

# Corporate governance statement

## 1. Statement

Devro plc is committed to high standards of corporate governance consistent with the needs of the business and the interests of shareholders. This statement, together with the Remuneration Report set out on pages 31 to 34, describes how, in respect of the year ended 31 December 2009, the company has applied the provisions and principles of corporate governance as set out in the 2008 version of the Combined Code ("the Code").

## 2. Board composition

Mr P W B Page, Chief Executive, Mr P C Williams, Finance Director, Mr P A J Neep, Non-Executive Director, and Mr S R Paterson, Non-Executive Director, served as Directors throughout 2009.

Mr P A Barrett retired as Chairman on 7 May 2009 and Mr S J Hannam joined the Board as Chairman on the same day.

The Chairman believes that an efficient Board requires a range of skills and experience in order to ensure balanced and informed decision-making at Board meetings. While the composition of the Board is kept under review, the Chairman is satisfied that the Board as presently constituted is of sufficient size and diversity that the balance of skills and experience is appropriate for the requirements of the business at this time.

It is the considered view of the Board that all the Non-Executive Directors, including the Chairman, are "independent" directors. This opinion is based primarily on careful consideration of their character and judgement and their contribution to the work of the Board and its committees. Furthermore, none holds any external position which would impinge upon his independence or objectivity, nor are there such relationships or circumstances as envisaged by Provision A.3.1 of the Code.

Mr P A J Neep has held the position of "Senior Independent Director" since October 2005. The Board views this essentially as a passive role, but acknowledges that there can be occasions where there may be a need for shareholders to convey concerns to the Board other than through the Chairman or the Chief Executive. The company's major shareholders have been reminded that the Senior Independent Director is willing to meet with them if they wish.

The company's Articles of Association require all directors to stand for election by the shareholders at the first Annual General Meeting ("AGM") following their appointment and for re-election subsequently at least every three years. As in previous years, brief biographies of all Board members, giving details of their experience and other main commitments, are included in the Annual Report, allowing shareholders to take an informed decision on the question of election or re-election.

There is a clear division of authority and responsibility through the separation of the roles of Chairman and Chief Executive. This demarcation is set out in writing and has been agreed by the Board.

Directors of the company and its subsidiaries have the benefit of a directors' and officers' liability insurance policy. All directors can take independent professional advice at the company's expense in furtherance of their duties.

## 3. 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.

In order to discharge these responsibilities, the Board and its Committees meet on a regular basis throughout the year. In 2009, the Board held eight meetings. Full details of Board and Committee attendance are shown in the table opposite.

Board papers are generally circulated one week before meetings. Monthly management accounts in an agreed format are also sent to directors in a timely manner.

The Audit, Remuneration, Nomination and Health and Safety Committees, all appropriately resourced, met a total of fourteen times during the year. The attendance of Committee members is set out in the table opposite.

A number of specific matters are reserved to the Board for decision. These include the setting of corporate strategy, approval of the annual budget, and major decisions on capital expenditure. This was reviewed and updated in 2009. The Board conducts an annual review of the effectiveness of the company's system of internal control, following a group-wide exercise led by the Head of Risk Assurance.

The Chairman and the other Non-Executive Directors met informally during the year, providing an opportunity to review the business without the Executive Directors being present.

All directors have access to the services of the Company Secretary, who is also responsible for ensuring that Board procedures are observed and for advising the Board on Corporate Governance matters.

## 4. Directors' remuneration

Details of the level of remuneration received by the directors in 2009 are set out in the Remuneration Report on pages 31 to 34. The Board believes that the current levels of remuneration are sufficient to attract and retain the directors needed to run the company successfully, without being excessive. Base salaries for Executive Directors are reviewed annually against those paid for similar positions in comparable companies. Professional advice from independent advisers is sought each year in this regard by the Executive Directors' Remuneration Committee.

An explanation of the company's incentive schemes is set out in the Remuneration Report.

The Executive Directors' service contracts provide for notice periods of one year. Due to the technical nature of the business, these contracts contain restrictive covenants which will be rigorously applied and, taking this into account, the Board and the Executive Directors' Remuneration Committee believe that the notice periods are reasonable and in the best interests of the company, having regard to prevailing market conditions and current practice among public companies.

Non-Executive Directors' remuneration is reviewed from time to time by the Non-Executive Directors' Remuneration Committee, taking independent external advice as appropriate.

Mr P A J Neep chaired the Executive Directors' Remuneration Committee throughout 2009. The other members of the Committee were Mr S R Paterson, Mr P A Barrett until his retirement on 7 May 2009, and Mr S J Hannam who was appointed to the Committee on the same day. This Committee met five times in 2009.

The Non-Executive Directors' Remuneration Committee is chaired by Mr P W B Page, with Mr P C Williams as the other member. The Committee met once in 2009.

## Board and Committee attendance of members during the year ended 31 December 2009.

	P A Barrett*	S J Hannam**	P W B Page	P A J Neep	S R Paterson	P C Williams
Board - 8 meetings	3	4	8	8	8	8
Audit Committee - 5 meetings	n/a	2	n/a	5	5	n/a
Executive Directors' Remuneration Committee - 5 meetings	1	3	n/a	5	5	n/a
Non-Executive Directors' Remuneration Committee, - 1 meeting	n/a	n/a	1	n/a	n/a	1
Nomination Committee - 1 meeting	1	n/a	n/a	1	1	n/a
Health and Safety Committee - 2 meetings	n/a	2	2	1	n/a	n/a

\* retired 7 May 2009 \*\* appointed 7 May 2009

The Remuneration Report contains a detailed statement of the remuneration of each director for 2009 including details of the company's pension policy for Executive Directors.

The written remit of the Executive Directors' Remuneration Committee is available on the company's website.

### 5. Report from the Audit Committee

The Audit Committee has written terms of reference, which are available on the company's website, and include the responsibilities set out in provision C.3.2 of the Code.

Mr S R Paterson chaired the Committee throughout the year. The other members of the Committee in 2009 were Mr P A J Neep, and Mr S J Hannam who joined the Committee on 3 August 2009. The Company Secretary acts as Secretary to the Committee.

The Board views Mr S R Paterson as the Committee member with both recent and relevant financial expertise as stipulated in provision C.3.1 of the Code.

Meetings of the Committee are normally attended by the Finance Director, the Chief Executive and the Head of Risk Assurance, as invitees. Representatives of the auditors also attend as required.

At the beginning of 2009 the Board set objectives for the Committee, including the fulfilling of each aspect of its terms of reference and keeping abreast of developments in accounting best practice. During the year, five Committee meetings were held. In addition to reviewing the company's full year and interim results, the Committee (i) reviewed internal controls across the group; (ii) considered the question of reappointment of the external auditors before making a recommendation to the Board; and (iii) considered carefully the effectiveness of the internal audit activities.

The company's "whistleblowing" procedures are also reviewed from time to time, with the Committee concluding that the arrangements in place would result in proportionate and independent investigation of such matters.

### 6. Auditors

PricewaterhouseCoopers LLP have been the company's auditors for many years. Each year the Audit Committee considers carefully their independence and objectivity, taking account of the appropriate guidelines. There are no contractual obligations restricting the Committee's choice of external auditors, and the Committee will continue to periodically review their performance.

The Committee and PricewaterhouseCoopers LLP 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 Committee conducts a formal annual review of the independence of the auditors, looking carefully at the level of non-audit work conducted by the auditors and the detailed safeguards which they have in place.

The fees paid to the external auditors in 2009 are set out in note 8 to the financial statements on page 46. Almost all of the non-audit

fees relate to tax advice. The Committee believes that there are sound commercial and practical reasons for this work being conducted by the auditors.

### 7. Relationship with shareholders

The company communicates with institutional investors primarily through analysts' briefings and meetings with major shareholders, as well as timely Stock Exchange announcements. The Board, and in particular the Non-Executive Directors, are kept informed of investors' views in the main through distribution of analysts' and brokers' briefings. The Chairman is willing to meet with shareholders, large and small, to discuss matters such as strategy and governance and, in addition, 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. All directors attend the AGM, and shareholders have the opportunity to hear presentations on the company's financial and business performance as well as to question any member of the Board on any relevant topic.

Votes at the AGM are conducted by way of a poll to ensure that the votes of shareholders who are unable to attend may be taken into account. The results are announced to the Stock Exchange.

Each substantial issue is proposed as an individual resolution of the AGM. The notice is sent to shareholders at least 20 working days before the meeting.

### 8. Directors' training and development

The Board believes that an ongoing programme of training and development is necessary to ensure that directors keep abreast of developments within the group and broader regulatory issues. To achieve this, the Board meets with local management of at least one of the group's operations annually. In addition, specific briefing sessions are held on relevant topics.

### 9. Board performance evaluation

The Board believes that, while there are a number of ways of addressing performance, the most relevant measures are the financial results of the company and shareholder value, over both the short and long term. The company's approach to the evaluation process applies this principle while at the same time taking account of broader business issues.

In 2009, the Board set business-focused objectives for itself and every director, while each of the committees was given objectives centred around its remit. One of the primary objectives of the Executive Directors concerned the delivery of the financial plan for the year.

The Board reviewed the question of performance evaluation in December 2009, and agreed to adopt a new approach involving an annual review based on a detailed questionnaire designed to cover all aspects of how the Board functions. At present it is felt that there is no need for external facilitation of this process, but this question will be kept under review.

# Corporate governance statement

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## 10. Report from the Nomination Committee

Mr P A Barrett was the Chairman of this Committee until his retirement on 7 May 2009, when Mr S J Hannam joined the Committee as Chairman. The other members of the Committee during the year were Mr P A J Neep and Mr S R Paterson. The Company Secretary acts as Secretary to the Committee.

The Committee has written terms of reference which can be found on the company's website. These include the regular review of the structure, size and composition of the Board.

During 2009, the Committee met on one occasion. It assisted the Board in completing the recruitment of Mr S J Hannam as Chairman in the course of the year. During this process, the chairmanship of the Committee was assumed by Mr P A J Neep in line with provision A.4.1 of the Code.

External independent selection consultants, free of any other ties to the company, were retained by the Committee in connection with the search for the new Chairman.

The question of succession planning for senior management below Board level is the responsibility of the Chief Executive.

## 11. Report from the Health and Safety Committee

The Board made a decision to form a Health and Safety Committee on 3 August 2009 to reflect the seriousness with which the Board addresses Health and Safety issues. Mr S J Hannam was appointed as Committee Chairman and the other members are Mr P W B Page, Mr P A J Neep, and Dr M H Cooke, the company's Strategic Development Director. An external independent auditor with relevant experience has been engaged to carry out audits of the main locations in 2010, to ensure the Committee's responsibilities are met. The Committee met twice in 2009. The Committee's terms of reference can be found on the company's website.

## 12. Financial reporting

The Board acknowledges its responsibility to present a balanced and understandable assessment of the company's position and prospects. Each Annual Report contains a Chairman's Statement and a Business Review. The Interim Report also contains a Statement by the Chairman. 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 external auditors in evaluating the impact of these standards.

## 13. Internal control

An ongoing process has been established for identifying, evaluating and managing the significant risks the group faces. The process, which accords with the Turnbull guidance, has been in place for the period under review and up to the date of approval of the 2009 Annual Report and Accounts. This includes the appointment of a Head of Risk Assurance whose responsibilities include the application of risk assessment procedures throughout the group and working alongside subsidiary undertakings in establishing the process. Furthermore, the programme of work performed by internal audit includes non-financial risks. The system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives.

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.

This structure, which is based on an assessment of material financial risks, can be described under the following headings:

- **Financial reporting**  
There is a budgeting system in place which includes an annual budget approved by the Board. Monthly actual results are reported against budget. Revised forecasts for the year are prepared regularly. The company reports formally to shareholders twice a year.
- **Operating controls**  
Financial and operational policies and procedures are set out in formal procedures manuals which are held by all Business Directors and finance staff. The latter are responsible for ensuring that all relevant staff are familiar with their content and application. All Board members, Business Directors and senior finance staff have been issued with Internal Control Guidelines.
- **Treasury**  
Formal written treasury procedures are in operation, covering banking arrangements, hedging instruments, investment of cash balances and borrowing procedures. Individual staff responsibilities and levels of delegated authority in relation to treasury matters are defined.
- **Internal audit**  
The company has an internal audit function, which has a reporting line to the Chairman of the Audit Committee and also direct access to the Chairman of the Board. The Head of Risk Assurance, who is responsible for internal audit, normally attends Audit Committee meetings and makes a formal report to the Committee annually.
- **Capital investment appraisal**  
The company has clearly defined guidelines for the approval and review of capital expenditure projects, which include annual budgets and designated levels of authority.
- **Integrity of personnel**  
The company has a Policy on Business Conduct which sets out specific requirements for all staff to meet the company's standards of conduct and integrity in their business dealings.

The Board has reviewed the effectiveness of the system of internal control and considers that the group has an established system of internal control which the directors believe to be appropriate to the business.

## 14. Going concern

After making enquiries, and considering the question carefully, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

## 15. Share capital

The Takeover Directive disclosures regarding the company's share capital structure are included in the share capital section of the directors' report on page 24 of this report.

## 16. Compliance with the Code

The company complied with all the Code's provisions throughout the accounting period.