sun...

Further solar investment leading our renewable electricity generation in APAC.

With the aim of minimising our impact on climate change we will reduce the impact of CO_2 emissions by utilising best available technologies with all capital projects at our manufacturing sites.

Generation of renewable electricity utilising solar photovoltaic technology at the Nantong facility will have a significant impact on local Sustainability goals and contribute to the Devro Group Sustainability commitments. The installation of a 1,020 kW solar module at the manufacturing site will generate about 8.5% of the electrical load of the site, reducing CO_2 by 815 tonnes.

Following the completion of installation and commissioning work it is expected that the initial generation of power will be realised during April 2022.

An assessment to expand solar photovoltaic technology to other manufacturing sites has been initiated and it is anticipated that a renewable power generation programme will be progressed throughout 2022–2024.

Initiatives are underway around the Group to ensure that we achieve our sustainability targets on the way to becoming a net-zero Company by 2050.

...to reducing water waste

Water recycling initiative makes use of process water at our manufacturing site in Moodiesburn, Scotland.

Due to our commitment to drive sustainability and reduce the site freshwater consumption, the process water system was identified as an area where recycling within the water baths would achieve a significant reduction without compromising manufacturing output and quality. Process water used in the water wash system is up to 60% of the total site daily consumption.

Liaising with our Australian colleagues at Devro, Bathurst and adopting similar proven methodologies already in place, spent process water from the water baths was redirected into the flume tank area which resulted in a reduction of 22% of supplied process water. Extensive trials and testing were undertaken to ensure water quality was maintained at the required standard.

Following five months of monitoring, the water recycling project has delivered savings in excess of 21,000,000 litres of freshwater supply to the Moodiesburn site.

Sustainable growth

Devro is well placed to benefit from underlying global market growth while delivering great value to our customers and maintaining strong relationships with our suppliers.

Rutger Helbing
Chief Executive Officer

2021 reflected our long term strategy in action. I am pleased with the financial and strategic performance and see room for further progress given the momentum we have created. The Group has been relentlessly focused on plans and processes to help our people to deliver sustainable growth. The results of these investments were already visible in H2 2020 but to a greater extent in 2021 with constant currency revenue and operating profit growth of 5.5% and 12.7%.

Strategically the Group delivered, with the newly launched Purpose, Vision, Mission and Values embedded internally and communicated externally, and is our guiding star as a business. The feedback has been positive and we will continue to build upon this. In September we outlined our new sustainability priorities, targets and commitments, advancing our strong ESG platform that is firmly embedded. As CEO I take the responsibility to our people and to the environment seriously and in 2022 we will drive the actions that will enable us

to meet our targets and commitments. The Group has also increased investment in new product development with a particular focus on alternative technologies and the use of collagen in different applications. Our efforts are commercially sensitive at this time, but we have made good progress and intend to increase investment in 2022 as these new products approach launch.

Operationally the Group completed, on time and budget, the transfer of production lines from Bellshill, Scotland, to our Czech site. We have realised the expected cost savings, which aided our financial performance in 2021. We have an ongoing focus on continuous improvement, which is now embedded in the way we work.

Our success in 2021 would not have been possible without our people and business partners, and I would again like to put on record my gratitude for all their hard work and commitment.

Business performance

Overall, the performance in 2021 was strong with constant currency revenue growth of 5.5%, constant currency operating profit growth of 12.7% and reduction in covernant net debt to £88.6 million resulting in a covenant net debt/EBITDA ratio of 1.4. The strengthening of the GBP versus the USD and JPY did impact the reported numbers and reported revenue growth was 1.9% and reported operating profit was up 2.9%.

Emerging markets

Emerging markets continue to be a key source of growth for the Group and our ambition continues to deliver edible collagen volume growth in emerging markets of between 6–10% per annum. In 2021 overall edible collagen volume growth was within this range at 7.1% and constant currency revenue growth was ahead at 9.1%.

The key drivers of this performance were South East Asia and Latin America where healthy double digit growth was achieved. Growth in Latin America was driven by the full year effect of customer gains we made in Brazil in 2020 as well as with new products in Mexico and distribution gains in Chile and Honduras. Growth in South East Asia was driven by strong performance in both Thailand and Indonesia. Russia and East saw volumes and revenues decline due to FX headwinds.

Mature markets

Our overall edible collagen volume growth expectation for mature markets is between 0 and 2% per annum. After a challenging year in 2020 it is pleasing to see we saw a stronger performance in 2021, with edible volumes increasing 3.7% and constant currency revenue growth of 4.9%.

In the year we saw strong growth in snacking in North America with constant currency revenue growth of 18.3%. In Continental Europe and West, we saw healthy growth at 4.6%, a substantial improvement on prior years. Sales in Japan were flat in the year, whilst we continued to see some market related declines in both the UK and Ireland and Australia and New Zealand, albeit that the rate of decline in H2 narrowed.

Outlook

The Group has started the year well and, despite ongoing macro-economic headwinds including inflationary pressures and based on current exchange rates, we expect to make good progress in 2022. Longer term, we are increasingly confident that our growth strategy will drive sustainable outperformance in what remains a growing market.

Driving our growth agenda

In 2018 the foundations were laid for our long term sustainable growth. 2021 was the year where growth manifested itself more clearly, 2020 having been impacted by COVID-19, and encouragingly we are confident that this is the start of a multi-year journey. The growth achieved is a result of significant efforts from the whole team as well as improved plans, processes and systems in functions ranging from sales to operations, all underpinned by our 3Cs strategy.

In 2021 we launched our Purpose, which will help to guide us as we go forward:

Creating the Added Layer of Value Together Responsibly Better

With our Vision to be our customers' partner delivering the Added Layer of Value with high quality edible films and coatings and our Mission to sustainably utilise differentiated technology and bio-material science-based solutions to delight our customers.

We have focused to date through our 3Cs strategy on winning with the winning CUSTOMERS, maximising the CORE profitability drivers and strengthening COMPETENCIES. The original 3Cs served us well, but with our new Purpose and as part of the next phase, we have updated our 3Cs strategy.

We will continue to focus on the CUSTOMER – delivering the added layer of value TOGETHER – but introduce as our new second C an emphasis on CULTURE – reflecting how we deliver the added layer of value RESPONSIBLY, and as the third C we spotlight CAPABILITIES – how we deliver the added layer of value BETTER.

A focus on our core profitability drivers will continue but given the progress we have made to date, this is now an integral part of how we manage the business through our Integrated Business Planning.

Win with the winning CUSTOMERS – TOGETHER

Our priority for the Customer element of our 3Cs strategy is to provide the leading experience and leading portfolio of edible films and coatings. Our existing research and development activities continue to be focused on expanding our category plans and country initiatives. In order to broaden and enhance our already leading product portfolio we have also started to develop alternative technologies and explore other applications for our edible collagen films and coatings outside of our current core markets. These exciting initiatives will have a limited revenue impact on our 2022 results but are important for the long-term direction and scope of the business. We will provide more information on these exciting initiatives as and when appropriate.

CULTURE – Delivering the Added Layer of Value – RESPONSIBLY

Within Culture our strategic priority is to be leading in ESG for the sector and to live our values to enable a culture that drives performance.

In 2021 we updated our medium and longer term ESG ambitions and we shared those at the Investor seminar in September. Thinking Circular (to recognise interrelatedness) is in Devro's DNA, as we take a waste product and make it useful, and this includes ESG being at the heart of our Purpose, and we are very motivated to continue to make significant improvements in Climate, Water and Waste as well as for our People and Communities, focusing on Wellbeing, Culture and Communities. There is more information on this in the Responsible Business section.

To be able to live our Purpose we have, with the help of many of our colleagues, defined our new values as well. These values represent how we want to drive performance and deliver on our Purpose, Vision, Mission and strategy.

Curious – Courageous – Committed – Connected – Caring

CAPABILITIES – Delivering the Added Layer of Value – BETTER

In terms of our Capabilities we focus on how we can continuously improve our performance across the business using standardised global processes, as much as possible. In 2021, our Integrated Business Process, where we look each month at a 36-month rolling outlook, to ensure delivery of our strategic and financial ambitions, became firmly established. This process helped not only to deliver the strong results in 2021, but also to enhance our ability to make informed decisions on investments to support our future growth agenda. As such, in 2021 we decided to further expand our existing capacity through line upgrades in both our Czech and Chinese plants.

In 2021, we once again increased our yield and line speeds in our factories through our focus on continuous improvement and delivered costs savings of £5.8 million.

We have a strong and clear agenda for profitable and cash generative growth.

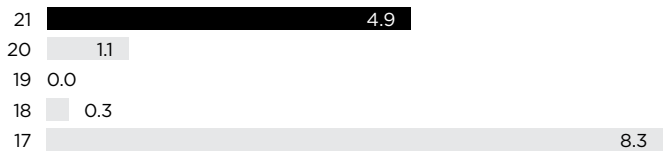
Measuring progress

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:

Link to strategic priorities in 2021:

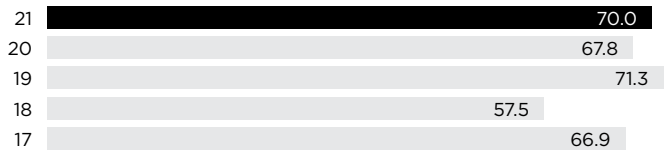
1. WIN WITH THE WINNING **CUSTOMERS**
2. FOCUS ON **CORE** PROFITABILITY DRIVERS
3. STRENGTHEN **COMPETENCIES**

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* operating cash flow 1 2 3
Cash generated from underlying operations before pension deficit funding (£'m)

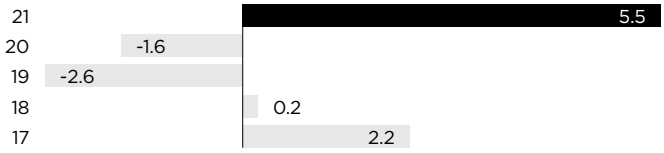


Underlying operating cash flow is the amount of cash generated by the Group through its trading activities and manufacturing operations before exceptional items, investment in capital expenditure and pension deficit funding. This measure is used to evaluate the performance of the business and to assist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

Constant currency revenue growth**

Value growth at constant currency (%)

1 2 3

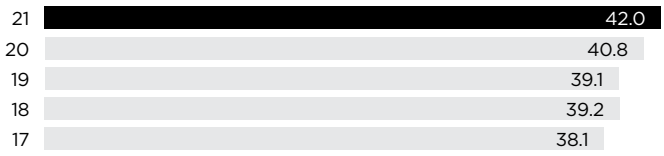


The Group has operations across the world in multiple currencies, and is exposed to translation risk on fluctuations in foreign exchange rates. As a result the Group's reported revenue will be impacted by movements in actual exchange rates. The Group monitors revenue growth on a constant currency basis** 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* operating profit

Operating profit before exceptional items (£'m)

1 2 3



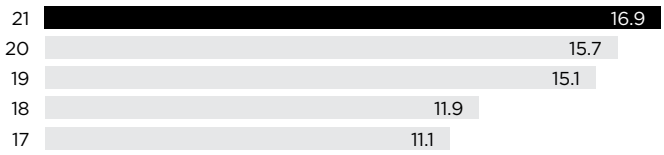
While the Group aims to take a long-term perspective on shareholder value, it also monitors the financial performance of the Group in the shorter term. The KPI used in this monitoring process is underlying operating profit. This measure is used to evaluate the performance of the Group, including sales price, manufacturing efficiency and overhead and operating cost control.

Underlying operating profit excludes exceptional items and the definition, explanation and reconciliation to equivalent statutory measures is included in the Alternative Performance Measures on pages 34 to 37.

Return on capital employed

Underlying* operating profit/average capital employed (%)

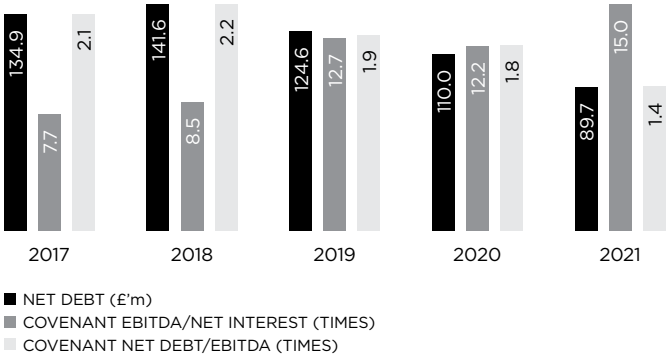
1 2 3



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.

Debt

1 2 3



Covenant net debt***/EBITDA**** measures the liquidity of the Group. Covenant 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 Alternative Performance Measures on pages 34 to 37.

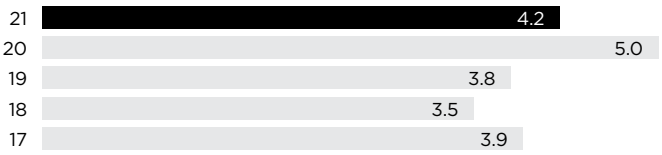
Covenant net debt/EBITDA and covenant EBITDA/net interest are the two key covenants for the short and long-term funding for the Group, and are therefore monitored on an ongoing basis.

Prior to 2018, covenant net debt included derivative financial liabilities and is defined, explained and reconciled to equivalent statutory measures in the Alternative Performance Measures on pages 34 to 37.

Health and Safety

Total recordable injury rate (LWDI and Recordable) per million hours worked

3



Health and safety matters are discussed further on pages 58 to 61. 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.

* Underlying measures are stated before exceptional items and they are defined, explained and reconciled to the equivalent statutory measures in the Alternative Performance Measures on pages 34 to 37. Underlying figures for 2020 and earlier years have been restated to include net finance cost on pensions as an underlying item, where applicable.

** 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.

*** Covenant net debt is shown before the impact of IFRS 16 of £1.1m (2020: £0.5m).

**** EBITDA for covenant purposes is shown on an underlying basis (before exceptional items) and before the impact of IFRS 16 of £0.4m (2020: £0.4m).

Strong financial position

The Group delivered a significant financial improvement in 2021 reflecting our strategy in action. On a constant currency basis, we achieved revenue growth of 5.5% with operating profit growth of 12.7%.

Rohan Cummings
Chief Financial Officer

Financial highlights

- Group revenue grew 1.9% to £252.4 million, a 5.5% increase on a constant currency basis.
- Total volumes grew 4.9%, with mature markets up 3.7% and emerging markets 7.1%.
- Underlying operating profit of £42.0 million, an increase of 2.9% on prior year, up 12.7% at constant currency.
- Underlying operating margin increased to 16.6% up 10 bps on the prior year.
- Statutory operating profit of £42.7 million, an increase of 18.0% on the prior year.
- Exceptional income amounted to £0.7 million, principally relating to the sale and closure of the Bellshill site.
- Basic EPS of 18.1 pence, a 14.6% increase driven by the operating profit increase, lower finance costs and lower tax charges (driven in part by a one-off benefit of a change in UK tax rates).
- Total dividend for the year of 9.3 pence per share, up 3.3% year-on-year.
- Free cash flow of £35.6 million was £13.1 million better than prior year, mainly due to improved operating cash flow and exceptional inflow from the sale of Bellshill.
- Net debt of £89.7 million, a decrease of £20.3 million from the prior year; and covenant net debt to EBITDA ratio down to 1.4x.

Revenue

	2021 £'m	2020 £'m	Change	Change at constant currency
Revenue	252.4	247.6	1.9%	5.5%

Revenue bridge

% change	2021 vs 2020	2020 vs 2019
Volume (EC*)	4.4%	1.1%
Price/country/product mix (EC*)	1.0%	-1.8%
Other products	0.0%	-0.8%
Foreign exchange	-3.5%	0.5%
Total	**1.9%**	**-1.0%**

*EC – Edible Collagen

Revenue increased 1.9% on a reported basis and 5.5% at constant currency. The increase in revenue was driven by increased volumes of edible collagen sales and positive price/country/product mix. Other products were flat for the year. Foreign exchange rates adversely impacted revenue due to the strengthening of Sterling against the Japanese Yen and US Dollar during the year.

Edible collagen volumes

Overall Group volumes grew by 4.9% in the year with 7.1% recorded in emerging markets and 3.7% in mature markets.

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

	Volume	Price/Mix	Foreign exchange – H1	Foreign exchange – H2
Emerging	+7%	+1%	-2%	-2%
Mature	+4%	+1%	-1%	-2%

Emerging markets volume growth of 7% was driven by new business wins along with market share gains with existing customers in several target geographies. Our strongest growth in volume was achieved in Latin America, up 25% and South East Asia, up 19%, where share gains continue to drive our outperformance. China saw a moderate decline of 2% in the year due to local production capacity being diverted to higher margin geographies. Russia and East saw a volume decline of 14% in the year due to foreign exchange headwinds impacting our local competitiveness; the impact was greater in the second half of the year compared to the first half. Emerging markets contributed 31% of Group edible collagen revenues, a 77 bps increase year on year.

Mature markets volume growth of 4% was driven by North America which achieved a 20% increase in the year, driven by a mixture of new business wins and existing customer growth particularly in the snacks category. Continental Europe saw volume growth of 4%, which is a marked improvement from recent periods. UK and Ireland experienced an 8% volume decline, largely the result of a decline in the collagen market. Australia and New Zealand saw a volume decline of 4% due to external market factors whereas Japan was flat for the year in a slower growing market.

Operating profit

Operating profit for the year can be analysed as follows:

	2021 £'m	2020 £'m	Change
Underlying EBITDA	63.3	62.4	1.4%
Depreciation & amortisation	(21.3)	(21.6)	1.4%
Underlying operating profit	**42.0**	**40.8**	**2.9%**
Exceptional items	0.7	(4.6)	
Operating profit	**42.7**	**36.2**	**18.0%**

Underlying operating profit of £42.0 million (2020: £40.8 million) was up by 2.9% on a reported basis. An increase in volumes sold, positive pricing and mix, and strong supply chain cost savings offset the impact of inflationary pressures and led to the delivery of a strong underlying operating profit performance.

Operating profit at £42.7 million (2020: £36.2 million) included £0.7 million of exceptional income largely related to profit recognised on sale of the Bellshill site.

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

	£'m
Underlying profit for 2020	**40.8**
Price/country/product mix (EC*)	1.6
Volumes (EC*)	5.6
Contribution from other products	–
Manufacturing cost savings	5.8
Inflation	(4.7)
Growth and operating expenses	(3.1)
Underlying operating profit for 2021 at constant currency	**46.0**
Foreign exchange and other	(4.0)
Underlying operating profit for 2021	**42.0**

*EC – Edible Collagen

Financial Review continued

The Group has a successful track record of delivering manufacturing cost savings. Manufacturing cost savings in 2021 included manufacturing efficiency initiatives, operating cost reduction programmes, including the closure of the Bellshill site, continued focus on sourcing of raw materials and optimisation of operational structures. The cost savings achieved were in line with management expectations.

Inflation was driven by higher wages, energy costs, chemicals and freight and represented a c.3% increase in the total cost to the business. The increase in operating expenses includes higher employee benefits, due to the improved financial performance, and investment into growth activities and innovation initiatives.

Devro reports in Pounds Sterling but generates revenue and costs in multiple currencies including US dollars, Euros and Japanese Yen. In the year the relative strengthening of Sterling has resulted in a net foreign exchange headwind of £4.0 million. In 2022 the Group expects a further foreign exchange headwind due to the non-repeat of the 2021 hedging gain of £3.1 million.

The Group's underlying operating margin increased by 10 bps to 16.6%. Adjusting for FX the underlying operating margin would have risen by 110 bps to 17.6%.

Exceptional items

Exceptional income included in operating profit was £0.7 million (2020: charge of £4.6 million) and related to profits recognised on sale of Bellshill site of £1.3 million and remaining costs associated with closure of this site of £0.6 million.

The 2020 restructuring costs included charges associated with the closure of the Bellshill site of £3.3 million, £0.6 million relating to the implementation of the new global operating model and £0.7 million of asset impairments related to the Bellshill site closure.

Working capital

	2021 £'m	2020 £'m
Inventories	33.9	37.8
Trade and other receivables	38.0	29.7
Trade and other payables	(38.9)	(32.0)
Provisions	–	(1.0)
	33.0	**34.5**

Working capital decreased by £1.5 million during the year and reflects: £3.9 million of lower inventory following strong trading at the end of the year, £8.3 million of higher receivables, following better sales in the latter part of the year and £6.9 million of higher payables. The payables movement partly reflects a standardisation of supplier terms across the Group.

Capital cash investment

	2021 £'m	2020 £'m
Capital cash investment	15.9	14.2

Capital cash investment in 2021 increased to £15.9 million compared to £14.2 million in 2020. The key investments in the year related to finalisation of reconfiguration and upgrade of our Czech facility following the closure of Bellshill and transfer of manufacturing lines from the UK. Due to COVID-19 certain non-essential projects suffered modest delays, and consequently capital investment was below our expected spend in 2021.

Cash flow and net debt

Devro continues to deliver positive cash flows with the covenant net debt/EBITDA ratio reducing to 1.4 times as at 31 December 2021, compared with 1.8 times as at 31 December 2020. The covenant EBITDA/net interest payable ratio was 15.0 times as at 31 December 2021 (2020: 12.2 times), and together with the covenant net debt/EBITDA ratio was well within the covenants.

Key financial measures are as follows:

	2021	2020
Net debt	£89.7m	£110.0m
Covenant net debt	£88.6m	£109.5m
Covenant net debt/EBITDA ratio	1.4 times	1.8 times
Underlying operating cash flow before pension funding deficit and exceptional items	£70.0m	£67.8m
Operating cash flow	£62.9m	£51.6m
Return on capital employed (ROCE)	16.9%	15.7%

Return on capital employed (ROCE) of 16.9% improved due to higher profitability and positive working capital movements in 2021.

Finance costs

	2021 £'m	2020 £'m
Net finance cost	4.3	5.4
Net finance cost on pensions	0.8	1.4
Total net finance cost	**5.1**	**6.8**

Finance costs for the year were £4.3 million. This represents a decrease from 2020 of £1.1 million and reflects lower levels of debt following repayment of $25 million US Private Placement tranche in April 2021 with a higher interest rate.

Finance costs on pensions for the year reduced by £0.6 million, due to lower brought forward net pension deficit and lower discount rates at the start of 2021, compared with the start of 2020.

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:

	2021 £'m	2020 £'m
Fair value of scheme assets	253.5	256.5
Present value of scheme liabilities	(289.7)	(311.7)
Net pension obligations	**(36.2)**	**(55.2)**

The Group's net pension obligation decreased £19.0 million, primarily due to a £13.1 million gain arising from an increase in the discount rates used to measure all schemes, slightly offset by increased inflation assumptions. In addition, the Group benefitted from a £6.0 million return on plan assets and continued deficit funding contributions.

The net pension obligation has improved from the balance reported at half-year (£41.2 million). This improvement is mainly due to most contributions being made after half-year, with £5.0 million of contributions being made in the second half.

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 2021 the Group made pension deficit funding contributions of £6.1 million (2020: £7.4 million). The decrease from 2020 relates to the US scheme, where contributions reduced by £1.3 million. Contributions for the US scheme are determined by an annual valuation based on assumptions that are fixed by the US regulatory regime. The triennial UK valuation and negotiations were completed in April 2021 with no material changes in deficit funding arising. Further analysis of the movement in net pension liabilities is set out in Note 26 to the attached Financial Statements.

Tax

	2021 £'m	2020 £'m (restated)
Tax charge on underlying profit before tax	6.7	7.6
Tax credit on exceptional items	(0.2)	(1.3)
Tax charge in income statement	**6.5**	**6.3**

The Group operates around the world and earns profits which are subject to tax at differing rates in different jurisdictions. The average tax rate charged to underlying profit before tax was 18.2% in 2021 (2020 (restated): 22.4%), and statutory profit before tax, 17.3% (2020: 21.4%). The 2020 tax charge on underlying profit before tax and tax credit on exceptional items was restated to include £0.3 million of tax credit related to net pension finance costs within the underlying tax charge.

The underlying tax charge for the year stood at £6.7 million. This is lower than last year, driven by a one-off benefit from a change of corporation tax rates in the UK. The credit to the profit and loss statement from this one-off benefit amounts to £1.6 million.

In 2021 deferred tax assets of £27.2 million (2020: £27.2 million) have not been recognised on losses in the US, China and other territories, due to uncertainty over the timing of future recoverability of accumulated losses.

Earnings per share

	2021	2020 (restated)
Underlying basic earnings per share	18.1p	15.8p
Basic earnings per share	18.6p	13.8p

We have presented an adjusted underlying earnings per share (EPS) measure, which excludes exceptional items, to provide 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). Restatement of the 2020 results relates to net finance costs on pensions and associated tax, previously included within the non-underlying, now included within the underlying results.

Underlying basic EPS increased by 2.3 pence, as a result of an increase in underlying operating profit (+0.7 pence), decrease in finance charges (+1.0 pence) and decrease in tax charges (+0.6 pence).

The increase in basic EPS mainly reflects exceptional profits recognised in 2021 compared to exceptional losses incurred in 2020, as well as the improved trading performance.

Dividend

	2021	2020
Interim per share	2.8p	2.7p
Recommended final per share	6.5p	6.3p
Total	**9.3p**	**9.0p**

The Board has recommended a final dividend for 2021 of 6.5 pence per share, an increase of 0.2p on the final 2020 dividend recommended in March 2021.

An increased interim dividend for 2021 has been paid in January 2022.

Alternative Performance Measures

In addition to statutory financial measures, management uses certain alternative performance measures (which are not defined by Adopted IFRS) to assess the operating performance and financial position of the Group. The alternative performance measures that Devro uses are 'constant exchange rates', 'underlying', 'earnings before interest, tax, depreciation and amortisation (EBITDA)', 'covenant EBITDA', 'net debt', 'covenant net debt', 'covenant net debt/EBITDA', 'free cash flow' 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. Constant exchange rates are used in the Financial Review in the revenue section on page 31.

Underlying

Underlying figures are stated before exceptional items (Note 4). 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. Devro has undergone a major transformation including the closure of the Bellshill site in 2020. The site was sold in January 2021, resulting in an exceptional gain on disposal. The closure of the Bellshill site coincided with a transfer of its trade and assets to other manufacturing sites in the Group notably to the Group's site in the Czech Republic. This restructuring transfer incurred a number of costs which have been recognised as exceptional costs.

In 2018, a decision was made to disclose the pension finance costs as a non-underlying cost in the annual report and half year results. The exclusion of net finance cost on pensions followed a review which concluded that the costs were volatile, given that they are dependent upon the pension position at 31 December each year which is subject to market fluctuations. A review in 2021 concluded that whilst not driven by the performance of the business, pension finance costs are an inevitable and ongoing cost for any business with defined benefit schemes and hence are no longer treated as non-underlying. The 2020 underlying figures had excluded net finance cost on pensions and therefore were restated where applicable.

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

	2021			2020		
£'m unless stated otherwise	**Underlying**	**Exceptional items**	**Statutory**	Underlying (restated)	Exceptional items	Statutory
Operating profit	**42.0**	**0.7**	**42.7**	40.8	(4.6)	36.2
Operating margin %	***16.6%***	***0.3%***	***16.9%***	*16.5%*	*-1.9%*	*14.6%*
Profit/(loss) before tax	**36.9**	**0.7**	**37.6**	34.0	(4.6)	29.4
Income tax	**(6.7)**	**0.2**	**(6.5)**	(7.6)	1.3	(6.3)
Profit attributable to owners of the Company	**30.2**	**0.9**	**31.1**	26.4	(3.3)	23.1
Basic earnings per share (p)	**18.1**		**18.6**	15.8	(2.0)	13.8

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.

	2021			2020		
£'m unless otherwise stated	**Underlying**	**Exceptional items**	**Reported**	Underlying (restated)	Exceptional items	Reported
Operating profit/(loss)	**42.0**	**0.7**	**42.7**	40.8	(4.6)	36.2
Depreciation & amortisation	**21.3**	**–**	**21.3**	21.6	–	21.6
EBITDA	**63.3**	**0.7**	**64.0**	62.4	(4.6)	57.8
EBITDA margin (%)	***25.1%***		***25.4%***	*25.2%*		*23.3%*
Less: impact of IFRS 16	**(0.4)**			(0.4)		
Covenant EBITDA	**62.9**			62.0		

EBITDA for covenant purposes is shown on underlying basis, before exceptional items and before the impact of IFRS 16.

Earnings per share ('EPS')

The underlying earnings per share measure, which excludes exceptional items, is used to provide a better indication of the underlying performance of the Group. Underlying basic earnings per share is calculated by dividing the underlying profit attributable to ordinary shareholders by shares, being the weighted average number of shares in issue throughout the year (2021: 166,949,022; 2020: 166,949,022). Underlying diluted earnings per share is calculated by dividing the underlying profit for the year attributable to ordinary shareholders by the average number of shares, including the effect of all dilutive potential shares (2021: 169,446,429; 2020: 166,909,074). Shares arising from the Performance Share Plan are only treated as dilutive where the effect is to reduce earnings per share (2021: 2,497,407; 2020: 1,960,052).

	2021		2020	
	Underlying	**Reported**	Underlying	Reported
Profit attributable to owners of the Company (£'m)	**30.2**	**31.1**	26.4	23.1
Earnings per share				
– Basic (p)	**18.1p**	**18.6p**	15.8p	13.8p
– Diluted (p)	**17.8p**	**18.4p**	15.6p	13.7p

	2021	2020
Shares in issue		
Weighted average number of shares in the year	**166,949,022**	166,949,022
Adjustments for:		
– Performance Share Plan	**2,497,407**	1,960,052
Weighted average number of shares adjusted for potential dilution	**169,446,429**	168,909,074

Net debt

Net debt is defined as the excess of total borrowings over cash and cash equivalents. Whilst net debt is calculated using balances reported under IFRS, the Group's covenants are based on net debt as accounted prior to the implementation of IFRS 16 and its impact on leases. A reconciliation from reported figures to 'covenant net debt' is presented below:

	2021 £'m	2020 £'m
Current borrowings	(2.2)	(20.8)
Non-current borrowings	(111.0)	(112.9)
Total borrowings	**(113.2)**	(133.7)
Cash and cash equivalents	23.5	23.7
Net debt	**(89.7)**	(110.0)
Add back: impact of IFRS 16	1.1	0.5
Covenant net debt	**(88.6)**	(109.5)

Alternative Performance Measures continued

Return on capital employed ('ROCE')

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 to statutory figures is presented below:

£'m unless otherwise stated	Note	2021	2020	2019
Intangible assets	**14**	**8.9**	10.2	10.5
Property, plant and equipment	**13**	**201.7**	209.2	213.8
Assets held for sale	**15**	**–**	2.5	–
Inventories	**16**	**33.9**	37.8	39.1
Trade and other receivables	**17**	**39.5**	31.4	31.8
Trade and other payables	**19 and 20**	**(41.9)**	(35.3)	(31.9)
Total capital employed		**242.1**	255.8	263.3
Average capital employed*		**249.0**	259.6	300.0
Underlying operating profit	**page 31**	**42.0**	40.8	39.1
Return on capital employed (%)		**16.9%**	15.7%	13.0%

* 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.

Free cash flow

Underlying operating cash flow and free cash flow provide management with important information, in respect with how the underlying business is performing (underlying operating cash flow) and what cash is available for mergers and acquisitions and dividend payments (free cash flow).

The table below provides a reconciliation from underlying operating cash flow to free cash flow adjusting for items which management view are outside of their discretion.

	2021 £'m	2020 £'m
Underlying EBITDA	63.3	62.4
Working capital/other	6.7	5.4
Underlying operating cash flow	**70.0**	**67.8**
Capital expenditure	(15.9)	(14.2)
Cash exceptional items	2.8	(8.8)
Pension deficit funding	(6.1)	(7.4)
Interest paid	(4.2)	(5.1)
Tax paid	(10.6)	(8.3)
Other	(0.4)	(1.5)
Free cash flow	**35.6**	22.5
Dividends paid	(15.0)	(10.5)
FX movements	(0.3)	2.6
Movement in net debt	**20.3**	14.6

Tax before exceptional items

As some of the Group's income and expenses are classed as exceptional when calculating the underlying profit, as a consequence, the tax impact related to such exceptional income and expenses is also deemed to be exceptional. The reconciliation below identifies the Group's tax on profits before exceptional items.

The 2020 underlying figures had excluded net finance cost on pensions and therefore were restated where applicable.

	2021			2020		
	Underlying £'m	**Non-underlying £'m**	**Reported £'m**	Underlying £'m	Non-underlying £'m	Reported £'m
Current tax						
UK corporation tax at 19.0% (2020: 19.0%)	**(1.2)**	**–**	**(1.2)**	(0.4)	–	(0.4)
Foreign tax	**8.9**	**–**	**8.9**	9.6	–	9.6
	7.7	**–**	**7.7**	9.2	–	9.2
Adjustments in respect of prior years	**(0.8)**	**–**	**(0.8)**	0.2	–	0.2
Total current tax charge	**6.9**	**–**	**6.9**	9.4	–	9.4
Deferred tax Origination and reversal of temporary differences representing:						
UK corporation tax	**1.1**	**(0.2)**	**0.9**	2.8	(0.9)	1.9
Foreign tax	**(0.2)**	**–**	**(0.2)**	(4.1)	–	(4.1)
	0.9	**(0.2)**	**(0.7)**	(1.3)	(0.9)	(2.2)
Adjustments in respect of prior years	**0.5**	**–**	**0.5**	0.1	(0.4)	(0.3)
Change in tax rates	**(1.6)**	**–**	**(1.6)**	(0.6)	–	(0.6)
Total deferred tax (credit)/charge (Note 25)	**(0.2)**	**(0.2)**	**(0.4)**	(1.8)	(1.3)	(3.1)
Tax charge/(credit) in the Consolidated Statement of Profit or Loss	**6.7**	**(0.2)**	**6.5**	7.6	(1.3)	6.3
Effective tax rate for the year	**18.2%**		**17.3%**	**22.4%**		**21.4%**

A reconciliation of the Group's tax charge from multiplying the Group's profit before tax by the headline UK corporation tax rate, including before exceptional items, is detailed below:

	2021			2020		
	Underlying £'m	**Non-underlying £'m**	**Reported £'m**	Underlying £'m	Non-underlying £'m	Reported £'m
Profit or (loss) before tax	**36.9**	**0.7**	**37.6**	34.0	(4.6)	29.4
Profit/(loss) before tax multiplied by the UK 19.0% (2020: 19.0%) corporation tax rate	**7.0**	**0.1**	**7.1**	6.5	(0.9)	5.6
Effects of:						
– Adjustments in respect of prior year	**(0.2)**	**–**	**(0.2)**	0.3	(0.4)	(0.1)
– Expenses not deductible	**0.6**	**–**	**0.6**	(0.2)	–	(0.2)
– Income not taxable	**(0.2)**	**(0.3)**	**(0.5)**	(0.3)	–	(0.3)
– Adjustments in respect of foreign tax rates	**1.6**	**–**	**1.6**	1.2	–	1.2
– Impact of tax rate change	**(1.6)**	**–**	**(1.6)**	(0.6)	–	(0.6)
– Temporary differences on which deferred tax not recognised/(previously unrecognised)	**0.5**	**–**	**(0.5)**	0.7	–	0.7
Tax charge/(credit) for the year	**6.7**	**(0.2)**	**6.5**	7.6	(1.3)	6.3

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 principal and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. This assessment has included a rolling programme of reviews by the Board of how the Company is addressing individual principal risks it faces, which in 2021 included giving particular consideration to the risks associated with IT systems & cyber threats, food regulation and operational disruption.

In addressing and overseeing risk, the Board is supported by the Risk Committee, by the Executive Management Team through additional integrated business planning structures and by the newly established Sustainability Committee (to consider longer term climate change risks).

Our approach to risk is governed by our risk management framework. A refreshed framework was established in the prior year, 2020, and in 2021 this has become further embedded in the business. It is characterised by standardised processes to ensure that key risks are identified promptly; their potential impact on the Company's strategy and associated key areas of focus is properly defined and reported; and that responsibility for managing individual risks is aligned with accountability for delivery of the aspect of our strategy or key area of focus which the risk threatens. The emergence of new risks is considered at every meeting of the Risk Committee as is consideration of the Company's appetite for risk, and this approach is also mirrored across each business function management team in the Company.

The main risks identified, which, if they materialised, could adversely impact the delivery of our strategy over the rolling three-year period for which we maintain detailed plans, are set out in the following pages, organised thematically. They include a description of the impacts of COVID-19 on our business which continue to be relevant to a number of different risks.

We also describe in our TCFD report commencing on page 44 the climate change risks which may adversely impact the business in the longer-term (beyond the period for which we undertake detailed business planning).

Additional risks which are not presently known to management could also have an adverse effect on the Company.

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 43 and 77, respectively.

Risk Trend

↑ Increased ↓ Decreased → Broadly unchanged

Key Risk	Impact	Mitigation	Movement
IT systems / cyber risk IT systems are central to our business operations. Vulnerability to an external attack, a risk faced by companies and institutions globally, continues to evolve, particularly as reliance on online connectivity increases as different ways of working are adopted.	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 have continued to prioritise the recommendations of an audit undertaken in 2020 of cyber security threats, aimed at remediating known vulnerabilities, investing in tools to detect new vulnerabilities and implementing an Information Security governance structure to counter and mitigate future cyber security risk and vulnerability. Employees are regularly trained to detect, avoid and mitigate cyber risks and information security risks.	→

Risk Trend

Increased Decreased Broadly unchanged

Key Risk	Impact	Mitigation	Movement
Changes in global political and national trading relationships The deterioration of political relationships risks sanctions which might prevent or disrupt trading. Further regulatory changes to arrangements governing trading between the UK and the EU, risks disruption to some Company sales.	The Group has a global footprint and disruption to international trading routes may affect our ability to supply particular customers. In 2021, the Group generated c.3% of its revenue p.a. from sales to Russia, which may become more restricted as trading sanctions are imposed following Russia's invasion of Ukraine. While disruption due to a 'no-deal' Brexit was averted by the December 2020 trade and cooperation agreement reached between the UK and EU, the introduction of additional regulatory requirements might disrupt Company sales of product exported to customers in the EU and Northern Ireland from Scotland.	The Group serves a wide customer base in over 100 countries from a manufacturing footprint across four continents. The Group is not reliant on any one relationship with customers of a particular nationality such that any underlying political tension would likely materially impact the Group's overall sales. The geographical breadth of the Group's manufacturing base also gives it the flexibility to adapt its routes to market in order to navigate disruption caused by political tension. Through its preparations for an abrupt departure of the UK from the EU, the Company maintains a governance framework to be able to adapt to new changes as they arise. We have substantial manufacturing operations in the Czech Republic from where we continue to be able to supply most EU customers.	↑
Inflationary cost pressures Inflationary cost pressures that cannot be mitigated by cost reduction or passing on price, risks reduced margins and profitability. In periods of increased costs volatility, such as at the date of this report, there may be unexpected cost increases sought by suppliers which the Company may only be able to mitigate after such increases have occurred.	Global inflationary headwinds driven particularly by labour and energy costs, the latter of which at the date of this report is also being exacerbated by global political tensions, could result in significant cost increases for the Group's business. The cost of the Group's most important raw material, collagen (which represents up to 20% of the Group's total cost of goods), has also been subject to inflationary pressure during the pandemic due to disruption to the automotive industry which collagen suppliers rely upon.	There continues to be an ongoing focus on manufacturing efficiencies and cost reduction, led by our global Procurement function, to address inflationary pressures across the entire business. We seek to hedge energy costs or enter fixed contracts with suppliers. Where possible, we also aim to agree forward contracts with all key suppliers, including with specialised collagen suppliers in different regions of the world, with a number of whom we have long-term commercial arrangements. The Group seeks to enact price rises for its own products which are inflation-led and also informed by our insights into customers' perception of the value our customer proposition offers them.	↑
Foreign exchange risk c.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 experienced in 2021 is expected to continue in 2022.	The financial impact of exchange rate fluctuations within our operating units is partially mitigated by a policy of hedging a substantial portion of transactional foreign exchange risk for periods of up to 15 months using forward contracts.	→

Principal Risks & Uncertainties continued

Risk Trend

Increased Decreased Broadly unchanged

Key Risk	Impact	Mitigation	Movement
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.	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.	→
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. The readiness of fresh sausage producers to consider non-collagen co-extrusion solutions has continued in 2021.	If there were to be a significant conversion to co-extrusion, there could be an adverse effect on sales of collagen casing, revenues and profits.	The Group makes substantial investments in product development and manufacturing processes to sustain competitive advantage, amounting to c.3% of revenue per annum. Research and development investment in 2021 included the development of alternative technologies, customer trials of which have commenced, and of alternative product applications. 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. which complemented our existing US co-extrusion business, continues to be a world leader in this specialist category. We continue to invest in the development of innovative gel (non-casing) solutions.	→

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. As our customers experience inflationary cost pressures, they will likely seek greater efficiencies in their own businesses and from their suppliers.	To Win with the Winning Customers remains a key pillar of our 3Cs strategy and the establishment of our global commercial organisation in recent years has enhanced our facility to apply insights into customer requirements to the delivery of commercial propositions which drive customer satisfaction. We have developed a structured process to identify and convert our sales pipeline efficiently. We have also focused in 2021 on implementing a systematic inflation-led pricing strategy, which also reflects customers' perception of the value our commercial proposition offers them. This encompasses the value we offer customers through efficiencies we assist them to bring to their own manufacturing processes (by switching, for example, from gut to collagen casing applications). We aim to continue expanding the total collagen casings market by developing products which convert gut applications to collagen casing and in 2021 we developed additional sales tools to promote such conversion. In 2021, cost savings of £5.8 million have been delivered in order to keep our cost base competitive.	
Food regulatory risks 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.	We actively monitor planned and actual changes to regulations in all key jurisdictions in order to minimise disruption to our business. The Group is a member of various industry bodies, including the Collagen Casings Trade Association, which monitor global regulations. Supplier approval and traceability are under constant review.	
Changes 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 shorter-term trends such as those triggered by restrictions on food service channels or social gatherings in response to the COVID-19 pandemic.	A decline in consumer demand for sausage could lead to increased competition in the marketplace and reduced sales revenue/profitability. Overall consumer demand for protein continues to grow, this trend being particularly pronounced in emerging markets, where there is a corresponding growth in sausage consumption. 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.	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. In 2021, we have commenced development to exploit new commercial opportunities based on alternative technologies and products. Our demand planning and IBP procedures assist us to react to changes in consumer demand at speed including changes to our routes to market during the COVID-19 pandemic, as do improvements we have made in 2021 to our framework for innovation projects.	

Principal Risks & Uncertainties continued

Risk Trend

Increased Decreased Broadly unchanged

Key Risk	Impact	Mitigation	Movement
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.	→
Operational disruption The Group is at risk of disruption to its manufacturing capability from poor operational performance, or major disruptive events, such as fire, flooding or pandemic including the impact of higher employee absences and disruption to our suppliers' businesses due to COVID-19.	Prolonged operational disruption could result in sustained loss of capacity or capability and could affect our ability to deliver to customers. While we have been able to maintain sufficient production to meet customer demand during the pandemic, there is an ongoing risk of disruption to our operations and consequent ability to continue meeting customer demand, caused by higher levels of COVID-19 pandemic related employee absences or by regulatory controls to limit the spread of the virus. (Such controls may include temporary restrictions on industrial and commercial activity.) Disruption to our suppliers' business may also make it more difficult for us to source key raw materials and, during the COVID-19 pandemic, both our hide and glycerol suppliers have experienced disruption. Operational disruption could, in turn, 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. In 2021 we have increased our manufacturing yields and line speeds which provides greater resilience against the consequences of operational disruption, as does the decision in 2021 to invest in additional manufacturing capacity at both our Czech and Chinese plants in alignment with the Company's ongoing growth plans. Our business continuity and disaster recovery plans are regularly tested and continually updated. They have been deployed effectively throughout the COVID-19 pandemic to optimise our global production plans, which take account of changes to staffing levels. We continue to adopt comprehensive COVID-19 specific health & safety measures, in many cases at standards which exceeded those mandated in the countries where we operate, including strict access limits. Our Procurement function also continues to assess and monitor our supply chain vulnerabilities which we address by seeking and maintaining multiple sources for key raw materials and cultivating equitable long-term contractual relationships with suppliers. Appropriate insurance policies are in place.	→
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 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. We engage regularly with employees and undertake annually an employee engagement survey, from which actions to enhance engagement are formulated and implemented. See page 62 for our employee engagement initiatives.	→

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 24 to 27. 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 2024 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 planned to be refinanced prior to the current facility's expiry date, falling in 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 2024.

Non-financial information statement

Non-financial information reporting required under the UK Companies Act is included in the Strategic Report as referenced below. Our reporting includes information about the policies and principles that govern our approach, correspondence diligence processes, outcomes and non-financial performance indicators.

Reporting requirement	Section	Pages
Environmental matters	TCFD Report Our sustainability framework	44 to 47 49
Employees	Health and Safety Our people	58 to 61 62 to 65
Social matters	Communities Tax transparency Supplier compliance	65 66 67
Respect for human rights	Human & employee rights	66
Anti-bribery and anti-corruption matters	Business conduct	66
Description of the business model	Business model	16 to 17
Description of principal risks	Principal risks & uncertainties TCFD Strategy	38 to 43 45

Commitment to climate change

This TCFD Report sets out the Company's climate-related financial disclosures consistent with the recommendations of the Task Force on Climate-related Financial Disclosures ('TCFD') and with the TCFD recommended disclosures, in line with the current UK Listing Rules requirements. Specifically this TCFD Report takes account of the 2017 guidance issued by the TCFD on the implementation of its recommendations (the '2017 TCFD Annex'). In October 2021, the TCFD released additional guidance implementing its recommendations ('2021 TCFD Annex'), which supersedes the 2017 TCFD Annex. We have also considered the 2021 TCFD Annex and applied it where possible.

Governance

Devro's Board of Directors is responsible for the oversight of climate-related risks and opportunities, as with all matters which impact the strategy and risk management of the Group. The Board is responsible for the oversight of the Group's climate change policy and monitors and oversees progress of the Group's sustainability targets against our recorded emissions (Scope 1 & 2), water use (m^3) and waste (tonnes). As climate-related issues are fundamental to the Group's business Purpose, the CEO has overall responsibility for their oversight, ensuring climate-related issues are considered in the review of Devro's strategy, budget and business. The Group's Audit Committee supports the Board in ensuring climate-related issues are integrated into the Group's risk management process. The climate-related risk and opportunities register is reviewed by the Audit Committee every six months at meetings scheduled to approve the Group's overall risk controls. The Audit Committee is also responsible for approving the content of the Group's TCFD disclosures.

Executive management level oversight of climate-related issues at Devro is performed by the CEO and the EMT, who monitor progress to climate-related targets, achievements, barriers to be resolved and report to the Board. Our Sustainability Committee supports the EMT on delivery of the climate-related strategy and performance of the business. Further details are outlined on page 52, Sustainability Governance Structure, and details, including specific actions, relating to our management of emissions, energy use, water and waste can be found in the Responsible Business section of this 2021 Annual Report.

Risk management

Risks and opportunities relevant to Devro were identified with the help of external consultants and refined through consultation with the Sustainability Committee and senior management. Devro considers climate-related risks and opportunities in all physical and transition risk categories, current and emerging, whether they occur within our own operations, or upstream and downstream of the Group and whether they occur within the short, medium or long-term time horizons.

Climate-related risks and opportunities are evaluated for likelihood (intuitive assessment) and impact (£'m impact on Group EBIT) with a threshold of £1 million EBIT impact over the rolling three-year period. The completed climate-related risk and opportunity register was reviewed and approved by the Audit Committee during the financial year such that the significance of climate-related risks is considered in relation to risks identified in the standard risk management process. This ensures the management of climate-related risks is integrated into Devro's overall risk management framework. The climate-related register is reviewed every six months to incorporate ongoing refinement and quantification of risks and to ensure the register reflects any material changes in the operating environment and business strategy.

Once identified, further details related to each key risk and opportunity, such as a quantification of the financial impact, the appropriate strategic response and cost of response and the variance of key risks in relation to climate-related scenarios are developed where possible. These details help to determine the materiality of each risk and alongside the magnitude and likelihood assessment outlined above, this allows Devro to prioritise resources in managing the most material climate-related impacts, determine the best management response or highlight areas requiring further investigation. Further details of the Group's risk assessment process are on page 38, Principal Risks & Uncertainties.

Strategy

Through our process, the following key risks and opportunities that could have a material financial impact on the organisation have been identified. These are incorporated into our strategic thinking.

Risk	Carbon (fossil fuel) tax	Carbon (fossil fuel) tax	Water scarcity
Type	Transition	Transition	Physical
Area	Own operations	Upstream	Own operations
Primary potential financial impact	Higher energy costs	Higher raw materials costs	Higher costs/disruption
Time horizon	Medium-term	Medium-term	Medium-term
Likelihood	Very likely	Very likely	Evens
Magnitude of impact	Medium	High	Low
Impact on the business and strategy	Devro uses an energy intensive production process. The prevalence of carbon pricing (applied directly or indirectly) is expected to expand, and the price of carbon is expected to rise. The International Energy Agency ('IEA') forecasts that carbon prices (US$/$tCO_2e$) relevant to Devro under SDS[1] and STEPS[2] are projected to increase which would lead to an increase in the costs to the Group either in the cost of power, carbon offsets or carbon taxes based on our Scope 1 and 2 emissions. The Group is investigating efficiency measures, renewable self-generation, and renewable electricity supply (see Opportunities). The Group targets 25% reduction in Scope 1 and 2 emissions by 2030 and net-zero by 2050, which would materially limit the direct impact of carbon prices.	Carbon price increases and introduction of carbon pricing in the value chain would increase the cost of transportation and increase in the cost of carbon-intensive raw material inputs. The final cost implications to Devro would be dependent on where in the value chain the responsibility for the cost increase lies and whether price increases can be passed on. The Group is undertaking a Scope 3 carbon foot printing and lifecycle analysis to understand where its upstream carbon impacts lie and to quantify its value chain carbon footprint. This will help us determine what actions we can take with e.g., suppliers and logistics, that will reduce our Scope 3 emissions and any exposure to upstream carbon pricing risks. We would expect that the largest portion of the upstream carbon footprint to be related to raw material for casings, with more limited carbon footprint associated with the inbound transport, outbound distribution, and packaging.	Our site in Australia (Bathurst) operates in a region where the risk of water stress (scarcity) is expected to rise (identified with AWARE & WRI Aqueduct). The region is currently classed as Low Risk for water stress, but the basin is predicted to rise to High Risk by 2030 under the RCP 8.5[3] scenario. Notably, drought in multiple years led to regional water restrictions in 2019, but as a key local business, the plant faced no restriction to supply and there was no additional cost of water. Nevertheless, the Group investigated drilling boreholes to source alternative water supply and reduce reliance on municipal water. The capital cost of boreholes and water cleaning was under £1 million. There is also a Company-wide water reduction opportunity from production efficiency.

1. Sustainable Development Scenario (SDS)* outlining a global low carbon transition which limits the global temperatures rise to 1.65 °C by 2100, with 50% probability.
2. Stated Policies Scenario (STEPS)* outlining a combination of physical and transitions risk impacts as temperatures rise by 2.6°C by 2100, with 50% probability.
3. RCP 8.5** an extreme physical risk scenario, where global temperatures rise between 4.1-4.8°C by 2100.

TCFD Report continued

Opportunity	Innovating low carbon alternatives	Water, energy, waste savings	Green generation
Type	Products and services	Resource efficiency	Energy source
Area	Own operations/downstream	Own operations	Own operations
Primary potential financial impact	Increased sales	Decreased costs	Decreased costs
Time horizon	Medium-term	Medium-term	Medium-term
Likelihood	Likely	Likely	Likely
Magnitude of impact	Medium	High	Low
Impact on the business and strategy	Subject to customer acceptance, the Group would be able to lower Scope 3 emissions via a shift in the raw material of casings through the development of the consumer market and the required technologies to produce alternative casings in economic quantities. The carbon footprint of porcine and poultry-based casings is materially lower than bovine casings. Plant-based solutions may also offer substantially lower emissions. The Group already offers porcine in all formats, and poultry in gel. However, there is no meaningful shift in customer demand trends at this point. Plant-based casings would need further technological development which would be a normal R&D cost for the business. It is too early to determine the financial impact and the lifecycle analysis will contribute to our analysis of this opportunity.	There is a large opportunity for the Group in resource efficiency, reducing energy, water and waste. The Group is targeting a 25% reduction in intensity of energy, a 20% reduction in water and a 30% reduction in product waste to 2025. An absolute reduction of 25% and 20% in energy and water respectively and reduction of product waste to zero is targeted to 2030. Reduction targets do not assume any significant step-change in technology. This will be derived from upgrading and improving manufacturing processes, increasing water re-use in process, and through the elimination of non-organic contamination in production waste, which will allow most production waste to be sent to anaerobic digestion for third party energy generation.	Our focus on our 2025 targets is efficiency improvements, modular solar investments, and purchase of renewably sourced electricity via Power Purchase Agreements (PPAs). The 2030 target will be delivered through improved efficiency, reduced energy demand, further renewable procurement, and the decarbonisation of heat. Increased on-site self-generation and increasing the purchase of renewable sourced electricity will reduce Scope 2 emissions. After initial capex payback, renewable energy generation becomes cash generative by removing cost. We aim for PPAs for 100% of demand in the Czech Republic and Scotland by 2025 and 100% for all sites by 2030. Reduction targets do not assume any significant step-change in technology. This will reduce our emissions and exposure to carbon price risks outlined above.

We explored three additional risks and one additional opportunity, which we do not believe to be material, or which currently do not impact our businesses, strategy, and financial planning:

- **Severe weather (risk):** whilst the incidence of severe weather is expected to increase, this is expected to be below the materiality threshold. The Group has experienced minor weather-related disruption to date. Our most vulnerable site is Sandy Run (hurricanes), where a well-rehearsed storm forecast and response system is in place. The impact of any weather-related issue at plants would be a function of how long a site is offline, any material asset damage and any related insurance monies.
- **Physical risks on our supply chain:** these are likely to be localised rather than universal, and Devro has high level of resilience in supply chain, with proven ability to source raw materials from alternative suppliers. The Group is moving towards global raw material specifications to allow all plants to accept each other's supplies, increasing our operational resilience.
- **Reduced meat consumption (risk):** studies indicate that whilst consumer preferences may result in changes in regional demand, there is limited risk of overall global demand contraction in the forecast period.
- **Collagen market share (opportunity):** the collagen to gut ratio globally means there is potential for further market share gains for collagen. Collagen provides customers manufacturing efficiency, thereby reducing their energy costs and emissions.

In consideration of the longer time horizons for climate-related issues and in keeping with the interim target dates set for the business in line with its 2050 net-zero aspiration, the time horizons for our risk assessment analysis have been determined as follows:

- Short-term: to 2025
- Medium-term: 2025 to 2030
- Long-term: 2030 to 2050

We use climate-related scenario analysis to improve our understanding of how different climate outcomes impact certain risks. We employed three public climate-related scenarios which help us better understand the resilience of the business to climate change:

- Sustainable Development Scenario (SDS)* outlining a global low carbon transition which limits the global temperatures rise to 1.65°C by 2100, with 50% probability.
- Stated Policies Scenario (STEPS)* outlining a combination of physical and transitions risk impacts as temperatures rise by 2.6°C by 2100, with 50% probability.
- RCP 8.5** an extreme physical risk scenario, where global temperatures rise between 4.1-4.8°C by 2100.

* IEA (2021), World Energy Model, IEA, Paris https://www.iea.org/reports/world-energy-model

** IPCC, 2014: Climate Change 2014: Synthesis Report. Contribution of Working Groups I, II and III to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change.

The scenarios we use have been supplemented with additional sources specific to each risk to inform our assumptions. Much of our scenario analysis remains qualitative at this stage, but against certain risks, we have begun to develop quantified impacts internally where the underlying data is available and where the current understanding of the risks is robust. Our initial assessment is that the business remains resilient in all three scenarios and our strategic planning is aligned to meeting the transition risks detailed in SDS and STEPS. There will be opportunities in future years to increase the sophistication of modelling as new data is made available both internally and externally to support a meaningful quantitative assessment.

Metrics and targets

Devro monitors Scope 1 and 2 greenhouse gas emissions, measured under ISO14001, energy use, freshwater withdrawal and waste management, as reported on page 53. We are developing our understanding of our Scope 3 emissions. Our targets are outlined on page 51 and Devro has made the public commitment to be net-zero by 2050.

Honesty and integrity

We take our responsibility to the environment, people and communities seriously and have developed a set of targets and continuingly developing plans to deliver for each of these.

At Devro, sustainability is integral to us and is part of our DNA. We act with honesty and integrity in everything we do. Conducting our business fairly and ethically throughout the world is at the heart of our strategy. We pride ourselves on our respect for the planet, our people and the communities we deal with. We manufacture across a global platform and we operate with care and commitment to our workforce's wellbeing and with that of our local communities in all our regions. We are dedicated to the health and safety of our employees, which is fundamental to how we operate. We are continually reducing our environmental impact to benefit our business, communities, and future generations. As one of the world's leading suppliers of edible collagen casings for food, we develop trusted and innovative products for our customers. Our primary product utilises a waste product from animal protein production, enhances production efficiency, reduces waste and provides cost saving benefits to our customers.

Progress in 2021

This year we have developed our sustainability framework even further, accelerating our sustainability performance, enhancing our ESG disclosure, making improvements to the governance and structure of sustainability and taking the first steps towards a net-zero ambition. Our key achievements in 2021 include:

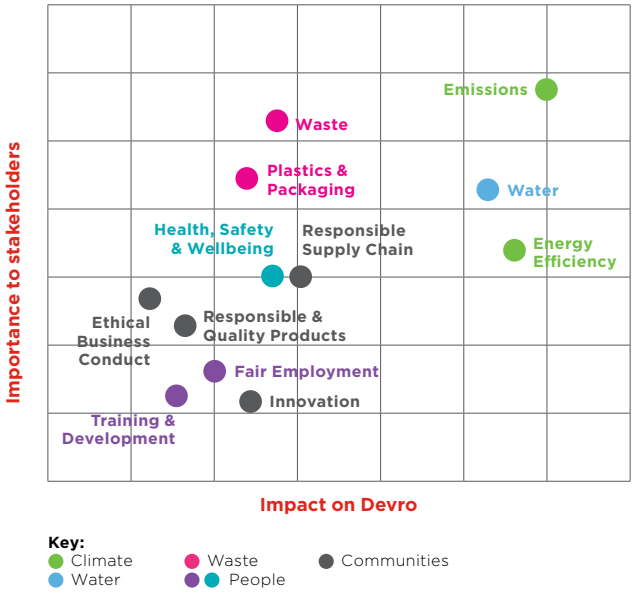
- New graduated targets for each of our priority sustainability areas
- Established a strong governance structure to coordinate our sustainability strategy
- Conducted a materiality assessment, identifying six clear priority areas
- Defined our Purpose and Values, which are our guiding star
- Submitted our inaugural CDP Climate Change response, achieving a C rating
- Implemented the recommendations of the TCFD
- Commenced our lifecycle analysis process, which will identify carbon hotspots in our value chain

Our sustainability framework

Double materiality assessment

We aim to address issues which matter most to our Company, from a financial and business purpose perspective, and which impact society and our stakeholders. During 2021 we conducted a double materiality assessment to inform our sustainability strategy, approach, and reporting.

During this process, we considered issues of internal importance as well as incorporating external trends shaping our business, referencing them to industry reporting standards and peers. Material issues were identified with reference to the relevant UN SDGs for our business as well as multiple other sources including rating agencies, investors and government views and industry considerations. The views of a range of internal and external stakeholders (employees, shareholders, industry groups and NGOs) were incorporated into the analysis. The resulting matrix enables us to understand and prioritise the issues that matter most to us and our stakeholders. These findings will enable us to focus on areas that will improve our impact on the wider world whilst allowing our business to prosper.



We used the results of the materiality assessment to identify our broad focus areas which are:

Climate

Focus area
We continue to optimise our sites for energy efficiency and lower emissions and implement low-carbon solutions where possible.

Water

Focus area
We focus on reducing our freshwater use, clean up of used water and reduce any negative impact of water discharge.

Waste

Focus area
We take great steps to reduce and recycle our waste where possible and minimise our waste to landfill.

People

Focus area
We look after the interests of the people who work for us, both internally and in our supply chain. We focus on the safety of all our employees and engage with them with respect that capitalises on our cultural differences. We support employee training and professional development, promote diversity, operate with respect for human rights and ensure equal opportunities throughout our business. We strive to make Devro a safe and fulfilling place to work. Our aspiration remains to become a Zero Accident Community.

Communities

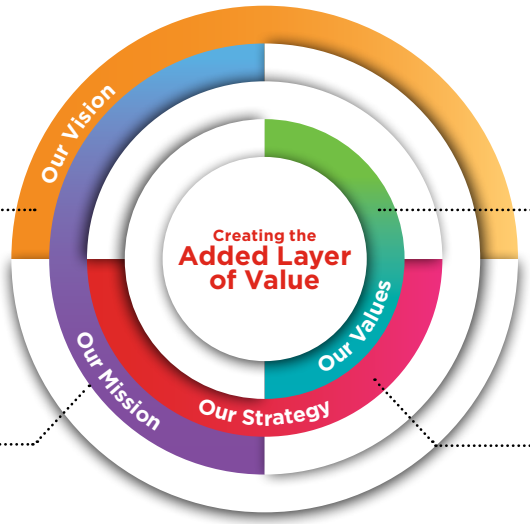
Focus area
Our operations contribute to the communities in which we are located both economically and, being a key employer in most of those locations, socially as well. We aim to be a well-respected organisation within our communities, supporting and encouraging the employment of local people into our businesses and engaging with the wider community where possible in educational and cultural activities.

Our sustainability framework is aligned with recognised standards and reference our performance to UN SDGs, which we have also used as the basis to improve understanding of the scope of sustainability across the Group.

Purpose and Values

During 2021, we launched our Purpose and Values. They provide a guiding star and direction for our business which augments our strategy.

Together Responsibly Better



Vision

Customers' partner delivering the Added Layer of Value with high quality edible films and coatings

Mission

Sustainably utilising differentiated technology and biomaterial science-based solutions to delight our customers

Values

What it means to 'Be Devro'
Curious
Courageous
Committed
Connected
Caring

Strategy

The 3Cs and Must Win Battles
Win with the winning **Customers**
Focus on **Core** profitability drivers
Strengthen **Competencies**

Case study

Connecting our leaders with the Purpose and Values

As a globally dispersed organisation, we recognise the key role our leaders play in bringing the Purpose and Values to life in their respective regions and functions. To connect 90 leaders to the Purpose and Values and act as a catalyst for change, we ran a series of two-part workshops, working from the principle that those closest to the work are best placed to make changes. This was the first time Devro has brought leaders together in a virtual environment, and it allowed us to mix teams from our regions and functions to build greater connections. Without the need to fly everyone to a central location, we were able involve a broader group than we've ever done before.

Leading with Purpose and Values created the space for the EMT to share their vision for the culture, to allow leaders to reflect on what the Values personally meant to them, and decide on experiments they'd like to try. Individual accountability was emphasised, giving leaders the freedom to try out what they felt would make a difference.

Learning from Experiments took place three months later and focused on discovering what we could learn from the experiments. EMT members heard first-hand about successes and challenges and considered the requests made of them as a group. The sheer volume of experiments tried, and requests made, is testament to the energy generated, with the next couple of years focused on embedding the new Values into the way we work.

Sustainability targets

Climate, water and waste metrics: Vs 2020 baseline	2025 Intermediate	2030 Stretch	2050 Aspiration
Carbon footprint	-25% relative (per km)	-25% net	Zero carbon
Scope 1 and 2 renewable electricity	50%	75%	100%
Water usage	-20% relative (per km)	-20% net	-50% net
Waste reduction	-30% product waste	Zero product waste	Zero waste to landfill
Packaging removal			40%

People and communities:	
Wellbeing	An employer who proactively supports the overall health of our employees (including leading safety metrics).
Culture	A great place to work (with top quartile engagement scores).
Communities	Recognised in our local communities for our contribution and as an employer of choice.

A NET-ZERO COMPANY BY 2050

We have set new, meaningful and ambitious targets to accompany our sustainability framework and support each of our focus areas.

In alignment with the Paris Agreement goal to limit global warming to well below 2, preferably to 1.5 degrees C, compared to pre-industrial levels, we have set the goal of being a net-zero Company by 2050. By net-zero, we mean reducing our Scope 1, 2, and 3 emissions to zero, or to a residual level where any residual emissions are neutralised through the permanent removal and storage of an equivalent amount of carbon from the atmosphere. Our interim targets cover Scope 1 and 2 only and are a 25% reduction (vs 2020) by 2025 on an intensity basis and a 25% reduction on an absolute basis by 2030. In addition, to support our Climate, Water and Waste Purpose areas, by 2050 or sooner we aim to move to 100% renewable energy, send zero waste to landfill and halve our water usage. Our social targets outline how we intend to support, protect and connect with our People and Communities. We have made good progress over the last decade against these metrics but we recognise that we have significantly further to go and will do so, guided by our incremental targets as outlined.

The safety and wellbeing of our people remains our top priority. We commit to continual improvement of our health and safety performance, constantly pursuing our aspiration to be a Zero Accident Community. Our health and safety targets allow us to monitor our progress towards zero harm. We aim to reduce our Total Recordable Injury frequency to 0.94 by 2025 (including contractors), while encouraging a diligent reporting culture by targeting an increase in our near miss per employee rate to 1 by 2025.

A highly engaged business performs better, therefore it is our priority to connect with all our people and ensure their voices are heard. Our annual employee engagement survey continues to be a key tool in facilitating feedback and input from our people. Understanding our employees' priorities helps shape the future of our business. We aim to maintain a high level of engagement and continue to provide a rewarding environment for our people. Our target looking forward is to achieve an engagement score within the world top quartile benchmark.

Our Group operations are seen as part of the community in which they are located. We strive to be an employer of choice for our communities and encourage local employment into our businesses.

Our people related targets will be further refined and we commit to updating our stakeholders on this. Additional information about our sustainability targets can be found on our website at https://www.devro.com/sustainability.

Sustainability governance structure



To align our practices even more closely to our strategic business goals we have developed Board and management structures that provide oversight of the sustainability framework and embed sustainable objectives within our corporate strategy and capital allocation management process. Rutger Helbing, our CEO, is responsible for our sustainability strategy, accompanied by oversight from the Board. Sustainability is regularly discussed at Board meetings and the Board approves key sustainability issues; for example our new set of targets and the annual approval of our core priorities.

Our Board and CEO maintain regular dialogue with the EMT on sustainability to update on progress to targets, achievements and barriers to be resolved. Our Sustainability Committee supports the EMT on delivery of the sustainability strategy and performance of the business. The Committee has responsibility for sustainability programmes and projects so it can identify any barriers or opportunities to adjust the approach, seek additional resource and ensure we have what will be needed for reporting requirements. It is a cross-functional team consisting of senior managers responsible for our core functions plus global representation, which currently meets monthly (we expect this to move to quarterly).

Each Committee member has a key role in delivering our sustainability commitments across the business within their scope of sustainability responsibility and a role as champion for sustainability within their function and across the business. We appointed a full time Group Sustainability Manager in 2021 and undertook an extensive internal Sustainability Roadshow in H2 2021 to engage all our manufacturing site leadership teams to outline our targets and uncover the levers to achieve our goals. This has also encouraged the sharing of best-practice across the Group.

Biannual internal workforce communication on Devro's key sustainability focus areas ensures awareness and engagement with these issues throughout all levels of our business, embedding our Purpose.

CDP

In 2021 we submitted our inaugural CDP Climate Change response to formalise our approach to emissions reporting. We are pleased to have received a C rating on our first submission and will continue to develop and monitor our progress over the coming years. We aim to continue to improve our disclosure in this critical and prioritised area.

TCFD

This year we have prepared our inaugural report in line with the recommendations of the TCFD, which ensures we are raising the profile of our climate-related risk management and strategy, see page 44.

Our 2022 intentions

- Develop our life cycle analysis to enhance our understanding of carbon in our value chain
- Prepare for our Scope 3 carbon footprint analysis
- Develop our Net Zero Action Plan and submit our targets to Science Based Targets Initiative (SBTi)
- Further ESG data and disclosure enhancements (e.g., reporting to SASB requirements)

Our environmental impact

At Devro, we have a long history of managing our environmental impact with a focus on energy efficiency and reduction in carbon emissions, waste, and water use, which have been inherent to the DNA of our Group. Our demanding 2015-20 five-year environmental targets were largely met with capital investment focused on our manufacturing process, water recycling and waste reduction aimed at separation to reduce waste to landfill, which also delivered cost savings. During 2021 the Board approved our net-zero 2050 target and our intermediate (2025 and 2030) environmental targets as communicated in H2 2021.

Managing environmental performance

Our individual business units track performance of their environmental impacts aligned to our Group-level targets, but also with awareness to specific country or regional legislation. The main vehicles for compliance and improvement across sites are our environmental management systems. Five of our seven collagen production sites are certified to the ISO 14001 standard.

We manage environmental issues through a network of specialists operating within our business units. Active global cooperation between our sites ensures that country-specific solutions become adopted across business units where a common solution is practical. Our Sustainability 2021 performance review across all sites drew out instances of 'positive' performance which could be shared but also set a sustainability roadmap for each site to take into account their respective differences. During 2021, we also initiated environmental (heat and electricity) baseline assessments of all sites, with three manufacturing plants completed by year-end. In 2021 we submitted our environmental performance data to the CDP (formerly Carbon Disclosure Project) for the first time.

Climate

Target:		
2025	2030	2050
-25% relative*	-25% absolute*	Net-zero

* Scope 1 & 2 emissions

Energy and greenhouse gas emissions

We aim to minimise our impact on climate change by reducing our energy intensity and carbon emissions. The main contributor to CO_2 emissions is site energy use in the heat and electricity used in our manufacturing processes. Emissions associated with the generation of heat, or co-generation, account for around two-thirds of Group emissions. We monitor and maintain our equipment and processes to reduce the impact of CO_2 emissions and major capital projects incorporate the best available technologies at the design stage to minimise emissions and energy usage per kilometre of product. For planning purposes, we use an internal carbon price of £50/t CO_2e.

Our targets do not assume any significant step-change in technology. We aim to achieve our interim 2025 target via efficiency improvements, such as modular solar investments and purchase of renewably sourced electricity via power purchase agreements. Some opportunities to achieve this have been identified, such as site-specific LED and solar PV projects expected to be approved in H1 2022; a 1020kW solar PV project in Nantong has been approved. For 2030, we will focus of improving our efficiency, reducing our energy demand, further renewable procurement, and the decarbonisation of our heat requirements.

We conducted a thorough investigation into our understanding of our energy generation processes and Scope 1 and Scope 2 emissions during 2021 whilst setting our new environmental targets and FY20 base year. This has resulted in a minor revision to our previously reported emissions and energy use figures. The inclusion of some previously omitted activities into our calculation was more than offset by the positive adjustment related to the update of certain emissions factors used in the calculation of our Scope 2 emissions. We have reset our base year for our Scope 1 and 2 emissions reporting to 2020, given that this is now the base year for our new set of Group environmental targets. Our emissions data covers 100% of operations. Emissions for our business are calculated using methodologies consistent with the Greenhouse Gas (GHG) Protocol: A Corporate Accounting and Reporting Standard, with reference to the additional guidance provided in the GHG Protocol: Scope 2 Guidance (amendment to GHG Protocol).

In 2021, our CO_2 emissions decreased by 4% y/y on an absolute basis and 6% y/y on an intensity basis, per million metres of casing produced. Our emissions intensity to £'m revenue decreased by 6% y/y.

In 2021, our energy consumption decreased by 2% y/y on an absolute basis and by 5% y/y on an intensity basis, per million metres of casing produced. The trend in our energy consumption data has generally followed our emissions data as our greenhouse gas emissions are mainly due to the use of energy in our sites and centre on heat and electricity for our manufacturing processes. This relationship will decrease as we move towards our net-zero target and increase our share of renewable energy. We have begun a life cycle analysis to better understand our potential Scope 3 exposure and relevance.

	FY21			FY20			FY19		
Emissions (tCO_2e)	**UK**	**Global (excl UK)**	**Group total**	UK	Global (excl UK)	Group total	UK	Global (excl UK)	Group total
GHG emissions (tCO_2e)									
Total scope 1	**15,249**	**53,736**	**68,985**	19,130	50,657	69,787	23,156	59,953	83,109
Total scope 2 – location based	**293**	**34,845**	**35,138**	1,647	37,060	38,707	3,169	41,133	44,302
Total scope 1, 2	**15,542**	**88,581**	**104,123**	20,777	87,717	108,494	26,325	101,086	127,411
Emissions intensity ratio per km production relative to 2020 (2020 base = 100)			**94**			100			
GHG emissions intensity ratio (per Group turnover) £'m			**412.5**			437.5			509.6

Responsible Business continued

The reduction in Scope 1 emissions and gas use in the UK in 2021 is in large part due to a full year's impact of the closure of Bellshill site being reflected. This has also resulted in a reduction in the electrical load purchased in Scotland, which is evident in a reduction of our overall purchase of renewable energy for the Group. Our new 100kW solar PV generation in Bathurst went live in February 2021 and generated 110,446 kWh over the year which has helped contribute to lower Scope 2 emissions. The PV array in Nantong which has received approval will be around 10 times larger than this and further solar PVs are being investigated.

	FY21			FY20			FY19		
Energy (kWh)	**UK**	**Global (excl UK)**	**Group total**	UK	Global (excl UK)	Group total	UK	Global (excl UK)	Group total
Energy consumption									
Total renewable fuels consumption	**0**	**0**	**0**	0	0	0	0	0	0
Diesel	**0**	**2,340,744**	**2,340,744**	0	1,570,736	1,570,736	0	2,480,651	2,480,651
Gas	**83,058,028**	**209,611,734**	**292,669,762**	104,191,275	194,620,720	298,811,995	126,120,862	205,870,581	331,991,443
Total non-renewable fuels consumption	**83,058,028**	**211,952,478**	**295,010,506**	104,191,275	196,191,456	300,382,731	126,120,862	208,351,232	334,472,094
Purchased electricity renewable	**1,378,935**	**0**	**1,378,935**	7,112,763	0	7,112,763	12,446,633	0	12,446,633
Self-generated renewable electricity (all solar)	**0**	**110,446**	**110,446**	0	0	0	0	0	0
Total renewable electricity consumption	**1,378,935**	**110,446**	**1,489,381**	7,112,763	0	7,112,763	12,446,633	0	12,446,633
Purchased electricity non-renewable	**0**	**79,140,743**	**79,140,743**	0	78,370,541	78,370,541	0	83,911,443	83,911,443
Total purchased electricity	**1,378,935**	**79,140,743**	**80,519,678**	7,112,763	78,370,541	85,483,304	12,446,633	83,911,443	96,358,076
% renewable from total electricity	**100.0%**	**0.1%**	**1.8%**	100.0%	0.0%	8.3%	100.0%	0.0%	12.9%
% grid electricity from total electricity	**100.0%**	**99.9%**	**99.9%**	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Total electricity consumed	**1,378,935**	**79,251,189**	**80,630,124**	7,112,763	78,370,541	85,483,304	12,446,633	83,911,443	96,358,076
Total renewable other energy consumption	**0**	**0**	**0**	0	0	0	0	0	0
Total non-renewable other energy consumption (steam)	**0**	**35,144,644**	**35,144,644**	0	35,005,782	35,005,782	0	35,923,630	35,923,630
Total other energy consumption	**0**	**35,144,644**	**35,144,644**	0	35,005,782	35,005,782	0	35,923,630	35,923,630
Total renewable energy consumption*	**1,378,935**	**110,446**	**1,489,381**	7,112,763	0	7,112,763	12,446,633	0	12,446,633
Total non-renewable energy consumption	**83,058,028**	**326,237,865**	**409,295,893**	104,191,275	309,567,779	413,759,054	126,120,862	328,186,305	454,307,167
Total energy consumption	**84,436,963**	**326,348,311**	**410,785,274**	111,304,038	309,567,779	420,871,817	138,567,495	328,186,305	466,753,800
Energy intensity ratio per km production relative to 2020 (2020 base = 100)			**95**			100			
Energy intensity ratio (per Group turnover) £'m			**1,627,517**			1,697,064			1,867,015

Intensity measure	**FY21**	FY20	FY19
Group turnover (£'m)	**252**	248	250

* 100% of this is electricity

Water

Target:		
2025	2030	2050
-20% relative	-20% absolute	-50%

Our water consumption is a mixture of well extracted and mains supply. We use water for hide washing, gel production and casing production. Our focus is on reducing water use, and we are investigating opportunities to re-use water in process after filtration and chemical treatment but potable water is required in food production processes, which limits our water recycling capabilities. We can reduce water use in process through reduction and recycling projects across all sites in the Group, which will contribute to our 2025 target.

We have slightly revised our FY20 freshwater withdrawal figure as we refined our measurements during the process of setting our new environmental targets and FY20 base year.

In 2021, our water withdrawal in cubic metres per million metres production decreased by 5% compared to 2020 (a 3% decrease in absolute terms).

Within four of our major locations, and because of local regulatory requirements, we operate our own wastewater treatment plants. In 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. In the Czech Republic we treat some municipal wastewater alongside our own prior to discharge.

Freshwater withdrawal (m3)	**FY21**	FY20	FY19
UK	**438,913**	492,434	606,586
Czech Republic	**593,885**	569,196	631,471
Australia	**306,945**	304,277	332,023
US	**201,806**	201,225	233,233
China	**158,620**	180,919	184,650
Global (excl UK)	**1,261,256**	1,255,617	1,381,377
Group total	**1,700,169**	1,748,051	1,987,963
Water intensity ratio per km production relative to 2020 (2020 base = 100)	**95**	100	
Water intensity ratio (per Group turnover) £'m	**6,736.0**	7,048.6	7,951.9

Waste

Target:		
2025	2030	2050
-30% product waste	Zero	Zero total waste to landfill

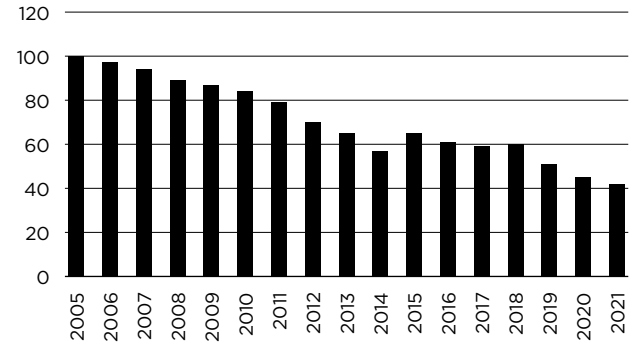
By focusing on clean waste separation, we have achieved a 94% reduction in waste to landfill since 2005 with substantial improvement in the last five years. Our targets of 30% product waste reduction by 2025 and zero product waste by 2030 will require reduced total waste and identification of opportunities for re-use of product waste in other outlets. Our aim to get to zero total waste to landfill by 2050 includes all forms of waste. Product waste is organic and by avoiding non-organic contamination we have an opportunity to dispose of this in an environmentally responsible manner, such as sending this to third-parties to produce energy via anaerobic digestion. Other waste is solid waste which is not necessarily generated directly by the process and includes some potentially recyclable materials, such as packaging waste that is separated and sent for recycling. We will be assessing our packaging exposure including Scope 3 to determine where to focus our efforts and our recently applied waste hierarchy model will help us better identify the options for our waste and reduce our overall waste impact.

In 2021, our tonnes of waste per million metres production decreased by 6% compared to 2020 (3% in absolute terms) with a notable decrease in waste sent to landfill (-28%), in part due to our efforts, but also the high base in 2020 given waste issues resulting from to site work. Our FY20 waste sent to landfill figure has been slightly revised as we refined our measurements during the process of setting our new environmental targets and FY20 base year.

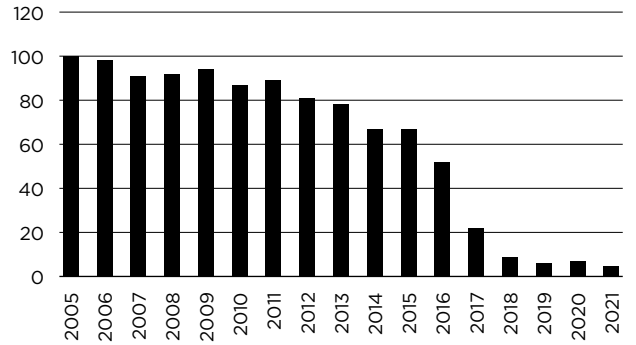
Waste treatment/disposal (tonnes)	FY21	FY20	FY19
Total waste recycled	**3,606**	N/A	N/A
Total waste other	**5,174**	8,502	9,328
Total waste sent to landfill	**1,666**	2,306	2,072
Total waste non-recycled	**6,840**	10,808	11,400
Total waste	**10,446**	10,808	11,400
Waste intensity ratio per km production relative to 2020 (2020 base = 100)	**94**	100	
Waste intensity ratio (per Group turnover) £'m	**41.4**	43.6	45.6

Our long-term intensity trends, indexed to 100 in 2005

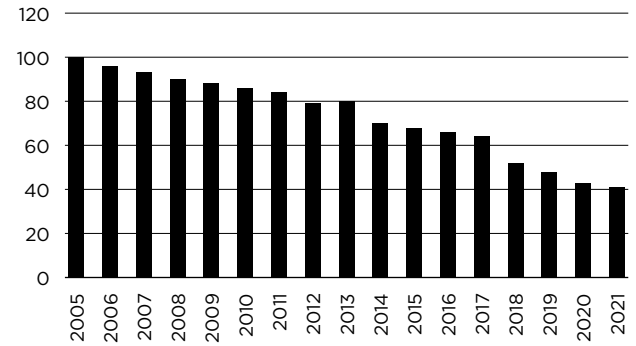
CO_2 Emissions intensity (tCO_2e/million metres casing sold) 2005 = 100



Waste intensity (tonnes to landfill/million metres casing sold) 2005 = 100



Water use intensity (m^3/million metres casing sold) 2005 = 100



People

Devro operates as a responsible business, looking after the interests of the people who work for us.

We engage our employees with respect in a manner that values and capitalises upon our cultural differences and do our best to make Devro a safe and fulfilling place to work. We support the professional development of our people, which helps our employees progress whilst ensuring the continuous development of our Company. We promote diversity and ensure equal opportunities for all our employees. We operate with respect for human rights throughout our business and respect their freedom of association. All relevant policies can be found on our corporate website.

COVID-19
As the COVID-19 pandemic continued to impact across the globe, we continued to set our own disease transmission prevention measures, controlling access to sites (employees, contractors and customers), ensuring working from home where possible, ensuring social distancing and protective equipment, education and hygiene requirements and travel restrictions beyond those required by governments. Throughout the pandemic we have again been able to maintain production at all of our sites which is a credit to the commitment and engagement of our people.

Excellence – safe people, places and processes

Total Recordable Incident rate (2021 to 2025)

1.36 to 0.94

Near miss employee rate (2021 to 2025)
Aiming to rise from bronze to gold rating

0.2 to 1

A cultural programme. Utilising 'Hearts and Minds' – responsible behaviours and attitudes.

A zero harm Company

Our goal remains to become a Zero Accident Community across Devro, at each site and within each functional group.

Responsible Business continued

Health and safety

As a continuation of all the changes we made in 2020 with regards to COVID-19, we continued to provide regular (fortnightly) advice and guidance to all of our locations via an incident management team, chaired by our Global Regulatory and External Affairs Director and supported by our EMT and others. The output from this group is accurate and consistent information that is shared with our global teams to enable them to make the right decisions in keeping our employees safe and ensuring our locations continued to deliver our products.

In 2021 we continued to progress our top line plan to achieve a zero-harm culture/community and to have all our colleagues – THINKING SAFE, WORKING SAFE AND GOING HOME SAFE (AND RETURNING SAFE) EVERY DAY.

We renewed and stated our focus to relentlessly pursue a risk position of excellence and a generative, mature culture i.e. safe place, safe behaviour.

We have embarked upon a journey using two key programs – Life Saving Rules/MY ZERO (Risk) and 'Hearts and Minds' (Culture). Within these programs we have a number of tools that we have reviewed and improved what we have deployed and used and will consider any learned improvements when rolling out future tools.

In 2021 our priority focus areas were achieved, in particular:

- Creation and delivery of the initial and longer-term roadmap/plan (three-year plan)
- Cohesion and globalising our health and safety teams – including involvement from other non-plant based teams
- Leveraging existing resources (six project teams set up) to review what we have done and what we need to do e.g. 45001, 'Hearts and Minds' programme etc.
- Creating a consistent approach involving all business areas i.e., not just manufacturing sites
- Selection of an integrated health and safety management system (with quality and environment)

In 2021 we completed 'phase one' of 'Hearts and Minds' programme with all our sites completing their commitments to the remaining modules. Our Australian and Scotland teams also conducted several 'Hearts and Minds' pilot activities in particular, surveying and leadership involvement so that we can best understand how to move our programme forward in to 'phase two' and beyond.



In October we ran our fourth consecutive annual safety month. We decided that we would focus on supporting and reaffirming the links between our five safety beliefs and our newly launched five Devro Values, that in turn complimented our Devro Purpose 'Together Responsibly Better'. These Values were launched earlier in the year and it was quite clear that there were significant synergies between the Values and our beliefs. We saw some fantastic initiatives from our employees and team members to bring these ideas to life, including personal experience and statements, family involvement competitions, employee engagement activities etc. and we had a number of sites that achieved some key milestones being lost time/recordable incident free.

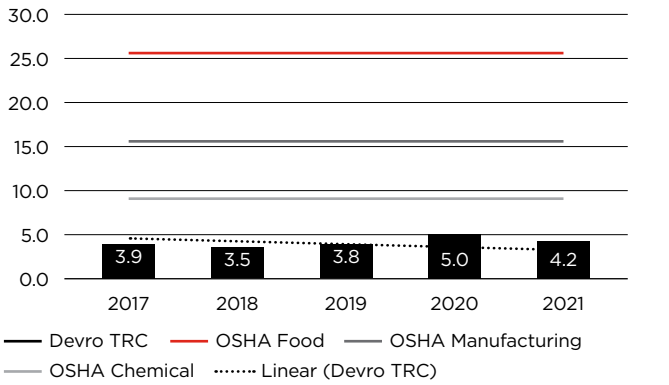
2021 Safety performance

As we track recordable incidents, lost working day incidents and lost days, we do not make a differentiation between the contractor community or our employees. All safety numbers and statistics are inclusive of both groups.

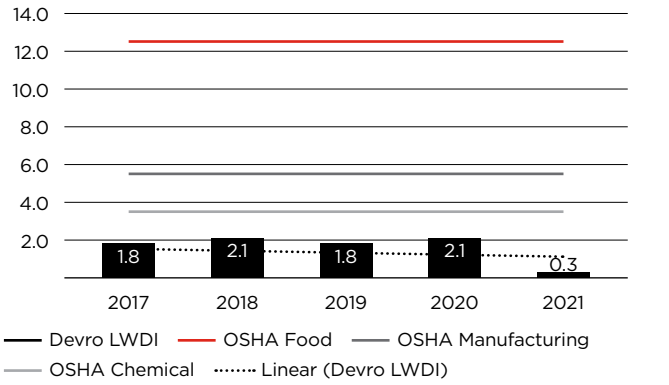
In 2021 we had 14 recordable incidents and one lost workday incident. The lost workday incident saw a total loss of three days across Devro.



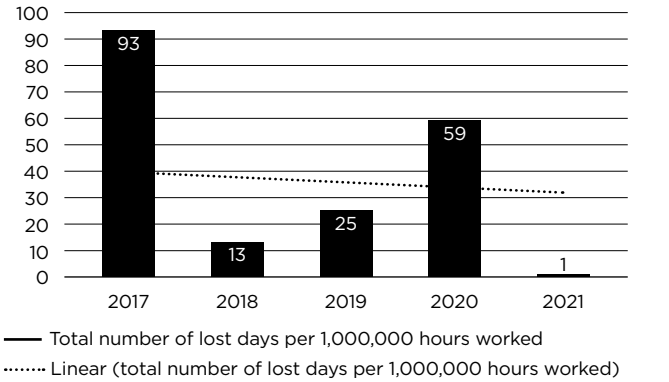
TRC – Devro vs. OSHA 2020 statistics



LWDI – Devro vs. OSHA 2020 statistics



Days lost



Across the globe, safety performance is compared to a standard number of hours per year. In the UK, 100,000 hours is used. In the US, OSHA uses 200,000 hours which equates to 100 people working 2,000 hours per year. Internationally, the International Labour Organisation (ILO) uses 1,000,000 hours. We have chosen to use the ILO methodology. In each case above, Total Recordable Incidents, Lost Work Day Incidents and Lost Work Days, we simply multiply the number of cases or days lost x 1,000,000 and then divide by the man-hours worked in Devro.

As can be seen above, we had less Recordable Incidents and significantly fewer Lost Working Day Incidents than last year. We also incurred fewer Lost Days than 2020. Lost Days are the total number of work days lost as a result of a worker injury or illness. The data above says that for every 1,000,000 hours we in Devro had four Recordable Incidents, <1 Lost Work Day Incidents and <1 Days Lost. Considering we are trying to create a Zero Accident Community, whilst we are satisfied with the performance of 2021, we appreciate there are some great opportunities to excel further. When we compare our performance to others in food manufacturing, manufacturing in general, and the chemical industry we are performing significantly better on Total Recordable Incidents and in Lost Working Day Incidents.

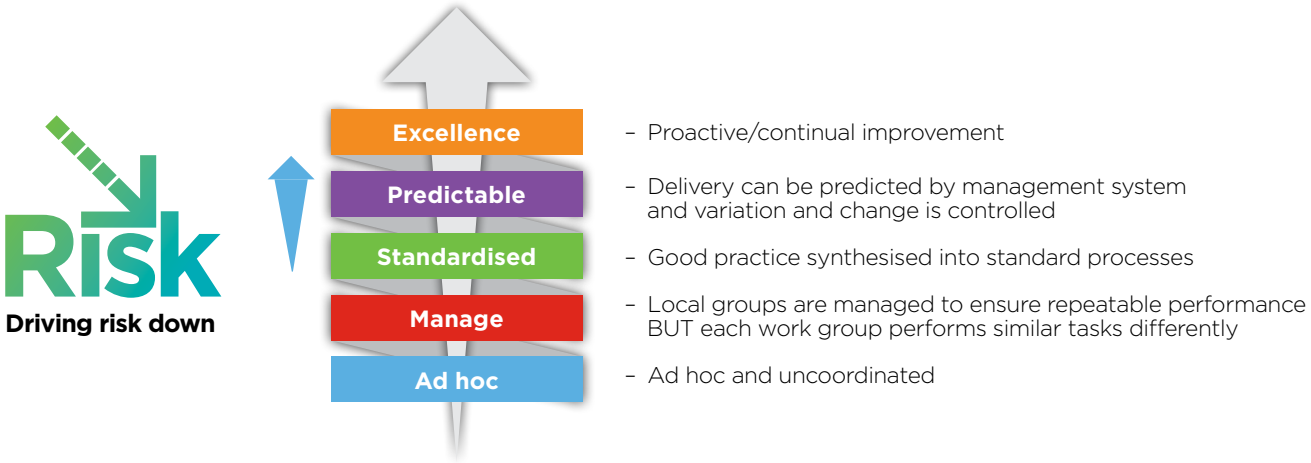
Safety performance 2017-2021

The table below summarises our key tracked statistics and includes contractors. We have seen a decline in First Aid Incidents and Minor Injuries while Near Misses remain stable (although we have renewed our focus with good results in Q4). Over the last few years, we have focused on getting everything reported across the Group. Key to our efforts today and in the future is 'Learning From Incidents' and creating 'Reflection' moments for our people on every incident. We do a good job in globally sharing Recordable and Lost Work Day Incidents and have revised our safety alert process to better reflect the severity and actions required.

We continue to work on reducing Occupational Illnesses. Most of our Occupational Illnesses are legacy related and happen in our shirring halls and usually because of repetitive work, mainly tying knots. We have worked extensively on ergonomics in our shirring areas and continue to invest in automation to eliminate the potential of repetitive stress traumas.

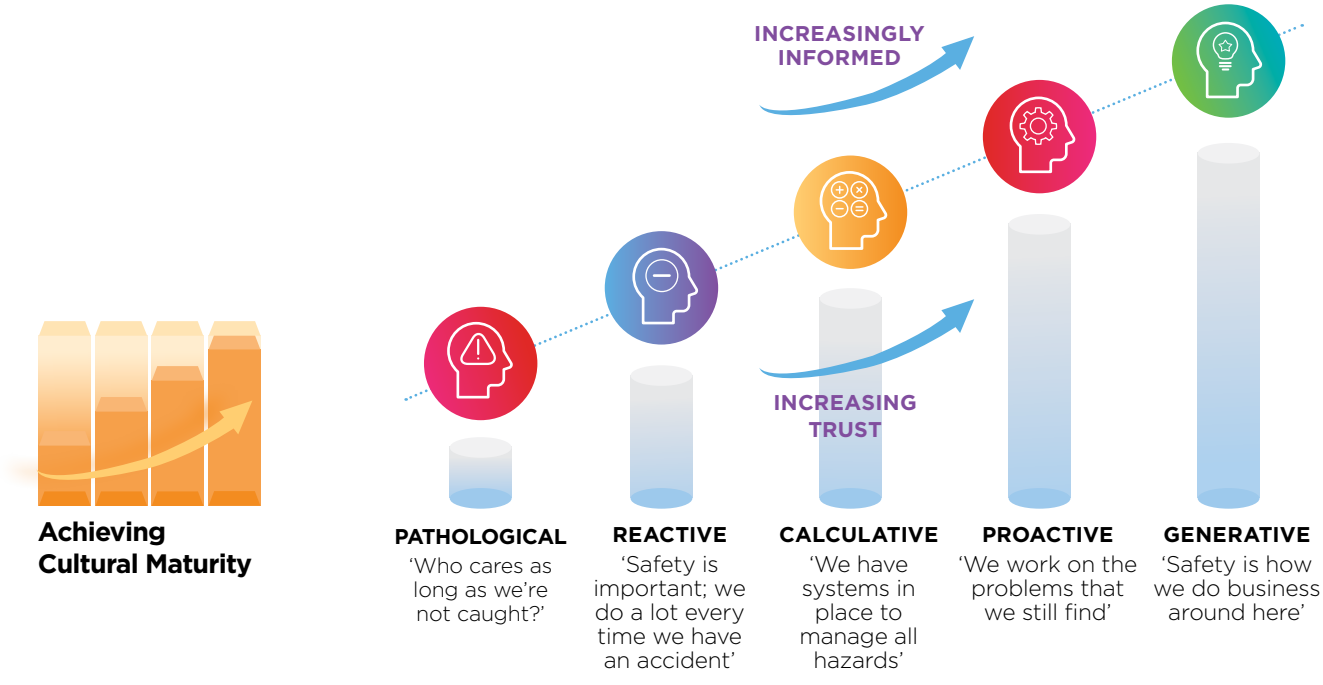
Safety performance	2017	2018	2019	2020	**2021**
Fatalities	0	0	0	0	**0**
Lost Working Day Incidents	9	9	7	8	**1**
Recordable Incidents	17	15	15	19	**14**
Days Lost (actual)	403	57	141	222	**3**
Days Lost (consecutive)	516	99	216	403	**3**
First Aid Incidents	75	96	100	78	**74**
Minor Injuries	63	88	87	77	**59**
Near Misses	236	287	415	273	**274**
Occupational Illnesses	2	7	9	4	**17**

Safety plans – 2021 and beyond...
In 2021 we consulted and collaborated with all areas of our business and developed an ambitious but highly achievable three-year plan. This was approved by the Health and Safety Committee of the Board with a number of agreed key focus areas for each year to deliver the plan. To enable us to provide a safer place of work, we will focus on driving risk down from where we are at the moment which is managed and standardised to a position of excellence, where we are constantly curious and proactive when interacting with our day to day risk. We have a number of key initiatives that will support this e.g. site risk profiling, creation of an improved more inquisitive audit package, learning better from our incidents due to improved investigation techniques and better sharing through an improved Safety Alert system etc.



As we continued towards our ultimate goal of everybody THINKING SAFE, WORKING SAFE, GOING HOME SAFE (AND RETURNING SAFELY) EVERY DAY, we will be focusing on maturing our safety culture. In previous years we have carried out surveys and activities to understand where we are on the cultural ladder and we will continue to use these surveys as the backbone of our cultural journey objectives. In 2021 we engaged with several organisations to assist us in this journey and to review and refresh or surveying approach. We have learned from this and in 2022 we intend to roll this out to all of our business locations who will then develop clear action plans to enable us to move steadily towards a generative safety culture.

SAFETY CULTURE MATURITY



Our people

Devro is an international business, with five main production sites across four continents. During 2021, we employed 1,884 people, on average, around the world (2020: 1,947). As at 31 December 2021 the Group employed 1,890 people (2020: 1,922). There were no large-scale redundancies or significant job cuts affecting more than 1,000 employees or more than 5% of the total workforce during 2021 or in either of the previous two fiscal years.

Highly engaged businesses perform better



Employee engagement

The Group believe that highly engaged businesses perform better and 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.

Our annual Employee Engagement survey continues to be a key tool to connect with all employees and give them a voice and help us shape our future. A fantastic 85% of our global workforce participated in our fourth annual 'TellDev!' survey in 2021. Our solid engagement score remained stable while we observed a consistent year on year improvement in employee experience across the Group. Employee experience is a measure which focuses more on the employee and their day-to-day, real life experiences, whilst engagement is a measure of emotional commitment to Devro. All leaders across the business involved their teams to identify the actions that would have the greatest impact for them.

In 2021, our primary responsibility was to ensure the health and wellbeing of our employees and local communities by maintaining the stringent COVID-19 safety measures introduced in 2020. This was facilitated by a further strengthening of our internal communication capabilities across the Group. In 2022 as part of our wellbeing strategy we will deliver a programme of initiatives that support employees' needs and expectations and emphasise their value to the organisation including launching a Dignity at Work programme.

Supporting lifelong learning



Talent and professional development

Retaining a highly skilled workforce is key to our future success. Employee turnover is expensive and impacts operational effectiveness. We maintain low employee turnover. We support lifelong learning with the possibility to grow and develop for wellbeing or advancement. COVID-19 made in-person learning a challenge, but the Group built upon its e-learning platform with c.110 courses available covering topics from collagen manufacturing to health and safety and effective selling skills. In 2022 the Group intends to deliver a management development programme for both current and future leaders. Mandatory compliance training as required including information security and data protection.

We are committed to the continual development of our employees, 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. In addition to the provision of local learning and development budgets, we offer support for employees with further education courses, based on the criteria of relevance to the job role.

Many employees across our global business have access to a wide range of online and face-to-face learning to support their development and enable them to gain the skills and knowledge to perform at their best.

A key priority in 2021 was developing sustainable and relevant legal compliance learning. Our Data Protection e-learning was developed in required local languages and has been completed by 589 employees via our LMS. In addition, Business Conduct e-learning was launched in English, with other local language versions due in early 2022.

In 2021, 918 individuals accessed learning via our online LMS from across all sites and functions. 2,822 items of training were recorded, of this; 1,847 were e-learning courses, of which 685 were core and technical skills and 1,162 were safe sustainable practices/compliance. The remaining 975 were a mix of virtual workshops supporting our key initiatives including the launch of Purpose and Values.

(This refers only to training delivered and recorded via the online platform and does not include all local training of operator skills etc.)

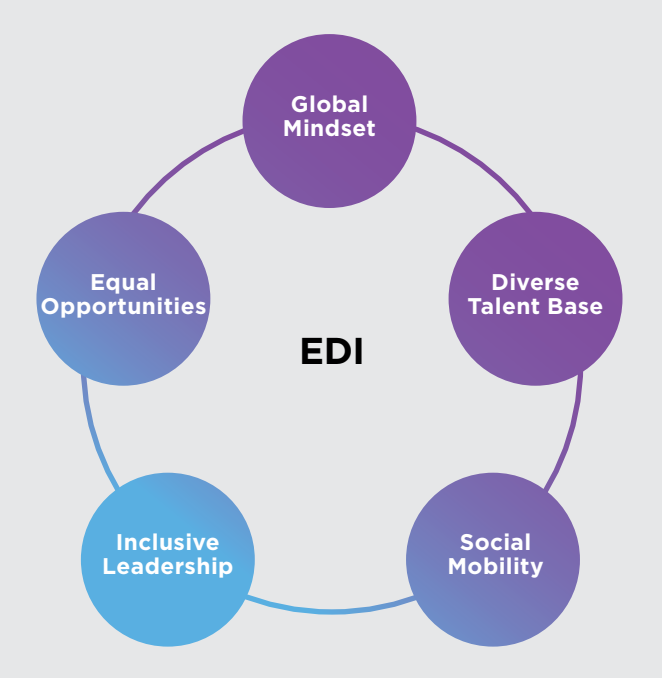
As of 31 December 2021, we were training seven apprentices around the world. During the course of the year, two apprenticeships were completed, and as at 31 December 2021, 11 people who had successfully completed apprenticeships with us were still employed by the Group.

In 2021 we further refined and strengthened performance management to ensure everyone participating in the 'My Contribution' process had a career and development discussion with their line manager to identify aspirations and personal development goals. To make this accessible to more employees it was delivered in both English and Czech versions via our online platform.

Following the introduction of an in-house recruitment partner, internal vacancies are now communicated weekly via email to highlight opportunities and available roles across the global business. A combination of this and the greater focus on career and development planning has delivered a significant impact in 2021 with 59% of management and professional roles filled by internal lateral moves and promotion rather than by external candidates.

As we look to 2022, we are continuing to invest in the development and growth of our people with the launch of our Leadership development programme to equip managers with the skills and behaviours to manage effectively and empower their teams to live our Purpose and Values every day.

Diversity and inclusion



Equality, Diversity and Inclusion (EDI) are integral to our Company strategy and how we do business. Devro already has a diverse workforce reflecting our local communities. Overall workforce – 38% female / 62% male, 29% of direct reports to the EMT are female. We want to reflect the diversity of the national, regional and international communities that we work in. We aim to be a place where people can be free to be themselves no matter what their identity or background. To further support our priorities in 2022 we will deliver a centrally led programme on 'Dignity at Work' to strengthen our inclusive and respectful culture.

Responsible Business continued

Devro is an equal opportunities employer. All of 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. Any claim of discrimination is investigated promptly. Applications from disabled people are always fully considered. 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. The gender analysis of the workforce as at the end of the year is shown in the table below.

Gender diversity statistics

	As at 31 December 2021			As at 31 December 2020		
	Male	**Female**	**Total**	Male	Female	Total
Board of Directors	**5**	**2**	**7**	5	1	6
	71%	**29%**		83%	17%	
EMT and Company Secretary (excluding Directors)	**5**	**1**	**6**	5	1	6
	83%	**17%**		83%	17%	
Senior Managers (EMT direct reports) (excluding Company Secretary and support)	**35**	**14**	**49**	32	12	44
	71%	**29%**		73%	27%	
Other employees	**1,123**	**710**	**1,833**	1,160	706	1,866
	61%	**39%**		62%	38%	
Total	**1,168**	**727**	**1,895**	1,202	720	1,922
	62%	**38%**		63%	37%	

Communities

Recognised in our communities for our contribution and as an employer of choice.

Now globally coordinated effort.

Locally we are already involved through:

- Links to local schools and universities (e.g. school visits, work experience for high school students, career days at local schools).
- Apprenticeships / graduate interns.
- Charity donations / sponsorship / matched funding.

COVID-19 has slowed physical participation in community activities, will return to normal high levels as conditions permit.

Employees keen to do so.

Each site will have specific plans for greatest benefit to those that need support.

This includes more employees doing voluntary work in the community.

Our internal sustainability initiative workshops identified Communities as a key focus area for the Group. Our Group operations are seen as part of the community in which they are located.

Devro is well-respected as an organisation within the communities it operates, and we encourage the employment of local people into our businesses. This develops loyalty in our employees, but also makes us an employer of choice in our locations. At Devro Bathurst we offered school site visits, work placements and had our employees visit schools to provide careers information and outline our mentoring programmes for young people.

Devro cooperated closely with Red Cross during the height of the COVID-19 pandemic situation on testing our employees. We offered the same service to our suppliers and though cooperation with local authorities we created vaccination days which included employees and the wider community. This programme is continuing in 2022.

This link with the community also extends to charitable causes. For instance, in The Czech Republic, a team of employee volunteers, with Devro funding, planted more than 2,000 trees, representing one tree per each Devro worldwide employee in response to local feedback about the importance of our Czech facilities' environmental policy. The following table sets out our charitable giving. Within the locality of our manufacturing sites we have various links with educational institutions providing work experience to school pupils, college and university students. The Company also provides support through charitable donations and resource.

Charitable contributions

	2021 £	2020 £	2019 £
America	**4,354**	1,486	5,813
Australia	**1,093**	3,339	9,189
Czech Republic	**26,345**	24,841	25,232
Scotland	**4,450**	3,800	4,395
Total	**36,242**	33,466	44,629

Case study 1 – Czech Republic

Our sites in Jilemnice and Slavkov maintain close ties with the local community, supporting their development and assisting in the face of natural disaster. In 2021, we funded the new cardiac ultrasound probe for the Jilemnice hospital and contributed to the fire brigade. We funded a cultural Summer programme organised by the union of local municipalities and we were the main partner of the Orienteering Biathlon World Championship. In June 2021, the Morava region close to our Slavkov facility was hit by a tornado which caused severe damage in the wider community. Devro organised a fundraiser and multiplied the sum of money collected by our employees.

These activities as well as our responsible approach contributed to Devro receiving an award for being the second best employer in the region, evaluated by PwC Saratoga methodology.

Case study 2 – Australia

As an employer of choice in Bathurst we wanted to develop strong relationships with local schools to make them aware of the wide range of opportunities we can provide to local young people. In March 2021, 12 high school career advisors from the Central West, NSW were invited to visit Devro Bathurst and treated to a factory tour and demonstrations in our product test kitchen. This was followed by presentations with a key focus on career opportunities available at Devro. Since the visit we have produced a brochure including what we are offering, as well as outlining the qualifications required for some of our key roles. These will be used at careers events and in 2022 as we look at developing this programme further.

Ethical conduct

Business conduct
All business partners are expected to comply with all parts of our Business Conduct Policy. The Board reviews and approves an annual Global Business Conduct Statement, which is then disseminated to all employees in the Group at the beginning of the year. At the start of the year, each employee with a Devro email address must sign a certificate confirming full compliance with the Business Conduct Policy throughout the previous year. We have a zero-tolerance approach to bribery and corruption. All computer-based staff are required to complete online training on bribery and corruption, reinforced by face-to-face training where appropriate. Employees or contractors may also be required to complete the training in circumstances where we have identified a potential risk. The main Board reviews the risks associated with bribery and corruption every year to ensure that our procedures remain appropriate and effective.

Human & employee rights
Devro does not have a specific Company 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 sites, wherever located, adhere to our own high-standard labour practices, even where local regulatory requirements are not as advanced. We run our business responsibly and ensure that all our employees, customers, suppliers and other stakeholders are treated fairly and with respect. There have been no violations reported against the Company on human rights in 2021 or the previous three fiscal years. Any violations on human rights would be reported and action taken.

Whistleblowing
Devro maintains an open environment in which colleagues and other stakeholders can raise any issue about any aspect of our business. We support anyone who voices genuine concerns, even if they turn out to be mistaken. We use an externally hosted global whistleblowing service (EthicsPoint) and encourage stakeholders to 'speak up' as necessary. This covers all individuals working at all levels of the global organisation, including contractors, casual and agency staff and is designed to offer employees and third-party stakeholders a confidential and anonymous way of raising issues. A Board-approved procedure for handling any issue raised through the hotline is in place. A total of eight cases were handled in 2021.

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.

All our employees are entitled to a fair salary and other terms and conditions of employment, as appropriate. We benchmark salary and benefits against similar roles in the same local area annually to ensure that we are competitive. Our policy is to comply, at the very least, with minimum wage legislation for any job role for all employees and we seek to be competitive where our facilities are based; in many instances, wage rates and salaries are higher. We pay benefits as appropriate to local markets, and in 2021 a review commenced to ensure competitiveness. Legally required benefits such as annual leave, sick leave, maternity leave and normal working patterns and hours are of course applicable to all. The terms and conditions on working hours are detailed in our contractual terms and, where applicable, within agreements with our Trade Union groups. Overtime is voluntary and the Company will always abide by the legal requirements relating to overtime and payment for it.

Freedom of association
We have recognised Trade Union groups in our facilities in the Czech Republic, Scotland and Australia and value their partnership and involvement. We encourage collective bargaining with Trade Union groups and negotiate with them on the terms and conditions for their members and consult with them on changes within the organisation. Employees can become affiliated with a Trade Union and their involvement in that organisation will not affect them in terms of recruitment, promotion, transfers, development opportunities or any other employment arrangements. In Europe, we have a long-established European Forum, consisting of management and employee representatives, who meet annually to discuss, communicate and consult on trans-national issues relating to the business. Where there is no representative group, we establish and encourage an open two-way communication process with employees and have various communication mechanisms and methods to keep this active.

Tax transparency
Devro complies with both the spirit and the letter of all relevant tax laws and regulations in the countries where it operates, and it is committed to a transparent and open approach to reporting on tax. Our policy is to file all tax returns on time, and to pay tax as it falls due. The Group has a low risk tolerance for uncertain tax positions in the jurisdictions in which it operates. We do not undertake any aggressive or unreasonable tax planning schemes for the purpose of tax avoidance, and broadly aim to align tax payments to revenue generation. We do not knowingly help others avoid their tax obligations. Devro does not operate in countries considered as partially compliant or non-compliant according to the OECD tax transparency report, or in any countries blacklisted or grey listed by the EU for tax avoidance and harmful tax practices, (per the latest lists released as at 31 October 2021). Our commitments on taxation are enshrined in both our Global Business Conduct Statement and Business Conduct Policy to which managers across the business must verify their compliance on an annual basis. Tax is a regular agenda item for the Audit Committee, which meets four times a year, and reports to the main Board. Tax compliance risks are managed through the Group's risk management framework, overseen by its Risk Committee, and supported by its global Finance function.

Cooperation with external parties
Devro were founding members of, and currently chair, the Collagen Casing Trade Association, an organisation representing the interests of collagen casing manufacturers globally, especially around global regulatory controls. Devro is also part of national associations such as the UK-based Food and Drink Federation, the British Meat Processors' Association and chair the Food and Drink Federation of Scotland, where our representatives inform sector thinking on standards, legislation, environmental and food safety issues across the UK and European food industry. We also actively participate within our regions with any legislative consultation process relating to food production, market access, labour rates and engage with trade associations for our industry to develop the standards for our employees and others in the industry. We are also members of environmental working groups within these organisations to better understand and influence developing or current legislation or industry guidance.

Customers, product and innovation

We are always developing new products and technologies as we respond to customer demand and in response to our drive for an efficient business. We are cognisant that we would be able to lower our Scope 3 emissions by altering the raw material of casings. The carbon footprint of porcine and poultry-based casings is materially lower than bovine casings. Plant-based solutions may also offer substantially lower GHG emissions. We work in close collaboration with our customers to meet their needs and in the development of the consumer market. The Group already offers porcine in all formats, and poultry in gel. However, the customer demand is nascent at this point and the required technologies to produce some alternative casings in economic quantities is still being developed.

Our collagen casings already deliver significant production savings to our customers, so by working with our customers, we can decrease the environmental impact in our value chain. The consistency of our product significantly enhances throughput, providing material yield and energy efficiency benefits compared to gut casings. Consistently longer lengths also reduces customer waste and time in changeovers.

Product integrity

Our modern processing sites use state of the art production equipment, including a high degree of automation which minimises handling. This combined with our high standards of hygiene and control ensure we meet our customers' expectations for quality. All of our production sites are certified to ISO 9001 (quality management system) and all sites are certified to FSSC 22000 (food safety). Our processes and raw materials are several steps removed from the animal, but we source from countries (UK, EU, US and Australia) with animal welfare standards for all our production. We offer customers full bovine collagen traceability back to the individual animal within our range which provides customers knowledge that they are getting a high quality, secure product. Where possible we use recycled board and/or renewable materials in our packaging, but we are restricted by regulation in the extent to which recycled materials can be used in our food contact packaging. Our Global Food Safety and Quality Statements are available on our website.

Responsible sourcing

Our original process was designed to utilise certain by-products from slaughterhouses, which removed the need for their disposal and created an economic stream from what was effectively waste. Hides represent a low single digit percentage of the animal value, which means our carbon footprint per animal is low. Nevertheless, Devro has been the industry leader in identifying how to utilise lower carbon footprint species.

We work closely with our suppliers to set clear specifications for the products they supply. The quality of raw materials we use contributes significantly to the achievement of consistent finished product quality. We assure the safety, traceability, quality and provenance of our raw materials through our supplier audit and assessment process. It is important that our suppliers also apply the same principles of value, transparency and respect as we do, to ensure our products are sourced and manufactured in a fair, ethical and environmentally responsible manner.

The Group undertakes audits and questionnaires for each supplier, including physical site audits for all our major ingredient suppliers and for new suppliers. We take into consideration their environmental policies, whether they have a formal recognised Environmental Management System and any third-party certification held by the supplier, that is to Global Food Safety Initiative recognised standards. We request specific information on environmental impacts in our questionnaires (GHG, CO_2, water use, resource utilisation, waste and pollution targets and performance) and follow up in our physical audits of suppliers, where we discuss any non-conformance and agreed actions. We request information from all our suppliers on social issues, including child or forced labour, equal opportunities, non-discrimination, freedom of association, labour practices (such as avoidance of excessive hours, minimum wage) and health and safety standards. We assess for the potential for poor labour conditions during the physical audits of all our major raw material suppliers, although the risk of this is low given our suppliers are large production processes or large reputable organisations. We use this compliance information to make decisions overseen by the Group Supply Chain Director.

All non-conformance is required to be corrected promptly. For raw materials we complete a quality and food safety vulnerability risk assessment including the quality controls of the manufacturer and traceability. All our raw materials suppliers provide their environmental policies and relevant data. The Group also considers social factors including working practices and health and safety. Further details of our supply chain policy can be found on our website.

Supplier compliance

During 2021, a total of 40 supplier audits were carried out. We tightened our audit questionnaire and standards in 2020 such that only high-risk suppliers now need auditing annually. This means several suppliers were on the two-year audit cycle and were not required during 2021, especially considering the high number of questionnaires and on-line audits completed during 2020. Our intention was to revert to more face-to-face audits during the year, but certain audits were postponed due to continued COVID-19 controls at our suppliers.

Year	Quality	Environmental	Social
2018	42	41 (98%)	36 (86%)
2019	54	52 (96%)	52 (96%)
2020	95	95 (100%)	95 (100%)
2021	**40**	**40 (100%)**	**38 (95%)**

Section 172 Statement

Each Director of the Company continues to be mindful of their statutory duty to promote the success of the Company

Each Director of the Company continues to be mindful of their 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 its decision-making contributes to the success of the Company. Depending on the matter in question, the relevance of different stakeholder interest 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, Directors are provided with a detailed induction programme. This includes a briefing on Directors' statutory duties and Directors are also provided with various opportunities to meet key stakeholders. In 2020 the Company formalised its procedures aimed at Directors being supplied ahead of Board meetings with detailed papers which highlight stakeholder considerations and other factors considered relevant to the matter under consideration.

Members of the EMT 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 ensures that the Directors continually update their skills and knowledge and in 2020 additional training was delivered to refresh understanding within the business of the Board's section 172 responsibilities.

The Company's key stakeholders are our shareholders, employees, customers (including our distributors), and suppliers. Collectively the regard had to each of the Company's stakeholders and to those other matters set out in section 172(1) enables the Company to maintain its 'licence to operate'. In 2021 this was codified in the introduction of a new sustainability governance framework, led by our CEO on behalf of the Board. This also reflects the Company's articulation of its corporate statement of Purpose which was refreshed in 2021 and key elements of which – 'Together Responsibly Better' – bring added focus on stakeholder interests and other factors set out in section 172(1) in decision making across the Company. For more information about this, see the Responsible Business section of this report on pages 48 to 67. 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 renewal of the Company's statement of corporate Purpose and the introduction of a new sustainability framework, both in 2021, underline the Board's focus on the sustainable long-term development of the Company. And in alignment with those initiatives, the Board regularly reviews its long-term strategy, encompassing not only the current phase of development, but also future areas of growth. Input is regularly taken from specialists within the business and external advisers about what 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. The embedding of Integrated Business Planning processes in the business has continued to facilitate a clearer understanding of decisions required in the short-term in order to meet longer-term objectives.

The Board had particular regard in 2021 for the consequences of decisions in the long-term when it sanctioned investment to expand manufacturing capacity at the Company's Czech and Chinese plants to meet projected future sales growth; and in its oversight of plans to exploit opportunities for new collagen applications and alternative technologies.

See our Corporate Governance Report on pages 72 to 77 for more information about the work of the Board during 2021.

The interests of the Company's employees

The interests of the Company's global workforce continued to be at the forefront of the Board's considerations in 2021, not only in connection with the impact on the business of the COVID-19 pandemic throughout which employee safety, wellbeing and connectivity has been prioritised, but also through extensive employee participation in the unearthing of the Company's corporate Purpose and in the determination of its sustainability priorities. The introduction in 2021 of additional governance in connection with sustainability and with the evolution of the Company' corporate Purpose (encompassing the development of corresponding Values) has been designed to ensure the 'employee voice' remains central to the Company's definition and embodiment of its culture. For more information about this, see the Responsible Business section of this report on pages 48 to 67.

Again in 2021 due to pandemic restrictions, it has been necessary to adapt the Board's ongoing activities to promote engagement with the global workforce more broadly. These are described more fully on page 62. The Board's approach to engagement continues to be 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 need to foster the Company's business relationships with suppliers, customers and others

Winning with the Winning Customers remains an enduring and key element of the Company's 3Cs strategy – see page 27, which was aligned in 2021 with the focus on customers in the Company's renewal of its statements of corporate Purpose, Vision and Mission. The Company's commercial approach has continued to evolve in 2021 to facilitate greater scope for customer intimacy. This has included the cultivation of direct relationships with a number of key customers through the optimisation of routes to market and further activities to support the development of commercial excellence. The Global Commercial Director has presented to the Board regularly in 2021 on these topics and while face-to-face contact with customers has necessarily been restricted again due to the pandemic, Directors together with members of the EMT have continued to engage with them (including distributors) and to share with the rest of the Board insights gained from such engagement.

The Company continues to cultivate its relationships with its supplier base and the Company's global Procurement function ensures that the 'supplier voice' is regularly heard. Sourcing and the impact of the pandemic on key suppliers' businesses, particular those such as some hide suppliers who experienced further volatility due to pandemic-related disruption in their wider customer base, continued to be monitored in 2021 and reviewed by the Board at each of its regular calls throughout the year to consider pandemic-related challenges faced by the Company.

The impact of the Company's operations on the community and the environment

The Company's environmental and social commitments (including its responsibilities to the communities in which it operates) are key pillars of the sustainability framework the Company introduced in 2021, more information about which is set out on pages 48 to 56. The Board reviews at least twice per year progress on the Company's sustainability aspirations. In September 2021 the Company communicated ambitious new sustainability targets, the formulation of which caused the Board to balance different stakeholder interests and other s172 factors, for example to reconcile activities to accelerate the Company's commercial development, (taking into account the interests of its shareholders and customers); and the environmental impact of those activities.

The desirability of the Company maintaining a reputation for high standards of business conduct

The expectation that the Company will maintain high standards of business conduct at all times is encapsulated in the term 'Responsibly' in the refreshed statement of corporate Purpose, the development and launch of which the Board oversaw in 2021. 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 reporting of concerns raised through the Company's third party hosted EthicsPoint service 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 shareholders is described on page 73.

In 2021 the Board had particular regard to shareholder interests when it oversaw the introduction of the Company's new sustainability framework which aligns the Company's investment case with its sustainability targets and priorities. Shareholder engagement on this included an investor seminar on the launch in September 2021 of this next phase of the Company's sustainability programme.

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

The Strategic Report comprising pages 1 to 69 inclusive, was approved by the Board of Directors of the Company on 1 March 2022.

Andrew Money
Company Secretary
1 March 2022

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 Senior Independent Director at Elementis plc, where he chairs the Remuneration Committee. Previously Steve was a Non-Executive Director at Cape plc, Anglian Water Services Ltd and Dialight plc.

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, Rutger 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.

Rohan Cummings

Chief Financial Officer

Rohan joined Devro as Chief Financial Officer on 1 December 2020.

Experience:

Prior to joining the Company, Rohan was Chief Financial Officer of Asahi International, part of Asahi Group Holdings, the Japanese global beer, spirits, soft drinks and food business group. Between 2002 and 2016 Rohan held a range of finance roles with SABMiller, living and working in Italy, Slovakia, Switzerland, Russia, the UK and South Africa. He played an important role in the carve out of the businesses acquired by Asahi Group in 2016 as part of the ABInbev acquisition of SABMiller and is a commercially focused finance leader with a track record of making significant contributions to successful growth initiatives across a number of businesses in both mature and emerging markets.

Skills:

Rohan is a Chartered Accountant, has an MBA and brings to the Board a broad finance and international background.

Lesley Jackson

Non-Executive Director/ Senior Independent Director

Lesley joined Devro on 1 May 2020.

Experience:

Lesley was the Group Chief Financial Officer for Stock Spirits PLC from 2011 to 2017, prior to which she held similar positions at William Grant & Sons, and at United Breweries (an Indian listed public company). She is a Non-Executive Director of Aberforth Split Level Income Trust plc and of The Artisanal Spirits Company plc (where she also chairs the Audit Committee). She served as Non-Executive Director of Trackwise Designs PLC (where she also chaired both the Audit and Remuneration Committees). Lesley is a Chartered Accountant, having qualified with KPMG.

Skills:

Lesley's extensive finance and business experience from her roles in international manufacturing businesses is a valuable addition to support the development and execution of the Company's growth strategy.

Lesley is the Senior Independent Director and Chairman of the Audit Committee.

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 market insights, R&D, product portfolio and partnerships. Prior to joining Devro, Michael held management positions within business-to-business strategic marketing and business development in Maersk, Novozymes and Chr. Hansen.

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 global processes and enhanced use of existing tools to support the management of the integrated global business and delivery of the 3Cs strategy.

Jeremy Burks

Non-Executive Director
Jeremy joined Devro on 1 May 2020.

Experience:
Jeremy is Senior Vice President at Roquette Group, a privately owned global leader in plant-based ingredients and a pioneer of new vegetal proteins. He headed their global commercial function and oversaw their four business units for five years during which time he drove a global strategic, operational and organisational change programme across the company. Since 2021, Jeremy has assumed responsibility for the Plant Proteins and Pharmaceutical Solutions businesses. Prior to this, he spent more than 20 years with Dow Corning in a variety of global business and commercial leadership roles, which included 10 years establishing and growing speciality businesses in Asia.

Skills:
Jeremy's extensive business leadership experience in international nutrition, health and speciality chemicals adds skills and insights that are invaluable to support the development and execution of the Company's growth strategy.

Rikke Mikkelsen

Non-Executive Director
Rikke joined Devro on 1 December 2021.

Experience:
Rikke currently leads the Global Centre of Excellence for Chocolate and Confectionery and the European Customer Innovation team at Scandinavian-headquartered AAK A/S, which specialises in the development of value-adding ingredients for global consumer food and nutrition products. Rikke's role at AAK is the most recent position in a broad-ranging career spanning over 30 years in research and development with global companies focused on delivering innovative solutions in the food sector.

Skills:
Rikke, a chemical engineer, brings to the Board extensive experience of successful product innovation in international food manufacturing businesses and will add valuable skills and insights to support the further development and execution of the Company's growth strategy.

Malcolm Swift

Non-Executive Director
Malcolm was appointed to the Board at the AGM on 26 April 2017.

Experience:
Malcolm is President, Global Flavour Solutions, International-EMEA and Chief Administrative Officer of McCormick & Company Inc., a global leader in flavour listed on the New York Stock Exchange. In addition to his commercial responsibilities he also oversees Corporate Strategy, Corporate Development, McCormick's Business Transformation Programme, IT, 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 and of the Remuneration Committee.

Kevin Shoemaker

Group Supply Chain Director

Kevin joined Devro in September 2016 as we transitioned to a global supply chain. He brings over 40 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.

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.

Anton Zawada

Group Human Resources Director

Anton joined Devro in April 2020, bringing over 25 years of experience in human resources from within the FMCG and food industry. Previously, Anton was with Tate & Lyle from 2016 where he was HR Director Global Corporate Functions and also provided oversight of Global Security and Facilities.

Prior to this Anton spent four years with AB Mauri as Regional HR Director for their International Region, 17 years with British American Tobacco in a variety of local, regional and global roles, and three years with Sheffield Consulting, an HR Consultancy in New Zealand. Anton has a Bachelor of Arts with Honours in Psychology from Victoria University, Wellington, New Zealand.

Corporate Governance Report

Chairman's introduction

The leadership and effectiveness of the Board are primarily the Chairman's responsibility.

My fellow Directors and I fully appreciate the importance of sound governance in the efficient running of the Company, and in particular the effectiveness and independence of the Board and the management of risks faced by the Group. We also recognise the importance of, and are committed to, high standards of corporate 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.

The following report sets out how we do this. It covers how the Board and its Committees operated in 2021, when it was subject to the FRC's 2018 UK Corporate Governance Code (the 'Code').

Statement on Compliance
This statement, together with the Directors' Remuneration Report set out on pages 81 to 100, and the Audit Committee Report on pages 78 to 80, describes how, in respect of the year ended 31 December 2021, 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 with one exception:

Provision 38: The CEO receives a pension contribution of 10% of base salary which is above the 6% contribution available to the majority of the UK workforce. This arrangement pre-dates the introduction of the Code and, whilst not currently in compliance with Provision 38 of the Code, the contribution to the CEO's pension aligns with the average contribution available to the UK workforce on the introduction of the Code. We committed in our policy on Directors' remuneration, approved by shareholders in 2020, to align the Company's contribution to the pension in respect of new Executive Directors with that which is available to the majority of the workforce at the time of the appointment in their country of appointment and this approach was applied on the appointment in December 2020 of our new CFO. It has been agreed that the pension of our incumbent CEO will also be aligned to the contribution rate available to the majority of our UK workforce from 1 January 2023.

Good governance is at the heart of the framework which defines our Company's culture and is an essential element of how we seek to achieve our corporate Purpose.

Steve Good
Chairman

Board leadership and Company Purpose

Leadership
I lead a Board, whose composition was extensively refreshed in 2020 and 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. Further changes in the makeup of the Board occurred in December 2021 when we welcomed Rikke Mikkelsen as a new Non-Executive Director on Chantal Cayuela's retirement from the Board. Her appointment enhances the leadership through which the Board continues to support the Company's growth strategy and sustainable development.

How the Company frames its corporate Purpose was a key area of focus in 2021. Following extensive engagement with our global workforce, we unearthed our refreshed statement of corporate Purpose 'Creating the Added Layer of Value Together Responsibly Better' in the Spring and we have subsequently communicated it both internally, including through a dedicated online portal, and externally. We considered this to be the first stage of redefining our corporate culture and it has been followed by the articulation of corporate Values, the evolution of our 3Cs strategy and, most importantly, further engagement with the workforce to ensure alignment between our culture and our corresponding activity. The renewal of our sustainability commitments in 2021 including the aspiration to achieve net-zero status by 2050 is an important manifestation of that alignment between culture and our actions, more information about which is set out on pages 48 to 67.

Our new global Values are set out on page 5. They also continue to be framed 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 also inform the culture which we seek to maintain within the Company. In 2021, as in previous years, the Board has, on the renewal of its commitment to these global statements, sought input from the business about how to frame them in a way which remains relevant to how we seek to operate. The articulation of our statement of corporate Purpose and global Values in 2021 has assisted the Board to monitor the development of the Company's culture which it has reviewed regularly at its meetings throughout the year.

Our commitment to high standards of business conduct is underpinned by our Business Conduct Policy. It promotes professional, equitable behaviour in all our business dealings and relationships wherever we operate. The policy was last updated in 2020, and it reflects our transition to a global organisation and best practice developments. As part of an awareness campaign, refresher training on what the policy means in practice was rolled out to employees during 2021. And as part of its activities to verify that behaviours across the Company continue to be aligned with the standards we have set, 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 and, while we promote open and direct communications (underpinned by our Whistleblowing Policy), conduct concerns can also be reported through our third-party hosted whistleblowing service, EthicsPoint, anonymously and in the reporter's own language. We have also published contact details for our EthicsPoint service on our website and we encourage external stakeholders in our updated Business Conduct Policy (also published on our website) to use it. The EthicsPoint service was used on eight occasions in 2021. In each case, the concerns raised were reported 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 promote the alignment of Company Purpose, Values and Strategy and in 2021, the renewal itself of these elements of the Company's culture, as well as the definition of sustainability priorities has drawn heavily on input from the workforce. While COVID-19 restrictions have again necessarily curtailed in 2021 in-person mechanisms for engagement, these initiatives are examples of the effective alternatives that have been pursued. Our approach to workforce engagement in 2021 is summarised below.

The Board continues to oversee the development of the Company's culture and to promote its success.

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, 'TellDev!', 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. In response to the 2020 survey, we prioritised in 2021 'employee wellbeing' (with a particular focus on it during our annual workforce Safety Month), 'taking action on feedback' (which included its promotion through our approach to performance management and ensuring all internal communications channels had feedback loops), and 'manager effectiveness' (reflected in the behaviours we have highlighted through the five global corporate Values we have introduced in 2021).
- A standing agenda item at Board meetings for the CEO to update the Board on employee engagement initiatives. In 2021 these included building on the workforce input we sought in the previous year, to launch and then embed our renewed corporate Purpose and Values. Regular Board calls to consider COVID-19 developments also continued in 2021 at which the Board received the same presentation delivered to employees on the same day.
- 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. In 2021, COVID-19 pandemic restrictions once more prevented our planned programme taking place but we aim to resume these in 2022 with a Board visit to our Scotland site planned, to coincide with our 2022 AGM. We have also published in 2021 through our employee portal a series of interviews with our Non-Executive Directors to explain the role they perform at the Company and to encourage questions in response.
- The inclusion in any visit to a Company site by individual Directors of open forum meetings at which employees have the opportunity to raise questions and concerns with the visiting Director. This was limited again this year due to pandemic restrictions, but our CEO and Chairman engaged with management and other employees on their visit to our Moodiesburn site in the summer and our CEO conducted again at the start of the year a virtual World Tour to discuss with employees both the prior year's progress and future priorities.
- 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. Notifications to the Company's EthicsPoint service are reported to the Company Secretary who coordinates any necessary investigation and follow-up action which is reported to and overseen by the Board.
- Consulting employee representatives on a wide range of matters affecting employees' current and future interests, most notably in 2021 on our continued response to the COVID-19 pandemic; on the renewal of our Company Purpose and Values; and on our sustainability programme, with a direct involvement in identifying our priorities.

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 of the restrictions again in 2021 on direct physical engagement due to the COVID-19 pandemic. The effectiveness is validated by significantly improved employee participation in the latest TellDev! employee survey (compared to the prior year) and satisfactory engagement score. It is also reflected in the strategic and financial progress achieved by the Company itself in 2021. However, recognising that it has not been possible in the last two years to utilise fully the engagement mechanisms codified in 2019, the Board intends to undertake a review of those mechanisms during the first part of 2022, also taking into account employee focused priorities of the Company's renewed sustainability programme.

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. In Autumn 2021 we also welcomed investors to a seminar at which we communicated the next phase of our sustainability programme. 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 spoken in the course of 2021, with shareholders to discuss matters such as ESG priorities and the Senior Independent Director is available in the event of shareholder concerns which cannot be addressed through the usual channels.

Broader shareholder communication takes place through the Company's website, which contains significant Company announcements and other relevant information, and also through the Annual Report and AGM. In normal circumstances, 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. While attendance at our 2021 AGM was once again limited to a statutory quorum due to 'stay-at-home' measures in response to the COVID-19 pandemic, engagement with all shareholders on the business of the meeting (including the opportunity for their views to be raised with the Company-appointed meeting proxies) was facilitated through arrangements for shareholders to ask questions in advance of the meeting. We hope, this year, to be able to return to an 'in-person' AGM and look forward to meeting with shareholders once more.

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 68 and 69.

Division of responsibilities

Board composition
During the year, the Board comprised Mr S Good, Chairman, Mr R Helbing, Chief Executive Officer, Mr R Cummings, Chief Financial Officer, Mr J Burks, Non-Executive Director, Mrs C Cayuela, Non-Executive Director, until she stepped down from the Board on 30 November 2021, Mrs L Jackson, Non-Executive Director, Mrs R Mikkelsen, Non-Executive Director, who joined the Board on 1 December 2021 and Mr M Swift, Non-Executive Director. The skills and experiences of each Director at the date of this report are described on pages 70 and 71.

Non-Executive Directors (excluding the Chairman) who collectively form 57% of the Board, are considered to be 'independent' Directors (as was the Chairman on his appointment). 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.

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. On her appointment as a Non-Executive Director, the Board considered Mrs L Jackson's position as a director of an affiliate of a shareholder of the Company, and determined that, notwithstanding this, it was satisfied this would not impair her independence. The Board has also put in place certain measures to avoid any potential conflict of interest which may arise.

Mrs L Jackson has been the Company's Senior Independent Director since 1 January 2021.

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.

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

Following a review undertaken by the Board in 2018 of its responsibilities, together with those of its Committees, its Chairman, the Chief Executive Officer and Senior Independent Director, revised 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.

The Committee structure underwent a change in 2021 to align it with best practice corporate governance (including the Code) in connection with Director remuneration. The Company's Non-Executive Directors' Remuneration Committee which oversaw the remuneration of Non-Executive Directors was eliminated and its responsibilities (except in respect of the Chairman's remuneration) were absorbed by the Executive Directors and Chairman acting within the Board itself, while the Remuneration Committee of the Board (previously named the Executive Directors' Remuneration Committee) became responsible for the Chairman's remuneration. Its terms of reference were revised to reflect the change.

In order to discharge these responsibilities, the Board and its Committees meet on a regular basis throughout the year. Again in 2021 in addition to its formal meetings, the Board also held regular informal calls typically on a fortnightly basis to monitor the Company's response to the impact on it of the COVID-19 pandemic.

In 2021, the Board held 11 formal meetings. Full details of the Board and Committee attendance are shown in the table below:

	S Good		R Helbing		R Cummings		J Burks[1]		C Cayuela[2,3]		L Jackson		R Mikkelsen[4]		M Swift	
	No	%	No	%	No	%	No	%	No	%	No	%	No	%	No	%
Board – 11 meetings	11	100	11	100	11	100	9	82	9	90	11	100	1	100	11	100
Audit Committee – 4 meetings	–		–		–		4	100	4	100	4	100	–		4	100
Remuneration Committee[5] – 6 meetings	6	100	–		–		6	100	5	100	6	100	1	100	6	100
Nomination Committee – 4 meetings	4	100	–		–		4	100	1	33	4	100	1	100	4	100
Health and Safety Committee – 5 meetings	5	100	5	100	–		–		–		–		–		5	100
Risk Committee – 4 meetings	–		4	100	4	100	–		–		–		–		–	

1. Mr J Burks was unable to attend two Board meetings during the year. The meetings in question were arranged at short notice in response to particular issues and Mr Burks ensured that his views on the business of the meeting were communicated notwithstanding his absence.
2. Mrs C Cayuela stepped down from the Board on 30 November 2021.
3. Mrs C Cayuela did not attend two of the Nomination Committee meetings that specifically dealt with her departure.
4. Mrs R Mikkelsen joined the Board on 1 December 2021.
5. The Remuneraton Committee was previously known as the Executive Directors' Remuneration Committee.

Board papers are generally circulated one week before the meetings. A comprehensive monthly Board Report including management accounts, in an agreed format, is 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 23 times during the year.

The Chairman and the other Non-Executive Directors met informally during the year via video calls, in the absence of the majority of face-to-face meetings due to the global pandemic, 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 & evaluation

The report from the Nomination Committee describing its work in 2021 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 election at the 2022 AGM, including Mrs R Mikkelsen who will stand for election for the first time as a Director of the Company. As previously mentioned, the Directors' biographies set out on pages 70 and 71 describe the particular skills and experience that each brings to the Board and explains why the contribution of those standing for election is, and continues to be, important to the Company's long-term sustainable success. We have sought in particular to appoint Non-Executive Directors with food industry expertise and, as at the date of this Report, three Non-Executive Directors hold senior executive positions in global food and ingredients companies. All the Directors, with the exception of Mrs R Mikkelsen who joined the Company on 1 December 2021, have had their performance reviewed in 2021, 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 Mr S Good (Chairman), Mr J Burks, Mrs C Cayuela, until she retired from the Board on 30 November 2021, Mrs L Jackson, Mrs R Mikkelsen, who was appointed as a Committee member when she joined the Board on 1 December 2021 and Mr M Swift. The Company Secretary acts as Secretary to the Committee. In 2021, the Committee met formally on four occasions.

Diversity in practice
The Nomination Committee continues to oversee activities in support of the Company's commitment to promote and belief in the value of diversity in its broadest sense, particularly regarding new appointments and succession planning, across its management teams and employee base in general.

Having endorsed in 2020 a new Equality, Diversity and Inclusion Policy which prioritises a global mindset, diverse talent base, social mobility, inclusive leadership and equal opportunities, regardless of social identity, the Committee reviewed with the Company's HR leadership team progress against each of the priorities. The Committee also gave particular consideration as to how the benefits of greater diversity at the most senior level of the Company could be realised.

The gender balance of those in senior management and their direct reports as at 31 December 2021 is included in the Responsible Business Report at page 64. Included in its actions to promote greater balance at senior management levels, the Company has renewed its commitment to ensure shortlists for future vacancies include a diverse pool of candidates. It has also embarked on a Dignity At Work initiative which is expected to yield additional tangible measures.

Board evaluation
The Board evaluation was conducted in the Autumn and once more took the form of an online survey which each Director was invited to complete in order to elicit narrative responses to questions framed by the Principles and Provisions of the Code. Responses were summarised (and anonymised) by the Company Secretary prior to circulation to the Board to inform discussions between the Chairman and Directors individually and then between the Non-Executive Directors collectively, prior to a review by the entire Board at its meeting in December.

The Board identified amongst its priorities for the forthcoming year further consideration of the Company's longer-term direction, and activities to accelerate the Company's growth trajectory including greater focus on the recruitment and development of talent.

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 78 to 80, the Report of the Risk Committee on page 77 and the Principal Risks and Uncertainties set out on pages 38 to 43.

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
The Board approves each year an annual financial plan. This is underpinned by a 36-month rolling plan maintained through Integrated Business Planning processes, from which regular forecasts and monthly reports are generated and reviewed by the Board. The Company reports formally to shareholders twice a year, with at least two additional trading updates.

Operating controls
Financial and operational policies and procedures are set out in formal procedures manuals. Corresponding KPIs are tracked centrally. 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 Chair of the Audit Committee and also direct access to the Chairman of the Board. The internal audit function is also supported by external specialist auditors. The Audit Committee oversees a programme of internal audits and 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, refreshed in December 2020, which sets out specific requirements for all staff (and external partners) 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 69, 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 69, 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 2021 the Group was operating within the £105 million (2020: £105 million) revolving bank facility negotiated in 2018 and due to expire in 2023, and the US$75 million US private placement, completed in June 2014 and due to expire between 2024 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 81 to 100.

Report from the Health and Safety Committee

This Committee was formed in 2009, reflecting the priority ascribed by the Board to health and safety matters.

The members of the Committee during the year were Mr M Swift, who chaired the Committee, Mr S Good, who joined the Committee on 1 January 2021, Mr R Helbing and Mr K Shoemaker, Group Supply Chain Director. The Global Health and Safety Manager also attends all meetings of the Committee.

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

The Committee convened five times in 2021.

In 2021 the Committee has overseen the creation and implementation of a three-year Health and Safety Roadmap and Plan as the next phase in our programme to realise our aspiration to drive down health and safety risk and to mature our safety culture. The approach we have adopted is encapsulated by six 'Wildly Important Goals' which draw on existing pillars of the Company's safety framework: clear and comprehensive governance, accountability and behavioural safety. Progress on the Roadmap and Plan is reviewed at each meeting as is the safety performance of the Group. The Committee also receives and reviews reports on all serious safety incidents.

Report from the Risk Committee

A framework is in place to identify, evaluate and manage on a continuous basis the significant risks the Group faces and to identify emerging risks, in accordance with the Code and corresponding FRC Guidance. The Board established in 2010 a Risk Committee the members of which are the Executive Management Team and the Company Secretary. The Committee's purpose is to support the Board and Audit Committee by monitoring the comprehensiveness and reliability of risk management as part of a system of internal control and as an integral part of business management at the Company. The Committee does this under a remit and risk management policy which was updated in 2020 to codify best practice recommendations contained in a report externally commissioned in the prior year. Key elements of the Committee's remit are:

- **Assess and monitor**
  To assess and monitor risk across the Group and to recommend mitigating strategies in respect of the key risks, consistent with the Company's risk appetite;
- **Risk Register review**
  To review and update the Group's Risk Register at least twice per year, the output from which the Committee reports to both the Audit Committee and the Board, in order to assist them with their assessment of risk ahead of full year and half-year external reporting;
- **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; and business continuity/disaster recovery plans are reviewed at least annually; and
- **Business Functions Risk Register review**
  To oversee the review by each Business Function at least twice per year of its own Business Function Risk Register and of any emerging risks, which informs the Committee's own assessment of risks for inclusion in the Group Risk Register.

In 2021, the Committee also sought input from the newly established Sustainability Committee, in its consideration of climate change risks.

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 38 to 43, while climate change risks are summarised in the TCFD report on page 45.

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 101 of this report.

Steve Good
Chairman
1 March 2022

Monitoring integrity

As Chair of the Audit Committee, I am pleased to present my report summarising the Committee's work over the course of 2021. With support of management and assurance from the auditors the Committee focused on monitoring the integrity of the Company's financial statements and reporting, its internal controls and performance of the external audit. The Committee has ensured that it had an oversight of a diverse range of risks, both principal and emerging, and supported management in addressing these risks.

Lesley Jackson
Chair, Audit Committee

The Audit Committee's formal role is set out in its terms of reference available on the Company's website, Audit Committee – Terms of Reference 2019 (www.devro.com) and include the responsibilities set out in Provision 25 of the 2018 UK Corporate Governance Code (the Code). Mrs L Jackson has chaired the Audit Committee since 1 May 2020 and has held that post throughout the period under review. The other members of the Committee in 2021 were Mr M Swift, Mrs C Cayuela, Mr J Burks and Mrs Rikke Mikkelsen. Mrs C Cayuela joined the Committee on 1 January 2021 and Dr P Withers retired from the Committee on 31 December 2020. Mrs C Cayuela ceased to be a member of the Committee on 30 November 2021 when she left the Board and Mrs Rikke Mikkelsen joined the Committee on 1 December 2021 on her appointment as a new Board member. The Company Secretary acts as Secretary to the Committee. The Board views Mrs L Jackson 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 four 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.

The finance community across Devro have demonstrated resilience through the pandemic, and the Audit Committee has greatly valued the continued focus on maintaining an effective control environment, addressing the challenges presented by the globalised lockdowns and new ways of remote working. This supported delivery of the key elements of the internal audit programme in 2021. Similarly, the external audit progressed as planned and to the set timescales, with no changes required to the strategy or scope approved by the Audit 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. The external auditor is required to rotate the lead audit partner every five years. Such rotation took place in 2020 when Mr Mike Barradell took up this post.

Statutory audit

Consistent with prior year, KPMG provided audit and audit-related assurance services for the Company in 2021. No non-audit related services were conducted by KPMG as shown in Note 8 of the Financial Statements. The ratio of non-audit fees to audit fees is 0:1 (2020: 0:1). The Committee noted that there was no non-audit work when reviewing the statutory auditors' independence.

The Committee is responsible for 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 undertaken 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 2021 audit process.

Internal audit

The internal audit function, supported by external specialist auditors, carries out work across the Company providing independent assurance and advice to help the organisation identify and address potential control weaknesses. Both the internal audit and risk management functions have a role in identifying emerging risks that may threaten achievement of the company's strategic priorities.

Prior to the start of the financial year, the Committee reviewed and agreed the audit plan for the year ahead. The audit plan coverage was based on strategic priorities, risks and the strength of the control environment.

The Committee reviewed the results of the internal audit reports during each meeting, looking in detail at any reports where processes and controls required improvement or any reports that were particularly pertinent to delivery of strategic objectives or priorities.

The Committee was also provided with regular updates on:

- significant internal audit findings
- agreed actions and progress against previous outstanding actions
- management's responses and recommendations
- the development of the overall control environment

In the course of the year the Committee received and reviewed reports from the Risk Committee. Where internal or external circumstances gave rise to identification of an increased level of risk, the audit plan was modified accordingly during the year. Any changes to the audit plan were presented to and agreed by the Committee. The internal audit plan in general seeks to review the operational and financial controls across the various locations on a rolling and risk assessed basis, in addition to a number of specialist audits. In 2021 as well as the normal coverage, the plan evolved to include specialist areas such as company secretarial and health and safety, and more audits requiring specialist expertise are planned for 2022. The areas highlighted in the audit report on cyber security conducted in 2020 resulted in beneficial enhancements to controls implemented in 2021. These included a refreshed information security governance structure introduced to counter and mitigate current and future cyber security risks and vulnerabilities. A description of work performed by the Risk Committee is available on page 77.

Audit Committee Report continued

Significant issues

The significant issue considered by the Committee during 2021, and how it was addressed, is as follows:

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 £64 million. Due to the materiality of these balances in the context of the Company Statement of financial position as a whole, the Group conducted recoverability testing. This was performed by comparing the carrying value for each investment in, and amounts due from each 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.

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 2021:

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 and Alternative Performance Measures sections of the Annual Report, explaining the reasons for presenting such APMs and the reconciliations to equivalent statutory measures.

Specific consideration was given to application of existing accounting policies for exceptional and other items consistently with prior years. The treatment of specific transactions as exceptional items was only applied to strategic projects with any identified COVID-19 related income and expenditure being reported as underlying income or expense. The statutory auditors have also reviewed the use of APMs in the Annual Report, and associated disclosures, and reported their assessment to the Committee.

During the second half of 2021, the Committee was pleased to receive positive comments from the FRC regarding the presentation of APM's in our 2020 annual report and accounts, (based solely on its review of the report and accounts as part of a FRC thematic review). The comments from the FRC also included some helpful feedback on how to further improve our presentation of APM's, which have been reflected in this year's annual report and accounts.

Presentation of exceptional items

The materiality of items classified as exceptional in 2021 is significantly lower than items disclosed as exceptional in previous years. Included in the presentation of exceptional items are profits from the sale of Bellshill site offset by costs associated with the closure of this site. The total costs associated with this undertaking had been significant and judgement was required to determine whether these costs should be disclosed as exceptional items, taking account of their nature and size and, in particular, whether they were 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, and the proposed accounting treatments. The Committee also reviewed the disclosure of amounts as exceptional items, and the associated descriptions included in the Alternative Performance Measures section and Financial Statements notes. The statutory auditors have also examined this area and have 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 on monitoring financial performance received from management during the year. At year end it also considers reports provided in support of the Financial Statements and 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 2021 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 103.

Lesley Jackson
Chair, Audit Committee
1 March 2022

Directors' Remuneration Report

Driving Performance

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for 2021 and to describe the Remuneration Committee's role in support of the delivery of Company strategy and attainment of its corporate Purpose

Malcolm Swift
Chairman, Remuneration Committee

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for 2021.

The Committee was pleased to receive 99.0% support at our 2021 AGM for the shareholder resolution to approve our Remuneration Report. During the year, there have not been any specific remuneration issues that have required engagement with our shareholders but I continue to be available to speak to you on any remuneration matters. Looking ahead, the Committee will review the Remuneration Policy during 2022 ahead of the triennial Policy vote at the 2023 AGM. As part of this process, the Committee will engage with shareholders to ensure their views are taken into account in the design and implementation of the Policy.

During the year the Committee welcomed two new members. Chantal Cayuela joined the Board and Remuneration Committee on 1 January 2021 but stood down on 30 November 2021 (on personal grounds). The Committee appreciated her contribution during this time. On 1 December 2021 Rikke Mikkelsen joined the Board and Committee.

Directors' Remuneration Report continued

Overview of policy and link to our business strategy
Our remuneration strategy continues to be the setting of remuneration for the Executive Directors and other members of senior management to support our business strategy and promote and deliver long-term sustainable success, providing appropriate reward for achieving this while ensuring alignment to longer-term shareholder interests. To support the business strategy and to reward for its delivery, the Committee ensures that the metrics for incentives include those KPIs that are used to measure business performance and progress in achieving our business strategy.

Response to COVID-19
Throughout 2021 we have continued to focus on the wellbeing of our employees and maintaining the safety and continuity of our global operations. The business has performed resiliently and there have been no furloughs or use of COVID-19 Government support schemes. We have continued to pay dividends, have awarded salary increases to our global workforce and eligible employees have received incentive pay.

Pay for performance in 2021
Significant financial and strategic progress was made during the year which manifested itself in financial performance.

The CEO received a salary increase of 1.1% for 2021 which was consistent with the salary increase awarded to the UK workforce. The CFO did not receive a salary increase for 2021 given his appointment in December 2020.

The annual bonus for 2021 was based on (i) EBIT (35%) (ii) revenue (35%) (iii) cash (15%) and (iv) individual strategic objectives (15%).

Strong and significantly improved performance this year has resulted in bonuses payable to the Executive Directors of 71.8% of maximum for the CEO and 71.8% of maximum for the CFO. EBIT achieved is just above the threshold target and strong revenue and cash performance results in full payouts under these two metrics. The Committee determined that the strategic objectives had been achieved at 83.75% of maximum for the CEO and 83.33% for the CFO.

The performance period for the Performance Share Plan ('PSP') awards granted on 8 April 2019 ended on 31 December 2021. The performance conditions for these awards were (i) underlying EPS growth (40%), (ii) TSR relative to a comparator group (20%) and (iii) ROCE (40%). Reflecting the momentum in business performance which has developed from the platform for growth established by Management in recent years, performance between threshold and maximum targets for all PSP performance conditions will result in vesting at 51.6% of maximum in 2022. Full details of the performance metrics and performance against them are shown on page 95.

The Committee has reviewed the level of remuneration for 2021 against performance and wider stakeholder considerations. It has noted the significantly improved performance for the year in driving top line growth, maintaining good margin and cash conversion during a year of continued market uncertainty as a result of the ongoing pandemic. In assessing performance under the free cash flow metric, the Committee has reviewed CAPEX and overall profitability and is comfortable with the level of payment for this element of the bonus. This is the first year that the Group's long-term incentive has paid out since 2013 and reflects solid longer term performance across all three metrics of EPS, TSR and ROCE. The Committee has also considered whether there were any relevant environmental, social and governance matters that it needed to take into account including any matters relating to the COVID-19 pandemic. The Committee has noted the impact of incentive payments on the CEO to employee pay ratio and that eligible employees have also received incentive payments based on the same performance metrics as the Executive Directors. Taking all these matters into consideration the Committee concluded that it was comfortable with the level of remuneration payable to the Executive Directors and that there were no such factors that would cause the Committee to exercise discretion to adjust the incentive outcomes.

The Committee also concluded in reviewing the Policy framework comprising of both long-term performance share awards and an annual bonus (consistent with market practice), provides a structure for remuneration outcomes which is aligned to business performance and shareholder return. The Committee concluded that no changes to the Policy are therefore required for 2022.

Implementation of Policy for 2022
Although no changes are considered necessary to our Policy, the Committee is proposing some changes to operation of Policy for 2022. These are the inclusion of ESG metrics to PSP awards as well as annual bonus and the removal of cash as a performance condition for the annual bonus and of ROCE as a performance condition for the PSP awards. Further detail is provided below. The Committee has also reviewed the competitiveness of current benefits and a travel/car allowance will be included with medical insurance for 2022.

The CEO's and CFO's base salaries will be increased by 2.5% with effect from 1 January 2022, which is consistent with the average salary increase for the UK workforce.

For 2022, pension contributions for the CEO will remain at 10% of salary (which is aligned to the workforce weighted average at the time our current Policy was determined) with alignment to the contribution rate for the majority of the workforce from 1 January 2023. The CFO receives a pension contribution of 6% of salary which is aligned to our forward looking policy for new joiners and the pension contribution available to the majority of the Company's UK workforce, reflecting our approach to pension contributions for Executive Directors appointed since our current Policy was introduced.

As set out in our Strategic Report on pages 48 to 56 during 2021 the Board approved a detailed ESG strategy incorporating a comprehensive sustainability framework and environmental intermediate 2025 and 2030 targets on its journey towards its aspiration of becoming a net-zero Company by 2050. The Committee has spent time carefully considering how metrics might be included in 2022 incentives to support delivery of our strategy and acknowledging that sustainability is integral to the Group's strategy. Noting the Group's commitment to delivering on our sustainability and wider ESG priorities, the Committee has introduced an ESG metric for the 2022 PSP awards. The non-financial element of the annual bonus includes objectives focused on developing the Company's culture consistent with its refreshed articulation of Company Purpose. Together with sustainability targets being included in the 2022 PSP award, long-term sustainable success is at the heart of the performance incentives we have formulated.

The maximum annual bonus opportunity is 100% of base salary for both Executive Directors. For 2022 the proposed performance conditions and weightings on the Annual Bonus Plan will be based on (i) EBIT (40%), (ii) revenue (40%), and (iii) individual strategic objectives (20%). In contrast to the prior year, free cash flow as a percentage of EBITDA has been omitted as a measure, reflecting the significant progress which has already been made on cash conversion and its overlap as a measure by EBIT. The Company's cash flow and net debt position will nevertheless continue to be taken into account by the Committee when it considers performance under the 2022 Annual Bonus Plan. The individual strategic objectives include developing further the roadmap for delivery and engagement on all aspects of our sustainability programme.

The Committee intends to grant PSP awards of 110% of salary for the CEO and 100% of salary for the CFO. During the year the Committee reviewed the performance metrics for the PSP and their alignment to our business strategy. The Committee agreed that at the Company's current stage of development ROCE should be removed as a performance measure with the weighting to EPS increased from 40% to 60%. TSR remains weighted at 20% with sustainability targets accounting for the remaining 20%. The Committee will continue to review ROCE when assessing overall performance of the business and the vesting level for the 2022 LTIP awards. The sustainability metrics (20%) are focused on the reduction in the intensity of our CO_2 emissions, aligned with the 2025 target (and its measurement) which we announced in September 2021. The targets for all the PSP performance metrics are set out on page 91.

Non-Executive Directors' and Chairman fees

The base fee for the Non-Executive Directors, and the Chairman's fee, have been increased by 2.5% in line with the average UK salary increase for the workforce in 2022. Other Non-Executive Directors' fees remain unchanged.

Conclusion

The Committee has applied our Policy thoughtfully and effectively both in the determination of remuneration outcomes for 2021 which are clearly aligned to business performance and in setting the approach to remuneration for 2022. I look forward to receiving your support at the forthcoming AGM and to engaging with shareholders as we review our Policy in advance of our 2023 AGM.

Malcolm Swift
Chairman, Remuneration Committee
1 March 2022

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 was approved by shareholders at the Company's AGM on 30 April 2020 and applies for three years from that date, unless shareholder approval is sought for earlier changes.

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 Remuneration Committee[1] (the 'Committee') believes that a significant proportion of Executive Directors' remuneration should be performance-related.

Decision-making process for determination, review and implementation of 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 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.

1 This Committee was previously known as The Executive Directors' Remuneration Committee

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 shares 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.	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.

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 the Chief Executive Officer. 6% of base salary for the Chief Financial Officer. 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.

Element of pay	Purpose and link to Company's strategy	How operated in practice	Maximum opportunity	Performance metrics where relevant
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% of basic salary. 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 98. 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.

Directors' Remuneration Report continued

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.

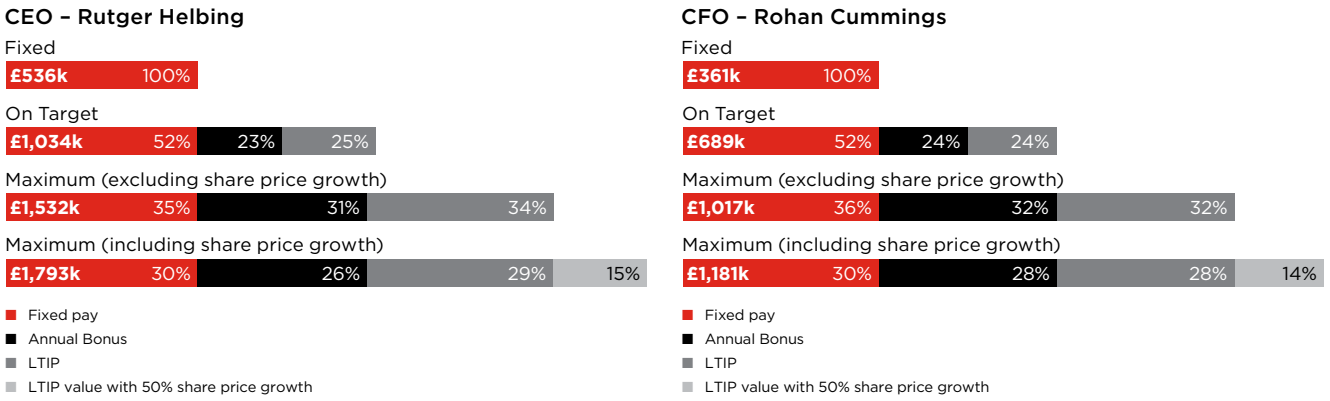
The Committee also has the discretion to amend the Policy for minor or administrative matters where it would in the opinion of the Committee be disproportionate to seek shareholder approval.

All historic awards that were granted under any current or previous share schemes operated by the Company, but remain outstanding, detailed on page 98, 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 2022 under different scenarios. Three scenarios are shown below:

- **'Fixed pay'** is based on salary at 1 January 2022, 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.



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 termination.

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 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
R Cummings	1 December 2020	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 Good	1 June 2019	AGM 2022
J Burks	1 May 2020	AGM 2023
L Jackson	1 May 2020	AGM 2023
R Mikkelsen	1 December 2021	AGM 2025
M Swift	26 April 2017	AGM 2023

Annual report on remuneration

How the Policy will be implemented in 2022:
Executive Directors salaries
Current salaries for Executive Directors at the date of this report are as follows:

Chief Executive Officer: £474,498
Chief Financial Officer: £328,000

This represents an increase of 2.5% to the CEO's and CFO's salaries with effect from 1 January 2022, which is consistent with the average 2.5% increase for the UK workforce.

Non-Executive Directors' fees
The fees for Non-Executive Directors are set out below. An increase of 2.5%, effective 1 January 2022, was made to the base fee paid to Non-Executive Directors (including the Chairman) which is consistent with the average salary increase paid to the UK workforce. No increases have been made in 2022 to the additional fees for chairing Committees or for the position of Senior Independent Director.

	1 January 2022	1 January 2021
Chairman fee	**£144,352**	£140,831
Non-Executive Director base Board fee	**£46,817**	£45,675
Board Committee Chair fee	**£7,000**	£7,000
SID fee	**£5,000**	£5,000

Annual bonus
The maximum annual bonus opportunity for Executive Directors in 2022 remains at 100% of salary.

The performance measures and their respective weightings for 2022 are 40% EBIT, 40% revenue and 20% individual strategic objectives. The weightings of both financial targets have each been increased from 35% to 40% in order to incentivise the acceleration of the growth strategy, while cashflow has been omitted from this year's measures due to the solid progress made on this in recent years. Given the importance of our strategic objectives which continue to focus on the development of our platform for growth and the inclusion of our ESG priorities, the Committee has determined to increase the weighting of this element to 20% of the total bonus.

EBIT and revenue targets and corresponding performance are determined on a constant currency basis. As mentioned in the Chairman's Annual Statement, the 2022 strategic objectives are framed by the elements of our updated 3Cs strategy including ESG priorities reflecting the evolution of our corporate culture, aligned with value creation and value delivery initiatives.

The individual strategic objectives are:

CEO individual strategic objectives:
CUSTOMER (weighting 70%)
Leading portfolio of edible films and coatings
Specific objectives focusing on next phase of growth opportunities including those from new product applications and technologies.

CULTURE (weighting 30%)
ESG Leadership (weighting 15%)
Sponsorship of climate change, waste and water priorities to ensure delivery of 2025 targets.
People (weighting 15%)
Sponsorship of initiatives to attract talent and engage the workforce through the Company's values framework, to drive performance.

CFO individual strategic objectives:
CUSTOMER (weighting 40%)
Leading customer experience (weighting 20%)
Develop financial architecture to enhance customer experience.
Leading portfolio of edible films and coatings (weighting 20%)
Provide finance support on objectives focusing on new business opportunities and broadening of the growth strategy.

CAPABILITIES (50%)
Investor relations strategy (weighting 20%)
Drive further enhancement of investor relations strategy.
Process enhancement and people development (weighting 30%)

CULTURE (10%)
Lead ESG reporting agenda

The Committee has the discretion under the 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 wider stakeholder considerations.

The Committee considers that the targets for the 2022 bonus are commercially sensitive, but full details will be disclosed in the 2022 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. For 2022, the Committee has introduced an additional metric which is aligned to our ESG agenda.

As set out in the Chairman's Annual Statement, the Committee has reviewed the performance measures for the 2022 LTIP and agreed that ROCE should be removed as a performance measure with the weighting to EPS increased to 60%. TSR remains weighted at 20% with sustainability targets accounting for the remaining 20%. The Committee will continue to review ROCE when assessing overall performance of the business and the vesting level for the 2022 LTIP awards. The targets for each measure are set out below:

Underlying EPS for the final year of the performance period	Performance shares vesting percentage (of total award)
Less than 19.9p	0%
19.9p	15%
Between 19.9p and 23.5p	On a straight-line basis between 15% and 60%
23.5p or more	60%

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%

Reduction in intensity of CO_2 emissions	Performance shares vesting percentage (of total award)
Less than 20% reduction on 2020 CO_2 emissions per km of collagen casings manufactured.	0%
20% reduction on 2020 CO_2 emissions per km of collagen casings manufactured	5%
Between 20% and 30% reduction on 2020 CO_2 emissions per km of collagen casings manufactured	On a straight-line basis between 5% and 20%
30% reduction on 2020 CO_2 emissions per km of collagen casings manufactured	20%

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 target range for the 2022 awards is considered stretching and is based on the Committee's assessment of the market conditions and growth opportunities over the next three years.

The reduction of CO_2 emissions is a key element of the Company's sustainability priorities and the target range has been set to incentivise performance in excess of the 2025 targets announced by the Company in 2021.

Pension and other benefits

The CEO receives a pension contribution of 10% of base salary which is aligned to our workforce weighted average at the time our current Policy was determined and will be aligned to the contribution for the majority of the UK workforce from 1 January 2023. The CFO receives a pension contribution of 6% of salary which is in line with the forward looking contribution available to new joiners and the majority of the UK workforce. Benefits for both Executive Directors are consistent with Policy. Benefits comprise medical insurance and a travel/car allowance.

The Remuneration Committee

During the year the Committee was comprised of Mr M Swift as Chair, Mr J Burks and Mrs L Jackson with Mrs C Cayuela being a member of the Committee from 1 January 2021 to her retirement from the Board on 30 November 2021 and Mrs R Mikkelsen joining the Board and the Committee on 1 December 2021.

During 2021, the Committee received advice from:

- the Company Secretary (as Secretary to the Committee).
- Korn Ferry as independent adviser to the Committee.

The CEO, the CFO and Group HR Director are invited to attend Committee meetings as appropriate. 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 determined by the Chairman and the Executive Directors.

The work of the 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

The current Directors' Remuneration Policy was approved by shareholders at the 2020 AGM and Devro's largest investors were consulted during late 2019 and early 2020 regarding Policy changes. There have not been any remuneration matters that have necessitated consultation during 2021 although the Committee Chairman is available to investors should there be any matter they would like to discuss with him. In advance of the triennial Policy vote at the 2023 AGM, the Committee will review the Policy during 2022 and will engage with shareholders as part of the review process.

As set out on page 73 the Company has a number of different channels for engaging with its workforce. The Committee has reviewed with the Group HR Director, engagement carried out with the wider workforce during the year (taking account of continuing COVID-19 related challenges). Information has been again shared through the Company's intranet and through other existing communication channels to explain broader pay policies and practices and the alignment to the Executive Directors' Remuneration Policy.

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 follow:

- **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 a 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 towards 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 applicable both 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 88 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 customers 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 2021 against performance, that there has been an appropriate link between reward and performance and that it was not appropriate to apply discretion to the formulaic outcome. 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. The Committee determined, taking into account the way the business had been managed with ongoing focus on employees' jobs, health, safety and wellbeing that there were no further factors that needed to be taken into account. The Committee also noted the work that had

been carried out during the year finalising the Group's ESG strategy including its sustainability priorities and the inclusion of metrics relating to this in both the annual bonus and long-term incentive for both the CEO and CFO for 2022.

The Committee is comfortable that the Policy has operated as intended and that no changes are necessary for 2022 although it has determined some changes to operation of Policy for 2022 as set out in this report. The Committee will review the Policy during 2022 given that a new Policy must brought to shareholders for approval at the 2023 AGM.

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 £18,122. 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 29 April 2021, votes cast by proxy and at the meeting in respect of the Directors' Remuneration Report were as follows. The votes cast in respect of the Directors' Remuneration Policy at the AGM held on 30 April 2020 are also set out.

Resolution	Votes for	% For	Votes against	% Against	Total votes cast	Votes withheld (abstentions)
Approval of Remuneration Report	111,819,152	99.05	1,071,418	0.95	112,890,570	28,311
Approval of Remuneration Policy	84,753,944	95.91	3,615,769	4.09	88,369,713	32,685

Audited information

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[7]		Long-term Incentives[8]		Total variable pay		Total remuneration	
Director	**2021 £'000**	2020 £'000	**2021 £'000**	2020 £'000	**2021 £'000**	2020 £'000	**2021 £'000**	2020 £'000	**2021 £'000**	2020 £'000	**2021 £'000**	2020 £'000	**2021 £'000**	2020 £'000	**2021 £'000**	2020 £'000
R Helbing	**463**	456	**2**	2	**46**	46	**511**	504	**332**	230	**291**	–	**623**	230	**1,134**	733
R Cummings[2]	**320**	27	**1**	–	**19**	2	**340**	29	**230**	12	**–**	–	**230**	12	**570**	41
J Burks[3]	**46**	30	**–**	–	**–**	–	**46**	30	**–**	–	**–**	–	**–**	–	**46**	30
C Cayuela[4]	**42**	0	**–**	–	**–**	–	**42**	–	**–**	–	**–**	–	**–**	–	**42**	0
S Good	**141**	139	**–**	3	**–**	–	**141**	142	**–**	–	**–**	–	**–**	–	**141**	142
L Jackson[5]	**58**	35	**–**	–	**–**	–	**58**	35	**–**	–	**–**	–	**–**	–	**58**	35
R Mikkelsen[6]	**4**	0	**–**	–	**–**	–	**4**	–	**–**	–	**–**	–	**–**	–	**4**	0
M Swift	**60**	57	**–**	–	**–**	–	**60**	57	**–**	–	**–**	–	**–**	–	**60**	57
J Lodge	**–**	17	**–**	–	**–**	–	**–**	17	**–**	–	**–**	–	**–**	–	**–**	17
P Withers[9]	**–**	52	**–**	–	**–**	–	**–**	52	**–**	–	**–**	–	**–**	–	**–**	52
J Callaway[10]	**–**	294	**–**	–	**–**	29	**–**	323	**–**	–	**–**	–	**–**	–	**–**	323
TOTAL	**1,134**	1,107	**3**	5	**65**	77	**1,202**	1,189	**562**	242	**0**	–	**853**	242	**2,055**	1,431

This table includes individual figures which have been rounded to the nearest £'000.

1. Benefits in kind for Mr R Helbing and Mr R Cummings relate to medical insurance. Taxable benefits for the Non-Executive Directors relate to travel and subsistence expenses.
2. Mr R Cummings joined the Board on 1 December 2020.
3. Mr J Burks joined the Board on 1 May 2020.
4. Mrs C Cayuela joined the Board on 1 January 2021 and retired from the Board on 30 November 2021.
5. Mrs L Jackson joined the Board on 1 May 2020.
6. Ms R Mikkelsen joined the Board on 1 December 2021.
7. 40% of the 2020 and 2021 bonus is invested in shares in accordance with the Policy.
8. The 2019 LTIP is due to vest on 8 April 2022. For the purposes of this table, the value of the LTIP has been calculated using the average share price over Q4 of 2021, the actual value of the award on vesting will be restated in next year's report. For the CEO, of the £291,000 LTIP vesting detailed above, £36,261 is attributable to the share price increase over the period.
9. Dr P Withers retired from the Board on 31 December 2020.
10. Ms J Callaway stepped down from the Board on 30 November 2020.

Details of variable pay earned in the year

Summary of 2021 annual bonus

Set out below are the targets which applied to the 2021 Annual Bonus Plan and performance against them.

The bonus outcome for 2021 is 71.8% of maximum for the CEO and 71.8% of maximum for the CFO. The Committee is satisfied the formulaic outcome is representative of underlying performance and taking this into account and all other relevant factors did not exercise any discretion in relation to the formulaic outcome. 40% of the bonus after tax will be invested in shares and held one-third each for at least one, two and three years.

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)
EBIT[1]	35%	£42.8m	£42.2m[2]	£43.8m[2]	£46.1m[2]	9.26%
Revenue[1]	35%	£261.1m	£251.3m[3]	£255.5m[3]	£259.7m[3]	35%
Cash – FCF % of EBITDA	15%	53%	25.7%[3]	30.7%[3]	35.7%[3]	15%
Individual strategic objectives[4]	15%	See below	N/A	N/A	N/A	See below
Total	**100%**	**–**	**–**	**–**	**–**	**71.83%**

1. Adjusted to exclude exceptional items and recalculated using budgeted exchange rates.
2. 0% of element vests at threshold, 50% at target and 100% at maximum.
3. 12.5% of element vests at threshold, 50% at target and 100% at maximum.
4. 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.

The individual strategic objectives for 2021 were linked to key strategic milestones, as follows:

Rutger Helbing

Objectives and weighting	Performance achieved	Scoring
VALUE CREATION **Broadening growth platform (50% weighting)**		
Lead preparations for commercialisation of new collagen applications in 2022.	Business case developed from which organisational structure established and implementation of commercialisation plans is underway.	90%
Commence commercialisation of alternative technology products.	Customer proposition developed and customer trials, generating positive feedback, commenced.	60%
People/culture (50% weighting)		
Develop culture based on refreshed Company Purpose to enhance workforce engagement and delivery.	Framework defining Company culture (Purpose, Vision, Mission and Values) created and implemented, drawing on widespread input from entire workforce.	100%
Implement new framework for developing sustainability commitments.	New targets defined and communicated. Governance structure established and priority projects commenced.	85%
Overall rating		**83.75%**

Rohan Cummings

Objectives and weighting	Performance achieved	Scoring
VALUE CREATION **Broadening growth platform (33.3% weighting)**		
Develop financials to support realisation of opportunities from broader growth platform.	Financial model and three-year financial plan covering alternative technologies and applications developed.	90%
IR Strategy (33.3% weighting)		
Evolve IR strategy to incorporate capital structure and strategy for engaging with new shareholders.	IR Roadmap settled and executed, review of capital allocation strategy overseen from which priorities identified.	95%
VALUE DELIVERY **Finance capability (33.3% weighting)**		
Enhance the Integrated Reconciliation stream within IBP towards 'Class A' performance.	Led evolution of focus on longer term assumptions, introducing further improvements to align capacity and commercial plans.	65%
Develop finance business partnering capability.	Data points to drive performance and tracking updated.	65%
Overall rating		**83.33%**

The Devro plc Performance Share Plan

2019 Performance Share Plan awards

The three-year performance period for the awards granted in 2019 under the Devro plc Performance Share Plan made to Mr R Helbing ended on 31 December 2021. The performance conditions which applied, and performance achieved against them, are set out below resulting in the award vesting at 51.6% of maximum.

Metric	Weighting	Threshold target (25% of max vesting)	Maximum target (100% of maximum vesting)	Actual performance[2]	Vesting (% of element)	Vesting (% of max)
EPS (final year)	40%	16.2p	21.5p	17.2p	39.2	15.7
TSR ranking relative to comparator group[1]	20%	Median	Upper quartile	Percentile 70th ranking	84.4	16.9
ROCE target for final year of performance period	40%	13%	15%	13.6%	47.6	19.0
Total	**100%**					**51.6**

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, 50 below).
2. EPS and ROCE performance restated to add back depreciation impact and impairment charge taken in 2019.

The TSR condition and performance set out above was independently prepared by Korn Ferry.

Director	Date of grant	Number of shares eligible to vest	Number of shares vesting	Value of shares vesting
R Helbing	8 April 2019	265,705	137,104	£290,839

Note: The value of the shares vesting is based on the average share price for the last 3 months of 2021.

Audited Information

Performance Share Plan awards granted in 2021

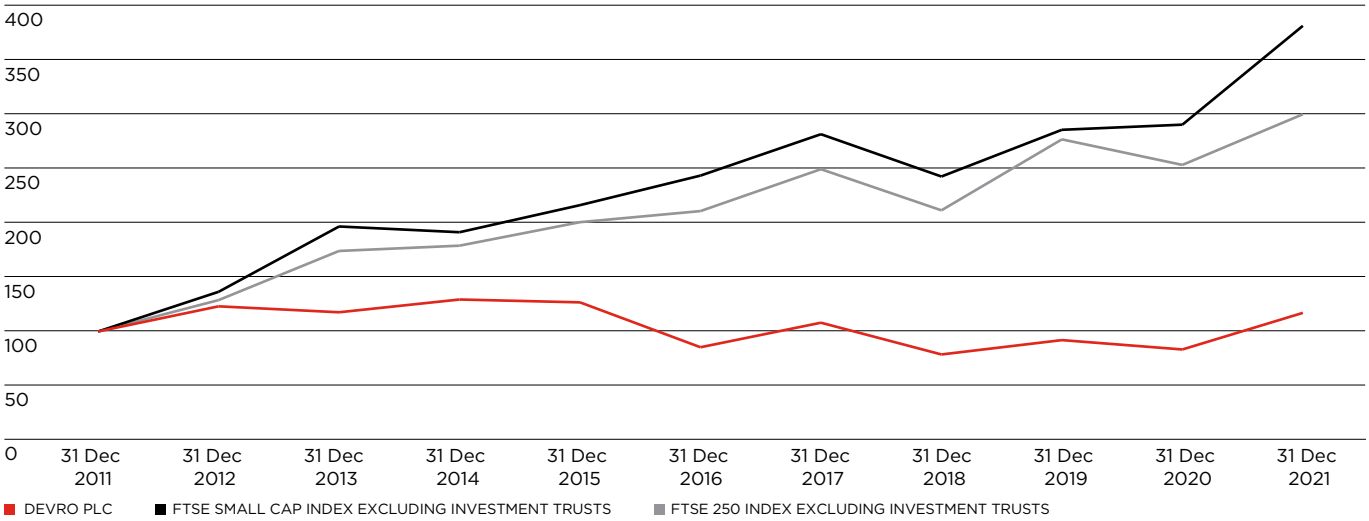
Director	Scheme	Type	Date of grant	Basis of award granted	Face value of award £'000	Percentage vesting for threshold performance	Performance period
R Helbing	The Devro plc Performance Share Plan	Nil-cost options	12 April 2021	110% of salary 259,805 shares	£509	25% of maximum	3 financial years from 1 January 2021
R Cummings				100% of salary 163,265 shares	£320		

1. Based on share price of 196.0p on 9 April 2021, 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 99.

Directors' Remuneration Report continued

Performance graph
Total shareholder return



This graph shows the value, by 31 December 2021, of £100 invested in Devro plc on 31 December 2011 compared with the value of £100 invested in the FTSE 250 and FTSE SmallCap indices (excluding investment trusts) on the same date. Devro is a constituent of the FTSE SmallCap and this is therefore deemed an appropriate index with the FTSE 250 being relevant as the index Devro has previously been part of and would move to, on a future increased market capitalisation.

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 single figure of total remuneration (£'000)	Annual bonus payout against maximum opportunity %	Long-term incentive vesting rates against maximum opportunity %
2021	**1,134**	**71.8**	**51.6**
2020	733	50.2	0
2019	526	7.33[1]	0
2018	504	10[2]	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

1. The formulaic outcome for 2019 was 24% maximum prior to the Committee exercising its discretion to scale back the bonus payment.
2. The formulaic outcome for 2018 was 34.45% maximum prior to the Committee exercising its discretion to scale back the bonus payment.

Chief Executive Officer to employee ratio

Financial year	25th percentile	50th percentile	75th percentile
2021	**1: 30.6**	**1: 25.2**	**1: 19.6**
2020	1: 20.9	1: 17.9	1: 13.6
2019	1: 18.8	1: 14.2	1: 10.7

The pay for the individuals used to calculate the ratio for 2021 is set out in the table below.

	CEO	25th percentile	50th percentile	75th percentile
Salary	£462,925	£32,846	£38,055	£51,041
Total pay	**£1,134,074**	**£36,853**	**£44,955**	**£58,460**

We have used 'Option A' in the applicable legislation to calculate the CEO to employee ratio, as this the most accurate method of calculation. The table above sets out the CEO pay ratio.

The CEO pay is compared to the pay of our UK employees at the 25th, 50th and 75th percentiles, calculated based on full-time equivalent base pay data as at 31 December 2021. At the time the ratio was calculated, data was not available for 2021 benefits and therefore 2020 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 2021 performance is determined in early 2022 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.

Reasons for movement from 2020 to 2021

Higher bonuses have been paid across the business in 2021 compared to 2020 and 2021 is the first time the LTIP has vested since 2013. However, as our CEO has a higher weighting to incentive pay than other employees, reflecting his role, responsibilities and scope to drive the performance of the business, this is the primary reason for the movement in the ratio in 2021 compared to 2020.

For explanation of movement in the ratio from 2019 to 2020 please refer to the 2020 Remuneration Report.

Relative importance of spend on pay

	Total remuneration of all employees of the Devro Group £'000	Dividends paid £'000
2021	**79,861 (0.8%)**	**15,024 (42.9%)**
2020	79,256 (-3.2%)	10,516 (-30.0%)

Percentage change in remuneration of Directors

	2020 to 2021			2019 to 2020		
Directors as at 31 December 2021	Base salary % change	Benefits % change	Annual bonus % change	Base salary % change	Benefits % change	Annual bonus % change
CEO[1]	1.5	0	44.3	2.0	-4.5	603.9
CFO[2]	0	0	N/A	1.9	0	-51.0
S Good	1.4	-100	N/A	10.3	-11.5	N/A
M Swift[3]	5.3	N/A	N/A	12.9	100	N/A
Devro Group employee average	0	-2	63	0	-21	300

Note: As Mr Burks and Mrs Jackson were not Directors for the full 2020 year they are not included in the analysis. As Mrs C Cayuela and Mrs R Mikkelsen were not Directors for the full 2021 year they are not included in the analysis.

For an explanation of the changes from 2019 to 2020 please refer to the 2020 Remuneration Report.
1. A higher bonus was paid in 2021 than in 2020 (as it was to other eligible employees).
2. The incumbent CFO joined the Board on 1 December 2020. No meaningful % change in annual bonus is calculable as he received a payment of £11,746 in respect of the year ended 31 December 2020 covering performance against financial measures for one month only.
3. The increase in fee for Mr Swift for 2021 is due to his role as Remuneration Committee Chair for the full 2021 year, compared to part of the prior year.

Audited information

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

Information on pages 93 to 99 of this Annual Report on Remuneration which has been audited by KPMG LLP is labelled 'Audited information'.

Audited information

Company pensions and life assurance policy regarding Executive Directors

Both Mr R Helbing and Mr R Cummings elected to receive a combination of pension and a monthly cash payment in lieu of their full pension entitlements.

The contributions for each in respect of 2021 are shown in the table on page 93.

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.

The Devro plc Performance Share Plan

Awards outstanding under the Devro plc Performance Share Plan for current 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 2021	Number of shares awarded during year	Number of shares exercised during year	Number of shares lapsed during year	Number of shares at 31 December 2021	Earliest normal vesting date
R Helbing	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[1]	8 April 2022
	15 April 2020	145.6p	N/A	345,847	–	–	–	345,847	15 April 2023
	12 April 2021	196.0p	N/A	–	259,805	–	–	259,805	12 April 2024
R Cummings	12 April 2021	196.0p	N/A	–	163,265	–	–	163,265	12 April 2024

1. These shares are due to vest at 51.6% of maximum in April 2022.

Conditional nil-priced options under the Devro plc Performance Share Plan are considered for award annually, with earliest vesting occurring normally after three years and dependent on both continued employment with the Group and, for the 2020 and 2021 awards, the extent to which the performance conditions set out below are met.

The awards made in 2020 were granted as nil-priced options subject to the EPS, ROCE and TSR performance conditions set out below.

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%

ROCE target for final year of performance period	Performance shares vesting percentage (of total award)
Below 17%	0%
17%	10%
Between 17% and 19%	On a straight-line basis between 10% and 40%
19% or above	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%

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, 50 below).

The awards made in 2021 were granted as nil-priced options subject to the EPS, ROCE and TSR performance conditions set out below.

Underlying EPS for the final year of the performance period	Performance shares vesting percentage (of total award)
Less than 18.2p	0%
18.2p	10%
Between 18.2p and 21.6p	On a straight-line basis between 10% and 40%
21.6p or more	40%

ROCE target for final year of performance period	Performance shares vesting percentage (of total award)
Below 17.4%	0%
17.4%	10%
Between 17.4% and 20.3%	On a straight-line basis between 10% and 40%
20.3% or above	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%

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, 50 below).

Audited information

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 2021	Total number of Ordinary Shares beneficially held 31 December 2021	Performance Share Plan 1 January 2021	Performance Share Plan 31 December 2021
S Good	50,000	70,000	–	–
R Helbing	70,000	94,754	853,794	871,357[1]
R Cummings	–	22,107	–	163,265
J Burks	–	–	–	–
C Cayuela[2]	–	–	-	-
L Jackson	–	13,099	–	–
R Mikkelsen[3]	–	–	–	–
M Swift	27,494	33,618	–	–

1. Includes 265,705 shares pursuant to the 2019 PSP award of which 137,104 will vest in April 2022.
2. Mrs C Cayuela retired from the Board on 30 November 2021 and her holding is shown as at that date.
3. Mrs R Mikkelsen joined the Board on 1 December 2021 and therefore there is no holding shown on 1 January 2021.

The Company received a notification from Mrs L Jackson on 17 January 2022 and Mr M Swift on 18 January 2022 that they had received a further 178 and 460 Ordinary Shares, respectively, in the Company pursuant to a dividend reinvestment programme related to the dividend issued by the Company in January 2022.

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. 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 2021	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 Helbing	94,754	43.42	Nil
R Cummings	22,107	14.65	Nil

1. Calculated on basis of three-month average share price to 31 December 2021, using salaries at 31 December 2021.

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 2021, amounted to 7,394 Ordinary Shares.

On behalf of the Board

Malcolm Swift
Chairman, Remuneration Committee
1 March 2022

Directors' Report

Introduction
The Directors of Devro plc (the 'Company') are pleased to present this Directors' Report for the year ended 31 December 2021 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' or 'Listing Rules') and Disclosure Guidance and Transparency Rules ('DTRs'). It forms part of the management report as required under the DTRs.

The Corporate Governance Report, which can be found on pages 72 to 77 also forms part of 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 69:

- 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 of the kind specified in chapter 9.8.4R of the Listing Rules is required to be included in the Annual Report.

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 2021 are listed in Note 33 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, are set out on pages 70 and 71. Additionally Chantal Cayuela was a Non-Executive Director of the Company until 30 November 2021 when she retired from the Board on personal grounds.

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 2021, 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 2021 are shown on page 99.

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 2021 (2020: 166,949,022) as shown in Note 11 to the Financial Statements.

Dividends
The Board is recommending a final dividend in respect of 2021 of 6.5 pence per share (2020: 6.3 pence), making a total dividend for the year of 9.3 pence per share. (Dividends paid in respect of the year ended 31 December 2020 included the postponed 2019 final dividend which was paid in the form of an interim dividend in October 2020. The total value of dividends paid in respect of the year ended 31 December 2020 excluding the postponed 2019 final dividend was 9.0 pence.) If approved, the final 2021 dividend will be paid on 22 July 2022 to those shareholders on the register as at 10 June 2022.

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 limitations on share ownership, no restrictions on transfer or limitations on the holding of shares and no requirements for prior approval of any transfers. The right to allot new shares is subject to annual shareholder approval which is a requirement of applicable laws and regulations (and not intended to be an anti-takeover device).

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 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 29 April 2021, 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 2021 (2020: Nil).

Post balance sheet events

There have been no material events from 31 December 2021 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.

Substantial shareholdings

As at 31 December 2021, 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 MGMT Limited	12,771,134	7.65
M&G Plc	8,361,582	5.01
Neptune Investment Management Limited	8,346,007	4.99
Blackmoor Investment Partners LLC	8,320,227	4.98
Standard Life Aberdeen plc	8,038,838	4.82
Franklin Templeton Institutional, LLC	4,693,700	2.81

The Company has received no new notifications under DTR5 between 1 January 2022 and the date of this Directors' Report of any further material interests in the issued share capital of the Company.

Annual General Meeting

The AGM of the Company will be held on 28 April 2022 at 11am at The Westerwood Hotel, St Andrews Drive, Cumbernauld, G68 0EW. 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 accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law and have elected to prepare the parent Company Financial Statements in accordance with UK accounting standards and applicable law, including FRS 101 Reduced Disclosure Framework. In addition the Group Financial Statements are required under the UK Disclosure Guidance and Transparency Rules to be prepared in accordance with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union ('IFRSs as adopted by the EU').

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 the Group's 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, reliable and prudent;
- for the Group Financial Statements, state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and IFRSs as adopted by the EU;
- for the parent Company Financial Statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the parent Company Financial Statements;
- 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 Statement 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 70 and 71 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
1 March 2022

Consolidated Statement of Profit or Loss

(For the year ended 31 December 2021)

	Note	2021 £'m	2020 £'m
Revenue	2	**252.4**	247.6
Operating profit	3,4	**42.7**	36.2
Finance cost	7	**(4.3)**	(5.4)
Net finance cost on pensions	7	**(0.8)**	(1.4)
Profit before tax	8	**37.6**	29.4
Income tax	9	**(6.5)**	(6.3)
Profit for the year attributable to owners of the Company		**31.1**	23.1
Earnings per share			
Basic	10	**18.6p**	13.8p
Diluted	10	**18.4p**	13.7p

All results relate to continuing operations.

Consolidated Statement of Comprehensive Income

(For the year ended 31 December 2021)

	Note	2021 £'m	2020 £'m
Profit for the year attributed to the owners of the Company		**31.1**	23.1
Other comprehensive income/(expense) for the year			
Items that will not be reclassified to profit or loss			
Pension obligations:			
– re-measurements from pension liabilities	26	**14.7**	3.4
– movement in deferred tax	25	**(2.0)**	–
Re-measurements of an insurance asset held to fund pension obligations		**(0.1)**	–
		12.6	3.4
Items that are or may be reclassified subsequently to profit or loss			
Cash flow hedges:	28		
– net fair value (losses)/gains		**(2.3)**	1.4
– tax on fair value movements		**0.6**	(0.3)
Net investment hedges:	28		
– fair value (losses)/gains		**(0.5)**	2.0
– tax on fair value movements		**–**	(0.7)
Net exchange adjustments	28	**(1.3)**	5.3
		(3.5)	7.7
Other comprehensive income for the year, net of tax		**9.1**	11.1
Total comprehensive income for the year attributable to owners of the Company		**40.2**	34.2

Consolidated Statement of Financial Position

(As at 31 December 2021)

	Note	2021 £'m	2020 £'m
ASSETS			
Non-current assets			
Property, plant and equipment	13	**201.7**	209.2
Intangible assets	14	**8.9**	10.2
Deferred tax assets	25	**27.6**	27.3
Trade and other receivables	17	**1.5**	1.7
		239.7	248.4
Current assets			
Inventories	16	**33.9**	37.8
Trade and other receivables	17	**38.0**	29.7
Derivative financial instruments	23	**0.9**	3.2
Current tax assets		**0.8**	–
Cash and cash equivalents	18	**23.5**	23.7
Assets held for sale	15	**–**	2.5
		97.1	96.9
Total assets		**336.8**	345.3
LIABILITIES			
Current liabilities			
Trade and other payables	19	**(38.9)**	(32.0)
Current tax liabilities		**–**	(3.2)
Borrowings	22	**(2.2)**	(20.8)
Derivative financial instruments	23	**(0.7)**	(0.1)
Provisions for other liabilities	21	**–**	(1.0)
		(41.8)	(57.1)
Non-current liabilities			
Borrowings	22	**(111.0)**	(112.9)
Pension obligations	26	**(36.2)**	(55.2)
Deferred tax liabilities	25	**(16.6)**	(15.5)
Other payables	20	**(3.0)**	(3.3)
Provisions for other liabilities	21	**(3.0)**	(2.3)
		(169.8)	(189.2)
Total liabilities		**(211.6)**	(246.3)
Net assets		**125.2**	99.0
EQUITY			
Ordinary shares	11	**16.7**	16.7
Share premium		**9.3**	9.3
Other reserves	28	**77.4**	80.1
Retained earnings		**21.8**	(7.1)
Equity attributable to the owners of the Company		**125.2**	99.0

Rutger Helbing
Chief Executive Officer
1 March 2022

Consolidated Statement of Changes in Equity

(For the year ended 31 December 2021)

	Note	Ordinary shares £'m	Share premium £'m	Other reserves £'m	Retained earnings £'m	Total equity £'m
Balance at 1 January 2021		**16.7**	**9.3**	**80.1**	**(7.1)**	**99.0**
Comprehensive income						
Profit for the year		**–**	**–**	**–**	**31.1**	**31.1**
Other comprehensive income		**–**	**–**	**(3.5)**	**12.6**	**9.1**
Total comprehensive income		**–**	**–**	**(3.5)**	**43.7**	**40.2**
Transactions with owners of the Company						
Performance Share Plan charge, net of tax	28	**–**	**–**	**1.0**	**–**	**1.0**
Performance Share Plan credit in respect of awards lapsed	28	**–**	**–**	**(0.2)**	**0.2**	**–**
Dividends paid	12	**–**	**–**	**–**	**(15.0)**	**(15.0)**
Total transactions with owners of the Company		**–**	**–**	**0.8**	**(14.8)**	**(14.0)**
Balance at 31 December 2021		**16.7**	**9.3**	**77.4**	**21.8**	**125.2**
Balance at 1 January 2020		16.7	9.3	72.2	(23.3)	74.9
Comprehensive income						
Profit for the year		–	–	–	23.1	23.1
Other comprehensive income		–	–	7.7	3.4	11.1
Total comprehensive income		–	–	7.7	26.5	34.2
Transactions with owners of the Company						
Performance Share Plan charge, net of tax	28	–	–	0.4	–	0.4
Performance Share Plan credit in respect of awards lapsed	28	–	–	(0.2)	0.2	–
Dividends paid	12	–	–	–	(10.5)	(10.5)
Total transactions with owners of the Company		–	–	0.2	(10.3)	(10.1)
Balance at 31 December 2020		16.7	9.3	80.1	(7.1)	99.0

Consolidated Statement of Cash Flows

(For the year ended 31 December 2021)

		2021 £'m	2020 £'m
Cash flows from operating activities			
Cash generated from operations	29	**62.9**	51.6
Interest paid		**(4.2)**	(5.1)
Tax paid		**(10.6)**	(8.3)
Net cash generated from operating activities		**48.1**	38.2
Cash flows from investing activities			
Purchase of property, plant and equipment		**(15.8)**	(12.8)
Purchase of intangible assets		**(0.1)**	(1.4)
Proceeds from disposal of property, plant and equipment and software		**3.8**	–
Net cash used in investing activities		**(12.1)**	(14.2)
Cash flows from financing activities			
Proceeds from borrowings		**–**	4.0
Repayments of borrowings		**(21.0)**	(18.5)
Receipt/(payment) on settlement of derivatives		**0.7**	(1.3)
Payment of lease liabilities	24	**(0.5)**	(0.5)
Dividends paid	12	**(15.0)**	(10.5)
Net cash used in financing activities		**(35.8)**	(26.8)
Net increase/(decrease) in cash and cash equivalents		**0.2**	(2.8)
Net cash and cash equivalents at 1 January	30	**21.5**	23.9
Net increase/(decrease) in cash and cash equivalents		**0.2**	(2.8)
Exchange gain on cash and cash equivalents		**0.1**	0.4
Net cash and cash equivalents at 31 December	30	**21.8**	21.5
Cash and cash equivalents	18	**23.5**	23.7
Bank overdrafts	22	**(1.7)**	(2.2)
Net cash and cash equivalents at 31 December	30	**21.8**	21.5

Notes to the Consolidated Financial Statements

(For the year ended 31 December 2021)

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

These consolidated Financial Statements have been prepared in accordance with UK-adopted international accounting standards. 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.

The Group's reporting currency is sterling, and unless otherwise stated, the Financial Statements are rounded to the nearest £0.1 million.

Basis of consolidation

The consolidated Financial Statements include the Financial Statements of the Company and all its subsidiary undertakings made up to 31 December 2021. 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 Annual Report outlines the business activities of the Group and describes the Group's objectives and procedures for managing its capital, its financial risk management policies, details of financial instruments and exposure to market, credit and liquidity risk.

At 31 December 2021 the Group was operating within the banking covenants related to its revolving credit facility and US private placement facilities. The Group has prepared detailed financial forecasts covering a period of 12 months from the date of approval of the financial statements. These forecasts assume another year of volume growth and more significant improvements in average selling prices, while also accounting for cost increases attributable to growing inflationary pressures. Given the ongoing global economic uncertainty caused by the COVID-19 pandemic, the Directors have considered the impact of COVID-19 when preparing these forecasts, however the direct impact of the pandemic on the business is diminishing and the associated risk has reduced.

This base case forecast indicates that there is sufficient headroom in the Group's financing facilities for at least 12 months from the date of approval of this statement, and the business will continue to operate within its banking covenants during this period.

In addition to the Group's base case forecast, a 'downside' scenario has been modelled as a stress test. In this scenario, the Group's growth assumptions have been reduced by approximately 2% – 3%, and additional costs resulting from inflation, foreign exchange movements and operational incidents have been introduced. The downside scenario also includes several mitigating actions the Group could implement in response. These actions include reduced opex spend and stopping all non-essential and non-committed capex in the forecasted period. Under the downside scenario, the Group would continue to operate within its current banking covenants and retain significant headroom in its available borrowing facilities.

In both scenarios, significant liquidity headroom under our existing debt facilities remains at each month end. At 31 December 2021, the net debt position was £89.7m and our covenant net debt to EBITDA ratio was 1.4 times with a covenant EBITDA to net interest payable ratio of 15 times. Covenants are set at less than 3.0 times covenant net debt to EBITDA and more than 4.0 times covenant EBITDA to net interest payable in all our lending agreements. At 31 December 2021 the Group had access to undrawn borrowing facilities of £50.2m and £23.5m of cash holdings.

As part of the going concern review, the Directors noted that the Group's revolving credit facility will expire in June 2023. The Group is anticipating to refinance this facility and as such this has not affected the Directors' assessment of going concern.

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.

Notes to the Consolidated Financial Statements continued

(For the year ended 31 December 2021)

1. Basis of preparation and summary of significant accounting policies continued

A) Basis of preparation continued

Significant accounting estimates and judgements

The preparation of Financial Statements in conformity with adopted IFRSs requires use of estimates and assumptions that affect 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 117.

Estimates

Although not considered to have a significant risk of resulting in a material adjustment within the next financial year, the following are areas of estimation:

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 accounting policies applied in respect of property, plant & equipment and intangible assets are set out on pages 111 to 113.

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 116.

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 113.

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 113.

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 an 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 page 114.

Changes in accounting policies and disclosures

New standards, amendments to standards and interpretations effective in 2021
In the year ended 31 December 2021, the Directors have reviewed all of the new and revised Standards and Interpretations issued by IFRS that are relevant to the Group and effective for the current annual reporting period. As a result of this review, the Directors have determined that there is no material impact of the new and revised Standards and Interpretations on the Group and therefore, no material change is necessary to Group accounting policies.

New standards, amendments to standards and interpretations not applied
Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 31 December 2021 reporting periods and have not been early adopted by the Group. These standards, amendments or interpretations are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

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.

Notes to the Consolidated Financial Statements continued

(For the year ended 31 December 2021)

1. Basis of preparation and summary of significant accounting policies continued

B) Summary of significant accounting policies continued

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.

Assets held for sale

The Group classifies non-current assets as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

The asset is classified as held for sale only when the sale is highly probable and the asset is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Once classified as held-for-sale, intangible assets and property, plant and equipment are no longer amortised or depreciated. Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

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.

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 programs 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 intangible 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.

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 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, which 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 Consolidated 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.

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.

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

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.

Notes to the Consolidated Financial Statements continued

(For the year ended 31 December 2021)

1. Basis of preparation and summary of significant accounting policies continued

B) Summary of significant accounting policies continued

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 variable factors which determine lease payments as stipulated under the lease contract, 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.

The Group has elected not to recognise right-of-use assets and lease liabilities for short term leases of less than 12 months or leases of low value items.

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.

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.

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 Consolidated 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 Consolidated 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 Consolidated statement of profit or loss.

Borrowings

Borrowings are recognised initially at fair value, net of transaction 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.

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 Consolidated statement of other comprehensive income. Gains or losses relating to any ineffective part of changes in fair value are taken immediately to the Consolidated statement of profit or loss. Amounts accumulated in equity are transferred to the Consolidated 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. Where the Group of items does not have any offsetting risk positions then the reclassified hedging instrument gains or losses are apportioned to the line items affected by the hedged items.

Any movements in fair value occurring after the time when hedging contracts cease to be cash flow hedges are taken directly to the Consolidated 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 Consolidated 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 Consolidated 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 Consolidated statement of profit or loss when the foreign operation is partially disposed of or sold.

Notes to the Consolidated Financial Statements continued

(For the year ended 31 December 2021)

1. Basis of preparation and summary of significant accounting policies continued

B) Summary of significant accounting policies continued

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 Consolidated statement of profit or loss 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 Consolidated 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 customers 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.

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 'Significant accounting estimates and judgements' on page 110.

2. Segment information

The chief operating decision maker has been identified as the Board. The Board reviews the Group's financial results on a market segment basis because they require different products and marketing strategies, with two identifiable operating segments:

- Emerging markets: Latin America, Russia & East, Middle East & Africa, South East Asia and China.
- Mature markets: North America, Continental EU, UK & Ireland, Japan and Australia & New Zealand.

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 at the 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.

		Mature		Emerging		Total Group	
	Note	**2021 £'m**	2020 £'m	**2021 £'m**	2020 £'m	**2021 £'m**	2020 £'m
Revenue from external customers		**179.0**	177.8	**73.4**	69.8	**252.4**	247.6
Underlying operating profit						**42.0**	40.8
Exceptional items	4					**0.7**	(4.6)
Operating profit						**42.7**	36.2
Finance cost	7					**(4.3)**	(5.4)
Net finance cost on pensions	7, 26					**(0.8)**	(1.4)
Profit before tax						**37.6**	29.4

Revenue by destination is presented based on location of the customer receiving the supply and can be analysed as follows:

	2021 £'m	2020 £'m
North America	**59.8**	55.6
UK & Ireland and Continental Europe	**71.3**	71.1
Other	**47.9**	51.1
Mature markets	**179.0**	177.8
Asia	**37.3**	33.3
Latin America	**15.5**	14.1
Other	**20.6**	22.4
Emerging markets	**73.4**	69.8
Total	**252.4**	247.6

No single customer accounted for more than 10% of the Group's revenue in either the current or prior year.

Notes to the Consolidated Financial Statements continued

(For the year ended 31 December 2021)

2. Segment information continued

Other segment information:

	Mature		Emerging		Global		Total	
	2021 £'m	2020 £'m	**2021 £'m**	2020 £'m	**2021 £'m**	2020 £'m	**2021 £'m**	2020 £'m
Additions to property, plant and equipment	**10.3**	11.0	**4.2**	4.3	**–**	0.1	**14.5**	15.4
Additions to intangible assets	**–**	0.1	**–**	–	**0.1**	0.7	**0.1**	0.8
	10.3	11.1	**4.2**	4.3	**0.1**	0.8	**14.6**	16.2
Depreciation of property, plant and equipment	**(14.2)**	(14.6)	**(5.8)**	(5.7)	**(0.2)**	(0.2)	**(20.2)**	(20.5)
Impairment of property, plant and equipment	**(0.4)**	(0.5)	**(0.2)**	(0.2)	**–**	–	**(0.6)**	(0.7)
Amortisation of intangible assets	**(0.4)**	(0.5)	**(0.1)**	(0.2)	**(0.6)**	(0.4)	**(1.1)**	(1.1)
Impairment of intangible assets	**–**	–	**–**	–	**–**	(0.2)	**–**	(0.2)

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

Total of non-current assets can be analysed as follows:

	2021 £'m	2020 £'m
Mature	**147.1**	154.9
Emerging	**60.3**	60.8
Global	**3.2**	3.8
	210.6	219.5
Deferred tax assets	**27.6**	27.3
Pension assets	**1.5**	1.6
Total non-current assets	**239.7**	248.4

3. Operating profit

	2021 £'m	2020 £'m
Revenue	**252.4**	247.6
Cost of sales	**(154.4)**	(158.0)
Gross profit	**98.0**	89.6
Selling and distribution costs	**(18.3)**	(18.4)
Administrative expenses	**(28.8)**	(26.0)
Research and development expenditure	**(6.3)**	(6.3)
Other expenses	**(3.9)**	(3.4)
Total operating expenses	**(57.3)**	(54.1)
Other operating income	**2.0**	0.7
Net operating expenses	**(55.3)**	(53.4)
Operating profit	**42.7**	36.2

An additional £0.1m (2020: £0.3m) of development expenditure has been capitalised within intangible assets (Note 14).

4. Exceptional items

Exceptional income included in operating profit was £0.7m (2020: charge of £4.6m).

In 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 closed its Bellshill site in Scotland in 2020 and moved remaining operating assets to other sites. The site was sold in 2021 for £1.3m profit.

Exceptional charges associated with the Bellshill programme included the site closure costs of £0.6m (2020: £3.3m).

In 2020 exceptional items also included assets impairment charge of £0.7m (Note 13) and the final costs of £0.6m related to the implementation of the new global operating model. This involved restructuring the business support activities into global functions to realign the cost base for operating expenses with strategic priorities.

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 81 to 100.

Emoluments are summarised as follows:

	2021 £'m	2020 £'m
Aggregate emoluments (including long-term incentives with performance period ending during the year)	**1.7**	1.3
Payments in lieu of pension contributions	**0.1**	0.1
	1.8	1.4

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

	2021 £'m	2020 £'m
Aggregate emoluments (including long-term incentives with performance period ending during the year)	**0.8**	0.7
Payments in lieu of pension contributions	**–**	–
	0.8	0.7

Notes to the Consolidated Financial Statements continued

(For the year ended 31 December 2021)

6. Employee information

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

By employee category	2021	2020
Operations and engineering	**1,509**	1,566
Sales and marketing	**88**	93
Distribution	**41**	39
Administration	**154**	157
Research and development	**92**	92
	1,884	1,947

Staff costs for the Group were:

	Note	2021 £'m	2020 £'m
Wages and salaries (including bonus and other benefits)		**72.1**	71.4
Social security costs		**8.8**	8.1
Pension obligation costs	26	**6.8**	7.5
Performance Share Plan charge	28	**1.0**	0.4
		88.7	87.4

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

The Group incurred redundancy costs of £0.1m in the year (2020: £0.3m).

7. Finance cost

	Note	2021 £'m	2020 £'m
Interest payable on loans and overdrafts		**(4.3)**	(5.4)
Net finance cost on pensions	26	**(0.8)**	(1.4)

8. Profit before tax

	Note	2021 £'m	2020 £'m
Profit before tax is stated after charging/(crediting):			
Depreciation of property, plant and equipment	13	**20.2**	20.5
Impairment of property, plant and equipment	13	**0.6**	0.7
Amortisation of intangible assets	14	**1.1**	1.1
Impairment of intangible assets	14	**–**	0.2
Inventory recognised as an expense		**122.7**	120.1
Inventory written down or written off		**0.2**	1.9
Repairs and maintenance expense		**11.2**	12.6
Research and development expense		**6.3**	6.3
Expense relating to short-term leases		**1.0**	1.0
Net foreign exchange losses		**0.1**	0.5
Auditors' remuneration (see below)		**0.7**	0.6

The creation and release of provisions for impaired receivables is included in other expenses in our Consolidated statement of profit or loss (Note 3). 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:

	2021 £'m	2020 £'m
Group		
Fees payable to the Company's auditors and its associates for the audit of the parent Company and consolidated accounts	**0.3**	0.3
Fees payable to the Company's auditors and its associates for other services:		
– The audit of the Company's subsidiaries	**0.4**	0.3
– Audit related assurance services £48,000 (2020: £45,120)	**–**	–
– Non-audit services £nil (2020: nil)	**–**	–
	0.7	0.6

9. Income tax

	2021 £'m	2020 £'m
Current Tax		
UK corporation tax credit at 19.0% (2020: 19.0%)	**(1.2)**	(0.4)
Foreign tax	**8.9**	9.6
	7.7	9.2
Adjustments in respect of prior years	**(0.8)**	0.2
Total current tax charge	**6.9**	9.4
Deferred tax		
Origination and reversal of temporary differences representing:		
UK corporation tax	**0.9**	1.9
Foreign tax	**(0.2)**	(4.1)
	0.7	(2.2)
Adjustments in respect of prior years	**0.5**	(0.3)
Change in tax rates	**(1.6)**	(0.6)
Total deferred tax credit (Note 25)	**(0.4)**	(3.1)
Tax charge in the Consolidated statement of profit and loss	**6.5**	6.3
Tax on items charged/(credited) to Consolidated statement of changes in equity or Consolidated statement of other comprehensive income		
Deferred tax charge on pension obligations (excluding rate changes)	**2.0**	0.6
Deferred tax (credit)/charge on net fair value gains/(losses) on cash flow hedges	**(0.6)**	0.3
Deferred tax credit on rate changes, foreign exchange and other items	**(0.1)**	(0.2)
Deferred tax on items charged to equity or other comprehensive income	**1.3**	0.7
Current tax charge on other hedges	**–**	0.7
Total tax on items charged to equity or other comprehensive income	**1.3**	1.4
Total current tax charge for the year	**6.9**	10.1
Total deferred tax charge/(credit) for the year	**0.9**	(2.4)

Notes to the Consolidated Financial Statements continued

(For the year ended 31 December 2021)

9. Income tax continued

	2021 £'m	2020 £'m
Profit before tax	**37.6**	29.4
Profit before tax multiplied by the UK 19.0% (2020: 19.0%) corporation tax rate	**7.1**	5.6
Effects of:		
– Adjustments in respect of prior years	**(0.2)**	(0.1)
– Expenses not deductible	**0.6**	(0.2)
– Income not taxable	**(0.5)**	(0.3)
– Adjustments in respect of foreign tax rates	**1.6**	1.2
– Impact to tax rate change	**(1.6)**	(0.6)
– Temporary differences on which deferred tax not recognised/(previously unrecognised)	**(0.5)**	0.7
Tax charge for the year	**6.5**	6.3

The Group's effective tax rate on profits was 17.3% (2020: 21.4%) and underlying effective tax rate on profit before exceptional items is 18.2% (2020: 22.4%).

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.

At 31 December 2021, £27.2m of deferred tax assets have not been recognised on losses and other timing differences in the US, China and other territories as a result of uncertainty over recoverability.

The quantum of tax losses unrecognised in China is £21.6m (deferred tax asset of £5.4m). These tax losses have a five year expiry, with £7.6m expiring in 2022, £7.8m in 2023, £4.1m in 2024, £1.3m in 2025 and £0.8m in 2026. £8.3m of losses are amortised over a 20 year period, expiring in 2036. The quantum of unrecognised tax losses in the US is £84.0m (deferred tax asset of £17.6m) and unrecognised other timing differences are £17.1m (deferred tax asset of £3.6m). Losses arising prior to 2018 have a 20-year expiry with £6.3m expiring in 2034, £10.7m in 2035, £22.7m in 2036 and £17.7m in 2037. The remaining £26.6m of tax losses and £17.1m of other timing differences have no expiry date.

The quantum of unrecognised deferred tax assets in other territories amount to £0.6m.

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 balance sheet date. The uncertain tax provisions are recognised either within current tax liabilities or deferred tax liabilities, depending on the taxable profit profile for which these provisions are recognised.

10. Earnings per share

	2021 £'m	2020 £'m
Profit attributable to equity holders	**31.1**	23.1
Earnings per share		
– Basic	**18.6p**	13.8p
– Diluted	**18.4p**	13.7p

Shares in issue		
Weighted average number of shares in the year	**166,949,022**	166,949,022
Adjustments for:		
– Performance Share Plan	**2,497,407**	1,960,052
Weighted average number of shares adjusted for potential dilution	**169,446,429**	168,909,074

Basic earnings per share is calculated by dividing the profit for the year attributable to owners of the parent of £31.1m (2020: £23.1m) by 166,949,022 (2020: 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. For 2021, diluted earnings per share is calculated by dividing the profit for the year attributable to ordinary shareholders of £31.1m by the average number of shares, including the effect of all dilutive potential shares, of 169,446,429 (2020: 168,909,074).

11. Ordinary shares

Group and company	2021 £'m	2020 £'m
Issued and fully paid		
166,949,022 (2020: 166,949,022) ordinary shares of 10 pence each	**16.7**	16.7

No Ordinary shares were issued during the year.

12. Dividends

	2021 £'m	2020 £'m
Final paid of 6.3 pence per share (2020: 6.3 pence)	**10.5**	10.5
Interim paid of 2.7 pence per share (2020: 2.7 pence)	**4.5**	–
	15.0	10.5

During the year, dividends totalling £nil (2020: £nil) were waived in respect of shares owned by the Devro Employee Share Ownership Trust.

The Board has recommended a final dividend for 2021 of 6.5 pence per share. Subject to shareholder approval at the Annual General Meeting in April 2022, the dividend will be paid on 22 July 2022 to those shareholders on the register on 10 June 2022.

Notes to the Consolidated Financial Statements continued

(For the year ended 31 December 2021)

13. Property, plant and equipment

	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 2021	**152.3**	**320.7**	**16.2**	**16.3**	**505.5**
Additions	**1.6**	**2.3**	**–**	**10.6**	**14.5**
Disposals	**(0.5)**	**(5.4)**	**(1.0)**	**–**	**(6.9)**
Reclassification	**2.0**	**15.4**	**–**	**(17.4)**	**–**
Exchange differences	**(0.6)**	**(1.3)**	**(0.1)**	**(0.4)**	**(2.4)**
At 31 December 2021	**154.8**	**331.7**	**15.1**	**9.1**	**510.7**
Accumulated depreciation					
At 1 January 2021	**(63.8)**	**(218.7)**	**(13.8)**	**–**	**(296.3)**
Charge for year	**(2.8)**	**(16.7)**	**(0.7)**	**–**	**(20.2)**
Impairment	**(0.1)**	**(0.3)**	**–**	**(0.2)**	**(0.6)**
Disposals	**0.4**	**5.4**	**1.0**	**–**	**6.8**
Reclassification	**(0.1)**	**–**	**–**	**0.1**	**–**
Exchange differences	**0.3**	**0.8**	**0.2**	**–**	**1.3**
At 31 December 2021	**(66.1)**	**(229.5)**	**(13.3)**	**(0.1)**	**(309.0)**
Net book value at 31 December 2021	**88.7**	**102.2**	**1.8**	**9.0**	**201.7**
Cost					
At 1 January 2020	154.3	349.8	15.8	12.0	531.9
Additions	0.2	1.4	0.2	13.6	15.4
Disposals	(2.3)	(40.7)	(0.5)	–	(43.5)
Reclassification to assets held for sale	(5.5)	–	–	–	(5.5)
Reclassification	3.3	5.9	0.5	(9.7)	–
Exchange differences	2.3	4.3	0.2	0.4	7.2
At 1 December 2020	152.3	320.7	16.2	16.3	505.5
Accumulated depreciation					
At 1 January 2020	(66.0)	(239.1)	(13.0)	–	(318.1)
Charge for year	(4.0)	(15.5)	(1.0)	–	(20.5)
Impairment	(0.1)	(0.5)	(0.1)	–	(0.7)
Disposals	2.3	40.7	0.5	–	43.5
Reclassification to assets held for sale	3.0	–	–	–	3.0
Reclassification	1.9	(1.9)	–	–	–
Exchange differences	(0.9)	(2.4)	(0.2)	–	(3.5)
At 1 December 2020	(63.8)	(218.7)	(13.8)	–	(296.3)
Net book value at 31 December 2020	88.5	102.0	2.4	16.3	209.2

In the Consolidated statement of profit or loss, depreciation of £19.3m (2020: £19.5m) has been charged in cost of sales, £0.2m (2020: £0.1m) in selling and distribution costs, £0.4m (2020: £0.8m) in administrative expenses, £0.1m (2020: £0.1m) in research and development expenditure and £0.2m (2020: nil) in other expenses.

The balance of accumulated depreciation of assets in the course of construction relates to partially-impaired assets which are still planned to be completed and used in the future.

14. Intangible assets

	Goodwill £'m	Customer contracts & relationships £'m	Computer software £'m	Development costs £'m	Total £'m
Cost					
At 1 January 2021	**3.9**	**2.5**	**5.3**	**7.1**	**18.8**
Additions	**–**	**–**	**–**	**0.1**	**0.1**
Reclassifications	**–**	**–**	**0.2**	**(0.2)**	**–**
Disposals	**–**	**–**	**(0.2)**	**–**	**(0.2)**
Exchange differences	**(0.3)**	**(0.1)**	**–**	**–**	**(0.4)**
At 31 December 2021	**3.6**	**2.4**	**5.3**	**7.0**	**18.3**
Accumulated amortisation					
At 1 January 2021	**–**	**(1.0)**	**(5.3)**	**(2.3)**	**(8.6)**
Charge for year	**–**	**(0.2)**	**(0.3)**	**(0.6)**	**(1.1)**
Disposals	**–**	**–**	**0.2**	**–**	**0.2**
Reclassifications	**–**	**(0.1)**	**0.6**	**(0.5)**	**–**
Exchange differences	**–**	**0.1**	**–**	**–**	**0.1**
At 31 December 2021	**–**	**(1.2)**	**(4.8)**	**(3.4)**	**(9.4)**
Net book value at 31 December 2021	**3.6**	**1.2**	**0.5**	**3.6**	**8.9**
Cost					
At 1 January 2020	3.7	2.5	8.5	8.1	22.8
Additions	–	–	0.5	0.3	0.8
Disposals	–	–	(3.8)	(1.3)	(5.1)
Exchange differences	0.2	–	0.1	–	0.3
At 31 December 2020	3.9	2.5	5.3	7.1	18.8
Accumulated amortisation					
At 1 January 2020	–	(0.8)	(8.2)	(3.3)	(12.3)
Charge for year	–	(0.2)	(0.6)	(0.3)	(1.1)
Impairment	–	–	(0.2)	–	(0.2)
Disposals	–	–	3.8	1.3	5.1
Exchange differences	–	–	(0.1)	–	(0.1)
At 31 December 2020	–	(1.0)	(5.3)	(2.3)	(8.6)
Net book value at 31 December 2020	3.9	1.5	–	4.8	10.2

Included in the net book value of intangible assets is £3.6m (2020: £4.5m) relating to internally generated development costs.

In the income statement, amortisation of £0.4m (2020: £0.3m) is included in cost of sales and £0.7m (2020: £0.8m) in administrative expenses.

Notes to the Consolidated Financial Statements continued

(For the year ended 31 December 2021)

14. Intangible assets continued

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% (2020: 7%). Based on these calculations there is sufficient headroom over the book value of goodwill.

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 a reasonably possible change in the most sensitive assumption being the discount rate was undertaken. An increase in discount rate of 1% would decrease the headroom by £3.4m but still leave sufficient headroom over the book value of goodwill.

15. Assets held for sale

No assets were held for sale as at 31 December 2021.

In the second half of 2019 the Group undertook a review of its global manufacturing footprint, which resulted in a decision to close the Bellshill site in Scotland. The site was closed in June 2020 and advertised for sale. As at 31 December 2020, the value of the asset classified as held for sale was £2.5m. The Bellshill site was subsequently sold in January 2021, with a profit on disposal of £1.3m being recognised as an exceptional item in profit and loss.

16. Inventories

Details of inventories relating to the Group are as follows:

	2021 £'m	2020 £'m
Raw materials and consumables	**5.5**	5.3
Work in progress	**3.8**	3.4
Finished goods and goods for resale	**24.6**	29.1
	33.9	37.8

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.

	2021 £'m	2020 £'m
Amounts falling due after more than one year		
Other receivables	**1.5**	1.7
	1.5	1.7
Amounts falling due within one year		
Trade receivables	**31.3**	23.7
Other receivables	**1.8**	2.9
Prepayments and accrued income	**4.9**	3.1
	38.0	29.7

Other non-current receivables include a German insurance asset of £1.5m held to fund pension obligations (2020: £1.6m).

At 31 December 2021, an expected credit loss on trade receivables was immaterial (2020: £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 2021, trade receivables of £4.3m (2020: £3.7m) 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:

	2021 £'m	2020 £'m
Less than 30 days past due	**3.6**	2.6
30 to 90 days past due	**0.7**	1.1
	4.3	3.7

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:

	2021 £'m	2020 £'m
US dollar	**13.5**	6.3
Euro	**4.5**	5.0
Japanese yen	**5.1**	5.1
Sterling	**2.0**	1.3
Australian dollar	**2.9**	2.8
Czech koruna	**0.5**	0.2
Chinese renminbi	**1.4**	1.5
Other currencies	**1.4**	1.5
	31.3	23.7

18. Cash and cash equivalents

	2021 £'m	2020 £'m
Cash at bank and in hand	**23.5**	23.7
	23.5	23.7

19. Trade and other payables

	2021 £'m	2020 £'m
Trade payables	**17.3**	12.3
Tax and social security payable	**2.6**	2.5
Accruals	**19.0**	17.2
	38.9	32.0

Accruals include £0.2m (2020: £0.3m) in respect of government grants payable within one year.

20. Other payables – non-current

	2021 £'m	2020 £'m
Accruals	**3.0**	3.3
	3.0	3.3

Accruals include £2.0m (2020: £1.9m) in respect of government grants payable after more than one year.

Government grants are primarily used for the purpose of funding capital expenditure.

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(For the year ended 31 December 2021)

21. Provisions for other liabilities

Group	Note	2021 £'m	2020 £'m
At 1 January		**3.3**	8.4
Charge to the statement of profit and loss during the year	4	**–**	0.3
Utilised during the year		**(0.3)**	(5.3)
Foreign exchange		**–**	(0.1)
At 31 December		**3.0**	3.3
Non-current		**3.0**	2.3
Current		**–**	1.0
Total		**3.0**	3.3

The £3.0m closing provision as at 31 December 2021 relates to a decommissioning provision. As at 31 December 2020, the decommissioning provision amounted to £3.1m and the remaining £0.2m related to redundancy provision.

The decommissioning costs relate to making sites safe following the cessation of the associated manufacturing activities. There is little uncertainty in determining these costs, which are expected to be incurred within two to four years and are based on independent advice. The element of the provision that previously had been current has been reclassed as non-current as a review confirmed no amounts will be payable in the 12 months following 31 December 2021.

22. Financial liabilities – borrowings

	2021 £'m	2020 £'m
Current		
Bank overdrafts due within one year or on demand	**1.7**	2.2
US dollar private placement	**–**	18.3
Lease liabilities	**0.5**	0.3
Total current borrowings	**2.2**	20.8
Non-current		
Unsecured bank loans	**54.8**	57.7
US dollar private placement	**55.6**	55.0
Interest-bearing loans and borrowings	**110.4**	112.7
Lease liabilities	**0.6**	0.2
Total non-current borrowings	**111.0**	112.9

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. From 2022, the Group has transitioned from LIBOR to new SONIA reference rates, further details of which are provided in Note 23.

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 2021 and 2026. The Group repaid the 2021 US$25m private placement in April 2021 using a combination of available cash resources and drawings under existing borrowing facilities. The average fixed interest rate of the remaining USPP borrowing is 4.62% (2020: 4.48%).

Effective interest rates at the balance sheet date were as follows:

	Currency	Rate	2021	2020
Bank overdrafts:				
	Czech koruna	PRIBOR plus 90 basis points	**4.77%**	1.40%
Bank borrowings:				
Floating rate	Sterling*	LIBOR plus 110 basis points (2020: plus 110 basis points)	**1.29%**	1.44%
Floating rate	Australian dollar	BBSW plus 110 basis points (2020: plus 110 basis points)	**1.12%**	1.12%
Average bank borrowings rate			**1.40%**	1.44%
Other debt payable:				
Fixed rate	US dollar		**4.62%**	4.48%
Finance leases	Various		**4.00%**	4.00%

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

Borrowings were denominated in the following currencies:

	2021			2020		
Group	**Bank borrowings £'m**	**Other debt* £'m**	**Total £'m**	Bank borrowings £'m	Other debt £'m	Total £'m
Sterling	**51.5**	**0.3**	**51.8**	53.5	0.3	53.8
Australian dollar	**3.2**	**–**	**3.2**	4.2	–	4.2
Czech koruna	**1.7**	**–**	**1.7**	2.2	–	2.2
US dollar	**–**	**56.5**	**56.5**	–	73.5	73.5
	56.4	**56.8**	**113.2**	59.9	73.8	133.7

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

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 covenant EBITDA to net interest payable ratio and a maximum Covenant Net Debt to EBITDA ratio. These measures are defined, explained and reconciled to the equivalent statutory measures in the Financial Review and in the Alternative Performance Measures on pages 30 to 37. The Group had adequate headroom within both covenants throughout the years ending 31 December 2021 and 31 December 2020.

Notes to the Consolidated Financial Statements continued

(For the year ended 31 December 2021)

23. Capital and financial risk management, and financial instruments continued

Capital continued

Another measure used to monitor the strength of the Group's balance sheet is the gearing ratio, which expresses the Group's net debt as a percentage of its equity. The covenant and gearing ratios that are not statutory measures at 31 December 2021 and 31 December 2020 were as follows:

	Note	2021 £'m	2020 £'m
Total borrowings	22	**113.2**	133.7
Less: cash and cash equivalents	18	**(23.5)**	(23.7)
Net debt	30	**89.7**	110.0
Less: finance leases	22	**(1.1)**	(0.5)
Covenant net debt (used in relation to banking covenant ratios)		**88.6**	109.5
Equity		**125.2**	99.0
Bank loan covenant ratios:			
Covenant net debt to EBITDA		**1.4**	1.8
Covenant EBITDA to net interest payable		**15.0**	12.2
Gearing ratio		**71.6%**	111.1%

Financial risk management

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 2021. The fixed rate 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 used to repay the RCF borrowings.

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 2021, would result in a movement in finance costs of £0.6m (2020: £0.6m) and finance income of £nil (2020: £nil). This would result in an adverse post-tax impact on the group's income statement of £0.5m (2020: £0.5m) and a post-tax impact on the Group's equity of £0.5m (2020: £0.6m).

During the year, the Financial Conduct Authority announced the dates that panel bank submissions for all London Interbank Offered Rate settings would cease, after which some LIBOR rates would no longer be available. The Group has a floating rate multicurrency revolving credit facility under which it can borrow GBP and AUD. Sterling has been impacted by the change as borrowings are linked to interest rates based in London.

The Group has amended the main facility agreement to transition to new reference rates upon the cessation date of the relevant LIBOR. From January 2022, GBP denominated borrowings were transitioned from LIBOR to Sterling Overnight Index Average (SONIA) based indices. The transition is not expected to have a material impact on the Group.

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 24 months forward. It is not Group policy to routinely hedge translation exposures apart from those 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 and a portion of the Group's investment in its US subsidiary, Devro Inc is hedged via the Group's USPP borrowing. Both the debt instrument and the forward exchange contract mitigate the foreign currency risk arising from the subsidiary's net assets. Both the forward contract and the USPP debt are designated as net investment hedges. No ineffectiveness was recognised from the hedges in 2021. 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 for the years ended 31 December 2021 and 31 December 2020. 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.

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. Results are shown for all currencies where the impact on Group post-tax profits would be significant.

	Impact upon operating profit from currency movement						
As at December 2021 Currency Movement	**Sterling £'m**	**US dollar £'m**	**Euro £'m**	**Aus dollar £'m**	**JPY £'m**	**China £'m**	**CZK £'m**
Strengthening (10%)	**(4.7)**	**2.3**	**1.3**	**0.3**	**0.7**	**(0.2)**	**1.1**
Weakening (10%)	**5.7**	**(1.9)**	**(1.1)**	**(0.2)**	**(0.6)**	**0.2**	**(0.9)**

	Impact upon operating profit from currency movement						
As at December 2020 Currency Movement	Sterling £'m	US dollar £'m	Euro £'m	Aus dollar £'m	JPY £'m	China £'m	CZK £'m
Strengthening (10%)	(4.2)	1.6	1.4	0.4	0.7	(0.3)	1.1
Weakening (10%)	5.2	(1.3)	(1.1)	(0.3)	(0.6)	0.3	(0.9)

Credit risk

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

	Note	**2021 £'m**	2020 £'m
Cash and cash equivalents	18	**23.5**	23.7
Derivative financial instruments		**0.9**	3.2
Trade receivables	17	**31.3**	23.7
Other receivables	17	**1.8**	2.9
		57.5	53.5

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 counterparties 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 £8.0m (2020: £11.6m). 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 2021 and 31 December 2020 are shown below:

	2021 £'m	2020 £'m
Expiring in more than two years	**50.3**	47.3

At 31 December 2021, the Group had in place floating rate committed loan facilities totalling £105.0m 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 £5.9m were also in place at 31 December 2021 (2020: £6.0m), allowing the Group to borrow up to 175.0m Czech koruna. These facilities are renewable within one year.

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(For the year ended 31 December 2021)

23. Capital and financial risk management, and financial instruments continued

Financial instruments

Disclosures regarding financial instruments are set out below:

Fair value of derivative financial instruments

Derivative financial instruments are measured at fair value 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's derivative financial instruments that are measured at fair value were classified as Level 2 as at 31 December 2021 (2020: 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 2021, the net fair value gains on open forward foreign exchange contracts that hedge the foreign currency risk of anticipated future sales and purchases amounted to £0.2m (2020: £3.1m). These will be transferred to the income statement and recognised in other operating income or expense when the forecast sales and purchases occur during 2022.

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

	2021 £'m	2020 £'m
Forward foreign exchange contracts	**60.8**	63.1
Currency swaps	**2.0**	30.8

Fair values of non-derivative financial assets and liabilities

		2021			
Group	Note	**FVOCI* £'m**	**FVTPL* £'m**	**Amortised cost £'m**	**Total £'m**
Financial assets measured at fair value					
Forward exchange contracts used for hedging		**0.9**	**–**	**–**	**0.9**
Financial assets not measured at fair value					
Trade and other receivables	17	**–**	**–**	**33.1**	**33.1**
Cash at bank and in hand	18	**–**	**–**	**23.5**	**23.5**
Financial liabilities measured at fair value					
Forward exchange contract used for hedging		**(0.7)**	**–**	**–**	**(0.7)**
Financial liabilities not measured at fair value					
Trade and other payables	19	**–**	**–**	**(36.1)**	**(36.1)**
Borrowings	22	**–**	**–**	**(113.2)**	**(113.2)**

The amounts included above for forward exchange contracts relate to cash flow hedges only.

Group	Note	2020 FVOCI* £'m	2020 FVTPL* £'m	2020 Amortised cost £'m	2020 Total £'m
Financial assets measured at fair value					
Forward exchange contracts used for hedging	23	3.2	–	–	3.2
Financial assets not measured at fair value					
Trade and other receivables	17	–	–	26.6	26.6
Cash at bank and in hand	18	–	–	23.7	23.7
Financial liabilities measured at fair value					
Forward exchange contract used for hedging	23	(0.1)	–	–	(0.1)
Financial liabilities not measured at fair value					
Trade and other payables	19	–	–	(29.2)	(29.2)
Borrowings	22	–	–	(133.7)	(133.7)

* FVOCI – Fair value through other comprehensive income
* FVTPL – Fair value through statement of profit and loss

The amount included in 2020 financial assets noted above of £3.2m is an amount of £3.0m relating to cash flow hedges and £0.2m 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 balance sheet as they are floating rate borrowings where interest rates are re-set to market rates at intervals of up to six months.

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 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 2021 and 31 December 2020. The amounts disclosed in the tables are the relevant undiscounted cash flows including interest.

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 2021					
Bank borrowings		**2.4**	**55.1**	**–**	**–**
US dollar private placement		**2.6**	**2.6**	**58.7**	**-**
Derivative financial instruments		**0.7**	**–**	**–**	**–**
Trade and other payables	19	**36.3**	**–**	**–**	**–**
Provisions for other liabilities and charges	21	**–**	**3.0**	**–**	**–**
At 31 December 2020					
Bank borrowings		3.1	0.8	60.2	–
US dollar private placement		21.2	2.5	41.7	18.7
Derivative financial instruments		0.1	–	–	–
Trade and other payables	19	29.5	–	–	–
Provisions for other liabilities and charges	21	1.0	2.3	–	–

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23. Capital and financial risk management, and financial instruments continued

Maturity of financial liabilities continued

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 derivative financial instruments, which will be settled on a gross basis. The amounts disclosed in the tables are the contractual undiscounted cash flows.

As at 31 December

Group	2021 Less than 1 year £'m	2020 Less than 1 year £'m
Forward foreign exchange contracts – cash flow hedges		
Outflow	**(60.8)**	(63.1)
Inflow	**61.8**	68.0
Forward foreign exchange contracts – net investment hedges		
Outflow	**–**	(30.8)
Inflow	**–**	31.0
Forward foreign exchange contracts – other		
Outflow	**(2.0)**	–
Inflow	**1.9**	–

24. Changes in liabilities arising from financing activities

	1 January 2021 £'m	New leases	Cash flows £'m	Foreign exchange movement £'m	Movement in fair values of derivative financial instruments £'m	31 December 2021 £'m
Interest-bearing loans and borrowings	**(131.0)**	**–**	**21.0**	**(0.4)**	**–**	**(110.4)**
Lease liabilities	**(0.5)**	**(1.1)**	**0.5**	**–**	**–**	**(1.1)**
Derivative financial instruments	**(0.1)**	**–**	**–**	**–**	**(0.6)**	**(0.7)**
Total liabilities from financing activities	**(131.6)**	**(1.1)**	**21.5**	**(0.4)**	**(0.6)**	**(112.2)**

	1 January 2020 £'m	New leases	Cash flows £'m	Foreign exchange movement £'m	Movement in fair values of derivative financial instruments £'m	31 December 2020 £'m
Non-current interest-bearing loans and borrowings	(147.7)	–	14.5	2.2	–	(131.0)
Lease liabilities	(0.8)	(0.2)	0.5	–	–	(0.5)
Derivative financial instruments	(0.6)	–	–	–	0.5	(0.1)
Total liabilities from financing activities	(149.1)	(0.2)	15.0	2.2	0.5	(131.6)

The Group uses an invoice discounting facility to support management of working capital. Cash flows from this facility are included within movements within Trade and other receivables.

25. Deferred tax

	2021 £'m	2020 £'m
Net asset at 1 January	**11.8**	9.5
Credit/(charge) for the year to profit	**0.9**	2.8
Credit/(charge) to equity or other comprehensive income	**(1.3)**	(0.7)
Adjustments in respect of prior years	**(0.5)**	0.3
Exchange differences	**0.1**	(0.1)
Net asset at 31 December	**11.0**	11.8

Deferred tax assets can be analysed as follows:

	Pension obligations £'m	Losses and other £'m	Accelerated capital allowances £'m	Total £'m
At 1 January 2021	**11.1**	**7.5**	**8.7**	**27.3**
(Credit)/charge for the year	**(0.4)**	**7.9**	**(5.7)**	**1.8**
Charge/(credit) to equity or other comprehensive income	**(2.0)**	**0.7**	**–**	**(1.3)**
Adjustments in respect of prior years	**(0.6)**	**–**	**(0.3)**	**(0.9)**
Exchange differences	**–**	**0.7**	**–**	**0.7**
At 31 December 2021	**8.1**	**16.8**	**2.7**	**27.6**
At 1 January 2020	12.2	8.1	5.2	25.5
(Credit)/charge for the year	(1.1)	(0.7)	3.5	1.7
Charge/(credit) to equity or other comprehensive income	–	(0.7)	–	(0.7)
Adjustment in respect of prior years	–	0.9	–	0.9
Exchange differences	–	(0.1)	–	(0.1)
At 31 December 2020	11.1	7.5	8.7	27.3

Deferred tax liabilities can be analysed as follows:

	Pension obligations £'m	Accelerated capital allowances £'m	Other £'m	Total £'m
At 1 January 2021	**–**	**(16.1)**	**0.6**	**(15.5)**
Credit/(charge) for the year to profit	**–**	**4.3**	**(5.2)**	**(0.9)**
Adjustment in respect of prior year	**–**	**0.4**	**–**	**0.4**
Exchange differences	**–**	**–**	**(0.6)**	**(0.6)**
At 31 December 2021	**–**	**(11.4)**	**(5.2)**	**(16.6)**
At 1 January 2020	–	(16.8)	0.8	(16.0)
Credit/(charge) for the year to profit	–	1.3	(0.2)	1.1
Adjustment in respect of prior year	–	(0.6)	–	(0.6)
Exchange differences	–	–	–	–
At 31 December 2020	–	(16.1)	0.6	(15.5)

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25. Deferred tax continued

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.

As announced by the UK Government, the UK corporation tax rate will increase from 19% to 25% on 1 April 2023. The Group's deferred tax balances were remeasured to reflect this change and are recognised at a higher level, thus contributing to the deferred tax credit of £1.6m recognised in the profit and loss, as well as £1.6m recognised in other comprehensive income.

Deferred tax assets on carried forward losses in three jurisdictions are not recognised. As at 31 December 2021, a total of £26.6m in deferred tax assets in respect of tax losses incurred in US and China have not been recognised. A further £0.6m of deferred tax assets in other territories are not recognised.

Deferred tax on losses will be recognised at such time when there is reasonable certainty over the future recoverability indicated by profit forecasts.

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

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

A deferred tax liability has been recognised in respect of unremitted earnings held by the Czech subsidiary (Devro SRO), due to withholding tax being payable on Czech dividends paid to UK entities after the UK leaving the European Union. No other deferred tax liabilities have been recognised in respect of other unremitted earnings within the Group.

26. Pension

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

	Note	2021 £'m	2020 £'m
Defined benefit schemes:			
– Current service cost		**1.0**	1.2
– Scheme administrative expenses		**1.8**	1.6
Defined benefit costs included within underlying operating profit		**2.8**	2.8
Net finance cost	7	**0.8**	1.4
Total defined benefit scheme costs		**3.6**	4.2
Defined contribution schemes		**3.2**	3.3
Total pension obligation costs		**6.8**	7.5

The amounts recognised as non-current liabilities in the balance sheet are as follows:

	2021 £'m	2020 £'m
Fair value of scheme assets	**253.5**	256.5
Present value of scheme liabilities	**(289.7)**	(311.7)
Pension obligations	**(36.2)**	(55.2)

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 £6.8m (2020: £7.5m), of which £2.9m (2020: £3.5m) 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 interest 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 to reduce the investment risk or facilitate efficient portfolio management.

The most recent triennial valuation was performed as at 31 March 2020 and completed in April 2021. As part of this valuation, the Group has committed to continue the current level of deficit payments of £2.5m. The deficit calculated at the latest valuation is not directly comparable to the IAS 19 result as different methodologies are utilised to perform each calculation.

Cash contributions of £2.5m to fund the deficit in the UK plan have been made in the current year (2020: £2.5m). As agreed with the Trustees at the 31 March 2020 funding valuation, the Group will continue to make cash contributions of £2.5m per annum until 2025, although the 2025 payment may be reduced if the Plan is projected to be in surplus.

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, with interest rate and inflation risk managed through the bond portfolio. An annual valuation is carried out to determine the minimum contributions that would be payable to the plan, based on assumptions that are fixed by the US regulatory regime (ERISA minimum). The Group has committed to pay $5.0m in 2022 which is higher than the minimum ERISA payment.

Cash contributions to fund the deficit in the US plan of £3.6m have been made in the current year (2020: £4.9m). The Group will continue to make contributions in the future at least equal to the ERISA minimum as prescribed by the US regulatory regime.

Total cash contributions to the Group's defined benefit schemes are expected to be £7.8m for the year ending 31 December 2022, of which £6.2m 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 2021 by qualified independent actuaries. The major assumptions used by the actuaries in the following principal countries were:

	Australia		UK		USA	
%	**2021**	2020	**2021**	2020	**2021**	2020
Discount rate	**2.45**	1.10	**1.80**	1.30	**2.55**	2.10
Rate of increase in salaries*	**2.50**	2.50	**1.00**	1.00	**–**	–
General inflation	**2.50**	2.50	**3.45**	2.90	**–**	–

* 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 USA plan as the plan is now frozen. The Australia salary assumption are 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.

	2021		2020	
	Male	**Female**	Male	Female
UK – SAPS 'Normal' (YOB)*	**20.6**	**23.7**	20.6	23.6
US – Pri-2012 with scale MP-2021	**19.6**	**23.3**	19.5	23.2

* Adjusted by 119% for male non-pensioners (121% for male pensioners) and 98% for female non-pensioners (103% for female pensioners) with CMI 2020 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.

In March 2020, the World Health Organization declared the spread of COVID-19 as a pandemic. Whilst this development could potentially have an adverse impact on life expectancies, at the balance sheet date no adjustment had been made to the demographic assumptions.

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.

66% of the defined benefit obligation relates to pensions already in payment.

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26. Pension continued

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 2021, the value of the insurance asset was £1.5m (2020: £1.6m) and the value of the liability was £2.6m (2020: £3.1m). The value of insurance assets is reported in non-current trade and other receivables (Note 17).

In addition, the Group has benefit arrangements in respect of one former executive in the USA 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 USA 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		USA		Total	
	2021 £'m	2020 £'m	**2021 £'m**	2020 £'m	**2021 £'m**	2020 £'m	**2021 £'m**	2020 £'m
Equities	**3.5**	4.2	**55.6**	38.9	**16.3**	15.8	**75.4**	58.9
Bonds	**1.9**	2.2	**91.5**	113.0	**37.8**	36.0	**131.2**	151.2
Other	**2.3**	2.4	**44.0**	43.5	**0.6**	0.5	**46.9**	46.4
	7.7	8.8	**191.1**	195.4	**54.7**	52.3	**253.5**	256.5

* The total valuation of the Australian scheme's plan assets is based on a valuation on 31 December 2021 provided by the local scheme's actuary. The valuation of each asset class for the Australian scheme is based on the proportion each asset class for the scheme on 30 September 2021, then multiplied by the 31 December 2021 valuation.

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.

The UK scheme holds LDIs in order to hedge against interest rate risk. In line with IFRS 13, these assets are classed as level 2 derivatives and as such are measured in reference to comparable quoted assets on open markets.

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 67% 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 64% (from 2020: 66%) 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		USA		Other		Total	
	2021 £'m	2020 £'m	**2021 £'m**	2020 £'m	**2021 £'m**	2020 £'m	**2021 £'m**	2020 £'m	**2021 £'m**	2020 £'m
Total fair value of scheme assets (as above)	**7.7**	8.8	**191.1**	195.4	**54.7**	52.3	**–**	–	**253.5**	256.5
Present value of scheme liabilities	**(7.7)**	(8.9)	**(206.1)**	(221.8)	**(73.0)**	(77.6)	**(2.9)**	(3.4)	**(289.7)**	(311.7)
Deficit	**–**	(0.1)	**(15.0)**	(26.4)	**(18.3)**	(25.3)	**(2.9)**	(3.4)	**(36.2)**	(55.2)
Related deferred tax assets	**–**	–	**3.8**	5.0	**3.9**	5.4	**0.4**	0.7	**8.1**	11.1
Net pension liabilities	**–**	(0.1)	**(11.2)**	(21.4)	**(14.4)**	(19.9)	**(2.5)**	(2.7)	**(28.1)**	(44.1)

The decrease in net pension liabilities during the year largely reflects changes in financial assumptions, most notably an increase in discount rates used, the return on assets for the US and UK schemes and continuing contributions payable by the Group. 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:

	2021			2020		
	Liability	**Asset**	**Net**	Liability	Asset	Net
At 1 January	**(311.7)**	**256.5**	**(55.2)**	(309.3)	245.2	(64.1)
Interest income	**–**	**3.6**	**3.6**	–	5.2	5.2
Interest cost	**(4.4)**	**–**	**(4.4)**	(6.6)	–	(6.6)
Service cost	**(1.0)**	**–**	**(1.0)**	(1.2)	–	(1.2)
Scheme administrative expenses	**–**	**(1.8)**	**(1.8)**	–	(1.6)	(1.6)
Employer contributions	**–**	**7.7**	**7.7**	–	9.0	9.0
Member contributions	**(0.1)**	**0.1**	**–**	(0.1)	0.1	–
Benefits paid	**17.9**	**(17.9)**	**–**	18.2	(18.2)	–
Re-measurements – return on plan assets (excluding interest income)	**–**	**6.0**	**6.0**	–	18.0	18.0
Re-measurements – changes in financial assumptions	**13.1**	**–**	**13.1**	(31.7)	–	(31.7)
Re-measurements – experience adjustments	**(1.3)**	**–**	**(1.3)**	13.3	–	13.3
Re-measurements – restriction of surplus	**(1.2)**	**–**	**(1.2)**	0.8	–	0.8
Re-measurements – changes in demographic assumptions	**(1.9)**	**–**	**(1.9)**	3.0	–	3.0
Exchange gains/(losses)	**0.9**	**(0.7)**	**0.2**	1.9	(1.2)	0.7
At 31 December	**(289.7)**	**253.5**	**(36.2)**	(311.7)	256.5	(55.2)

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

Notes to the Consolidated Financial Statements continued

(For the year ended 31 December 2021)

26. Pension continued

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

	Australia		UK		USA		Other		Total	
	2021 £'m	2020 £'m	**2021 £'m**	2020 £'m	**2021 £'m**	2020 £'m	**2021 £'m**	2020 £'m	**2021 £'m**	2020 £'m
Current service cost	**0.2**	0.2	**0.8**	1.0	**–**	–	**–**	–	**1.0**	1.2
Scheme administrative expenses	**0.2**	0.2	**0.9**	0.7	**0.7**	0.7	**–**	–	**1.8**	1.6
Net charge to operating profit	**0.4**	0.4	**1.7**	1.7	**0.7**	0.7	**–**	–	**2.8**	2.8
Interest income on pension scheme assets	**(0.1)**	(0.2)	**(2.5)**	(3.6)	**(1.0)**	(1.4)	**–**	–	**(3.6)**	(5.2)
Interest on pension scheme liabilities	**0.1**	0.2	**2.8**	4.2	**1.5**	2.2	**–**	–	**4.4**	6.6
Net interest cost	**–**	–	**0.3**	0.6	**0.5**	0.8	**–**	–	**0.8**	1.4
Net charge to profit	**0.4**	0.4	**2.0**	2.3	**1.2**	1.5	**–**	–	**3.6**	4.2

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

	Australia		UK		USA		Other		Total	
	2021 £'m	2020 £'m	**2021 £'m**	2020 £'m	**2021 £'m**	2020 £'m	**2021 £'m**	2020 £'m	**2021 £'m**	2020 £'m
Return/(loss) on plan assets less interest income	**0.7**	–	**3.0**	12.3	**2.3**	5.8	**–**	(0.1)	**6.0**	18.0
Experience gains/(losses) on liabilities	**–**	(0.3)	**(0.5)**	12.6	**(0.8)**	0.6	**–**	0.4	**(1.3)**	13.3
Changes in demographic assumptions	**–**	–	**(1.7)**	2.4	**(0.2)**	0.6	**–**	–	**(1.9)**	3.0
Changes in financial assumptions	**0.7**	(0.5)	**8.8**	(24.1)	**3.5**	(7.0)	**0.1**	(0.1)	**13.1**	(31.7)
Restriction of surplus*	**(1.2)**	0.8	**–**	–	**–**	–	**–**	–	**(1.2)**	0.8
Re-measurements	**0.2**	–	**9.6**	3.2	**4.8**	–	**0.1**	0.2	**14.7**	3.4

* 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 the Group until retirement of the last member of the scheme.

Movements in the deficit during the year were as follows:

	Australia		UK		USA		Other		Total	
	2021 £'m	2020 £'m	**2021 £'m**	2020 £'m	**2021 £'m**	2020 £'m	**2021 £'m**	2020 £'m	**2021 £'m**	2020 £'m
Deficit in scheme at beginning of year	**(0.1)**	–	**(26.4)**	(31.2)	**(25.3)**	(29.4)	**(3.4)**	(3.5)	**(55.2)**	(64.1)
Movement in year:										
Pension charge	**(0.4)**	(0.4)	**(2.0)**	(2.3)	**(1.2)**	(1.5)	**–**	–	**(3.6)**	(4.2)
Employer contributions	**0.3**	0.3	**3.8**	3.9	**3.6**	4.8	**–**	–	**7.7**	9.0
Re-measurements	**0.2**	–	**9.6**	3.2	**4.8**	–	**0.1**	0.2	**14.7**	3.4
Exchange (losses)/gains	**–**	–	**–**	–	**(0.2)**	0.8	**0.4**	(0.1)	**0.2**	0.7
Deficit in scheme at end of year	**–**	(0.1)	**(15.0)**	(26.4)	**(18.3)**	(25.3)	**(2.9)**	(3.4)	**(36.2)**	(55.2)

The actual return on plan assets in 2021 was £9.7m (2020: £23.2m).

The weighted average duration of the defined benefit obligation is 15.0 years, with benefit payments over the next ten years expected to be as follows:

	2021 £'m
In the next year	**12.9**
In years 2-5	**53.3**
In years 6-10	**71.5**
	137.7

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 £9.5m
	Decrease by 0.25%	Increase by £9.9m
Rate of salary increase	Increase by 0.25%	Increase by £0.2m
	Decrease by 0.25%	Decrease by £0.1m
General inflation	Increase by 0.25%	Increase by £3.3m
	Decrease by 0.25%	Decrease by £3.5m
Life expectancy	Increase by 1 year	Increase by £13.5m

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 holdings 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 conditions.

Notes to the Consolidated Financial Statements continued

(For the year ended 31 December 2021)

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. The interest rate risk posed by the Australian scheme is low given the lump sum nature of the scheme.
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. 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, the company's return on capital employed and the company's Total Shareholder Return in comparison to its peer group.

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 £1.57 (2020: £1.10) with the significant inputs to the model being the share price at the grant date, an expected volatility in the share price of 34.3% (based on historic trends), the term of three years, and risk free interest rate of 0.16%.

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 10,338 shares vested under the PSP or its predecessor (2020: 12,562).

At 31 December 2021, 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 2021	Awarded	Vested and exercised	Forfeited	Lapsed	As at 31 December 2021
9 April 2018	£1.548	9-Apr-21	**982,672**	**–**	**–**	**–**	**(982,672)**	**–**
14 May 2018	£1.773	14-May-21	**18,685**	**–**	**–**	**–**	**(18,685)**	**–**
8 April 2019	£1.500	8-Apr-22	**1,068,240**	**–**	**–**	**(9,726)**	**–**	**1,058,514**
10 September 2019	£1.516	10-Sep-22	**45,000**	**–**	**–**	**–**	**–**	**45,000**
15 April 2020	£1.104	15-Apr-23	**1,488,020**	**–**	**–**	**(29,595)**	**–**	**1,458,425**
11 June 2020	£1.368	Various	**14,945**	**–**	**(10,338)**	**–**	**–**	**4,607**
12 April 2021	£1.572	13-Apr-24	**–**	**1,361,051**	**–**	**(14,670)**	**–**	**1,346,381**
			3,617,562	**1,361,051**	**(10,338)**	**(53,991)**	**(1,001,357)**	**3,912,927**

A more detailed summary of the performance conditions of the PSP is included in the Directors' Remuneration Report on pages 81 to 100.

28. 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 2021	**35.6**	**8.9**	**0.8**	**0.9**	**33.9**	**80.1**
Exchange adjustments	**–**	**–**	**–**	**–**	**(1.3)**	**(1.3)**
Cash flow hedges, net of tax	**–**	**–**	**–**	**(1.7)**	**–**	**(1.7)**
Net investment hedges, net of tax	**–**	**–**	**–**	**–**	**(0.5)**	**(0.5)**
Performance Share Plan credit, net of tax	**–**	**–**	**1.0**	**–**	**–**	**1.0**
Performance Share Plan credit in respect of awards lapsed	**–**	**–**	**(0.2)**	**–**	**–**	**(0.2)**
At 31 December 2021	**35.6**	**8.9**	**1.6**	**(0.8)**	**32.1**	**77.4**
At 1 January 2020	35.6	8.9	0.6	1.0	26.1	72.2
Exchange adjustments	–	–	–	–	5.3	5.3
Cash flow hedges, net of tax	–	–	–	1.1	–	1.1
Net investment hedges, net of tax	–	–	–	(1.2)	2.5	1.3
Performance Share Plan charge, net of tax	–	–	0.4	–	–	0.4
Performance Share Plan credit in respect of awards lapsed	–	–	(0.2)	–	–	(0.2)
At 31 December 2020	35.6	8.9	0.8	0.9	33.9	80.1

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 the Performance Share Plan reserve represents the cumulative net expense recognised through the statement of profit and loss in respect of share awards under the plan which have yet to be vested by employees.

Notes to the Consolidated Financial Statements continued

(For the year ended 31 December 2021)

28. Other reserves continued

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 and 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 balance sheets of foreign currency denominated subsidiaries.

29. Reconciliation of profit before tax to cash generated from operations

	Note	2021 £'m	2020 £'m
Profit before tax		**37.6**	29.4
Adjustments for:			
Finance cost	2, 7	**4.3**	5.4
Gain on disposal		**(1.2)**	–
Net finance cost on pensions	7, 26	**0.8**	1.4
Pension cost adjustment for normal contributions		**1.2**	1.2
Depreciation of property, plant and equipment	13	**20.2**	20.5
Impairment of property, plant and equipment	13	**0.6**	0.7
Amortisation of intangible assets	14	**1.1**	1.1
Impairment of intangible assets	14	**–**	0.2
Release from capital grants balance		**(0.3)**	(0.1)
Pension deficit funding		**(6.1)**	(7.4)
Performance Share Plan		**1.0**	0.4
Changes in working capital:			
Decrease in inventories		**3.0**	1.5
(Increase)/decrease in trade and other receivables		**(6.9)**	0.8
Increase in trade and other payables		**7.9**	1.4
Decrease in provisions	21	**(0.3)**	(4.9)
Cash generated from operations		**62.9**	51.6
Of which:			
Underlying operating cash flows (before pension deficit funding)		**70.0**	67.8
Pension deficit funding		**(6.1)**	(7.4)
Exceptional items		**(1.0)**	(8.8)
Cash generated from operations		**62.9**	51.6

30. Analysis of net debt

	Note	2021 £'m	2020 £'m
Cash and cash equivalents	18	**23.5**	23.7
Bank overdrafts	22	**(1.7)**	(2.2)
Net cash and cash equivalents		**21.8**	21.5
Other bank borrowings	22	**(54.8)**	(57.7)
US dollar private placement	22	**(55.6)**	(73.3)
Lease obligations	22	**(1.1)**	(0.5)
Net Debt		**(89.7)**	(110.0)

31. Capital commitments

Capital expenditure contracted for but not provided in the Group's financial statements related to property, plant and equipment and amounted to £4.8m as at 31 December 2021 (2020: £2.3m).

32. Contingent liabilities

In the opinion of the Directors, the Group has no material contingent liabilities as at 31 December 2021 (2020: nil).

Notes to the Consolidated Financial Statements continued

(For the year ended 31 December 2021)

33. Related party transactions

The consolidated financial statements include the financial statements of Devro plc and the subsidiaries listed in the table 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:		Registered office address
				Group	Company	
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	USA	Holding	Common	100%		2711 Centerville Road, Suite 400, City of Wilmington 19808, County of New Castle, United States
Devro US Finance LLP	USA	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%		Room 1102, 11/F OfficePlus WanChai No. 303 Hennessy Road 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	USA	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 (Jiangsu) Holding Co. Limited	China	Holding	Ordinary	100%		No. 329 Xinxing East Road, NETDA, Nantong, Jiangsu, 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, 6691 EE, Gendt, Netherlands
Plastic Casings Czech, s.r.o.	Czech Republic	Casings	Ordinary	100%		Okruzni 1438, 684 11 Slavkov u Brna, Czech Republic

Devro Pty Limited has a branch located in New Zealand. Devro also has a representative office in Russia (Moscow).

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:

	2021 £'m	2020 £'m
Emoluments payable to Executive and Non-Executive Directors		
Short-term employee benefits	**1.7**	1.3
PSP charge	**0.3**	0.1
Post-employment benefits	**0.1**	0.1
	2.1	1.5
Emoluments payable to remainder of the Executive Management Team		
Short-term employee benefits	**1.9**	2.3
PSP charge	**0.2**	0.1
Post-employment benefits	**0.1**	0.1
Compensation for loss of office	**–**	0.2
	2.2	2.7
Total emoluments payable to key management	**4.3**	4.2

There were no other related party transactions requiring disclosure in these financial statements.

Company Statement of Financial Position

(As at 31 December 2021)

	Note	2021 £'m	2020 £'m
ASSETS			
Non-current assets			
Property, plant and equipment	4	**0.3**	0.4
Intangible assets	5	**2.9**	3.4
Investments	6	**348.0**	347.7
Deferred tax assets	12	**2.7**	1.5
Other receivables	7	**64.4**	63.3
		418.3	416.3
Current assets			
Other receivables	7	**13.3**	9.7
Derivative financial instruments	11	**1.6**	3.3
Current tax assets		**11.6**	11.2
Cash and cash equivalents	8	**0.4**	1.7
		26.9	25.9
Total assets		**445.2**	442.2
LIABILITIES			
Current liabilities			
Trade and other payables	9	**(6.8)**	(5.4)
Borrowings	10	**(0.1)**	(18.4)
Derivative financial instruments	11	**(1.6)**	(3.1)
		(8.5)	(26.9)
Non-current liabilities			
Borrowings	10	**(107.1)**	(108.6)
Other payables	9	**(87.0)**	(54.5)
		(194.1)	(163.1)
Total liabilities		**(202.6)**	(190.0)
Net assets		**242.6**	252.2
EQUITY			
Ordinary shares	13	**16.7**	16.7
Share premium		**9.3**	9.3
Capital redemption reserve		**35.6**	35.6
Special reserve		**8.9**	8.9
Profit and loss account		**172.1**	181.7
Equity attributable to the owners of the Company		**242.6**	252.2

Rutger Helbing
Chief Executive Officer
1 March 2022

Company Statement of Changes in Equity

(For the year ended 31 December 2021)

	Ordinary shares £'m	Share premium £'m	Capital redemption reserve £'m	Special reserve £'m	Profit and loss account £'m	Total equity £'m
Balance at 1 January 2021	**16.7**	**9.3**	**35.6**	**8.9**	**181.7**	**252.2**
Comprehensive income/(expense)						
Profit for the year	**–**	**–**	**–**	**–**	**4.5**	**4.5**
Total comprehensive income	**–**	**–**	**–**	**–**	**4.5**	**4.5**
Transactions with owners of the Company						
Performance Share Plan charge, net of tax	**–**	**–**	**–**	**–**	**1.0**	**1.0**
Performance Share Plan debit in respect of awards lapsed	**–**	**–**	**–**	**–**	**(0.1)**	**(0.1)**
Dividends paid	**–**	**–**	**–**	**–**	**(15.0)**	**(15.0)**
Total transactions with owners of the Company	**–**	**–**	**–**	**–**	**(14.1)**	**(14.1)**
Balance at 31 December 2021	**16.7**	**9.3**	**35.6**	**8.9**	**172.1**	**242.6**
Balance at 1 January 2020	16.7	9.3	35.6	8.9	157.5	228.0
Comprehensive income/(expense)						
Profit for the year	–	–	–	–	34.5	34.5
Total comprehensive income	–	–	–	–	34.5	34.5
Transactions with owners of the Company						
Performance Share Plan charge, net of tax	–	–	–	–	0.2	0.2
Dividends paid	–	–	–	–	(10.5)	(10.5)
Total transactions with owners of the Company	–	–	–	–	(10.3)	(10.3)
Balance at 31 December 2020	16.7	9.3	35.6	8.9	181.7	252.2

Notes to Company Financial Statements

(For the year ended 31 December 2021)

1. Basis of preparation and summary of significant accounting policies

A) Basis of preparation

Basis of accounting

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 UK-adopted international accounting standards. The Company has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

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 adopted IFRSs; and
- disclosures in respect of the compensation of key management personnel.

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;
- IAS 24 'Related Party Disclosures' in respect of compensation of key management; 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 (pages 148 to 155) 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.

Going concern

The Company'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 (pages 1 to 69), along with the financial position of the Company, its debt levels and borrowing facilities.

The Directors have, at the time of approving the Financial Statements, a reasonable expectation that the Company has adequate resources to continue in operation for at least the next 12 months from the date of approval of this Statement. This is supported by the Company's balance sheet showing £242.6m of net assets at 31 December 2021 and the Directors' view that the principle risks to the Company as set out in the Strategic Report are manageable. For this reason they continue to adopt the going concern basis of accounting in preparing the Financial Statements.

Significant accounting estimates and judgements

The preparation of Financial Statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for income and expenditure during the year. However, the nature of estimation means that the actual outcomes could differ from those estimates. There are no significant judgements and estimates relevant to these Financial Statements.

B) Summary of significant accounting policies

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

The following areas are subject to the same accounting policies as set out in the consolidated statements:

- Property, plant and equipment;
- Intangible assets;
- Trade and other receivables;
- Cash and cash equivalents;
- Provisions for liabilities;
- Impairment for financial assets and liabilities;
- Trade and other payables;
- Leases;
- Financial instruments, including:
  - Cash flow hedges;
  - Fair value hedges;and
  - Net investment hedges;
- Taxation; and
- Dividends receivable and payable.

Fixed asset investments
The Company's investments in subsidiary undertakings are shown at historical cost less provision for any impairment in value. The Company tests its investments for impairment if events or circumstances indicate that the carrying value of these assets may be impaired.

Foreign currencies
The Financial Statements are presented in sterling, which is the Company's functional and presentation currency.

Foreign currency transactions are translated into sterling 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.

Dividends receivable and payable
Dividends receivable and payable are subject to the same accounting policies as for the Group, as set out in the consolidated Financial Statements.

The dividends paid during the year, and dividends proposed, by the Company are the same as that for the Group. Therefore, for details of the dividends paid and dividends proposed by the Company please refer to Note 12 of the consolidated Financial Statements.

Employee benefits – share based payments
The Company operates a number of equity-settled share-based incentive plans as consideration for services received from employees. 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 includes any market performance conditions, but excludes 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 Company 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 profit or loss for the year, as shown in the Statement of Changes in Equity over the vesting period and is treated as a cash-settled transaction.

2. Auditors' remuneration

The details regarding the remuneration of the Company's auditor are included in Note 8 to the Group Consolidated Financial Statements under 'Fees payable to the Company's auditors and its associates for the audit of the parent Company and consolidated accounts'.

3. Company profit for the year

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

The parent Company profit for the year is £4.5m (2020: £34.5m).

Notes to Company Financial Statements continued

(For the year ended 31 December 2021)

4. Property, plant and equipment

	Property, plant and equipment total £'m
Cost	
At 1 January 2021	**1.2**
Disposals	**(0.2)**
At 31 December 2021	**1.0**
Accumulated depreciation	
At 1 January 2021	**(0.8)**
Charge for the year	**(0.1)**
Disposals	**0.2**
At 31 December 2021	**(0.7)**
Net book value at 31 December 2021	**0.3**

Included in Property, plant and equipment are right-of-use assets with a net book value of £0.1m (2020: £0.2m), which primarily relate to property leases in the UK. Contained in financial liabilities, as detailed in Note 10, are the corresponding lease liabilities.

5. Intangible assets

	Computer software £'m	Development costs £'m	Total £'m
Cost			
At 1 January 2021	**1.8**	**3.1**	**4.9**
Additions	**–**	**0.1**	**0.1**
At 31 December 2021	**1.8**	**3.2**	**5.0**
Accumulated amortisation			
At 1 January 2021	**(1.5)**	**–**	**(1.5)**
Charge for year	**(0.2)**	**(0.4)**	**(0.6)**
Reclassification	**0.4**	**(0.4)**	**–**
At 31 December 2021	**(1.3)**	**(0.8)**	**(2.1)**
Net book value at 31 December 2021	**0.5**	**2.4**	**2.9**

6. Investments

	2021 £'m	2020 £'m
Interest in Group undertakings		
Cost and net book value at 1 January 2021	**347.7**	347.6
Movements relating to share options granted to subsidiary employees	**0.3**	0.1
Cost and net book value at 31 December 2021	**348.0**	347.7

Additions during the year relate to Performance Share Plan charges for employees within subsidiaries which will be settled with the Company's shares.

The full list of Devro plc's subsidiaries are found on note 33 in the consolidated accounts.

As noted in Note 1, the Company tests its investments for impairment if events or circumstances indicate that the carrying value of these assets may be impaired. This impairment testing corresponds with the impairment testing of Cash Generating Units ('CGUs') performed by the Group. The recoverable amount of the CGUs is determined from value in use calculations, and the key assumptions are those regarding the discount rate and growth rates. Based on these calculations there is sufficient headroom over the book value of the investment.

7. Other receivables

The carrying amount of the following financial assets represent the maximum credit exposure.

	2021 £'m	2020 £'m
Amounts falling due after more than one year		
Amounts owed by subsidiary undertakings	**64.4**	63.3
	64.4	63.3
Amounts falling due within one year		
Amounts owed by subsidiary undertakings	**11.4**	8.0
Other receivables	**0.3**	0.2
Prepayments and accrued income	**1.6**	1.5
	13.3	9.7

At 31 December 2021, receivables due from subsidiary undertakings of £75.8m (2020: £71.3m) were neither past due nor impaired.

8. Cash and cash equivalents

	2021 £'m	2020 £'m
Cash at bank and in hand	**0.4**	1.7
	0.4	1.7

9. Trade and other payables

	2021 £'m	2020 £'m
Amounts falling due within one year		
Trade payables	**0.9**	0.8
Accruals	**5.9**	4.6
	6.8	5.4
Amounts falling due after more than one year		
Amounts owed to subsidiary undertakings	**87.0**	54.5

Notes to Company Financial Statements continued

(For the year ended 31 December 2021)

10. Financial liabilities – borrowings

	2021 £'m	2020 £'m
Current		
US dollar private placement	**–**	18.3
Lease liabilities	**0.1**	0.1
Total current borrowings	**0.1**	18.4
Non-current		
Unsecured bank loans	**51.5**	53.5
US dollar private placement	**55.6**	55.0
Non-current interest-bearing loans and borrowings	**107.1**	108.5
Lease liabilities	**–**	0.1
Total non-current borrowings	**107.1**	108.6

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. From 2022, the Company has transitioned from LIBOR to new SONIA reference rates, further details of which are provided in Note 23 of the consolidated Financial Statements.

The Company 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 2021 and 2026. The Company repaid the US$25m private placement in April 2021 using a combination of available cash resources and drawings under existing borrowing facilities. The average fixed interest rate of the remaining USPP borrowing is 4.62% (2020: 4.48%).

Effective interest rates at the balance sheet date mirror that as for the Group. Refer to Note 22 (Financial Liabilities – Borrowings) in the consolidated Financial Statements for the full details of the effective interest rates.

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.

11. Financial instruments

The table below shows the 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.

As at 31 December	2021 Less than 1 year £'m	2020 Less than 1 year £'m
Forward foreign exchange contracts – cash flow hedges		
Outflow	**(122.6)**	(193.0)
Inflow	**122.6**	193.0
Forward foreign exchange contracts – other		
Outflow	**(2.0)**	(30.8)
Inflow	**2.0**	31.0

12. Deferred tax

Cost	Losses £'m	Non-current assets temporary differences £'m	Other temporary differences £'m	Total £'m
Net assets at 1 January 2021	**1.2**	**0.2**	**0.1**	**1.5**
Credit for the year to profit	**0.8**	**–**	**0.4**	**1.2**
Net assets at 31 December 2021	**2.0**	**0.2**	**0.5**	**2.7**

All deferred tax assets are due after more than one year.

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 (2020: nil).

13. Ordinary shares

	2021 £'m	2020 £'m
Issued and fully paid		
166,949,022 (2020: 166,949,022) ordinary shares of 10 pence each	**16.7**	16.7

No Ordinary shares were issued during the year.

14. Contingent liabilities

In the opinion of the Directors, the Company has no contingent liabilities as at 31 December 2021 (2020: nil).

15. Related undertakings

In accordance with Section 409 of the Companies Act 2006, a full list of related undertakings, the country of incorporation and the percentage of share capital owned as at 31 December 2021 is disclosed in note 33 in the consolidated Financial Statements.

Subsidiary undertakings are controlled by the Group and their results are fully consolidated in the Group's financial statements.

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 2021 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 2021 and of the Group's profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with UK-adopted international accounting standards;
- 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.

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 seven financial years ended 31 December 2021. 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	£1.55m (2020: £1.5m) 4.2% (2020: 4.4%) of Group profit before tax and exceptional items
Coverage	98% (2020:97%) of the total profits and losses that made up Group profit before tax

Key audit matters		**vs 2020**
Recurring risks	Valuation of pension liabilities – UK & US schemes	◀▶
	Parent Company – Recoverability of investment in subsidiaries and intra-Group receivables	◀▶

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, 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, 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
Group pension obligation – UK & US schemes (£279.1m; 2020: £299.3m) *Refer to page 80 (Audit Committee Report), page 116 (accounting policy) and pages 136 to 142 (financial disclosures).*	**Subjective valuation** Small changes in the key assumptions and estimates used to value the Group's pension obligations in the UK and US (before deducting scheme assets) would have a significant effect on the Group's net pension deficit. The effect of these matters is that, as part of our risk assessment, we determined that the pension liability has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the Financial Statements as a whole, and possibly many times that amount. The Financial Statements (Note 26) disclose the sensitivity estimated by the Group.	We performed the tests below rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. Our procedures included: – **Benchmarking assumptions:** Challenging, with the support of our own actuarial specialists, the key assumptions applied, including the discount rate, inflation rate and mortality/life expectancy against externally derived data; and – **Assessing transparency:** Considering the adequacy of the Group's disclosures in respect of the sensitivity of the deficit to these assumptions. **Our results** – We found the valuation of the pension obligation to be acceptable (2020 result: acceptable).
Parent Company – Recoverability of investment in subsidiaries and intra-Group receivables (Investments in subsidiaries £348.0m; 2020: £347.7m Intra-Group receivables £75.8m; 2020: £71.3m) Refer to page 80 (Audit Committee Report), page 151 (accounting policy) and page 153 (financial disclosures).	**Low risk, high value:** The carrying amount of the parent Company's investments in subsidiaries represents 95% (2020: 95%) of the Company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent Company Financial Statements, this is considered to be the area that had the greatest effect on our overall parent Company audit.	We performed the tests below rather than seeking to rely on any of the Company's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. Our procedures included: – **Tests of detail:** We compared the carrying amount of 100% of investments in subsidiaries and intra-Group 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:** We assessed the work performed by the subsidiary audit teams on those subsidiaries and considered 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, we compared 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 Company's conclusion that there is no impairment of its investments in subsidiaries and intra-Group receivables to be acceptable. (2020: acceptable).

We continue to perform procedures over the presentation of exceptional items. However, following a reduction in the quantum and of the exceptional items, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

Independent Auditors' Report to the Members of Devro plc continued

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 £1.55m (2020: £1.5m), 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 4.2% (2020: 4.4%).

Materiality for the parent Company Financial Statements as a whole was set at £0.7m (2020: £0.5m), determined with reference to component materiality. This is lower than materiality we would otherwise have determined by reference to company total assets, of which it represents 0.1% (2020: 0.1%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality was set at 75% (2020: 75%) of materiality for the Financial Statements as a whole, which equates to £1.16m (2020: £1.125m) for the Group and £0.375m (2020: £0.375m) for the parent Company. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.0775m (2020: £0.075m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

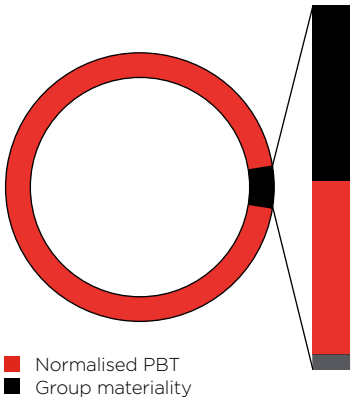
Of the Group's nine (2020: nine) reporting components, we subjected six (2020: six) to full scope audits for group purposes.

The components within the scope of our work accounted for the percentages illustrated opposite.

The remaining 19% (2020: 20%) of total Group revenue, 2% (2020: 3%) of Group profit before tax and 7% (2020: 6%) of total Group assets is represented by 3 (2020: 3) of reporting components, none of which individually represented more than 10% (2020: 10%) of any of total Group revenue, Group total profits and losses that made up Group profit before tax or total Group assets. For these 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.

Normalised group profit before tax

£36.9m (2020: £34.0m)



Group materiality

£1.55m (2020: £1.5m)

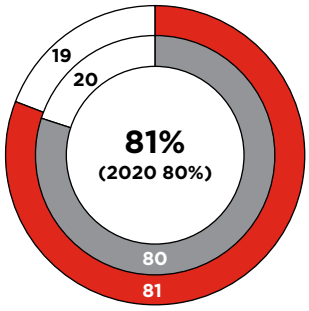
£1.55m
Whole Financial Statements materiality (2020: £1.5m)

£1.16m
Whole Financial Statements performance materiality (2020: £1.125m)

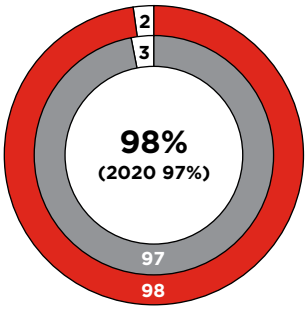
£1.2m
Range of materiality at six components (£0.44m-£1.2m) (2020: £0.4m to £1.2m)

£0.0775m
Misstatements reported to the audit committee (2020: £0.075m)

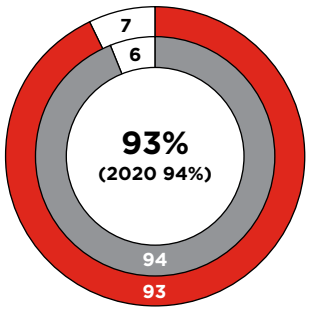
Group revenue



Total profits and losses that made up Group profit before tax



Group total assets



Full scope for Group audit purposes 2021
Full scope for Group audit purposes 2020
Residual components

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 £0.44m to £1.2m (2020: £0.4m to £1.2m), having regard to the mix of size and risk profile of the Group across the components. The work on four of the six components (2020: four 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 items excluded from Group profit before tax and exceptional items.

The scope of the audit work performed was fully substantive as we did not rely upon the Group's internal control over financial reporting.

Virtual meetings and site visits were held with component auditors throughout the audit in the United Kingdom, Czech Republic, Australia and China. At these virtual meetings, the findings reported to the Group audit team were discussed in more detail, and any further work required by the Group audit team was then performed by the component auditor.

Except as noted below, the Group audit team conducted remote file reviews, performed, by experienced members of the audit team, to evaluate whether work performed by all component audit teams over significant risk and other relevant audit areas was sufficient. In addition, the Group audit team maintained clear oversight of the work of component auditors and attended local final audit closing meetings via conference/video call. Due to regulatory restrictions, a remote file review was not possible for the Chinese component as such a review needs to be performed from within Mainland China and due to movement restrictions and quarantine requirements relating to the COVID pandemic we were not able to travel to perform this review. To compensate for this situation the Group audit team held increased and more detailed planning and progress calls, obtained extended reporting and held an expanded closing meeting with the Chinese component audit team to understand, assess and challenge the audit approach and findings.

4. Going concern

The Directors have prepared the Financial Statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group's and the Company'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").

We used our knowledge of the Group/Company, its industry, and the general economic environment to identify the inherent risks to its 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 and/or metrics relevant to debt covenants over this period were a decline in volumes and average selling price due to adverse economic conditions.

We considered whether the risk could plausibly affect the liquidity or covenant compliance in the going concern period by assessing the degree of downside assumption that, individually and collectively, could result in a liquidity issue, taking into account the Group's current and projected cash and facilities (a reverse stress test). We also assessed the completeness of the going concern disclosure in Note 1.

Our conclusions based on this work:

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the Financial Statements is appropriate;
- we have not identified, and concur with the Directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period;
- we have nothing 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 the going concern period, and we found the going concern disclosure in Note 1 to be acceptable; and
- the related statement under the Listing Rules set out on page 77 is materially consistent with the Financial Statements and our audit knowledge.

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 above conclusions are not a guarantee that the Group or the Company will continue in operation.

Independent Auditors' Report to the Members of Devro plc continued

5. Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of Directors, internal audit and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board/Audit Committee meeting minutes.
- Considering remuneration incentive schemes and performance targets for management and Directors including the long-term incentive plan for management remuneration.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the Group audit team to full scope component audit teams of relevant fraud risks identified at the Group level and request to full scope component audit teams to report to the Group audit team any instances of fraud that could give rise to a material misstatement at the Group level.

As required by auditing standards, and taking into account possible pressures to meet profit targets, we perform procedures to address the risk of management override of controls, in particular the risk that Group and component management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as pension assumptions. On this audit we do not believe there is a fraud risk related to revenue recognition because there are limited incentives or opportunities to fraudulently adjust revenue recognition.

We did not identify any additional fraud risks.

We also performed procedures including:

- Identifying journal entries and other adjustments to test for all full scope components based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management, those posted and approved by the same user, and those posted to unusual accounts.
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

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 (as required by auditing standards), and discussed with the Directors the policies and procedures regarding compliance with laws and regulations.

As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

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 audit team to full-scope component audit teams of relevant laws and regulations identified at the Group level, and a request for full scope component auditors to report to the Group audit team any instances of non-compliance with laws and regulations that could give rise to a material misstatement at the 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, pension scheme 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 or the loss of the Group's subsidiaries' license to operate. We identified the following areas as those most likely to have such an effect: health and safety, food safety and employment law reflecting the nature of the Group's operations. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

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 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 fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6. 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

We are required to perform procedures to identify whether there is a material inconsistency between the Directors' disclosures in respect of emerging and principal risks and the viability statement, and the Financial Statements and our audit knowledge.

Based on those procedures, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the viability statement page 43 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 & Uncertainties disclosures describing these risks and how emerging risks are identified, 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.

We are also required to review the viability statement, set out on page 43 under the Listing Rules. Based on the above procedures, we have concluded that the above disclosures are materially consistent with the Financial Statements and our audit knowledge.

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 judgements 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.

Independent Auditors' Report to the Members of Devro plc continued

Corporate governance disclosures

We are required to perform procedures to identify whether there is a material inconsistency between the Directors' corporate governance disclosures and the Financial Statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the Financial Statements and our audit knowledge:

- 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;
- the section of the annual report describing the work of the Audit Committee, including the significant issues that the audit committee considered in relation to the Financial Statements, and how these issues were addressed; and
- the section of the annual report that describes the review of the effectiveness of the Group's risk management and internal control systems.

We are required to review the part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review. We have nothing to report in this respect.

7. 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.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 103, 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 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 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.

9. 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.

Mike Barradell (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square, London, E14 5GL
1 March 2022

Financial Summary

	2021 £'m	2020 £'m	2019 £'m	2018 £'m	2017 £'m
Revenue	**252.4**	247.6	250.0	253.4	256.9
Underlying operating profit*	**42.0**	40.8	39.1	39.2	38.1
Exceptional items	**0.7**	(4.6)	(53.1)	(12.3)	(5.1)
Operating profit	**42.7**	36.2	(14.0)	26.9	33.0
Profit before tax	**37.6**	29.4	(21.8)	17.5	21.6
Profit after tax	**31.1**	23.1	(41.4)	12.5	15.6
Net assets	**125.2**	99.0	74.9	146.5	127.2
Earnings per share:					
– Underlying basic**	**18.1p**	15.8p	14.4p	13.3p	12.5p
– Exceptional items**	**0.5p**	(2.0p)	(39.2p)	(5.8p)	(3.2p)
– Basic	**18.6p**	13.8p	(24.8p)	7.5p	9.3p
– Diluted	**18.4p**	13.7p	(24.8p)	7.4p	9.3p
Dividends per share	**9.3p**	9.0p	9.0p	9.0p	8.8p
Net assets per share	**75.0p**	59.3p	44.9p	87.8p	76.2p

* Underlying figures are stated before exceptional items. (See Alternative Performance Measures section for definition and explanation).
** Underlying basic EPS are stated before exceptional items. 2020 and earlier underlying basic EPS has been restated to include net finance cost on pensions in 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

28 April 2022	Annual General Meeting
22 July 2022	Final dividend paid
2 August 2022	Half year results and interim dividend announced
31 December 2022	Financial year end
January 2023	Interim dividend paid
March 2023	2022 results and proposed final dividend announced

Dividends

The final dividend will be paid on 22 July 2022 to shareholders on the register at close of business on 10 June 2022.

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. 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 2022 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 1 March 2022)

Executive Directors
R Helbing
R Cummings

Non-Executive Directors
S Good
J Burks
L Jackson
R Mikkelsen
M Swift

Company Secretary and registered office
A Money
Moodiesburn
CHRYSTON
G69 0JE
Registered number: SC129785

Statutory auditors
KPMG LLP
15 Canada Square
Canary Wharf
LONDON
E14 5GL

Solicitors
Clifford Chance LLP
10 Upper Bank Street
Canary Wharf
LONDON
E14 5JJ

Financial advisers
Lazard & Co., Limited
50 Stratton Street
LONDON
W1J 8LL

Principal bankers
HSBC UK Bank plc
Level 6
71 Queen Victoria Street
LONDON
EC4V 4AY

KBC Bank NV
111 Old Broad Street
LONDON
EC2N 1BR

Citizens Bank
Mail Code PW2665
525 William Penn Place
Pittsburgh
PA 15219
US

Rabobank International
Thames Court
1 Queenhithe
LONDON
EC4V 3RL

Stockbrokers
Numis Securities Limited
45 Gresham Street
LONDON
EC2V 7BF

Registrars
Computershare Investor
Services PLC
The Pavilions
Bridgwater Road
BRISTOL
BS99 6ZZ

Registered office
Devro plc
Moodiesburn
Chryston
G69 0JE
Scotland

T:+44 (0) 1236 872261

www.devro.com