DEVRO

Devro plc

Annual Report
and Accounts
2012

Our business

Devro is one of the world's leading suppliers of collagen casings for food, used by customers in the production of a wide variety of sausages and other meat products. Collagen is a naturally occurring polymer which is transformed into gel, a tubular casing, and films at Devro's manufacturing sites in the USA, UK, Czech Republic and Australia.

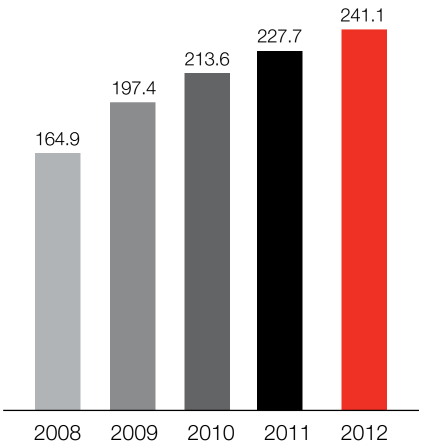
Devro employs over 2,200 people, with skills and knowledge ranging from chemical and electrical engineering to food technology, meat science and environmental health. Over 100 staff are in daily contact with more than 1,000 customers, providing specialist technical advice and support for sophisticated food manufacturing operations in more than 100 countries.

Regional Business Directors have responsibility for sales and manufacturing operations, with profit accountability. Strategy, financial policy, marketing and information systems are managed centrally, with an Executive Committee and a Board of Directors providing leadership and experience.

Devro plc was listed on the London Stock Exchange in June 1993. The shares are 99% free-float, with approximately 5,500 holders of a total of 165.6 million shares.

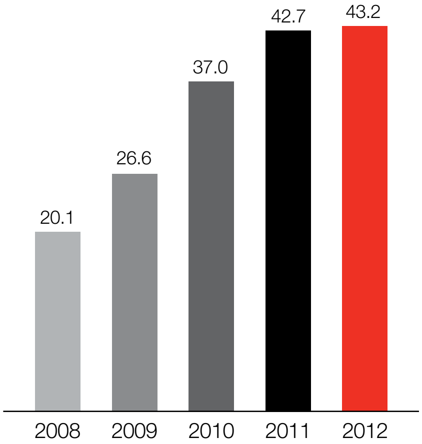
Financial highlights

Group revenue* (£m)



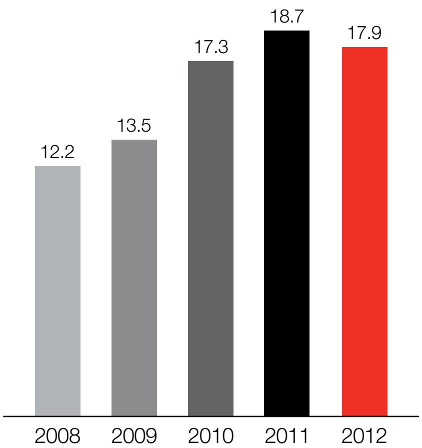
Operating profit (£m)

before exceptional items*



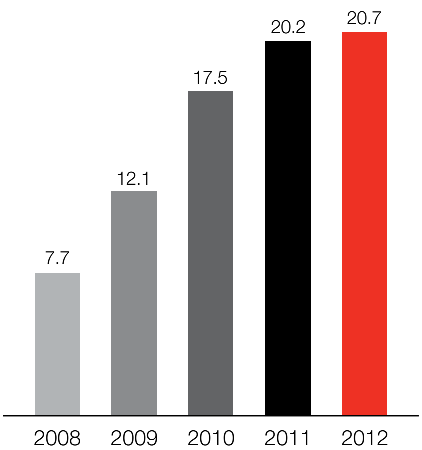
Operating profit margin (%)

before exceptional items*



Earnings per share (pence)

before exceptional items and excluding pension interest*



* continuing operations

Continuing operations	2012	2011
Dividends per share	8.5p	8.0p
Operating profit	£43.2m	£42.7m
– Margin	17.9%	18.7%
Profit before tax excluding pension interest	£42.2m	£41.9m
Profit before tax	£40.8m	£43.0m
Cash generated from operations	£48.1m	£45.1m
Capital expenditure	£33.1m	£43.4m
Net debt	£26.1m	£22.7m
Gearing	17.8%	16.2%

Devro's business model

Why our business exists

- Devro's collagen casings are used to manufacture all varieties of sausage. Historically, animal intestines were used as casings for sausage, but over the past 50 years the use of collagen casing has increased, as it enables food manufacturers to automate production to reduce costs. It is better suited to contemporary food hygiene and traceability requirements, and technical specifications can be determined in advance.

What our customers do

- Devro's customers manufacture branded and own-label sausage products, worldwide, reaching consumers through retail and food service outlets.

How we create value

- Devro creates value by converting a basic raw material, collagen, from the inner layer of cattle and sow hides, into a homogenous gel and extruding it to tightly controlled dimensions, before being compressed and packed for supply to customers. Devro's manufacturing processes are unique, evolved over many years of technical development.

Who we sell to

- Devro's revenue comes from the sale of collagen products directly to food manufacturers in many markets, and to local distributors in some markets. Devro sells to over 2,000 customers in more than 100 countries, with a product range in excess of 500 individual items, covering 8 principal types of application. Approximately one third of Devro's sales are in emerging markets and two thirds are in developed markets. Over 70 Devro employees work in customer operations as sales and technical advisers.

The market we are in

- Devro is one of five significant producers of collagen casings in the world market, with a smaller number of local or regional competitors. Additional value is created for the customer by collaborating with specialist food machinery manufacturers, and with suppliers of food ingredients, to optimise product performance.

What makes us different

- Devro differentiates itself from competitors by developing distinctive new products, by working closely with customers to enhance their manufacturing efficiencies, and by providing high-quality technical support to customers.

Three part strategy

Devro's three part strategy for organic growth to supply growing demand worldwide, was first outlined to investors in January 2008. The strategy is reviewed annually by the Board of Devro plc.

The strategy reflects the considerable opportunities for increased sales of edible collagen casings to the food sector, and Devro's ability to fund expansion from earnings.

Earnings growth and improving return on capital

Revenue growth **will come from:**

- Increasing Devro's share of the edible casings consumed in developed markets, by promoting distinctive collagen casings that replace less efficient gut
- Growing volume in emerging markets where the demand for protein is rising in line with higher disposable incomes, population growth, and urbanisation
- Achieving higher average prices per unit sold, reflecting the value of Devro's products, technology and customer support

Margin improvement **will be achieved by:**

- Optimising the use of all assets, through efficiency and productivity initiatives
- Investing in new capacity, by replacing our oldest equipment with Devro's most modern technology, reducing the cost per unit
- Managing input costs through improved raw material sourcing and investment in projects to provide lower-cost energy

Product differentiation and market leadership **will be maintained by:**

- Investment in research and development
- Actively sharing knowledge and experience from all markets
- Developing a unique knowledge of collagen science

Chairman's statement

Steve Hannam
Chairman

In 2012, Devro delivered a further year of growth in line with our strategy and, despite some challenges, we increased revenue and operating profit.

At the same time we continued to invest significant capital in our production facilities to increase capacity and upgrade our technology, funded through our cash resources.

The prospects for our markets are good. Our *Select* range of products provides us with growth opportunities in developed markets whilst economic trends and growing urbanisation continue to drive sales in emerging markets.

2013 will be another busy year as we take action to mitigate rising input costs, continue our capital programme, and step up our investment in people and infrastructure. This will ensure that we are well positioned to take advantage of the market to create long term profitable growth for Devro.

With the continued positive outlook in our markets and anticipated growth from our investments the Board is recommending a final dividend of 5.85 pence per share, bringing the full year dividend to 8.5 pence per share, a 6.3% increase.

Financial highlights

Overall demand was strong during 2012 in both developed and emerging markets, with limitations in capacity and adverse exchange movements the key constraints to more rapid growth. Revenue grew by 5.9% to £241.1 million, or 8.1% on a constant currency basis.

Operating profit grew by 1.3% to £43.2 million, but was held back by increases in input costs which will be recovered by further price increases in 2013. Operating profit was also adversely impacted by exchange movements and on a constant currency basis grew by 5.2%.

Basic earnings per share excluding pension interest was 20.7p, up by 2.2% compared to 20.2p in 2011.

Net debt rose by £3.4 million to £26.1 million at the end of 2012 (2011: £22.7 million), after funding £33 million of capital investments during the year, which is in line with our expectations.

Dividend

The Board is proposing a final dividend of 5.85 pence per share (2011: 5.5 pence) bringing the total for the year to 8.5 pence per share (2011: 8.0 pence). The dividend will be paid on 3 May 2013 to those on the register on 2 April 2013. The increase in the dividend reflects the Board's confidence in the group and its financial strength.

The Board retains its policy of reviewing the amount distributed annually with the intent of moving dividends in line with underlying earnings, whilst taking into account the future prospects and cash requirements of the business.

Business

Sales

Developed markets

In developed markets sales of edible collagen casings increased by 8.0% during the year with some variability in demand compared to previous years. The USA and Western Europe showed increases, whilst Australasia was flat and the UK decreased.

Our main action in these markets has been to broaden our offering with our *Select* range of products. These products, launched two years ago, have been developed to replace sheep gut in premium sausages. Initial demand came from Northern Europe and Japan and this has continued to develop with Japan, in particular, showing strong growth. In the last year, sales have been building in the conservative German market with considerable opportunities for growth in the coming year. In 2012 sales of *Select* represented 8.4% of our total sales compared to 4.3% in 2011.

The majority of our sales (87%), and our focus, is on edible collagen products. Sales of non-edible collagen decreased in the year. Sales of collagen gel into non-competing markets in the USA showed some growth year on year with the development of new applications.

Emerging markets

In emerging markets, sales of edible collagen casings grew by 7.8% during the year where demand is being driven by economic expansion and the resulting increase in meat consumption, particularly in the form of processed product. There is also some conversion from gut casings to collagen in these markets.

Latin America showed revenue growth of 30% in the year for edible collagen casings, and a renewed sales approach continues to bring us further opportunities.

Eastern Europe and Russia also grew strongly with edible collagen casing volume growth of 6% helped by the additional capacity from Bellshill brought online during the year.

We continue to review our options with respect to China. It remains a large and growing, but low priced market, where we are currently developing strategic sales and customer relationships.

Margin

The operating margin was 17.9% (2011: 18.7%) which was adversely impacted by increased input costs and movement in exchange rates, primarily related to the weakening of the euro against sterling.

Chairman's statement continued

Adjusted for the adverse movement in exchange rates the operating margin for 2012 was 18.2%.

Part way through the year the price of raw materials rose in line with the market and this, together with higher energy costs, increased our cost of sales by approximately £5.8 million which was not recouped through higher selling prices in the period. Raw material costs are expected to continue to rise and further selling price increases are being implemented in early 2013.

Production line upgrading and subsequent commissioning resulted in a rise in operating costs which also impacted operating margin in 2012. With a significant proportion of the work now completed, the benefits of the production upgrades should begin to show through in the latter part of 2013.

Capital investment programme

Our on-going capital investment programme, which has been mainly aimed at replacing older lines with modern high speed lines to deliver cost savings and increased output, has been a major feature in 2012. A total of £33 million was invested during the year.

There is expected to be further investment of up to £35 million in 2013. The largest project will be the completion of the production upgrade at our facility in Jilemnice in the Czech Republic.

This capital investment programme has delivered 7% growth in output in 2012, and is expected to deliver a further 8% growth in 2013.

Return on capital employed has dipped to 19.5% in 2012 from 21.5% in 2011, and is expected to strengthen over the medium term as the full benefits of the investments flow through.

Scotland

Although the majority of the investment was made in 2011, the new lines were completed and commissioned during 2012. The project involved replacing some of the oldest lines in Scotland with high speed lines based on the technology used in our Czech facility. The commissioning phase took three months longer than anticipated but the lines are now running well and the output is being sold in Continental Europe.

Australia

The natural gas powered co-generation plant installed in our Bathurst site was successfully commissioned during the year delivering energy cost savings.

A number of lines in Australia were upgraded to produce further *Select* product for Japan. This involved modifications being carried out within an operating manufacturing plant which is a challenging task. The engineering work was completed safely and on time. The upgraded lines are now running and progress continues to be made on improving performance.

Czech Republic

The largest project in the year has been the conversion of the original edible casing manufacturing hall to high-speed lines. This involves replacing the old equipment with proven new technology within an existing infrastructure. Once again the facility is being upgraded whilst operational. In 2012 half the lines were upgraded and successfully commissioned. The remaining half will be converted in 2013.

USA

The USA facility has a different manufacturing process compared with the other plants, and there is a sizeable opportunity to improve efficiency and costs. In 2011 a line using our most recent technology was installed in the USA to trial the manufacture of products suited to the Americas market. The pilot took most of 2012 to convert local collagen into suitable products on a commercial basis and trials will continue in 2013. Further work is planned in 2013 to evaluate the opportunity and potential returns of a substantial investment to replace the existing technology.

Safety

Safety management continues to have a high profile throughout the company and there is regular contact between the Board Safety Committee and local teams. During the year, in order to refresh its approach, Paul Withers took over the Chairmanship of the Board Safety Committee.

The commitment across the group was rewarded during the year with employee lost time accidents reduced from 10 to 4 and lost days reduced from 287 to 156.

Employees

The continued growth and the changes across the group have necessitated considerable commitment from staff at all levels. It has been pleasing to see international teams working together to resolve challenges presented by the capital investment programme and to improve standards of operation.

The global team which installed the ERP system during 2011 has continued to work together to deliver the expected benefits from the system.

With the continued growth prospects of the group it is necessary to ensure that we have adequate resources available. To this end an extensive training and development plan has been implemented, supplemented where necessary by recruitment.

The Board once again gives its thanks to all employees for their efforts and commitment wherever they are in the world.

Board appointments

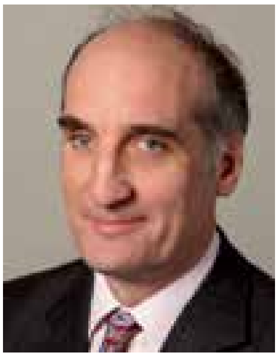
Jane Lodge joined the Board on 1 March 2012 and took over the role of Audit Committee Chair on 19 April 2012 replacing Stuart Paterson.

Outlook

The demand in our markets remains strong. Our *Select* range of products provides us with growth opportunities in developed markets while economic growth and increased urbanisation continue to drive sales in emerging markets. Our ongoing capital investment programme and investment in people and infrastructure means we are increasingly well positioned to take advantage of the market to create long term profitable growth for Devro.

Steve Hannam
Chairman

Business review



Peter Page
Chief Executive

Global demand for edible collagen casings continued to be very strong in 2012, with growth over 2011 estimated to be more than 10% in volume worldwide.

China accounted for just less than 60% of this growth, and the rest of the world about 40% of the increase. Demand remains strong in many developed markets.

Sales and markets

Devro's strategy has three parts. The first is to increase earnings by developing profitable, higher value sales. In 2012, total revenue increased 5.9%, or 8.1% on a constant currency basis. Edible collagen, which now provides 87% of all group sales, increased in value by 8.0% on volumes that increased 7.1%. Sales volumes and revenue from the unique *Select* range, developed to replicate the characteristics of top-quality sheep gut, doubled in 2012. *Select* represents 8.4% of group revenues, up from 4.3% in 2011. Close to 3 billion sausages have been manufactured in *Select* casing since its introduction in May 2010.

Developed markets

62% of Devro's sales of edible collagen casings came from developed markets, where sales increased by 8.0%, achieved through a long-established network of direct sales, wholly-owned sales offices and some local, privately-owned distributors. The first component of the revenue part of our strategy is to achieve growth in these markets by developing and introducing differentiated products such as *Select*, and also through sustained technical support for customers.

Germany is a very attractive market for Devro, with a long tradition of sausage manufacturing, high levels of per capita consumption, and a significant proportion of the market currently using sheep gut. In 2012, Devro sales of edible collagen casings in Germany grew 30%, led by *Select*, and a new casing for Bratwurst type sausage. German industry acceptance of non-traditional *Select* has been vindicated by the fact that three branded consumer products, manufactured using *Select*, achieved a Gold medal in assessments by DLG (Deutsche Landwirtschafts-Gesellschaft), the German organisation which monitors and maintains standards in agriculture, food and drink.

Strong sales in Japan continued, with edible collagen casing revenue increasing by 46%. Despite expansion during the year at our facility in Australia, demand for *Select* continues to exceed our production capacity. The technical and customer service team in Japan has been expanded to ensure we maintain service levels in the market. In April, over 150 delegates from 35 food manufacturers, retailers and trade organisations attended a Devro *Select* seminar in Tokyo, reflecting the extremely high level of interest in this new casing. One Japanese customer received a Gold and a Silver DLG medal for products in *Select* casing.

In the USA and Canada, sales of Devro's edible collagen casings increased 14% during the year. The beefstick sector grew strongly in 2012, following a period of decline over the previous three years. This demand was met by Devro's Stix range of products, supplied from our factories in the Czech Republic, Scotland and South Carolina. Sales of collagen gel, used for co-extrusion by some high volume manufacturers, were successfully maintained as new customers entered the market with applications for hotdogs, which conventionally have used cellulose casings. Devro remains at the forefront of developments in co-extrusion technology in the American market.

Sales volumes in the long-established markets of Australia and New Zealand were similar to prior year, reflecting Devro's high market share in a region where collagen is already used on nearly all sausage products. With a relatively small consumer base, and increasing competition between a limited number of local retailers, we do not expect to see substantial growth here.

In Western Europe, excluding Germany, the UK and Ireland, volumes increased slightly on 2011, as customers continue to convert from gut to collagen. The reported revenues were adversely affected by exchange rate movements between the euro and sterling, but the demand for Devro's casings remains very strong in Europe, particularly for *Select* products.

A small proportion of sales (4%), predominantly in Europe, involves non-edible collagen, a form of casing used for air-dried and cured sausages such as traditional salamis. Sales in this category declined by 17% in 2012 compared to 2011, due to falling demand and competition from other suppliers of non-edible collagen and fibrous casings. Unused capacity for the manufacture of non-edible casings at our Czech plant was reallocated to edible collagen, for which there is strong demand.

Volumes of edible collagen casing sold in the UK declined 8%, due in part to continuing changes in the product mix promoted by major retailers, but also reflecting the variety of better-priced opportunities for Devro elsewhere.
The UK and Ireland market is going through a phase of restructuring which will continue into 2013.

Emerging markets

The second component of Devro's strategy for revenue growth is to develop profitable opportunities in emerging markets, which currently account for 38% of our total sales of edible collagen casings, and which increased 7.8% in 2012. Population growth, higher disposable incomes and increasing levels of urbanisation all lead to an increase in the consumption of proteins and also of more convenient foods which require less preparation. Sausage fits this requirement very well, explaining the continuing rise in demand for casings globally.

Latin America, which is supplied with product from our American and European plants, is of increasing importance to Devro, with a 30% revenue increase for edible collagen casings during 2012. Pricing in this market continues to improve, and many opportunities remain to be developed. We have recently appointed a new sales director for this region, bringing a fresh approach to some markets where we had not been so active previously. Several of the world's leading meat companies are based in Brazil, so it is important for Devro to have a strong presence in this region.

Eastern Europe and Russia account for a significant proportion of Devro's sales, and have underpinned much of the growth in volumes in emerging markets in recent years. Volumes and strong pricing were maintained in 2012, although volume growth was a little slower than previous years, reflecting a combination of the strong market position which Devro has now established and lower levels of new investment in the region's food manufacturing sector. We expect to see consolidation among customers in some markets and others are likely to experience restructuring as retailers become more active in sourcing products from across Europe and not just from local suppliers.

Demand in South East Asia continues to grow, with a broad mix of opportunities and customer requirements. Korea has traditionally been a good market for casings, and Devro has some very loyal customers here, but capacity constraints have limited sales.

China as a market continues to expand at a rapid rate. We have established a trading company with warehousing in Beijing for direct sales to local customers. Sales volumes are small, but there have been some notable successes in achieving recognition for Devro's differentiated products such as porcine and *Select*. During 2012, we continued recruitment in China, giving us a very experienced local management team able to contribute to developing our business there without exposing Devro to undue risk. The longer-term prospects for China continue to be very interesting.

Pricing

The third component of our strategy for revenue growth is to raise the value of our products and services, and reflect some of the benefits of this in prices. During 2012, the average price increased 2.8% per kilometre sold at constant currencies. Two thirds of the 2012 increases came as the result of changes to product mix, with one third coming as a result of price increases. Pricing will be a priority in 2013.

Operations and manufacturing

As reported earlier in the year, collagen raw material costs increased during 2012, adversely impacting earnings in the year. These cost increases have been attributed to a reduced supply of cattle hides in Europe and the Americas, and a higher demand for raw collagen from China, principally for gelatine manufacture. Hide costs are expected to continue to increase in 2013. We are actively seeking ways to improve the cost and quality of raw materials.

2012 is the second year of a three-year programme to expand manufacturing capacity, as part of a larger long-term programme of investment and renewal. Actual output of saleable product in 2012 was 7% higher than the prior year. With the additional capacity in place by the year-end, and further investments planned, we expect an additional 8% increase in output in 2013.

Devro's strategy is to grow earnings and improve return on capital employed (ROCE) by a combination of higher sales volumes and more efficient manufacturing. Capital investments help to achieve both objectives. From 2007 – 2012, we have invested £147 million of capital, and the ROCE has risen from 13.1% to 19.5%. For 2013 – 2015, we anticipate further significant capital investment to enable capacity expansion and efficiency gains. We aim to achieve 20% ROCE across the whole business although ROCE may dip slightly during the investment phase before the full benefits come through. A large proportion of Devro's manufacturing assets are over 35 years old and so a major programme of renewal and modernisation is underway to increase efficiency and provide capacity to meet growing demand. We expect to have completed this programme of work by 2016, after which additional capacity will come from expansion of existing sites and construction of new facilities.

Creating capacity and controlling costs

Since 2007, of the £147 million, we have invested £131 million of capital to create capacity and control costs in two ways. Firstly, by upgrading, enhancing and expanding our infrastructure. Recent examples of this include a larger raw materials chilled storage facility in Moodiesburn in Scotland, and new steam boiler equipment in Jilemnice in the Czech Republic. Infrastructure investments come before we see the benefits of increased sales volumes, but are essential to enable the subsequent production capacity expansion. Upgrading and expansion of infrastructure involves a significant degree of working around existing facilities, whilst maintaining production operations at the same time – quite a challenge in a food manufacturing environment.

The second stage of creating capacity through capital investment is to upgrade and renew, or to completely replace, the least efficient lines. This involves a period of transition, and often capacity is temporarily reduced in the early stages of a project as current lines are removed before the new ones are installed. The manufacturing processes are unique to Devro, so a large part of the design and specification is completed by our own engineers.

Investments contribute to cost control, as the newest lines run at speeds which are often more than double those of the lines that are being replaced, with improved yields, more consistent quality and lower maintenance requirements. All these factors add to the capacity as well as helping to control operating costs.

As the volumes produced at existing sites have increased, production overheads have been absorbed over a greater volume which has contributed to manufacturing efficiencies. Economies of scale are very important to a continuous manufacturing process with a high level of fixed costs required to support it.

Environmental and food safety

Since 2007, £16 million has also been invested in areas that are not directly related to capacity or costs, but which help to maintain Devro's market and competitive position. Principally this expenditure has involved raw materials handling, food hygiene enhancements, waste water processing and energy efficiencies.

Environmental issues, particularly waste water treatment, have required significant investment. This is partly expanding the capacity to meet the demands of our increased volumes of raw material preparation, and partly to meet ever-higher standards for the purity of waste water as it leaves our premises using techniques such as reverse osmosis and aerobic digestion tanks.

Reduction in energy consumption gives cost savings to the business and enables the factories to comply with local carbon emission targets. Recent investments include a gas fired combined heat and power plant at our Bathurst site in Australia, and the installation of more efficient cooling units at several sites. The most effective investments to reduce energy per unit manufactured tend to be directly related to the installation of new and upgraded lines.

Investment by region

Overall, Devro has made great progress through capital re-investments at existing facilities, which have added 60% more capacity since 2005. A substantial opportunity for investment remains as we continue the process of revitalising and renewing our assets.

Jilemnice, Czech Republic

In 2005, a new hall was constructed on the Jilemnice site and new lines were installed in stages; this was completed in 2011. This investment allowed for the closure of our oldest factory, Korenov, with equivalent output from a much lower cost-base in the new building, as well as additional capacity for the growth in sales of casings.

Since 2011, we have undertaken a programme of upgrade, renewal and replacement of infrastructure and lines in the older hall at Jilemnice. This is made more challenging by the need to work around current operations to maintain output during the transition, but it is proceeding to plan and budget, with the full benefits becoming available from late 2013.

These developments, combined with recent large investments in food hygiene and waste water treatment, mean that by the end of 2013, Jilemnice will have been significantly modernised, capacity will have doubled and operating costs per unit reduced.

Glasgow, Scotland

Devro has two factories in Scotland.

At Moodiesburn, a capital expenditure programme from 2009 - 2013 is adding capacity and improving efficiency by retro-fitting and upgrading existing lines, to give faster speeds and higher yields. There has been a programme of relatively small projects, managed in stages, each with a good return and short pay-back period.

At Bellshill, opened in 1979, capital expenditure in 2011 was used to remove several of the original lines, and replace them with a variant of the newest technology installed at Jilemnice. This involved a £12 million spend on engineering, plant and equipment, which was well managed through 2011. A large part of the project involved the transfer of operator knowledge and development of products suitable for the Continental European market using local raw materials. Although this phase took longer than anticipated, the lines have been running well since April 2012, and all the output is being sold to customers in Continental Europe. The opportunity exists to repeat this “new lines for old” investment at Bellshill over the coming years.

Bathurst, Australia

From 2011 to 2014, there is a programme of retro-fitting and upgrading existing lines, combined with the need to carry out the project in the plant whilst it is in full operation, as we work to satisfy the growing demand for *Select* in Japan. Whilst the investments have added capacity, we have not yet achieved the target line speeds or efficiencies, so development work continues to gain the anticipated benefits from these investments.

Sandy Run, USA

The plant at Sandy Run was built in the 1970’s and acquired by Devro in 1996. It has a very different technology to the European and Australian sites, based on a more challenging chemical process. Whilst it manufacturers some excellent products, the plant overall has higher costs and lower levels of efficiency and yield than the other plants.

In 2011, an adapted version of our newest technology was installed as a single pilot line at Sandy Run. During 2012, commissioning and product development work have led to a provisional assessment of its potential. In 2013, further work is planned to evaluate the opportunity and potential returns of a substantial investment (£50-60 million), to replace much of the existing factory with more efficient and lower cost lines. Should the investment go ahead it would be implemented over 3 to 5 years and would provide opportunities for capacity expansion in subsequent years.

Safety

Our top priority is that Devro should be a safe place to work. I believe that a safe business is a good business, and that safety statistics are a good indication of morale and motivation.

2012 showed further significant progress in safety performance, reflecting five years of strong commitment throughout the business. In 2012, we had 4 work-related injuries that led to lost working days, compared to 25 in 2008. The severity of such incidents has also reduced. Working days lost as a result of injuries totalled 156, which is 819 fewer than 2008.

I continue to take a close personal interest in our safety management, and have been encouraged by the support given by so many colleagues. Whilst recent progress is good, there is still much scope for further improvements as we work towards our shared goal of zero incidents.

People

At the start of 2013, we appointed Moir Donelson as the new President for our Americas business, bringing highly relevant experience and renewed ambition. During 2013, we will complete the evaluation of plans for re-investment in the USA, aimed at cost reduction, quality improvement, and ultimately capacity expansion in future years.

We have been recruiting and developing a strong local management team for China, with good experience of building western owned food businesses in the market. As they develop plans for the future, we will start to incorporate these into our current activities, allocating sufficient volumes of product to enable them to grow brand awareness and build relationships, prior to any more substantial commitments to strengthen our local presence there.

During 2012, we appointed David Porter as Group Strategy & Marketing Director on our Executive Committee. This new appointment will help to manage business opportunities worldwide by continuing to bring together the various strands of the business, and to capitalise on our unique strengths more rapidly. Linked to this work, during 2013, we are establishing a single, global Research & Development team, with the aim of bringing new products to market more quickly and of exploring further opportunities for long-term growth. This strengthens activity in the third main area of our strategy.

Outlook

2013 will be a busy year for Devro, as we increase sales volumes and develop the business. There is strong demand for Devro’s products and the investment in additional capacity, improved casings and technical support will enable us to demonstrate to customers the enhanced value we offer.

In the early part of 2013, we are implementing further price increases to recover the higher than expected rises in raw material costs during 2012. The outlook for raw materials in 2013 remains challenging.

During the first half of the year, investment projects in Scotland and Australia will provide additional capacity for *Select* casings. In September, renewal of our Jilemnice facility will be completed, providing significantly more volume for the European market in 2014.

We are also stepping up our investment in people and infrastructure in anticipation of the next stage of growth.

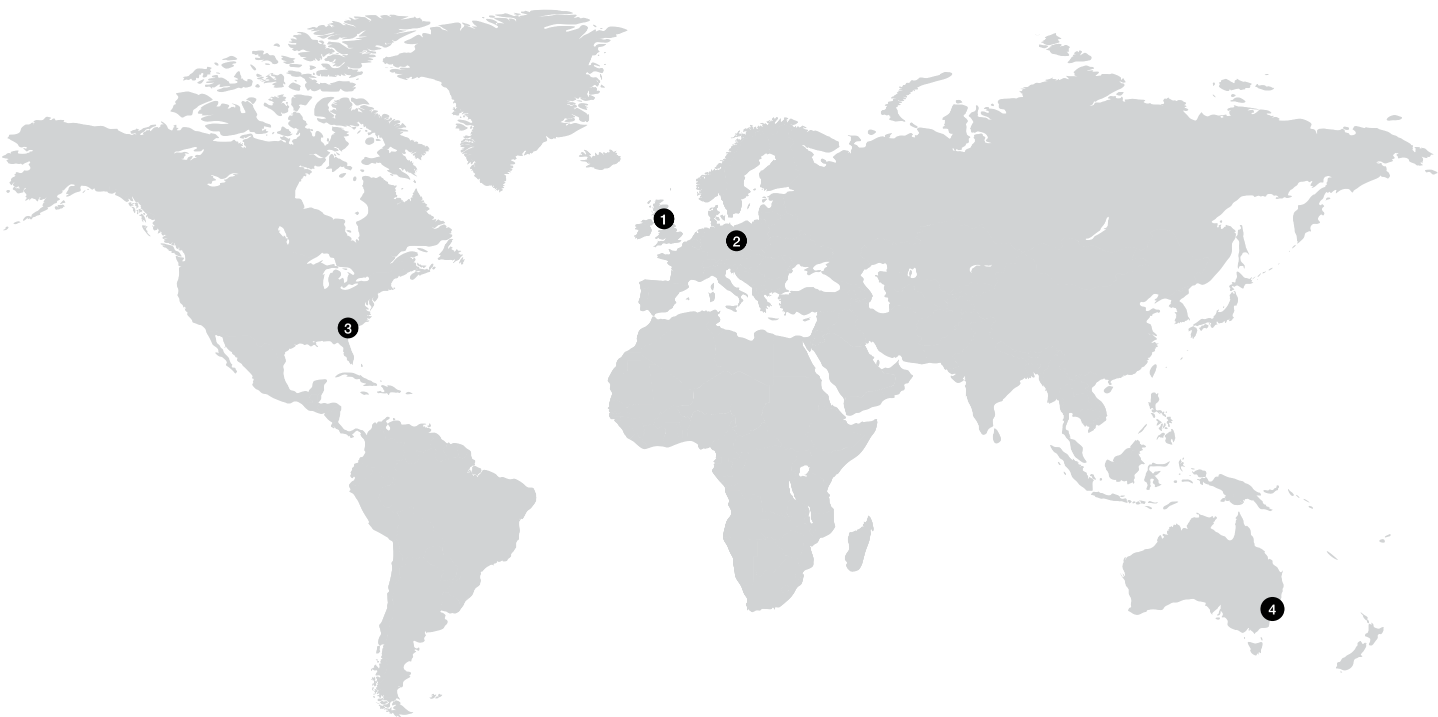
There still remains much to do, with plenty of opportunities for profitable expansion and development in the years ahead.

Peter Page
Chief Executive

Capital investment - creating capacity and controlling costs

Devro is a global business with manufacturing plants situated in key markets.

We have invested significantly to maintain our facilities and to provide capacity for growth.



❶ Scotland, UK

Moodiesburn

- Established 1964
- Johnson & Johnson/Devro process
- Fresh sausage products
- Investments 2009-2013 improve efficiency and yields

Bellshill

- Established 1976
- Johnson & Johnson/Devro process
- Porcine, *Select* and FINE products
- New lines partly replaced old technology in 2011
- Further investment would continue 'new for old' replacements

❷ Czech Republic

Jilemnice

- Established 1963
- Improved technology from Korenov; *Cutisin* textile process
- FINE and *Select* products
- Investments 2005-2011: construction of new hall, additional capacity, replacement capacity for Korenov for cost savings
- Investments 2011-2013: replace all lines in old hall, additional capacity and cost reduction

Korenov

- Established 1930's
- *Cutisin* textile process
- Precision mechanical engineered process, edible and non-edible casings
- Non-compliant with EU, Food Safety and environmental regulations
- Closed 2009 – cost saving

❸ South Carolina, USA

Sandy Run

- Established 1977, acquired 1996
- Chemical-based process; unique clarity products
- Investments to improve efficiency and unit costs: 2014-2016

❹ New South Wales, Australia

Bathurst

- Established 1979
- Johnson & Johnson/Devro process
- Processed and fresh sausage, *Select* products
- Investments 2011-2014: increase output for *Select*, improve efficiency and yields

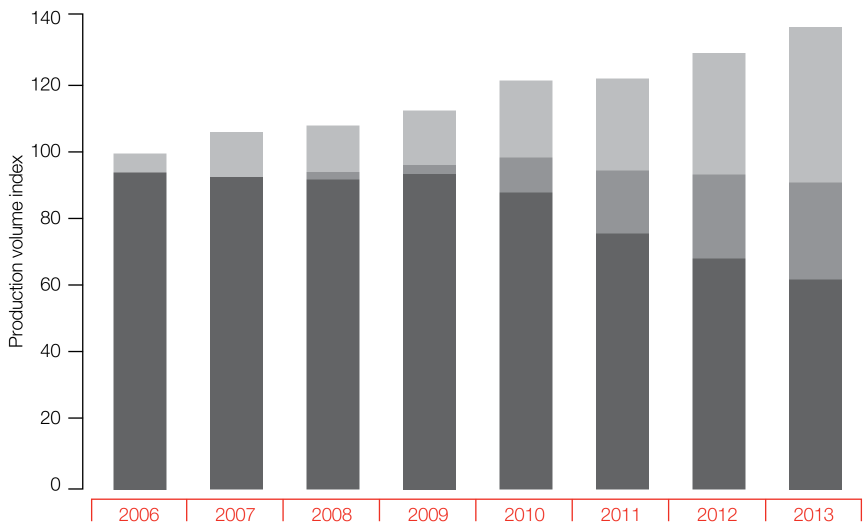
From 2006 to 2013 we have undertaken several capital investment projects at each of our sites, ranging from new buildings and capacity expansion, to upgrading facilities for environmental management purposes, to retrofitting and upgrading existing lines. This table shows how the projects reflect the priorities at each site.

Czech Republic	• New hall construction • New lines installed • Food safety and environmental upgrades	• Additional lines installed in new hall • Closed Korenov - added lines to Jilemnice	• Replace old lines for new in older hall to increase capacity and reduce costs
USA		• Co-extrusion gel capacity and quality	• New technology development lines
Scotland		• Moodiesburn: Line upgrades improve yield and speed	• Bellshill: New for old replacements add capacity and products • Moodiesburn: Continuing line upgrades
Australia			• Upgrades and renewal add capacity for *Select*

2006 2007 2008 2009 2010 2011 2012 2013

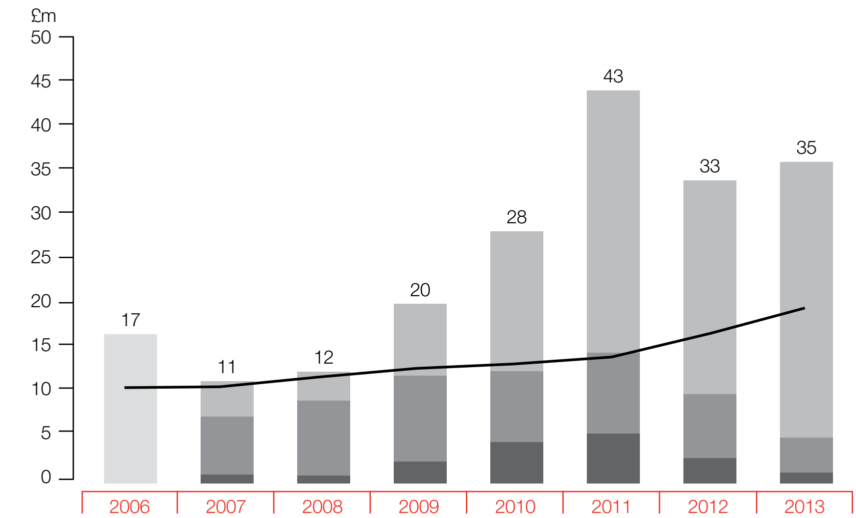
Central to our investment work has been the expansion of total capacity and the use of newer technology to reduce unit costs. Each project has brought into use either our newest high-speed technology or has upgraded older lines to be more efficient. By the end of 2013, our capacity will be 40% greater than in 2006, and half of our output will be from high-speed lines.

- High technology
- Upgraded technology
- Existing technology

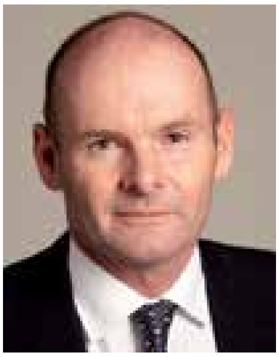


As the level of capital expenditure has increased, we have been able to spend more on capacity additions to enable the group to increase sales in line with the growth in the market. Although this brings with it a rising level of depreciation, it is funded from internal cash generation and will ensure continued growth in sales.

- Additional capacity or manufacturing process
- Upgrade, renewal, repair or replacement of existing assets
- Safety, environmental, food safety and regulatory compliance
- Depreciation



Financial review



Simon Webb
Group Finance Director

Revenue

Revenue for 2012 was £241.1 million (2011: £227.7 million) which reflected improved sales volumes of edible collagen partially offset by the impact of a weakened euro.

Worldwide demand for collagen casing remains strong and the growth was particularly significant in Japan and Germany, where *Select* has helped generate additional sales, as well as Eastern Europe, Russia and the Americas.

Year on year growth in revenue can be further analysed as follows:

	2012 vs 2011	2011 vs 2010	2010 vs 2009
Volume	+5.3%	+3.0%	+1.4%
Price/mix	+2.8%	+2.2%	+4.2%
Foreign exchange	-2.2%	+1.4%	+2.6%
Total	**+5.9%**	**+6.6%**	**+8.2%**

Sales volumes increased overall, with edible collagen casing increasing by 7.1%, partially offset by a drop in non-edible collagen casing and other products.

Price/mix continues to help the growth in sales with the premium priced *Select* growing as a proportion of sales. Price increases averaged 1.0% during the period but were not enough to recover the increases in input costs experienced during the year.

Exchange negatively impacted the growth in sales by -2.2% largely reflecting the weaker euro against sterling.

Operating profit

The movement in operating profit between 2011 and 2012 can be analysed as follows:

Operating profit 2011	£42.7m
Price/mix	+£3.5m
Volume	+£5.2m
Manufacturing efficiencies	+£1.6m
Foreign exchange	-£1.7m
Input costs	-£5.8m
Other costs	-£2.3m
Operating profit 2012	**£43.2m**

Price/mix

Of the £3.5 million growth in profits from price/mix, price accounts for £2.0 million of this and £1.5 million represents mix. As we enter 2013, the intention is to look for further selling price increases to recover the significant rises in input costs.

Volume

Volumes continued to grow in the business which has helped contribute to an improvement in profitability.

Manufacturing efficiencies

We continue to invest in new equipment in order to improve manufacturing efficiencies and productivity. Much of the additional volume is generated without adding to the number of employees which helps to generate manufacturing efficiencies. These investments also help reduce the energy consumed per kilometre of casing produced and contribute to improvements in yield.

The £1.6 million additional contribution in 2012 mainly reflects the benefits of the investment in our new lines in Scotland as well as improvements in manufacturing at the US plant in the first half of the year. Contributions from the ongoing investment in the Czech Republic are expected to start to flow through towards the latter part of 2013.

Foreign exchange

Devro operates worldwide and in multiple currencies as outlined in the table below:

% of total 2012	Sales	Operating costs
Euro	30%	10%
Czech koruna	2%	14%
Japanese yen/Australian dollar	21%	24%
US dollar	29%	24%
Sterling	12%	28%
Others	6%	—
Total	**100%**	**100%**

A key relationship for the business is between euro and sterling and much of the exchange loss in 2012 over the prior year relates to the weakness of the euro during 2012.

The results are also impacted, but to a lesser extent, by the US and Australian dollar and by the Japanese yen where the significant growth in sales to Japan has given rise to greater exposure.

Devro, on average, hedges approximately 50% of its cash flow foreign exchange exposure for the year ahead.

Input and other costs

Input costs rose by £5.8 million reflecting increased raw material costs of £3.3 million, and energy costs of £2.5 million.

Other costs increased by £2.3 million, which included inflation on wages and salaries as well as our continued investment in people and infrastructure in order to support the future growth in the business.

Operating margin

The operating margin was 17.9% in 2012 compared to 18.7% in 2011. In 2012 the margin was adversely impacted by increased input costs and movements in exchange rates. The higher input costs were only partly recovered by price increases in 2012 and further price increases are planned for 2013. Adjusted for the adverse movement in exchange rates, the operating margin for 2012 was 18.2%.

Capital investment

Capital invested in 2012 was £33 million (2011: £43 million). The most significant area of investment related to the development of one of our halls in the Czech Republic, which is on track and due for completion in late 2013. We also invested in our Australian plant in order to update a number of lines which will help provide further growth in 2013.

For 2013 we expect capital expenditure to be up to £35 million excluding any possible investment in upgrading the US facility. Much of this relates to the completion of the Czech upgrade referred to earlier.

Working capital

	2012		2011	
	£m	**No of days**	£m	No of days
Inventories	**28**	**41**	28	54
Trade and other receivables	**36**	**53**	35	52
Trade and other payables	**(31)**	**26**	(34)	28
Total	**33**		29	

Cash generation and the optimisation of working capital remain a priority for Devro. Inventory levels of finished goods were particularly low at the year end which reflects the strong demand.

Trade and other payables reduced due to the timing of capital spend at the year end.

Financial review continued

Financing

Key financial measures are as follows:

	2012	2011
Net debt	**£26.1m**	£22.7m
Net debt/EBITDA	**0.4**	0.4
Gearing	**17.8%**	16.2%
Return on capital employed (ROCE)	**19.5%**	21.5%

Net debt rose in 2012 in line with our expectations as a result of the capital investments made. The bank revolving facility remains at £51 million and the levels of debt during the year were well within this. Should a decision be taken to make a significant investment in the USA, the current banking covenants provide adequate headroom to facilitate further borrowing as required.

As expected, ROCE reduced from 21.5% to 19.5% as a result of the significant capital investment programme in 2012, the benefits of which will flow through in late 2013 and 2014. In particular, there will be considerable extra capacity coming on stream in late 2013 with the completion of the Czech plant's upgrade.

Interest

	2012 £m	2011 £m
Net interest cost	**(1.0)**	(0.9)
Net finance (cost)/income on pension assets and liabilities	**(1.4)**	1.2
Total net interest (cost)/income	**(2.4)**	0.3

The net interest cost for 2012 was marginally higher than 2011 reflecting the slightly increased debt levels during the year.

The net finance cost/income on pensions represents the interest cost on the pension liabilities offset by the expected return on the pension assets. It does not represent the cash or economic cost to the business and from 2013 the accounting for pension interest will change. For this reason, earnings per share is also presented excluding net finance cost/income on pension assets and liabilities.

Earnings per share

	2012	2011
Basic earnings per share	**20.0p**	20.8p
Basic earnings per share excluding net finance cost/income on pension assets and liabilities	**20.7p**	20.2p

Basic earnings per share excluding pension cost/income rose by 2.2% which reflects the improved profits and lower tax rate.

Tax

The group's effective tax rate reduced from 20.5% in 2011 to 18.9% in 2012 which reflects the fact that a greater proportion of the group's profits are being made in the Czech Republic where there is a benefit from an investment incentive scheme that is due to continue until 2017.

Dividend

Dividend per share	2012	2011	%
Interim	**2.65p**	2.5p	+6.0%
Final	**5.85p**	5.5p	+6.4%
Total	**8.5p**	8.0p	+6.3%

The Board is proposing a final dividend of 5.85 pence per share bringing the total for the year to 8.5 pence per share (2011: 8.0 pence) which reflects the progress of the business and the Board's confidence for the future.

Pensions

The group operates a number of defined benefit schemes around the world. All of these are closed to new entrants. The net pension liabilities of these schemes can be analysed as follows:

	2012 £m	2011 £m
Fair value of scheme assets	**203.1**	196.6
Present value of scheme liabilities	**(262.4)**	(242.8)
Net pension liabilities	**(59.3)**	(46.2)

The increase in the net pension liability reflects the reduction in discount rates.

Options are continually under review and a plan is in place to address the deficit.

Principal risks and uncertainties

There are risks and uncertainties inherent in the group's operations which could have a significant impact on our business, results and financial position. The group's risk management processes identify, assess, monitor, manage and mitigate the risks involved in our operations. The more significant risks to which the group is exposed are:

- Loss of market share/profit margins due to increased competitive pressures
- Disruption to supply or increase in price of key raw materials
- Product contamination
- Foreign exchange rate movements
- Shortage of people with relevant technical expertise
- Customer credit risks
- Impact of changes in regulations affecting food production
- Increases in energy costs
- Increased funding requirements of pension schemes
- Development of non-casing technologies

These are generally consistent with those detailed in the 2011 Annual Report.

Going concern

The business renegotiated its banking facilities in September 2011 and has a 5 year revolving facility of £51 million. As at 31 December 2012 it was operating comfortably within the covenants related to these facilities, and we believe it has sufficient liquidity to fund the future requirements of the business.

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

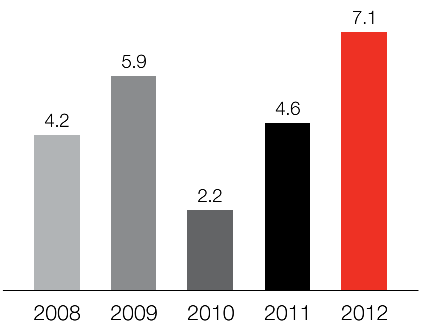
Simon Webb
Group Finance Director

Key performance indicators

We monitor our performance against our strategic objectives by means of key performance indicators ("KPIs"). The most important of these KPIs at a group level focus on the following areas:

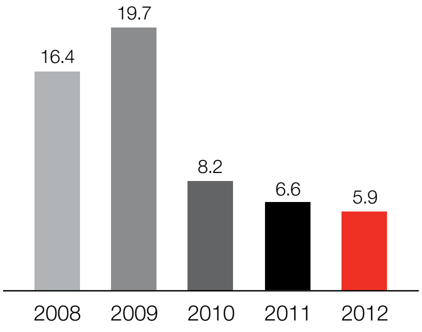
Sales volume growth*

Volume growth of edible collagen casings %



Revenue growth*

Value growth %



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.

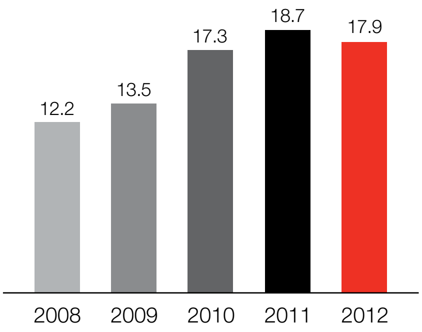
Devro sells to markets around the world from strategically located commercial operations and through an extensive network of distributors and agents.

Revenue is monitored on the basis of operating segments as follows:

- Americas
- Asia-Pacific
- Europe

Operating margin*

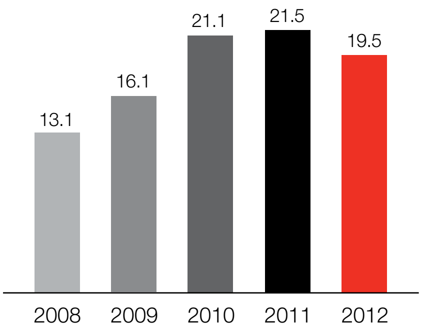
Operating profit before exceptional items %



While the group aims to take a long-term perspective on shareholder value, it also monitors the financial performance of each of its businesses in the shorter term. The KPI used in this monitoring process is the operating margin percentage. This is calculated by dividing operating profit before exceptional items by total revenue. This measure is used to evaluate the performance of each business, including sales price, manufacturing efficiency and overhead and operating cost control.

Return on capital employed*

Operating profit before exceptional items/average capital employed %

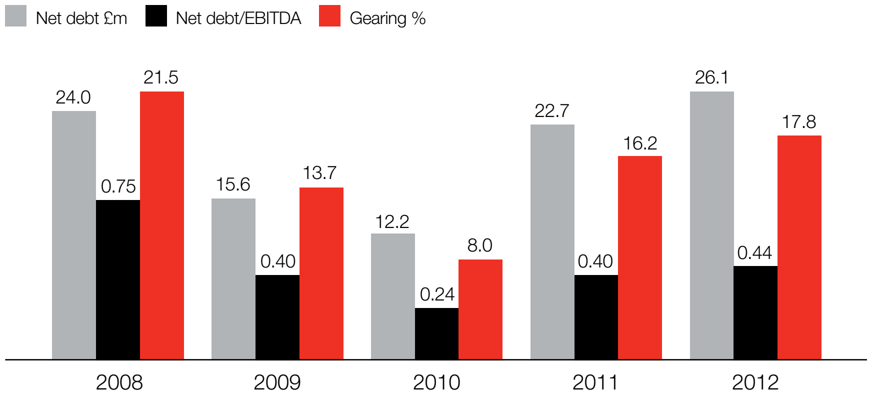


Return on capital employed (ROCE) represents operating profit before exceptional items as a percentage of average capital employed. Capital employed is defined as fixed assets plus current assets less current liabilities, excluding all balances related to interest-bearing assets and liabilities, any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

It is a key indicator of how the company is making use of its available capital, and is a good reflection of the performance of the company in terms of both earnings and cash flow.

* continuing operations

Debt*

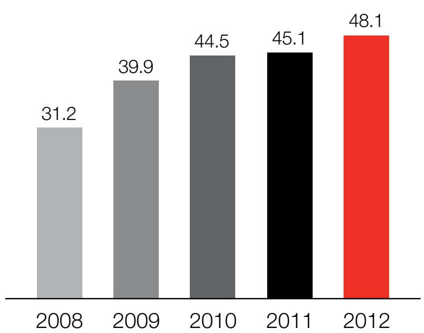


Net debt/earnings before interest, tax, depreciation, and amortisation (EBITDA) measures the liquidity of the group.

The principal 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 net assets.

Operating cash flow*

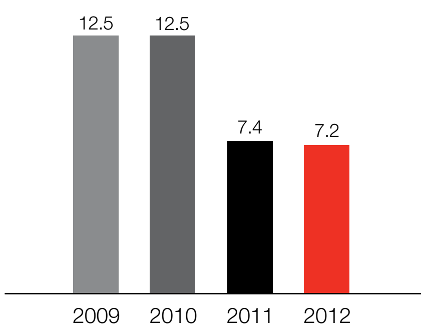
Cash generated from operations £m



Operating cash flow is the amount of actual cash generated by the group, before investment in capital expenditure, through the running of its operations. This measure is used to evaluate the performance of each business and to assist the management of working capital.

Health and safety

Number of injuries requiring treatment by a health professional per million hours worked



Health and safety matters are discussed further on pages 20 and 28 of this Annual Report. Safety performance is measured in various ways at a local level. At group level, it is measured by the rate of injuries requiring treatment by a health professional, which is calculated as the number of injuries per million hours worked.

* continuing operations

Principal risks and uncertainties

There are risks and uncertainties inherent in the group's operations which could have a significant impact on our business, results and financial position.

The group has established risk management processes to monitor, manage and mitigate the risks involved in our operations.

The Board has established a committee specifically to address the risks to which the business is exposed. This committee, which consists of the executive management of the group, met four times in 2012. The responsibilities of the committee are to identify the most significant risks facing the business, and to develop policies and actions to mitigate such risks. Particular attention is paid to those risks which may have an impact on the achievement of group strategy. Senior managers throughout the group are consulted to identify likely risks.

Details of the most significant risks faced by the group are set out on pages 16 and 17.

Risk	Impact	Mitigation
Loss of market share/profit margins due to increased competitive pressures The group operates in competitive markets throughout the world.	A major change in the production capacities, pricing policies or behaviour of our competitors, or consolidation between either competitors or major customers, could have a significant adverse effect on sales revenues and profitability.	In addition to substantial capital investment, the group invests over £7 million in research and development activities each year to extend and differentiate the product range and improve the quality of our products. We also expand the total collagen casings market by developing products which convert gut casing applications to collagen. Devro provides a high level of technical support to key customers.
Disruption to supply or increase in price of key raw materials The group's most important raw material is collagen, a naturally occurring animal protein obtained from cattle and sow hides. There is a risk that changes may occur in the supply or demand for food grade collagen, resulting in significant cost increases for the group's business.	Raw collagen represents approximately 14% of the group's total operating costs. Increase in price would adversely impact the group's operating costs. Disruption to supply could adversely affect manufacturing performance	The group manages the collagen sourcing risk by, where possible, entering into long-term arrangements with specialised suppliers in various parts of the world. We monitor developments and changes in the global abattoir and leather industries to maintain and develop appropriate relationships. Devro is investing in technologies which would enable the processing of a wider variety of raw material types.
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.
Foreign exchange rate movements As an international business, with costs being incurred and revenues earned in several different currencies, the group is exposed to the risk of changes in the relative strengths of currencies. This risk increases in times of international economic uncertainty.	This may result in adverse impacts on revenues, costs and the sterling value of reported profits. Approximately 85% of the group's revenues are currently invoiced in currencies other than sterling.	The financial impact of exchange rate fluctuations within our operating units is mitigated by a policy of hedging a substantial portion of transactional foreign exchange risk for periods of up to fifteen months using forward contracts. The group does not hedge the risk arising from changes in the rates at which overseas earnings are translated into sterling.

Risk	Impact	Mitigation
People Shortage of people with relevant technical expertise.	There is considerable 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.	Following the recruitment of the Group Human Resources Director in 2012, a number of internal programmes have been introduced to train and develop key employees. In addition, recruitment initiatives are underway in order to ensure that major capital projects will be managed effectively.
Customer credit risks The group is exposed to financial risks arising from its trading with customers and distributors in a large number of countries, where prevailing payment terms are diverse. This includes not only customer risk, but also the risk of failures in the banking system and may increase in times of economic uncertainty.	Customer credit default may adversely affect the group's business, results or financial condition, particularly during periods of difficult global economic conditions.	The group has established internal procedures and controls to mitigate the risk of non-payment wherever we do business. For example, we require either payment in advance or confirmed letters of credit before releasing product to customers or distributors in parts of the world considered to be at risk.
Impact of changes in regulations affecting food production As a food manufacturer, the group complies with all relevant food safety regulations. These regulations are not only those of the jurisdictions where products are manufactured (the European Union, the USA and Australia), but also the regulations of the many countries in which products are sold. Regulatory authorities routinely enact changes to food safety legislation.	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 facilities.	The Global Quality and Regulatory Affairs Director actively monitors planned and actual changes to regulations in all relevant jurisdictions in order to minimise disruption to its business. The group is a founder member of the Collagen Casings Trade Association, which represents the industry and promotes its excellent record in regulatory and health issues. Supplier approval and traceability are under constant review.
Increases in energy costs Energy represents a major element of the group's manufacturing costs, but may be subject to significant price volatility.	There is a risk that significant additional costs may be incurred in future as a result of increased energy prices. Energy costs currently represent approximately 8% of the group's total operating costs.	There is a strong focus on measures aimed at reducing usage and cost per unit of output. An example is the investment in the co-generation plant at our Australian factory. In addition, costs are actively managed by having the capability to use different forms of energy at some of our manufacturing plants and by entering into fixed-price contracts where these are considered appropriate. As the group replaces old fixed assets, energy consumption tends to reduce, as new machines are generally more energy efficient.
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 adversely affect the group's profits and financial strength.	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 cashflow.
Development of non-casing technologies More than 85% of the group's revenue is derived from the manufacture and sale of edible collagen casings, 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 casings.	If there were to be a significant conversion to co-extrusion, there could be an adverse effect on the sales of casings revenues and profits of the group's operations.	The group makes substantial investments in product development and manufacturing process to sustain competitive advantage. Where there have been conversions to co-extrusion in the past, the group has often been successful in obtaining the business to supply the collagen gel required for such applications, and continues to be a world leader in this specialist category.

Directors and senior management

Board

Steve Hannam *Chairman*

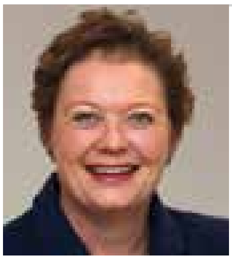
Steve was appointed Chairman of Devro in May 2009. Until 2000, he was Chief Executive of the global speciality chemical company BTP plc. Since that time Steve has held a number of Non-Executive Director or Chairman positions with both public and private companies, mainly in the food and chemical sectors. These have included Clariant AG, ABF plc, Aviagen International Inc. and AZ Electronic Materials Ltd. He is currently Senior Independent Director at Low & Bonar plc and Non-Executive Director at McBride plc. Steve chairs the Nomination Committee.

Peter Page *Chief Executive*

Peter has worked for 26 years in the international food and agribusiness sector, as a general manager, and as a marketing manager where he gained experience of managing the interface between technology and food manufacturers, which is relevant to Devro's situation. He joined Devro as Chief Executive in June 2007. He is Chairman of the Non-Executive Directors' Remuneration Committee.

Simon Webb *Group Finance Director*

A Chartered Accountant, Simon joined Devro at the start of 2011. He previously worked as Chief Financial Officer of De La Rue plc and has held senior finance positions in global manufacturing companies such as Enodis plc, Paxar Inc and BAT plc.



Jane Lodge *Non-Executive Director*

Jane joined the Board on 1 March 2012. A Chartered Accountant, she was until recently a senior audit partner with Deloitte, where she spent over 25 years advising global manufacturing companies including businesses in the food and automotive sectors. Jane was the partner in charge of the UK manufacturing industry sector, where she was responsible for strategy and marketing, and was a member of the Deloitte Global Manufacturing Executive. She was a member of the CBI Manufacturing Council until 2011. Jane's extensive experience with manufacturing companies and her strategic work with Deloitte has given her a strong international business perspective. She is a Non-Executive Director of Costain Group PLC and DCC plc. Jane chairs the Audit Committee.

Paul Neep *Non-Executive Director*

Paul joined Devro in February 2005 as a Non-Executive Director. He is Chairman of The Glenmorangie Company, part of LVMH, having previously been President & Chief Executive. Paul's knowledge of marketing and experience of international business development is particularly helpful in his role as a Non-Executive Director. He is Senior Independent Director and is Chairman of the Executive Directors' Remuneration Committee.

Paul Withers *Non-Executive Director*

Paul joined the Board in April 2011. At BPB plc, he was Group Managing Director responsible for emerging markets and group development, giving him real insights into the challenges and opportunities for growth at Devro. He is a Non-Executive Director of Hyder Consulting PLC, Premier Farnell plc and Senior Independent Director at Keller Group plc, and is therefore able to bring experience of current thinking to Devro's Board. Paul chairs the Health and Safety Committee.

Executive committee

Mike Cooke *Group Strategic Development Director*

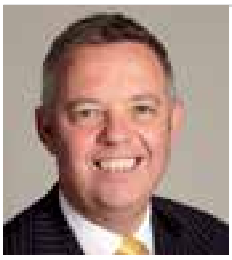
Mike joined Devro in September 2001. After 25 years' experience at ICI in a wide variety of roles, and as a Fellow of the Institution of Chemical Engineers, he makes particularly useful contributions to long-term decision-making, the development of major capital investments and establishing effective business processes. Mike is due to retire in April 2013.

Moir Donelson *Business Director*

Moir joined Devro in January 2013 as Business Director with responsibility for all the group's activities in the Americas region. He brings with him over 20 years' experience in manufacturing, consulting and general management, with several well-known organisations including Motorola, Alcoa, Bain, Olin and most recently Kraft Foods, where he has held both corporate and operational responsibilities.

Gordon Frame *Business Director*

Gordon joined Devro in 1986. Over the past 26 years, Gordon has worked for Devro in USA, UK, Europe and Asia, and so has a broad understanding of customer applications and requirements in different situations. Gordon has been based in Hong Kong since 2011 and is responsible for the group's activities in China and South East Asia.



Alan Kilpatrick *Business Director*

Alan, a Chartered Accountant, joined Devro in 1996. He now has 17 years' experience at Devro, in both finance and general management roles at group and regional level. In 2011, Alan's role was expanded to cover UK and Ireland, Australasia and Japan.

Dorothy Lowry *Group Human Resources Director*

Dorothy joined the company in January 2012. She has held a number of senior level HR management positions across a number of sectors and brings with her a thorough understanding of how to develop a strong senior management team through leadership development, succession-planning, coaching and recruitment. She is a Member of the Institute of Personnel and Development.

David Porter *Group Strategy & Marketing Director*

David joined Devro in July 2012. Prior to joining, he held a number of senior positions in consulting and industry in Europe and Asia. David has broad experience in defining and delivering strategic development including product innovation and investment programmes.

Michal Stocek *Business Director*

Michal has worked in product development and, more recently, general management, for 28 years, bringing in-depth knowledge of collagen products and an ability for adapting and improving them. A chemical engineer, he was appointed to the Czech management team in 1997 and became a member of the Executive Committee of Devro and Business Director with responsibility for Eastern Europe in August 2006. In 2011, his remit was expanded to include all of Continental Europe and Africa.

Corporate social responsibility report

Being a responsible business

As a global manufacturing business, we inevitably have an impact on the wider world. We take our responsibilities to society seriously and make sure they are reflected in all our group policies and statements. Health and Safety, the Environment, Food Safety, Quality and People – all these are reviewed annually and the latest versions were fully updated and endorsed by the Board at the end of 2012. They are available to read on our website (www.devro.com).

Safety

Health and safety is fundamental to our operation as a manufacturing business. We believe that all accidents are preventable. Our aim is to do everything safely and we are working towards a target of zero injuries. Safety is a regular agenda item at Board meetings, and the Board Health and Safety Committee met four times in 2012 to review progress and hear from Regional Safety Committees.

We focus on three main aspects of safety:

- Process safety: ensuring safe equipment and processes
- Procedural safety: ensuring that we have adequate procedures for the safe operation and maintenance of our equipment
- Behavioural safety: helping our employees to act in a safe way

We ensure process safety by means of risk assessments whenever we make any changes to our processes. During the year we introduced the concept of group standards, starting with one on management of change.

Local safety procedures are governed by our Golden Rules – two were added during 2012 giving us a set of 17 safety standards which lay down minimum requirements across the business. We undertook a second compliance audit in 2012, confirming that considerable progress had been made during 2011. We will continue with annual audits with a focus on bringing all regions up to the same standard.

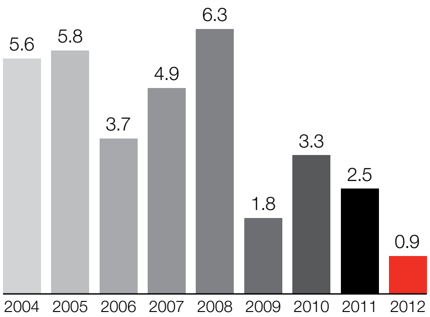
During 2012 we introduced the idea of the 'Safety Family'. This is a guide to the behaviours we are looking for in employees. We also reviewed and updated the annual safety climate survey so that it was consistent with the 'Safety Family'. We continue to review and improve the way we carry out behavioural safety audits around the world.

How we did in 2012

Our rate of lost working day injuries (LWDIs) fell significantly in 2012. However we prefer to measure our performance by looking at the number of injuries which are beyond simple first aid and require the attention of a health professional. By this measure our safety performance only improved slightly though the numbers are distorted by the inclusion of agency staff for the first time this year. Thus overall we saw a similar number of injuries but the consequences were less serious.

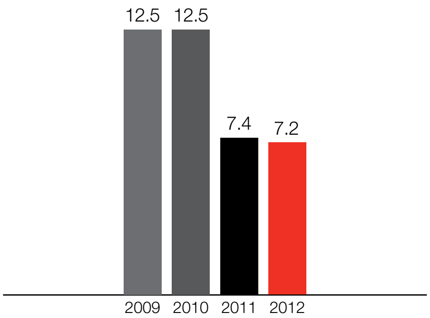
In addition we were encouraged to see performance improving during the year with only 39% of the injuries in the second half.

Unfortunately, we had one serious injury to a contractor in 2012 which involved an electrocution at our Czech site. The individual survived with the loss of part of his thumb, but this identified that standards in the Czech Republic in this area were lagging behind those at other sites. This has now been rectified.



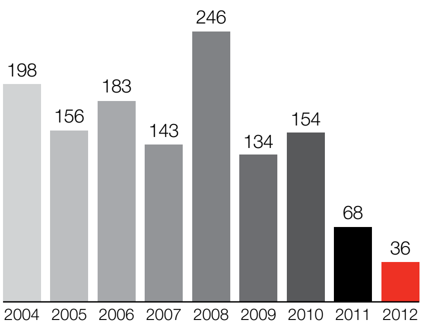
Lost working day injury rate (injuries per million hours worked)

The rate of injuries requiring treatment by a health professional (recordable injuries) reduced slightly in 2012:



Recordable injury rate (injuries per million hours worked)

The number of working days lost during the year declined again; this was our best result since we started to keep records in 2000. In addition many of the days lost during 2012 were due to an injury which happened in 2011.



Number of lost working days per million hours worked

Environment

Protecting the environment is one of the cornerstones of responsible, not to mention successful, business practice. We take pride in what we do and we are committed to complying with the regulations, permits and consent limits that apply to our various activities, just as we are committed to avoiding pollution and reducing our environmental impact in the countries and communities in which we operate.

Devro's operations around the world are subject to a variety of regulatory regimes and cultures. As a consequence, we deal with environmental issues through a network of specialists operating within the business units.

The main environmental impacts of our processes are the emission of carbon dioxide and the solid waste we send to landfill or incineration. We operate our own waste water treatment plants in three of our locations. In the fourth, Scotland, we discharge directly into the public sewerage system where our waste is combined with domestic effluent and treated by Scottish Water.

We monitor three measures at group level:

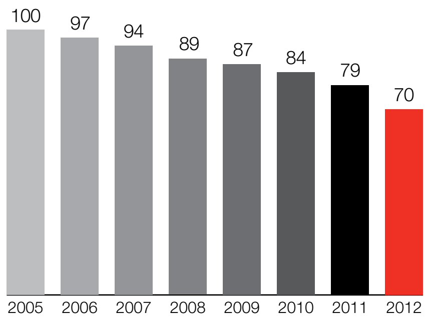
- carbon dioxide (CO_2) emissions from the use of fuels and electricity in our factories
- water consumption
- solid waste to landfill or incineration

Our major concern is climate change and the twin issues of fuel consumption and electricity-related CO_2 emissions. While we believe that our use of refrigerant gases and business travel have relatively little impact on our carbon footprint by comparison, we are planning to collect and publish this information in future.

In 2011 we set ourselves the target of making 10% reductions in each of these measures per kilometre-equivalent-product by 2015.

Carbon dioxide

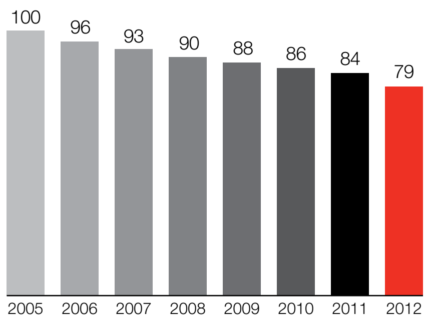
During 2012, we reduced our absolute emissions of carbon dioxide by over 6%. This was due to a combination of factors: the installation of a co-generation plant at our Australian factory, and a shift to burning more gas rather than wood in the United States. In addition we saw an increase in sales resulting in a tonnes CO_2/million metres equivalent casing sold figure which is already well below our 2015 target. Even excluding all the effects due to the balance between wood, oil and gas at our American factory, the figure would still be below the target of 75.6.



CO_2 emissions
(tonnes CO_2/million metres equivalent casing sold)
2005 = 100; 2015 target = 75.6

Water

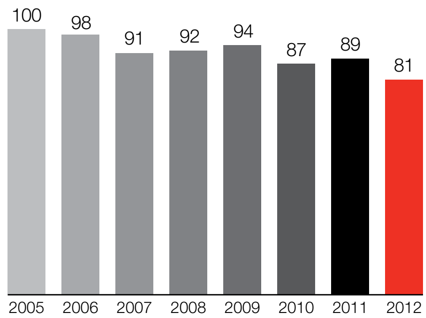
Water use is generally not a big issue on our sites, but we are still keen to reduce it whenever possible. This year's usage was very similar to that in 2011 but the increase in sales resulted in a 5% reduction in use per million metres equivalent casing.



Water use
(m^3 water/million metres equivalent casing sold)
2005 = 100; 2015 target = 77.6

Solid waste to landfill or incineration

While project activity continued across all four regions, the total amount of waste produced was less than in 2011. Of the regions, only our Australian factory produced more waste (by about 20%) than during the previous year; this was a consequence of building work being carried out. Coupled with the increase in sales this resulted in our performance measure falling to 81 compared with our 2015 target of 78.



Tonnes waste
(converted to a solids basis)
sent to landfill or incineration/million metres equivalent casing sold
2005 = 100; 2015 target = 78.0

Environmental management systems

All four of our manufacturing regions had developed environmental management systems during 2011. Three of them (covering six sites) have now obtained ISO 14001 registration and we will be working to achieve a similar registration in the fourth region.

Targets

Our 2012 performance is compared with our 2015 targets below:

	2012 performance	2015 target
Carbon dioxide	69.9	75.6
Water use	79.3	77.6
Solid waste	80.7	78.0

(per million metres equivalent casing, 2005 = 100)

Corporate social responsibility report continued

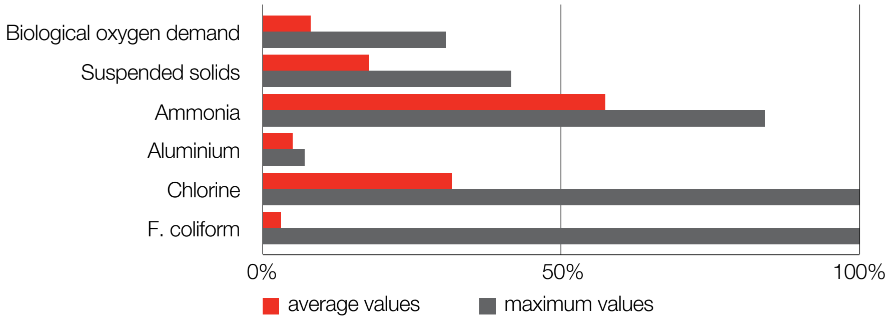
Site specific issues

In addition to the main environmental impacts monitored at group level, two of our sites have to meet local compliance targets for discharges and emissions.

Discharges to water

Of the four main manufacturing locations, only two discharge to a waterway. Our Czech factory in Jilemnice sends liquid effluent to the Jizerka River, and our US factory in South Carolina discharges to the Congaree River.

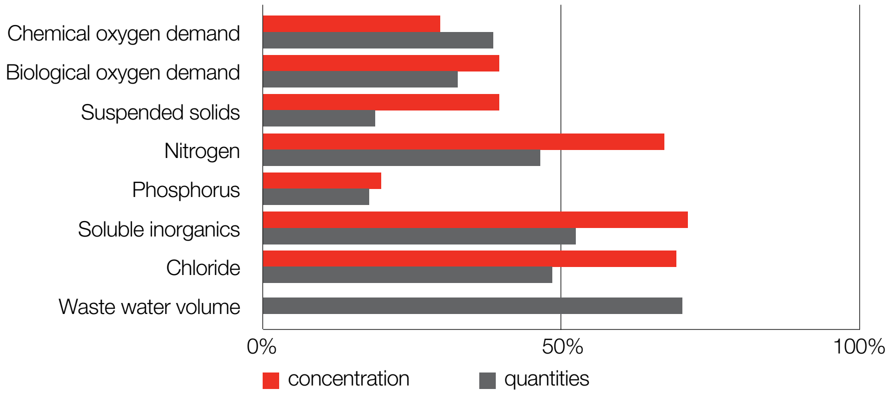
The effluent from both has to meet a range of limits; for South Carolina actual 2012 performance is shown as a percentage of the permitted value below.



There were three occasions during the year when the consented levels were exceeded, one with chlorine and two with f. coliform counts. These were all minor incidents which were quickly remedied.

In addition the pH of the discharge was within the permitted range of 6 to 9; there is also a minimum dissolved oxygen requirement which was comfortably exceeded.

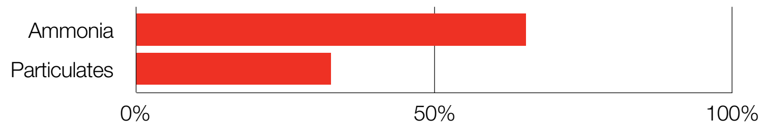
For the Czech Republic we have limits for concentration and quantity. 2012 performance is shown below. Most values were slightly lower than in 2011.



Discharges to atmosphere

The same two locations have consents they have to meet for discharges to air.

In South Carolina these relate to the waste treatment operation for ammonia and a wood-fired boiler for opacity and particulates:



The opacity limit was also met with an average half the permit value.

In the Czech Republic the performance of the boilers against consents was:

The carbon monoxide figure increased compared to the previous year but nitrogen oxides were almost unchanged.

We plan to change our reporting format in 2013 to comply with the new Greenhouse Gas Regulations.

Directors' report

The directors present their report and the audited consolidated financial statements for the year ended 31 December 2012.

Principal activities

The principal activities of the group are the production and sale of manufactured casings for the food industry.

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, are listed in note 16 to the financial statements.

Review of business

The consolidated income statement for the year is set out on page 39. The information that fulfils the requirements of the review of business is contained in the Chairman's statement, the Business review, the Financial review, the Key performance indicators, and the Principal risks and uncertainties on pages 3 to 17, all of which are incorporated by reference into, and form part of, this report.

Dividends

Reflecting the improvement in the group's performance, the Board is proposing a final dividend in respect of 2012 of 5.85 pence per share (2011: 5.5 pence), making a total dividend for the year of 8.5 pence per share (2011: 8.0 pence) an increase of 6.3%. The final dividend will be payable to shareholders on the register as at 2 April 2013. Based on the proposal for the full year, dividend cover will be 2.4 times (2011: 2.6 times).

Share capital

The share capital of the company consists entirely of ordinary shares of 10 pence each, all of which have equal voting rights.

The company had 165,633,564 shares in issue at 31 December 2012 (2011: 165,008,564) as shown in note 26 to the financial statements.

During the year, 625,000 shares were issued under the rules of the Devro 2003 Performance Share Plan (2011: 1,381,557), and nil shares were issued under the Devro 1993 (No. 2) Executive Share Option Scheme (2011: 18,000).

Research and development

The group is committed to research and development activities principally in relation to product and process development, in order to secure its position as a world leader in the casings industry. The research and development expenditure incurred in the year is set out in note 9 to the financial statements.

Directors

The names and brief biographical details of the directors of the company at the date of this report are set out on page 18. Ms J A Lodge was appointed as a director on 1 March 2012. Mr S R Paterson stepped down from the Board on 19 April 2012.

In accordance with provision B.7.1 of the UK Corporate Governance Code, the directors have resolved that they will all offer themselves for re-election at the Annual General Meeting.

The company maintains insurance for its directors in respect of their duties as directors. Following shareholder approval, the company has also provided an indemnity for its directors and the secretary which is a qualifying third party indemnity provision for the purposes of the Companies Act 2006. This indemnity was in force throughout the year and remains in place at the date of this report.

None of the directors had 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 are shown on page 38.

Charitable and political contributions

The contributions made by the group during the year for charitable purposes amounted to £52,000 (2011: £58,000). The contributions were mainly made to charities where the group's operations are based and can be analysed as follows:

	2012 £	2011 £
Local community groups	**27,000**	38,000
Schools and colleges	**15,000**	13,000
Healthcare and medical research	**10,000**	7,000
	52,000	58,000

There were no contributions for political purposes (2011: £nil).

Employees

The group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the group. This is achieved through regular communications, and formal and informal meetings. Financial results are circulated throughout the organisation on the day of their announcement. Employees representatives are consulted regularly on a wide range of matters affecting their current and future interests.

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the group continues and that 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.

Policy on payment of suppliers

The group agrees terms and conditions with suppliers before business takes place. The group's policy is to pay agreed invoices in accordance with the terms of payment. At 31 December 2012, the amount of trade payables outstanding by the group was equivalent to 26 days' purchases from suppliers (2011: 28 days).

Directors' report continued

Financial instruments

Details of the group's financial risk management policies are included in note 23 to the financial statements.

Change of control

The company has a number of financial agreements with major banks containing certain termination rights for our counterparties upon a change of control of the company.

All of the company's share plans contain provisions relating to a change of control. Outstanding options and awards may become exercisable, subject to the rules of the relevant schemes.

Annual General Meeting ("AGM")

The AGM of the company will be held on 18 April 2013 at 11.00am at The Marriott Hotel, 500 Argyle Street, Glasgow, G3 8RR. The Notice of Meeting is set out on pages 91 to 93. In addition to the ordinary business of the meeting under items 1 to 9, shareholders will be asked for their approval of other items of business which are explained in the notes on pages 87 to 90. These notes form part of this directors' report and are incorporated into it by cross-reference.

Independent auditors and disclosure of information to auditors

In the case of each person who is a director at the date of approval of this report, each director is satisfied that the auditors are aware of all information relevant to the audit of the group's financial statements for the year ended 31 December 2012 and that they have taken all the steps necessary to make themselves aware of the relevant audit information and to establish that the auditors are aware of that information.

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution that they be re-appointed will be proposed at the AGM.

Statement of directors' responsibilities

The directors are responsible for preparing the annual report, the remuneration report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 the company and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements and the directors' remuneration report comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulations. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website (www.devro.com). Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' statement pursuant to the Disclosure and Transparency Rules

Each of the directors, whose names and functions are listed on page 18, confirms that, to the best of each person's knowledge and belief:

- the financial statements, prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the group and company; and
- the director's report contained in the annual report includes a fair review of the development and performance of the business and the position of the company and group, together with a description of the principal risks and uncertainties that they face.

Corporate governance

The company's statement on corporate governance can be found in the corporate governance report on pages 25 to 29 of these financial statements. The corporate governance report forms part of this directors' report and is incorporated into it by cross-reference.

Substantial shareholdings

At 1 March 2013, the company had been notified of the following material interests in the issued ordinary share capital of the company under DTR 5 of the Disclosure and Transparency Rules:

	Number of ordinary shares	Percentage (%) of issued share capital
Artemis Investment Management	16,390,815	9.90
Schroder Investment Management	15,103,943	9.28
Marathon Asset Management	11,492,268	7.06
Standard Life Investments	10,143,851	6.13
Blackrock Investment Management	8,304,621	5.01

By order of the Board

J Meredith, Company Secretary
14 March 2013

Corporate governance report

"As Chairman, the leadership and effectiveness of the Board are primarily my responsibility.

We remain committed to high standards of corporate governance, consistent with the needs of the company and the interests of all our stakeholders. My fellow directors and I recognise the importance of sound governance in the efficient running of the company, and in particular to the effectiveness and independence of the Board and the management of risks faced by the group.

The report below sets out how we do this. It explains the progress we have made in 2012 as we seek to bolster the range of experience and diversity on our Board, and improve the way we operate.

I am confident we have an effective Board to address the opportunities and challenges we face."

S J Hannam
Chairman
14 March 2013

From 1 January 2012 until 31 December 2012, the company applied the 2010 UK Corporate Governance Code (the "Code").

1. Board composition and proceedings

Mr S J Hannam, Chairman, Mr P W B Page, Chief Executive, Mr S C Webb, Group Finance Director, Mr P A J Neep, Non-Executive Director, and Mr P N Withers, Non-Executive Director, served as directors throughout 2012. Ms J A Lodge joined the Board as a Non-Executive Director on 1 March 2012. Mr S R Paterson, Non-Executive Director, stepped down from the Board at the Annual General Meeting ("AGM") on 19 April 2012 after six years service.

The Non-Executive Directors are considered to be "independent" directors. This opinion is based primarily on careful consideration of their character and judgement and their contribution to the work of the Board and its committees. None 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 B.1.1 of the Code.

Mr P A J Neep has held the position of "Senior Independent Director" since October 2005. The Board recognises in terms of Provision B.2.3 of the Code that the independence of any Non-Executive Director may be compromised if he has been in that role for a long period of time. The Board has, therefore, rigorously evaluated Mr P A J Neep's performance, and the Chairman is satisfied that he continues to be effective and to demonstrate commitment to the role. The Board has therefore decided to recommend the re-election of Mr P A J Neep at the forthcoming AGM.

The Board views the Senior Independent Director's role as essentially a passive one, 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 are reminded that the Senior Independent Director is willing to meet with them if they wish.

Ms J A Lodge was appointed to the Board on 1 March 2012. Until recently, she was a senior audit partner with Deloitte, where she spent over twenty five years advising global manufacturing companies. She took over the post of Chair of the Audit Committee when Mr S R Paterson stepped down from the Board at the 2012 AGM.

All directors will stand for re-election at the 2013 AGM. As in previous years, brief biographies of Board members, giving details of their experience and other main commitments, can be found on page 18, allowing shareholders to take an informed decision on the question of re-election. All the directors have had their performance reviewed recently, as described on pages 26 and 27, and the Chairman is satisfied that each continues to be effective and to demonstrate commitment to the role.

There is a clear division of authority and responsibility through the separation of the roles of the 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.

The directors believe that it is essential that the group should be led and controlled by an effective Board. The Board has adopted a formal schedule of matters specifically reserved to it including:

- the setting of corporate strategy;
- approval of the annual budget; and
- major decisions on capital expenditure.

The day to day management of the business is the responsibility of executive management.

Balance and diversity

The Chairman believes that an efficient Board requires a blend of diverse and relevant skills and backgrounds in order to ensure measured and informed decision making.

In the course of 2011, the Board reviewed the Davies Report, setting out the case for gender diversity on Boards, and encouraging the setting of targets for female board membership. The Chairman and the Board understand the need to ensure that the balance of the Board is appropriate for the requirements of the business, and the benefits of diversity in its broadest sense are clearly understood. However, for a small Board, it remains difficult to set targets for members of any particular background, and this applies to the issue of women on the Board. The Board's policy is therefore to actively encourage women to apply to join the Board whenever a vacancy exists, and the report from the Nomination Committee on page 28 sets out how this will be done. Ultimately, any appointments must be made on merit, taking account of the specific needs of the business at the relevant times, for the benefit of the company and its stakeholders.

Information flow

On appointment to the Board, directors are provided with an induction programme to familiarise themselves with the group's businesses and the risks and strategic challenges facing the group, as well as the economic, competition, legal and regulatory environments in which the group operates.

Corporate governance report continued

The directors are supplied with detailed papers covering the group's operating functions in advance of all Board meetings and a secure web-based portal is used to disseminate additional relevant information on a regular basis.

Members of the executive management team attend and make presentations as appropriate at meetings of the Board.

A programme of strategic and other reviews, together with training provided during the year, ensures that the directors continually update their skills, knowledge and familiarity with the group's businesses, as well as their awareness of industry, risk, legal, regulatory, financial and other developments to enable them to fulfil their role effectively on the Board and committees of the Board.

In addition, the Board arranges for its Non-Executive Directors to visit the group's principal locations to discuss operations with local management. The Board plans to visit at least one of the group's principal locations each year, where they receive a presentation and tour of the facility. During the course of 2012, the Board visited the group's Czech operations, and also visited the facility in Bellshill, Scotland.

The directors can obtain independent professional advice at the company's expense in the performance of their duties as directors, although none has done so in the period under review. In addition, 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.

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.

The Board has established committees to 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, the recruitment of new directors and the risks facing the group.

In order to discharge these responsibilities, the Board and its committees meet on a regular basis throughout the year. In 2012, the Board held 6 meetings. Full details of the Board and committee attendance are shown in the table below.

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

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

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

Board evaluation
In 2012, the Board retained the Zygos Partnership to facilitate the evaluation of its performance. The process involved extensive interviews with each Director and the Company Secretary which were then reviewed with the Chairman. Comments on the Chairman were presented to the Senior Independent Director. Formal feedback on the Board Review was then presented to, and discussed by, the Board in December 2012. The areas specifically covered included the Board structure, the Company Secretariat, number and locations of meetings, Board culture, risk and strategic analysis, all of which were considered in the context of the company's strong performance and growth since 2007 and the significant opportunities and challenges facing it.

	S J Hannam	P W B Page	P A J Neep[1]	J A Lodge[2]	S R Paterson[3]	S C Webb	P N Withers
Board 6 meetings	6	6	6	4	2	6	6
Audit Committee 4 meetings	—	—	4	3	1	—	4
Executive Directors' Remuneration Committee 4 meetings	4	—	4	3	1	—	4
Non-Executive Directors' Remuneration Committee 1 meeting	—	1	—	—	—	1	—
Nomination Committee 2 meetings	2	—	2	1	1	—	—
Health and Safety Committee 4 meetings	4	4	1	—	—	—	3
Risk Committee 4 meetings	—	2	—	—	—	4	—

1 Mr P A J Neep stepped down from the Health and Safety Committee on 19 April 2012.
2 Ms J A Lodge joined the Board on 1 March and the Audit and Executive Directors' Remuneration Committees on 19 April 2012. She attended all the Board and Committee meetings from the respective appointment dates.
3 Mr S R Paterson stepped down from the Board on 19 April 2012.

A number of options for developing the strength of the Board were considered, and the Nomination Committee was asked to consider the recruitment of an additional Non-Executive Director.

The Non-Executive Directors, led by the Senior Independent Director, conducted a formal review of the Chairman's performance, taking into account the views of the Executive Directors.

2. Relationship with shareholders

The company communicates with institutional investors primarily though analysts' briefings and meetings with major shareholders, as well as timely Stock Exchange announcements. The Board, and in particular the Non-Executive Directors, are kept informed of investors' views in the main through distribution of analysts' and brokers' briefings. The Chairman is willing to meet with shareholders to discuss matters such as strategy and governance and, as mentioned above, 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 group'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 twenty working days before the meeting.

3. Directors' remuneration

Details of the level of remuneration received by the directors in 2012 are set out in the Remuneration Report on pages 30 to 38. 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 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, including how these are linked to the company's performance and strategy, is set out in the Remuneration Report. The provisions of Schedule A to the Code are applied when incentive schemes are discussed.

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 2012. The other members of the Committee were Mr P N Withers and Mr S J Hannam, for the full year, and Ms J A Lodge from 19 April 2012. Mr S R Paterson was a member of the Committee until he left the Board on 19 April 2012. This Committee met four times in 2012.

Throughout 2012, the Non-Executive Directors' Remuneration Committee was chaired by Mr P W B Page, with Mr S C Webb as the other member. This Committee met once in 2012.

The Remuneration Report contains a detailed statement of the remuneration of each director for 2012, 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.

4. 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 until 19 April 2012, when he stepped down from the Board. Ms J A Lodge took over as Chair from that date. The other members of the Committee in 2012 were Mr P A J Neep and Mr P N Withers. The Company Secretary acts as Secretary to the Committee.

The Board views Ms J A Lodge as the Committee member with both recent and relevant financial expertise as stipulated in Provision C.3.1 of the Code.

In the course of the year there were four meetings, all of which were attended by the Group Finance Director, the Chief Executive and the Group Risk and Control Manager, as invitees. Representatives of the auditors also attend as required.

The Committee and the external 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.

In 2012 the Committee reviewed the effectiveness of the external auditors, PricewaterhouseCoopers LLP, in the course of considering the question of their reappointment. The auditors have been in place since the company was formed in 1991, with no formal tender process since then. The Committee took into account that the lead audit partner was rotating out of the role and, after a number of discussions with the proposed replacement, was content to recommend reappointment.

Each year the Committee considers carefully the external auditors' independence and objectivity, taking into account the appropriate guidelines. The external auditors also report annually to the Committee on the actions they have taken to comply with professional and regulatory requirements, as well as current best practice, in order to demonstrate their independence. There are no contractual commitments restricting the Committee's choice of external auditors, and the Committee will continue to periodically review their performance.

Corporate governance report continued

As part of the formal annual review of the independence of the auditors, the Committee also looks carefully at the level of non-audit work conducted by the auditors and the detailed safeguards which they have in place. The Committee is satisfied that there is no risk to the objectivity and independence of the external audit arising from the level of non-audit fees. The fees paid to external auditors in 2012 are set out in note 9 to the financial statements on page 54. Almost all of the non-audit fees relate to tax and pension advice. The Committee believes that there are sound commercial and practical reasons for this work being conducted by the auditors.

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

5. Report from the Nomination Committee

The members of the Committee during the year were Mr S J Hannam, Mr S R Paterson (until 19 April 2012), Ms J A Lodge (from 19 April 2012), and Mr P A J Neep. 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 2012, the Committee met on two occasions.

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

In the course of the year under review, one Board appointment was made. Ms J A Lodge was identified after a formal process using independent consultants. Her background as a senior audit partner with Deloitte, with twenty five years of experience advising global manufacturing companies, made her a strong candidate for the position, with the necessary recent and relevant financial experience to handle the Audit Committee role when Mr S R Paterson stepped down.

Following a review of the Davies Report by the Board in the course of 2011, the Committee will continue to facilitate the candidature of women for Board appointments and recruitment consultants will be instructed to ensure that a significant proportion of any long list put forward should be women.

Subsequent to the Board review in December 2012, the Committee was asked by the Board to consider the recruitment of another Non-Executive Director, and this process is underway.

6. Report from the Health and Safety Committee

This Committee was formed in 2009, reflecting the Board's focus on health and safety matters.

The members of the Committee during the year were Mr S J Hannam, Mr P W B Page, Mr P N Withers and Dr M H Cooke, the Group Strategic Development Director. Mr P A J Neep was a member of the Committee until 19 April 2012. Mr S J Hannam chaired the Committee until 19 April 2012 when Mr P N Withers took over.

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

The Committee convened four times in 2012 and on each occasion met (either by video or in person) with representatives of the Safety Committee of one of the group's main manufacturing facilities. The safety performance of the group is reviewed at each meeting, and the Committee receives and reviews reports on all serious safety incidents. The Committee also reviewed and endorsed the safety plans for each of the main sites at the beginning of the year.

7. 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.

8. Internal control and risk

An ongoing process is in place to identify, evaluate and manage the significant risks the group faces, which accords with the Turnbull Guidance. A Risk Committee was formed in 2010, comprising the Executive Directors and other members of the Executive Committee, as listed on pages 18 and 19. This Committee meets four times a year and is charged with reviewing risk throughout the group. As part of the process, the Group Risk and Control Manager has responsibility for the application of risk assessment procedures, including an assessment of non-financial risks across the group. Each group operating company prepares a risk assessment for its business. This involves each company preparing a report identifying the relevant risks to both current operations and future strategy, the process for managing and mitigating these risks and the means by which management might be assured that the processes are effective. A similar exercise is also conducted at group level, taking account of any significant risks identified by each of the individual operating companies. The risk assessment reports are collated and considered by the Risk Committee, and then the Audit Committee, before being reviewed and finalised by the Board. The Board also selects a number of key risks for in-depth review by the Risk Committee in the course of the following year. The system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives. The principal risks and uncertainties identified as part of the group risk assessment process, and how they are managed or mitigated, are summarised on pages 16 and 17.

The Board of Directors, being ultimately responsible for the group's system of internal control, has established an internal financial control structure which is designed to provide the Board with reasonable, but not absolute, assurance that it can rely on the accuracy and reliability of the financial records.

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

- **Financial reporting**
  There is a budgeting system in place which includes an annual budget approved by the Board. Monthly actual results are reported against budget. Revised forecasts for the year are prepared regularly. The company reports formally to shareholders twice a year, with two additional Interim Management Statements.

- **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 Group Risk and Control Manager, 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. On-line training, covering compliance with the Bribery Act and competition laws, is provided for all relevant employees across the group.

  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.

9. Going concern

The group's business activities, together with the factors likely to affect its future performance, are set out in the Business Review on pages 5 to 9. Details of the group's exposure to credit, interest rate, foreign exchange and liquidity risks are outlined in note 23 to the financial statements.

In their consideration of the company's ability to continue as a going concern, the directors have reviewed the group's future cash flow forecasts and associated risks.

The Board considers the group's net debt of £26.1 million as at 31 December 2012 to be manageable, when compared to its net profit of £33.1 million.

Accordingly, 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.

10. 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 23 of this report.

11. Statement on compliance

This statement, together with the Remuneration report set out on pages 30 to 38, describes how, in respect of the year ended 31 December 2012, the company has applied the provisions and principles 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. The company's Remuneration Committee structure does not fully comply with Provision D.2.2, as the remuneration of the Chairman is set by the Non-Executive Directors' Remuneration Committee comprising the executive directors, instead of by a committee of Non-Executive Directors, as proposed by the Code. The company's two-committee approach, which is more fully described and explained in the Remuneration Report, is designed to ensure that no director is involved in setting his or her own remuneration, thus avoiding any potential conflict of interest, while ensuring that the experience of the Chairman is available to the Executive Directors' Remuneration Committee. The Board believes that this arrangement is an appropriate and effective use of the available resources and is fully aligned with the spirit of the Code.

Remuneration report

Dear Shareholder,

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for 2012. This report explains the group's remuneration policy and provides details of the remuneration paid to Executive and Non-Executive Directors for services to the company during the year. In response to the UK Government's proposed new legislation regarding the reporting of directors' remuneration and changes to the voting rights, we have incorporated a number of changes into this year's report in an effort to enhance transparency and clarity.

Overview

As the Chairman has indicated in his statement on pages 3 and 4, Devro's progress continued in 2012, with improved operational results and ongoing substantial investment to lay the foundations for our future. The purpose of this letter is to explain decisions made in the course of 2012 in the key areas of base salary, annual bonus and long-term incentive plans against this backdrop.

Base salary

Our longstanding policy is for base salaries of Executive Directors to be around mid-market levels. The Committee is, however, aware of the risk of over-reliance on comparative benchmarking data and carefully reviews all the relevant factors when considering the appropriate base salaries for the Executives.

In recent years, Devro has grown very significantly, moving from the FTSE Small Cap Index to the FTSE 250 Index. At the start of 2012, the Committee felt that the Chief Executive's base salary no longer reflected the increased complexity and breadth of the role and had fallen substantially behind comparable figures. After securing the support of major shareholders following a consultation exercise, this was increased as shown in the table on page 34.

Annual bonus

The Committee believes annual bonus targets should be genuinely challenging, clearly linked to the company's performance and strategy, and designed to align the interests of executives and shareholders.

In 2012, our business plan included profit growth at a time when we were engaged in significant capital projects at each of our manufacturing locations. The Committee sought to devise a bonus scheme which would reward the effective management of the business while these projects were underway. Two performance measurements were chosen: (i) Profit (measured by EBIT); and (ii) Operating Cash Flow ("OCF").

The Committee considers that some measure of earnings should always be part of the annual bonus targets. Earnings growth is one of the ultimate aims of our strategy, and drives shareholder value.

The company was faced with a number of challenges and headwinds in 2012, and while both operating profit and OCF improved, performance did not meet the targets set. As a result, no annual bonus was paid. Full details are set out on page 35.

Long-term incentive scheme

The long-term incentive award granted to the Chief Executive in 2010 will vest in full in March of this year. The performance targets for this award were based on EPS growth and relative Total Shareholder Return. Both targets were outperformed by a significant margin, reflecting the successful execution of the group's strategy over the last three years. A full explanation of the performance metrics is shown on page 35.

The existing 2003 Performance Share Plan will expire this year. During 2012 the Committee reviewed the operation of the current plan and agreed to renew it in substantially the same form but taking into account minor changes to bring it in line with current best practice. The Committee consulted with the company's major shareholders and investor representative bodies regarding the new plan in order to gain support for these proposals. Details of the new plan in terms of award limits and performance targets are set out in the policy table on page 31. Shareholders will be asked to approve this plan at the forthcoming Annual General Meeting, and more detailed information is set out in the explanatory notes on pages 88 to 90.

Summary

Setting executive remuneration in a way which balances all the competing interests is not an easy task. We are well aware of the broader debate on executive pay. I believe the Remuneration Committee's approach, as set out above and as more fully explained in the attached report, is an appropriate one, intended to properly reward performance in line with the company's growth.

The Board will be submitting this report for approval by shareholders at our Annual General Meeting on 18 April 2013.

Paul Neep, Chairman
Executive Directors' Remuneration Committee
14 March 2013

Remuneration policy report

This part of the Directors' Remuneration Report sets out the remuneration policy for the company directors from 1 January 2013.

The Executive Director Remuneration Policy

The company's remuneration policy must enable it to attract and retain leaders with the skills, experience and drive to execute the company's business strategy within a framework which is aligned to the interests of the company's shareholders, for example, through the deferral of bonuses and the requirement to hold shares. The Executive Directors' Remuneration Committee (the "Committee") believes that a significant proportion of Executive Directors' remuneration should be performance related.

As explained in the Committee Chairman's letter opposite, there is an earnings metric in both the annual bonus and the proposed new longer-term Performance Share Plan. This latter plan also has a target based on relative Total Shareholder Return, providing the clearest linkage of executive and shareholder interests.

Each year, the Committee conducts a formal review of risk in the context of remuneration. A review of pay for other employees across the group is also carried out each year.

The Committee welcomes dialogue with shareholders and consults with its major investors and investor bodies regarding changes to Executive Director remuneration policy.

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.

Element of pay	Purpose and link to company's strategy	How operated in practice	Maximum opportunity	Explanation of policy including description of performance metrics where relevant	Changes to policy for 2013
Base salary	Reflects the value of the individual and their role. Takes account of experience and personal contribution to group strategy. Set at a level to facilitate recruitment and retention of suitably experienced executives.	Salaries are reviewed annually on 1 April after the results from the previous year are known. Policy is for salaries to be around the median of other companies comparable on the basis of size and complexity.	The Executive Directors will receive a salary increase of 2.7% in 2013. Chief Executive's salary will be increased from £440,000 to £451,880 from 1 April 2013. Group Finance Director's salary will be increased from £278,100 to £285,609 from 1 April 2013. The company's average general salary increase for 2013 is anticipated to be around 3% - 4%.	Takes into account the performance and personal contribution of the individual and performance of the company.	No change.
Annual Bonus Plan (including Devro 2009 Deferred Bonus Plan)	Rewards performance against specific annual financial goals which are consistent with the strategic direction of the business. Deferred bonus plan aligns the interests of executives and shareholders and provides a retention tool.	Bonus paid in excess of 50% of salary is deferred into shares for 3 years subject to continued employment but no further performance conditions. Clawback may be applied to all of the bonus (cash and share deferred amounts) to provide further alignment with shareholders' interests.	Maximum bonus opportunity is 100% of salary for the 2013 financial year.	80% of the bonus is based on group EBIT. 20% of the bonus is based on Operating Cash Flow.	No change.
Devro 2013 Performance Share Plan ("PSP")	Aims to reward long-term value creation using three-year EPS and Total Shareholder Return ("TSR") metrics. 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 (fourth for recruitment award for Group Finance Director in 2011) subject to performance over three (four for 2011 recruitment award) financial years. Clawback may be applied.	Currently 100% of salary but under new proposed PSP maximum that may be awarded will be 150% of salary with scope for higher awards in recruitment situations if necessary but not exceeding 200% of salary.	50% subject to EPS growth targets and 50% subject to relative TSR targets. For 2013 (subject to shareholder approval) EPS growth of at least 18% over three years results in 25% vesting of the EPS element of the award, rising to 100% vesting for EPS growth of 42%. None of this part of the award will vest for EPS growth of less than 18%. TSR performance is compared versus a comparator group of 100 companies (excluding Investment Trusts) closest to the company in terms of market capitalisation at the date of award. No vesting below median, 25% vesting at median and full vesting at upper quartile. Three financial year performance periods. A sliding scale for performance targets is used to provide incremental awards for additional performance delivered, in order to discourage excessive risk-taking.	Increase in award to Chief Executive from 100% of salary in 2012 to 110% of salary in 2013 (under new proposed PSP). No award made to group Finance Director in 2012 (as a larger award was made on his recruitment in 2011). Award in 2013 at 100% of salary. Threshold vesting for 2013 decreased to 25% of the award (from 30%). Maximum vesting under TSR part of award at upper quartile (previously upper quintile). EPS growth targets for 2013 awards 18% to 42% (compared to RPI + 9% to RPI + 36% for 2012 and earlier awards). Note removal of RPI for 2013 and future years.

Remuneration report continued

Element of pay	Purpose and link to company's strategy	How operated in practice	Maximum opportunity	Explanation of policy including description of performance metrics where relevant	Changes to policy for 2013
Benefits	To remain competitive in the market place, and provide medical care for the Directors and their families.	Executive Directors are entitled to private medical insurance.	–	–	No change.
Pension contribution/ payment in lieu	To remain competitive in the market workplace and facilitate retirement planning.	A contribution equivalent to 10% of salary is made to both Executive Directors, paid either into a pension scheme, or paid direct to the individual in lieu.	–	–	No change.
Non-Executive Chairman and Directors' fees	To attract and retain high quality and experienced Non-Executive Chairman and Directors.	The Chairman and Non-Executive Directors are paid an annual fee. Fee levels are reviewed from time to time. Reviews take into account market data for similar non-executive roles in other companies of a similar size and complexity to Devro as well as the time commitment of the Non-Executive Directors.	Remuneration is as follows:- Chairman: £110,000 Non-Executive Directors: £40,000 Additional for chairmanship of Committee: £5,000.	No performance-related element of remuneration.	No change.

Shareholding guidelines

To provide alignment between shareholders and directors, the Executive Directors are required to build up a holding of 100% of salary over time. Any shares vesting from share incentive plans must be retained (subject to sales to meet tax and incidental costs of sale) until the target is reached.

Director	Number of shares held including family interests as at 31 December 2012	Shares held as a % of salary[1]	Number of shares vested under share schemes, but unexercised[2]
P W B Page	396,831	289%	993,415
S C Webb	10,000	11.5%	-

1 Calculated on basis of three month average share price to 31 December 2012.
2 Includes awards under the Devro 2003 Performance Share Plan which have been declared eligible for exercise by the Committee.

Service contracts

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
P W B Page	25 April 2007	N/A	12	12	No contractual termination payments	12 months' notice	12 months' notice; "good leaver" status under share schemes
S C Webb	14 January 2011	N/A	12	12			

The company's policy on the termination of contracts of service of senior executives is dictated by events, bearing in mind the circumstances of termination and the interests of the company.

External appointments

Neither of the Executive Directors has any external paid directorships.

Chairman and Non-Executive Directors

The Non-Executive Directors are engaged for fixed terms, with no notice period. These appointments are subject to the Articles of Association. All Directors submit themselves for re-election at the Annual General Meeting (the "AGM") in accordance with the UK Corporate Governance Code.

The dates of the initial letters of appointment for the Non-Executive Directors are as follows:

Name	Date of letter of appointment	Date term due to expire
S J Hannam	6 April 2009	AGM 2015
P A J Neep	5 February 2005	AGM 2014
P N Withers	12 April 2011	11 April 2014
J A Lodge	24 February 2012	23 February 2015

Implementation report

The Remuneration Committees

The members of the Executive Directors' Remuneration Committee (the "Committee") in 2012 were Mr P A J Neep (Committee Chairman), Mr S R Paterson (until 19 April 2012), Mr S J Hannam, Mr P N Withers and Ms J A Lodge (from 19 April 2012). All are independent Non-Executive Directors.

The Committee received advice from:

- The Company Secretary (as Secretary to the Committee) and the Chief Executive.
- New Bridge Street (a trading name of Aon Hewitt Limited being a group company of Aon plc) as independent adviser to the Committee. New Bridge Street were appointed by the Committee.

No Director is present at 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 and the Chairman is set by the Non-Executive Directors' Remuneration Committee, whose members in 2012 were Mr P W B Page and Mr S C Webb. The two-committee approach ensures that no Director is involved in setting his or her own remuneration.

Advisers to the Committee

New Bridge Street 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 total fees paid to New Bridge Street for the advice provided to the Committee during the year was £46,581. Fees are charged predominantly on a 'time spent' basis. Neither New Bridge Street, nor its parent company Aon plc, has provided any other services to the company during the year.

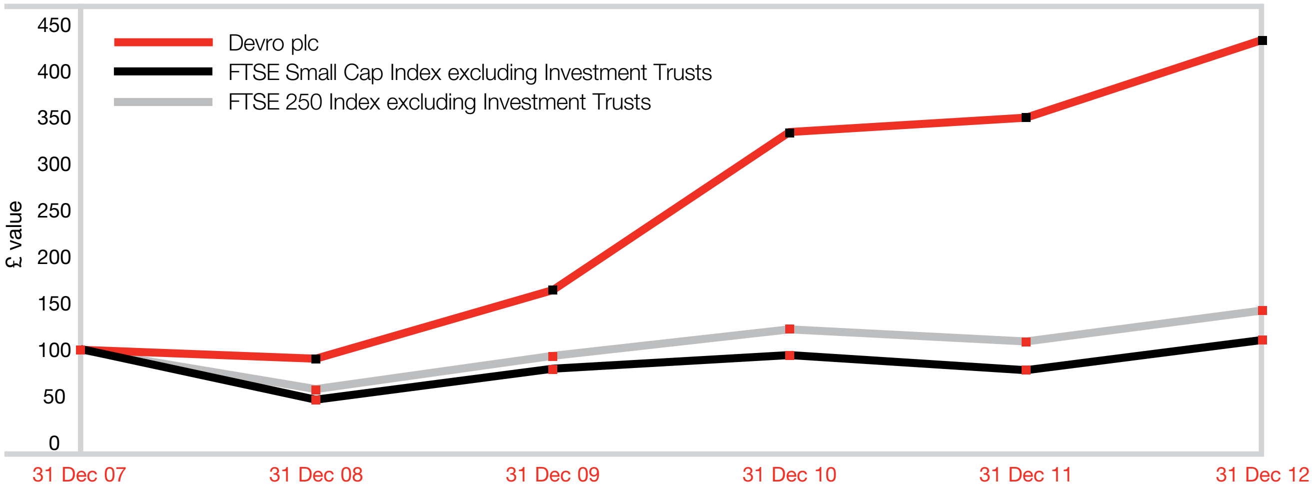
Statement of shareholding voting at AGM

The Directors' remuneration report received the following votes from shareholders at the 2012 AGM:

	Remuneration report	
	Total number of votes	% of votes cast
For	119,489,286	99.32%
Against	765,008	0.64%
Abstentions	50,822	0.04%
Total	**120,305,116**	**100%**

Performance graph
Total Shareholder Return

Source: Datastream (Thomson Reuters)



This graph shows the value, by 31 December 2012, of £100 invested in Devro plc on 31 December 2007 compared with the value of £100 invested in the FTSE Small Cap Index excluding Investment Trusts and the FTSE 250 Index excluding Investment Trusts. The other points plotted are the values at intervening financial year-ends.

A general FTSE index has been used as the number of comparable UK-listed food producers is too small to form a sufficiently broad-based index for this purpose. Under legislative requirements, the graph shows Total Shareholder Return over the last five years.

Emoluments table (Audited)

	Base salaries/ fees at 31 December		Base salaries/fees		Bonuses		Other payments		Benefits in kind		Payments in lieu of pension contributions		Total	
Director	2012 £'000	2011 £'000	2012 £'000	2011 £'000	2012 £'000	2011 £'000	2012 £'000	2011 £'000	2012 £'000	2011 £'000	2012 £'000	2011 £'000	2012 £'000	2011 £'000
S J Hannam	**110**	103	**110**	103	**—**	—	**—**	—	**—**	—	**—**	—	**110**	103
P W B Page[1]	**440**	380	**425**	370	**—**	153	**—**	—	**1**	1	**33**	—	**459**	524
J A Lodge[2]	**45**	—	**37**	—	**—**	—	**—**	—	**—**	—	**—**	—	**37**	—
P A J Neep	**45**	41	**44**	41	**—**	—	**—**	—	**—**	—	**—**	—	**44**	41
S R Paterson[3]	**—**	41	**13**	41	**—**	—	**—**	—	**—**	—	**—**	—	**13**	41
S C Webb[4]	**278**	270	**276**	259	**—**	105	**17**	45	**1**	1	**—**	—	**294**	410
P N Withers	**45**	39	**43**	26	**—**	—	**—**	—	**—**	—	**—**	—	**43**	26
TOTAL			**948**	840	**—**	258	**17**	45	**2**	2	**33**	—	**1,000**	1,145

1 Benefits in kind for Mr P W B Page relate to medical insurance.
2 Ms J A Lodge joined the Board on 1 March 2012.
3 Mr S R Paterson stepped down from the Board on 19 April 2012.
4 Benefits in kind for Mr S C Webb relate to medical insurance. He also received accommodation and travel expenses shown in the "other payments" column.

Details of variable pay earned in the year

Annual bonus

Set out below are the performance conditions which applied to the 2012 annual bonus plan:

Performance condition	Proportion of total bonus available % of maximum	% of salary	Actual performance achieved	Performance target for threshold vesting	Performance target for maximum vesting	Resulting bonus out-turn % of maximum
Group EBIT	80%	80%	£43.2m	£45.0m	£50.0m	0%
Operating Cash Flow (adjusted)	20%	20%	£54.6m	£59.0m	£65.6m	0%
Total	**100%**	**100%**				**0%**

The Devro 2003 Performance Share Plan

The three-year performance period for the award made to Mr P W B Page on 24 March 2010 under the Performance Share Plan ended on 31 December 2012. This award will be exercisable on the third anniversary of the date of grant (24 March 2013). The performance conditions which applied, and performance achieved against them, are set out below.

Total Shareholder Return ("TSR") relative to comparator group consisting of the FTSE small cap index (excluding Investment Trusts)		Earnings Per Share ("EPS") growth	
Performance required for full vesting	Performance achieved	Performance required for full vesting	Performance achieved
Upper Quintile or above	Ranked 8 out of remaining 133 in comparator group	RPI + 12% p.a. or above (i.e. + 49.21%)	+70.94%

The conditions and performance set out above were independently reviewed by New Bridge Street. As the maximum targets for both conditions were met, 100% of the award will vest as follows:

	Date of award	Earliest date of exercise	Total number of shares awarded	Percentage of awards vesting	Number of shares vesting	Value of shares vesting[1]
P W B Page	24 March 2010	24 March 2013	187,000	100%	187,000	£598,400

1 The deemed share price used to calculate the value on the vesting date was 320p being the 3 month average to 31 December 2012.

Performance Share Plan awards granted on 2 April 2012

	Scheme	Basis of award granted	Face value of award[1]	Maximum vesting (% of face value)	Percentage vesting for threshold performance	Vesting and performance period
P W B Page	2003 Performance Share Plan	100% of salary 118,000 shares	£372,762	100%	30% under TSR & EPS element	Performance period 3 financial years from 1 January 2012. Vesting period 3 years from date of grant

Further details regarding the Performance Share Plan, together with the performance conditions applying to the above awards are set out on page 37.

1 Based on share price of 315.9p on date of grant, 2 April 2012.

Schedule 8 audited information

The following information has been audited by the company's auditors, PricewaterhouseCoopers LLP, as required by Schedule 8 to Statutory Instrument 2008/410 which remains the basis for statutory reporting until the new regulations take effect in October 2013. The emoluments table on page 34 is incorporated into this section by reference.

Company pensions and life assurance policy regarding Executive Directors

During the year, company contributions to pension schemes amounted to £9,498 (2011: £36,994) in respect of Mr P W B Page, and £27,608 (2011: £25,475) in respect of Mr S C Webb.

Mr P W B Page's contributions to a pension scheme ceased in March 2012, and thereafter he received a monthly payment in lieu, amounting to 10% of his base salary as shown on the emoluments table on page 34.

The company provides life assurance cover for senior executives, under which the Executive Directors have cover of five times base salary capped at £1.75 million.

The Devro 2003 Performance Share Plan

The Executive Directors' awards under the Devro 2003 Performance Share Plan 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 2012	Number of shares awarded during year	Number of shares vested and exercised during year[1]	Number of shares lapsed during year	Number of shares at 31 December 2012	Earliest normal vesting date
P W B Page[1]	28 March 2008	80.5p	283.0p	375,000	—	—	—	375,000	28 March 2011
	19 March 2009	86.75p	324.3p	342,000	—	—	—	342,000	19 March 2012
	24 March 2010	164.5p	320.0p	187,000	—	—	—	187,000	24 March 2013
	29 March 2011	287.8p	—	120,000	—	—	—	120,000	29 March 2014
	2 April 2012	315.9p	—	—	118,000	—	—	118,000	2 April 2015
S C Webb[2]	24 February 2011	256.6p	—	103,846	—	—	—	103,846	24 February 2014
	24 February 2011	256.6p	—	103,846	—	—	—	103,846	24 February 2015

1 Mr P W B Page's 2008 and 2009 awards are eligible for exercise, but at the date of this report he had not elected to do so.
2 Mr S C Webb was awarded two tranches under the Devro 2003 Performance Share Plan, as part of his recruitment arrangements in 2011. One of the awards is for the usual 3-year performance period, and the other for a 4-year period, with the targets extended pro rata. No awards were made to him in 2012.

Conditional awards of shares under this plan are considered annually, with earliest vesting occurring after three years and normally being dependent on both continued employment with the group and the extent to which the performance conditions set out below are met.
For awards made to Executive Directors in the year under review and 2011, vesting of 50% of shares awarded is based upon the group's earnings per share before exceptional items ("EPS") growth over the relevant performance period, with the other 50% being dependent upon the group's total shareholder return ("TSR") performance measured over the same period against the one hundred listed companies (excluding Investment Trusts) closest to the company in terms of market capitalisation (i.e. fifty higher and fifty lower).

The award made in 2012 to the Chief Executive was granted as a nil-priced option subject to the performance conditions shown on page 35. Previous awards to Executive Directors were granted either as nil-priced options or in the form of conditional entitlements, subject to the performance conditions below:

EPS growth above RPI during the performance period	Performance shares vesting percentage
For 3 year performance period	
Below 9%	0%
9%	15%
9% - 36%	Pro rata 15% - 50%
At or above 36%	50%
For 4 year performance period (applies only to an award made in 2011 to Mr S C Webb)	
Below 12%	0%
12%	15%
12% - 48%	Pro rata 15% - 50%
At or above 48%	50%

TSR ranking relative to comparator group	Performance shares vesting percentage
Below median	0%
Median	15%
Between median and upper quintile	Pro rata 15% - 50%
Upper quintile or above	50%

All awards made between 2008 and 2010 shown in the table opposite were subject to a three year performance period, and the targets were as above, save that the TSR performance was measured against a comparator group consisting of the companies in the FTSE Small Cap Index, excluding Investment Trusts.

The movement in the group's EPS is calculated on a consistent basis over the performance period, comparing headline EPS for the base year - i.e. the calendar year prior to the award date – with the final year – i.e. the calendar year three years after the base year.

The Devro 2009 Deferred Share Bonus Plan

The Executive Directors' awards under the Devro 2009 Deferred Share Bonus Plan 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 held at 1 January 2012	Number of shares vested and exercised during year	Number of shares lapsed during year	Number of shares at 31 December 2012	Earliest normal vesting date
P W B Page	4 March 2010	173.0p	352.8p	89,415	—	—	89,415	4 March 2013
	9 March 2011	287.0p	—	58,025	—	—	58,025	9 March 2014

The award made in 2010 was granted in the form of a conditional entitlement. The award made in 2011 was granted as a nil-priced option. No performance conditions apply to these awards, all of which were made in respect of past performance.

The market price of the company's shares at the end of the financial year was 308.9p. The range of market prices during the year was between 250.3p and 341.2p.

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 2003 Performance Share Plan and the Devro 2009 Deferred Share Bonus Plan, at the beginning and end of the financial year, are as follows:

Director	Total number of ordinary shares 1 January 2012	Shares acquired during year	Total number of ordinary shares 31 December 2012	Performance Share Plan 1 January 2012	Performance Share Plan 31 December 2012	Deferred Share Bonus Plan 1 January 2012	Deferred Share Bonus Plan 31 December 2012
S J Hannam	211,028	12,594	223,622	—	—	—	—
P W B Page	396,719	112	396,831	1,024,000	1,142,000	147,440	147,440
J A Lodge[1]	—	—	—	—	—	—	—
P A J Neep	203,493	17,400	220,893	—	—	—	—
S R Paterson[2]	70,000	N/A	N/A	—	—	—	—
S C Webb	10,000	—	10,000	207,692	207,692	—	—
P N Withers	45,000	25,000	70,000	—	—	—	—

1 Ms J A Lodge joined the Board on 1 March 2012.
2 Mr S R Paterson stepped down from the Board on 19 April 2012.

Dealings of the directors (and their immediate families) in the share capital of the company (ordinary shares of 10p each) in the period after 31 December 2012 to the date of this report are as follows:

Director	Nature of dealing	Date of dealing	Number of shares
J A Lodge	Purchase	28 February 2013	2,000

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 2012, amounted to 642,177 ordinary shares.

On behalf of the Board

P A J Neep
Chairman
Executive Directors' Remuneration Committee
14 March 2013

Consolidated income statement

for the year ended 31 December 2012

	Note	2012 £'000	2011 £'000
Continuing operations			
Revenue	2	**241,069**	227,723
Operating profit	3,4	**43,248**	42,692
Finance income	8	**47**	121
Finance cost	8	**(1,085)**	(953)
Net finance (cost)/income on pension assets and liabilities	8	**(1,389)**	1,174
Profit before tax	9	**40,821**	43,034
Taxation	10	**(7,715)**	(8,805)
Profit for the year from continuing operations	11	**33,106**	34,229
Discontinued operation			
Loss for the year from discontinued operation	5	**—**	(37)
Profit for the year attributable to owners of the parent		**33,106**	34,192
Earnings per share			
Basic earnings per share			
- Continuing operations	13	**20.0p**	20.8p
- Discontinued operation	13	**—**	0.0p
		20.0p	20.8p
Basic earnings per share excluding net finance cost/income on pensions			
- Continuing operations	13	**20.7p**	20.2p
- Discontinued operation	13	**—**	0.0p
		20.7p	20.2p
Diluted earnings per share			
- Continuing operations	13	**19.8p**	20.5p
- Discontinued operation	13	**—**	0.0p
		19.8p	20.5p

Consolidated statement of comprehensive income

for the year ended 31 December 2012

	Note	2012 £'000	2011 £'000
Profit for the year		**33,106**	34,192
Other comprehensive income			
Cash flow hedges:			
- net fair value gains	30	**4,415**	111
- reclassified and reported in operating profit	30	**(1,354)**	(980)
- movement in deferred tax	30	**(714)**	226
Group pension schemes:			
- actuarial losses recognised	25	**(17,914)**	(38,331)
- movement in deferred tax	24	**3,391**	8,526
Net exchange adjustments	30	**(1,570)**	(4,997)
Other comprehensive expense for the year, net of tax		**(13,746)**	(35,445)
Total comprehensive income/(expense) for the year attributable to owners of the parent		**19,360**	(1,253)
Total comprehensive income/(expense) attributable to owners of the parent arises from:			
- Continuing operations		**19,360**	(1,235)
- Discontinued operation		**—**	(18)
		19,360	(1,253)

Balance sheets

at 31 December 2012

	Note	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
ASSETS					
Non-current assets					
Intangible assets	14	**3,336**	3,678	**2,268**	2,581
Property, plant and equipment	15	**195,862**	180,215	**627**	175
Investments	16	**—**	—	**138,530**	138,530
Deferred tax assets	24	**19,683**	18,390	**35**	5
Trade and other receivables	18	**—**	—	**13,798**	25,182
		218,881	202,283	**155,258**	166,473
Current assets					
Inventories	17	**28,108**	27,556	**—**	—
Current tax assets		**415**	779	**4,602**	3,443
Trade and other receivables	18	**36,280**	34,820	**1,322**	1,120
Derivative financial instruments	23	**3,209**	572	**45**	—
Cash and cash equivalents	19	**5,631**	7,614	**2,149**	3,054
		73,643	71,341	**8,118**	7,617
LIABILITIES					
Current liabilities					
Borrowings	22	**1,868**	2,213	**465**	1,168
Derivative financial instruments	23	**350**	1,615	**19**	308
Trade and other payables	20	**30,193**	33,256	**2,999**	2,999
Current tax liabilities		**3,606**	3,833	**—**	—
		36,017	40,917	**3,483**	4,475
Net current assets		**37,626**	30,424	**4,635**	3,142
Non-current liabilities					
Borrowings	22	**29,846**	28,103	**18,600**	20,847
Deferred tax liabilities	24	**18,682**	16,631	**76**	145
Retirement benefit obligations	25	**59,271**	46,158	**—**	—
Other payables	21	**1,782**	1,336	**10,011**	10,554
		109,581	92,228	**28,687**	31,546
Net assets		**146,926**	140,479	**131,206**	138,069
EQUITY					
Capital and reserves attributable to owners of the parent					
Ordinary shares	26	**16,563**	16,501	**16,563**	16,501
Share premium	29	**8,034**	7,642	**8,034**	7,642
Other reserves	30	**80,750**	79,917	**45,949**	45,996
Retained earnings	31	**41,579**	36,419	**60,660**	67,930
Total equity		**146,926**	140,479	**131,206**	138,069

The financial statements on pages 39 to 84 were approved by the Board of Directors and signed on its behalf by:

S C Webb, Group Finance Director
14 March 2013

Statements of changes in equity

for the year ended 31 December 2012

Group	Note	Ordinary shares £'000	Share premium £'000	Other reserves £'000	Retained earnings £'000	Total equity attributable to owners of the parent £'000
Balance at 1 January 2012		16,501	7,642	79,917	36,419	140,479
Comprehensive income						
Profit for the year		—	—	—	33,106	33,106
Other comprehensive income						
Cash flow hedges, net of tax	30	—	—	2,347	—	2,347
Retirement benefit obligations, net of tax	25,24	—	—	—	(14,523)	(14,523)
Exchange adjustments	30	—	—	(1,570)	—	(1,570)
Total other comprehensive income/(expense)		—	—	777	(14,523)	(13,746)
Total comprehensive income		—	—	777	18,583	19,360
Transactions with owners						
Performance share plan charge	30	—	—	510	—	510
Performance share plan credit in respect of shares vested	30	—	—	(454)	—	(454)
Issue of share capital		62	392	—	—	454
Dividends paid	12	—	—	—	(13,423)	(13,423)
Total transactions with owners		62	392	56	(13,423)	(12,913)
Balance at 31 December 2012		**16,563**	**8,034**	**80,750**	**41,579**	**146,926**
Balance at 1 January 2011		16,361	6,773	85,607	44,259	153,000
Comprehensive income						
Profit for the year		—	—	—	34,192	34,192
Other comprehensive income						
Cash flow hedges, net of tax	30	—	—	(643)	—	(643)
Retirement benefit obligations, net of tax	25,24	—	—	—	(29,805)	(29,805)
Exchange adjustments	30	—	—	(4,997)	—	(4,997)
Total other comprehensive expense		—	—	(5,640)	(29,805)	(35,445)
Total comprehensive (expense)/income		—	—	(5,640)	4,387	(1,253)
Transactions with owners						
Performance share plan charge	30	—	—	1,011	—	1,011
Performance share plan credit in respect of shares vested	30	—	—	(1,061)	—	(1,061)
Issue of share capital		140	869	—	—	1,009
Dividends paid	12	—	—	—	(12,227)	(12,227)
Total transactions with owners		140	869	(50)	(12,227)	(11,268)
Balance at 31 December 2011		16,501	7,642	79,917	36,419	140,479

Statements of changes in equity

for the year ended 31 December 2012 continued

Company	Note	Ordinary shares £'000	Share premium £'000	Other reserves £'000	Retained earnings £'000	Total equity attributable to owners of the parent £'000
Balance at 1 January 2012		16,501	7,642	45,996	67,930	138,069
Comprehensive income						
Profit for the year		—	—	—	6,153	6,153
Transactions with owners						
Performance share plan charge	30	—	—	201	—	201
Performance share plan credit in respect of shares vested	30	—	—	(248)	—	(248)
Issue of share capital		62	392	—	—	454
Dividends paid	12	—	—	—	(13,423)	(13,423)
Total transactions with owners		62	392	(47)	(13,423)	13,016
Balance at 31 December 2012		**16,563**	**8,034**	**45,949**	**60,660**	**131,206**
Balance at 1 January 2011		16,361	6,773	45,901	64,877	133,912
Comprehensive income						
Profit for the year		—	—	—	15,280	15,280
Transactions with owners						
Performance share plan charge	30	—	—	938	—	938
Performance share plan credit in respect of shares vested	30	—	—	(843)	—	(843)
Issue of share capital		140	869	—	—	1,009
Dividends paid	12	—	—	—	(12,227)	(12,227)
Total transactions with owners		140	869	95	(12,227)	(11,123)
Balance at 31 December 2011		16,501	7,642	45,996	67,930	138,069

Cash flow statements

for the year ended 31 December 2012

	Note	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
Cash flows from operating activities					
Continuing operations:					
- Cash generated from/(used in) operations	32	**48,091**	45,087	**1,016**	(17,855)
- Interest received		**52**	140	**270**	314
- Interest paid		**(1,005)**	(998)	**(703)**	(609)
- Tax (paid)/received		**(4,351)**	(5,642)	**1,176**	(82)
Discontinued operation	5	**—**	285	**—**	—
Net cash generated from/(used in) operating activities		**42,787**	38,872	**1,759**	(18,232)
Cash flows from investing activities					
Continuing operations:					
- Purchase of property, plant and equipment		**(33,756)**	(37,183)	**(496)**	(68)
- Proceeds from sale of property, plant and equipment		**107**	24	**—**	—
- Purchase of intangible assets		**(759)**	(1,560)	**(464)**	(1,448)
- Capital grants received		**528**	544	**—**	—
- Dividends received from subsidiary undertakings		**—**	—	**14,215**	19,195
- Disposal of subsidiary net of cash disposed		**—**	747	**—**	—
Discontinued operation	5	**—**	(9)	**—**	—
Net cash (used in)/generated from investing activities		**(33,880)**	(37,437)	**13,255**	17,679
Cash flows from financing activities					
Continuing operations:					
- Proceeds from the issue of ordinary shares		**454**	1,009	**454**	1,009
- Net borrowing/(repayment) under the loan facilities		**1,983**	12,931	**(2,247)**	14,224
- Dividends paid	12	**(13,423)**	(12,227)	**(13,423)**	(12,227)
Discontinued operation	5	**—**	—	**—**	—
Net cash (used in)/generated from financing activities		**(10,986)**	1,713	**(15,216)**	3,006
Net (decrease)/increase in cash and cash equivalents		**(2,079)**	3,148	**(202)**	2,453
Net cash and cash equivalents at 1 January		**5,401**	2,995	**1,886**	(567)
Exchange gain/(loss) on cash and cash equivalents		**441**	(742)	**—**	—
Cash and cash equivalents	19	**5,631**	7,614	**2,149**	3,054
Bank overdrafts	22	**(1,868)**	(2,213)	**(465)**	(1,168)
Net cash and cash equivalents at 31 December		**3,763**	5,401	**1,684**	1,886

Notes to the financial statements
for the year ended 31 December 2012

1. Accounting policies
The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to the years presented, unless otherwise stated.

Basis of preparation
These consolidated financial statements have been prepared in accordance with European Union endorsed International Financial Reporting Standards ("IFRSs"), IFRS IC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of derivative financial instruments.

For practical reasons, the company previously prepared its financial statements based on periods of 52 or 53 weeks. From 2011 onwards, however, the financial statements have been prepared for the period ending 31 December. The financial statements for 2011 reflect the period from 3 January 2011 to 31 December 2011.

Critical estimates and judgements
The preparation of financial statements in conformity with IFRSs requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best assessments of amounts, events or actions, actual results ultimately may differ from those estimates. The key uncertainties that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are the measurement of retirement benefit obligations and taxation.

Retirement benefit obligations
The cost of defined benefit pension schemes is determined using actuarial valuations. The actuarial valuation involves making assumptions about 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 significant uncertainty. Further details are provided in Note 25.

Taxation
The group's tax charge is based on the profit for the year and tax rates effective at the balance sheet 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 requires the group to review its tax positions and make appropriate adjustments at the balance sheet date. In addition the recognition of deferred tax assets is dependent upon an estimation of future taxable profits that will be available against which deductible temporary differences can be utilised. In the event that actual taxable profits are different, such differences may impact the carrying value of such deferred tax assets in future periods. Further details are provided in Notes 10 and 24.

Changes in accounting policies and disclosures
(a) New standards, amendments to standards and interpretations effective in 2012
The following new standards, amendments to standards and interpretations became mandatory for the first time during the financial year beginning 1 January 2012. They either were not relevant for the group or had no material impact on the financial statements of the group:

IAS 1 (amendment) – Financial statement presentation – regarding other comprehensive income
IAS 12 (amendment) – Income taxes

(b) New standards, amendments to standards and interpretations not applied
At the date of approval of these financial statements, the following standards and amendments to standards were in issue but have not been applied in these financial statements:

	Effective date
IAS 19 (revised 2011) – Employee benefits	1 January 2013
IFRS 9 – Financial instruments	1 January 2015
IFRS 10 – Consolidated financial statements	1 January 2013
IFRS 11 – Joint arrangements	1 January 2013
IFRS 12 – Disclosures of interests in other entities	1 January 2013
IFRS 13 – Fair value measurement	1 January 2013
IAS 27 (revised 2011) – Separate financial statements	1 January 2013
IAS 28 (revised 2011) – Associates and joint ventures	1 January 2013

It is expected that the group will adopt these standards and amendments to standards on their effective dates. The directors do not anticipate that the adoption of these standards and amendments to standards will have a material impact on the financial statements of the group apart from the adoption of IAS 19 (revised 2011) – Employee benefits, which will have a material impact on group finance costs.

Basis of consolidation
The consolidated financial statements include the financial statements of the company and all its subsidiary undertakings made up to 31 December 2012. 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 the power to govern the financial and operating policies. 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.

Notes to the financial statements

for the year ended 31 December 2012 continued

1. Accounting policies (continued)

Intangible assets

Intangible assets within the group principally comprise computer software and certain types of development costs.

Computer software costs are capitalised and amortised on a straight-line basis over the estimated useful life of the software, normally 4-5 years. Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred.

Costs incurred on development projects are recognised as intangible assets when it is probable that the project will be a success, considering its commercial and technological feasibility, and costs can be measured reliably. Development costs are amortised on a straight-line basis over the estimated useful life of the related asset, normally 15 years. External and internal costs are capitalised to the extent that they enhance the future economic benefit of the asset.

Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Intangible assets are valued at cost less accumulated amortisation.

Research and development

In general, research and development expenditure is charged to the income statement in the period in which it occurred. However, as set out above, under certain conditions development expenditure is capitalised as an intangible asset.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation. The cost of property, plant and equipment is its purchase cost, together with any incidental costs of acquisition. 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.

Principal useful economic lives	
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.

Assets under construction are transferred to the appropriate asset category when they come into use. Depreciation on assets so 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 balance sheet date.

Gains and losses on disposals are determined by comparing the proceeds with carrying amounts and are recognised within other operating income/expense in the income statement.

Repairs and maintenance costs are charged to the income statement during the period in which they are incurred.

Impairment

Assets that have an indefinite useful life are not subject to amortisation but are tested for impairment annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to depreciation or amortisation are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the income statement 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.

Grants

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

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

Fixed asset investments

The company's investments in subsidiary undertakings are shown at cost less accumulated impairment losses.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease rentals are charged to the income statement on a straight-line basis over the term of the lease.

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 receivables

Trade receivables are non-interest bearing and are initially recognised at fair value and subsequently measured at amortised cost, less provision for estimated irrecoverable amounts. Estimated irrecoverable amounts are based on historical experience, together with specific amounts that are not expected to be collectible. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Individual trade receivables are written off when management deems them not to be collectible.

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.

1. Accounting policies (continued)

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 consolidated financial statements are presented in sterling, which is the company's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. 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 income statement, 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 income statement.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the group's activities. Sales revenue, which is net of returns, rebates and discounts, and which excludes value added tax and sales between group companies, represents the net invoiced value of goods supplied and is recognised upon transfer of the risks and rewards of ownership.

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

Dividend income is recognised by the company when payment is made by subsidiary undertakings.

Taxation

The charge for current tax is based on the results for the period as adjusted for items which are non-assessable or disallowable. It is calculated using taxation rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full, 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 balance sheet 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 income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with within equity.

Deferred tax assets are recognised only to the extent that it is probable that 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 liability 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 taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Pension and other post-retirement benefits

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

Payments to defined contribution retirement plans are charged as an expense as they fall due.

The group's obligations in respect of defined benefit retirement 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 balance sheet represent the fair value of external plan assets less the present value of the defined benefit obligations.

Amounts recorded in the income statement represent the current service cost over the reporting period, which is included in operating profit, and net finance income or expense, i.e. expected returns on assets less interest cost on liabilities, which is included as a separate component of finance income and expense. Other income statement credits or charges can arise for special events, such as a past service benefit improvement or settlement and curtailment of plan liabilities.

Actuarial gains and losses are immediately recognised in the statement of comprehensive income. Actuarial gains and losses on liabilities occur due to changes in actuarial assumptions at the balance sheet date and also due to any differences between assumptions and actual outcomes. Gains and losses on plan assets represent the difference between the expected return over the period, set in line with long-term expectations, and the actual return achieved.

Share schemes

Shares are allocated under the group's share-based incentive plans. The fair market value of these shares at the date of the grant, less any consideration to be received from the employee, is charged to the income statement over the period to which the employee's performance relates. Where awards are contingent upon future events (other than continued employment), an assessment of the likelihood of these conditions being achieved is made at the end of each period, and appropriate provision made. The schemes are all equity settled.

Dividends payable

The liability for final dividends is recorded when the dividends are approved by the company's shareholders. Interim dividends are recorded when paid.

Notes to the financial statements

for the year ended 31 December 2012 continued

1. Accounting policies (continued)

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

Borrowing costs are recognised as an expense in the period in which they are incurred.

Trade payables

Trade payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

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 balance sheet 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 income statement except where the derivative is designated as a cash flow 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 as cash flow hedges.

For cash flow hedges, the effective part of changes in the fair value of the derivative is recognised in other comprehensive income. Gains or losses relating to any ineffective part of changes in fair value are taken immediately to the income statement. Amounts accumulated in equity are transferred to the income statement in the same period as the hedged transaction occurs, for example, when the forecast sale or purchase transaction takes place. Any movements in fair value occurring after the time when hedging contracts cease to be cash flow hedges are taken directly to the income statement.

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 separately disclosed by virtue of their size or incidence to enable a full understanding of the group's financial performance.

2. Segment information

The chief operating decision maker has been identified as the Board.

Historically the Board reviewed the group's financial results on a product segment basis with three identifiable operating segments:

- Collagen casings
- Distributed products
- Other products

Following the sale in September 2011 of Devro GmbH, the German distribution business, of which approximately 80% of sales related to third party distributed products (forming the bulk of the Distributed products segment), the group was left with two product segments: Collagen casings and Other products. The "Other products" segment was deemed so small that essentially the group had one operating segment. The Board recognised that this may not fully reflect how it is managing the business. As a consequence, the Board has reconsidered its operating segments and, in order to provide more meaningful information to users of the financial statements, there are now three operating segments based on geography. Geography was previously the secondary segmental split utilised by the Board to review the group's financial results in order to assess performance and allocate resources.

The three geographical segments, which have been identified to meet the requirements of IFRS 8 and which are now reported, are:

- Americas: which includes North America, Central America and Latin America
- Asia-Pacific: which includes Australia, New Zealand, Japan, China, Korea and the rest of South East Asia
- Europe: which includes Continental Europe, UK, Ireland and Africa

The Board assesses the performance of the operating segments based on a measure of adjusted earnings before interest and tax ("Adjusted EBIT"). This measurement basis excludes the effects of exceptional income and expenditure from the operating segments of which there are none in the current or prior year.

Finance income and cost, including that arising on pension assets and liabilities, are not included in the segment results that are reviewed by the Board.

Segment assets exclude tax assets, which are managed on a central basis.

Segment liabilities exclude tax liabilities and non-current borrowings, which are managed on a central basis.

Information provided to the Board is consistent with that in the financial statements.

2. Segment information (continued)

	Americas		Asia-Pacific		Europe		Total continuing operations		Discontinued operation	Total group	
	2012 £'000	2011 £'000	**2012 £'000**	2011 £'000	**2012 £'000**	2011 £'000	**2012 £'000**	2011 £'000	2011 £'000	**2012 £'000**	2011 £'000
Revenue											
Sales to external customers	**57,289**	48,897	**70,962**	62,186	**112,818**	116,640	**241,069**	227,723	16,376	**241,069**	244,099
Adjusted EBIT	**5,295**	5,557	**7,388**	7,023	**35,621**	34,782	**48,304**	47,362	38	**48,304**	47,400
Corporate overheads							**(5,056)**	(4,670)	—	**(5,056)**	(4,670)
Operating profit							**43,248**	42,692	38	**43,248**	42,730
Finance income							**47**	121	1	**47**	122
Finance cost							**(1,085)**	(953)	(2)	**(1,085)**	(955)
Net finance (cost)/income on pension assets and liabilities							**(1,389)**	1,174	(63)	**(1,389)**	1,111
Profit before tax							**40,821**	43,034	(26)	**40,821**	43,008
Other segment information:											
Additions to property, plant and equipment:											
- Segment	**2,743**	5,046	**10,394**	7,616	**18,726**	29,066	**31,863**	41,728	9	**31,863**	41,737
- Corporate										**496**	68
Total										**32,359**	41,805
Additions to intangible assets:											
- Segment	**87**	5	**6**	49	**137**	123	**230**	177	—	**230**	177
- Corporate										**464**	1,448
Total										**694**	1,625
Depreciation of property, plant and equipment:											
- Segment	**2,035**	1,563	**2,937**	2,547	**9,941**	9,299	**14,913**	13,409	21	**14,913**	13,430
- Corporate										**45**	5
Total										**14,958**	13,435
Amortisation of intangible assets:											
- Segment	**20**	24	**32**	49	**198**	193	**250**	266	—	**250**	266
- Corporate										**777**	205
Total										**1,027**	471

Notes to the financial statements
for the year ended 31 December 2012 continued

2. Segment information (continued)
Segment assets and liabilities can be analysed as follows:

	2012 £'000	2011 £'000
Assets		
Americas	**35,249**	35,128
Asia-Pacific	**64,061**	55,578
Europe	**167,763**	156,641
Total segment assets	**267,073**	247,347
Corporate assets	**5,353**	7,108
Taxation	**20,098**	19,169
Total assets	**292,524**	273,624
Liabilities		
Americas	**26,239**	25,978
Asia-Pacific	**12,071**	14,822
Europe	**50,821**	37,272
Total segment liabilities	**89,131**	78,072
Corporate liabilities	**4,333**	6,507
Borrowings	**29,846**	28,103
Taxation	**22,288**	20,463
Total liabilities	**145,598**	133,145

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

	2012 £'000	2011 £'000
Continuing operations		
United Kingdom	**28,622**	30,896
Other Europe	**84,876**	86,060
Total Europe	**113,498**	116,956
United States	**39,355**	35,003
Other Americas	**18,551**	14,432
Total Americas	**57,906**	49,435
Australia	**28,325**	28,395
Other Asia-Pacific	**41,340**	32,937
Total Asia-Pacific	**69,665**	61,332
Total – continuing operations	**241,069**	227,723
Discontinued operation	**—**	16,376
Total	**241,069**	244,099

2. Segment information (continued)

The total of non-current assets other than deferred tax can be analysed as follows:

	2012 £'000	2011 £'000
Americas	**22,066**	22,170
Asia-Pacific	**39,289**	32,829
Europe	**134,948**	126,138
Corporate	**2,895**	2,756
	199,198	183,893

3. Operating profit

	2012 £'000	2011 £'000
Continuing operations		
Revenue	**241,069**	227,723
Cost of sales	**154,866**	142,865
Gross profit	**86,203**	84,858
Selling and distribution costs	**17,262**	16,432
Administrative expenses	**16,600**	16,554
Research and development expenditure	**7,235**	7,668
Other expenses	**2,743**	1,288
	43,840	41,942
Other operating (income)/expense	**(885)**	224
Net operating expenses	**42,955**	42,166
Operating profit from continuing operations	**43,248**	42,692

4. Exceptional items

There were no exceptional items for the year ended 31 December 2012 (2011: £nil).

Notes to the financial statements

for the year ended 31 December 2012 continued

5. Discontinued operation

On 30 September 2011, the group sold Devro GmbH, a wholly-owned subsidiary, to ViskoTeepak Holding Ab Ltd of Finland. The purchase price was based on adjusted net book value (excluding certain pension assets and liabilities). The estimated preliminary price of 1.9 million euros was paid on completion and after final adjustment in the first half of 2012, this price was confirmed.

Financial information relating to the business disposed of is set out below.

(a) Income statement for discontinued operation

	2011 £'000
Revenue	16,376
Expenses	(16,046)
Operating profit from discontinued operation	330
Net finance costs	(64)
Profit before tax from discontinued operation	266
Taxation	(88)
Profit after tax from discontinued operation	178
Costs associated with the disposal of the discontinued operation before tax	(292)
Taxation	77
Expenses associated with the disposal of the discontinued operation after tax	(215)
Loss for the period from discontinued operation	(37)

(b) Cash flows from discontinued operation

	2011 £'000
Net cash used in operations	285
Net cash used in investing activities	(9)
Net cash from financing activities	—
Effect on cash flows	276

6. Directors' emoluments

A detailed analysis of directors' emoluments, shareholdings, share options, long-term incentive schemes and pension arrangements is provided in the Remuneration report on pages 30 to 38. Details of the emoluments of the highest-paid director are as follows:

	2012 £'000	2011 £'000
Aggregate emoluments	**426**	524
Pension contributions – money purchase scheme	**9**	37
Payments in lieu of pension contributions	**33**	—

7. Employee information

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

	2012	2011
By employee category		
Operations and engineering	**1,854**	1,813
Sales and marketing	**95**	96
Distribution	**27**	30
Administration	**133**	124
Research and development	**111**	105
	2,220	2,168

Staff costs for the group were:

	2012 £'000	2011 £'000
Wages and salaries	**63,396**	62,605
Social security costs	**8,753**	9,343
Retirement benefit obligation costs (note 25)	**4,581**	1,048
Performance share plan charge	**510**	1,011
	77,240	74,007

The key management of the group comprises the Executive and Non-Executive Directors.

8. Finance income and cost

	2012 £'000	2011 £'000
Finance income		
Interest receivable and similar income:		
- On bank balances	**47**	121
Finance cost		
Interest payable and similar charges:		
- On bank loans and overdrafts	**(1,085)**	(953)
Net finance (cost)/income on pension assets and liabilities		
Expected return on pension assets	**9,570**	12,086
Interest on pension liabilities	**(10,959)**	(10,912)
	(1,389)	1,174

9. Profit before tax

	2012 £'000	2011 £'000
Profit before tax is stated after charging/(crediting):		
Depreciation of property, plant and equipment	**14,958**	13,435
Amortisation of intangible assets	**1,027**	471
Loss on disposal of property, plant and equipment	**22**	334
Inventory recognised as an expense	**149,701**	136,743
Inventory written down or written off	**1,786**	2,629
Repairs and maintenance expenditure	**16,534**	16,463
Research and development expenditure	**7,235**	7,668
Hire of assets – operating leases	**1,077**	969
Net foreign exchange gains (see below)	**(986)**	(303)
Auditors' remuneration (see below)	**572**	526

The creation and release of provisions for impaired receivables is included in other expenses in the income statement (note 3). Amounts provided are written off when there is no expectation of them being collected.

Net foreign exchange gains

Exchange differences (credited)/charged to the income statement were as follows:

	2012 £'000	2011 £'000
Revenue	**(2,504)**	(3,101)
Cost of sales	**663**	2,945
Net operating expenses	**855**	(147)
	(986)	(303)

Services provided by the company's auditors

Remuneration of the auditors is analysed below:

	2012 £'000	2011 £'000
Group		
Fees payable to the company's auditors for the audit of the parent company and consolidated accounts	**92**	84
Fees payable to the company's auditors and their associates for other services:		
- The audit of the company's subsidiaries pursuant to legislation	**173**	189
- Audit related assurance services	**23**	22
- Tax advisory services	**89**	103
- Tax compliance services	**70**	81
- All other services	**125**	47
	572	526

In addition to the above services, the company's auditors acted as auditor to some of the group's pension schemes. The appointment of auditors to the group's pension schemes and the fees paid in respect of those audits are agreed by the trustees of each scheme, who act independently from the management of the group. The aggregate fees paid to the company's auditors for audit services to the pension schemes during the year were £9,685 (2011: £7,835).

10. Taxation

	Continuing Operations £'000	Discontinued Operation £'000	Total £'000
2012			
Current Tax			
United Kingdom corporation tax at 24.5%	—	—	**—**
Foreign tax	5,419	—	**5,419**
Adjustment in respect of prior years	(912)	—	**(912)**
Total current tax	**4,507**	**—**	**4,507**
Deferred tax			
Origination and reversal of temporary differences representing:			
- United Kingdom corporation tax	1,907	—	**1,907**
- United Kingdom corporation tax rate change	(207)	—	**(207)**
- Foreign tax	751	—	**751**
	2,451	—	**2,451**
Adjustments in respect of prior years	757	—	**757**
Total deferred tax (note 24)	**3,208**	**—**	**3,208**
Taxation for the year ended 31 December 2012	**7,715**	**—**	**7,715**
Tax on items charged to equity			
Deferred tax credit on retirement obligations	(3,391)	—	**(3,391)**
Deferred tax charge on net fair value gains on cash flow hedges	714	—	**714**
	(2,677)	—	**(2,677)**
Total current tax charge for the year ended 31 December 2012	**4,507**	**—**	**4,507**
Total deferred tax charge for the year ended 31 December 2012	**531**	**—**	**531**

10. Taxation (continued)

	Continuing Operations £'000	Discontinued Operation £'000	Total £'000
2011			
Current Tax			
United Kingdom corporation tax at 26.5%	(1)	—	(1)
Foreign tax	6,752	11	6,763
	6,751	11	6,762
Adjustment in respect of prior years	(83)	—	(83)
Total current tax	6,668	11	6,679
Deferred tax			
Origination and reversal of timing differences representing:			
- United Kingdom corporation tax	1,527	—	1,527
- United Kingdom corporation tax rate change	(174)	—	(174)
- Foreign tax	1,161	—	1,161
	2,514	—	2,514
Adjustments in respect of prior years	(377)	—	(377)
Total deferred tax (note 24)	2,137	—	2,137
Taxation for the year ended 31 December 2011	8,805	11	8,816
Tax on items charged to equity			
Deferred tax credit on retirement obligations	(8,526)	—	(8,526)
Deferred tax credit on net fair value losses on cash flow hedges	(226)	—	(226)
	(8,752)	—	(8,752)
Total current tax charge for the year ended 31 December 2011	6,668	11	6,679
Total deferred tax credit for the year ended 31 December 2011	(6,615)	—	(6,615)

10. Taxation (continued)

The effective rates for both years are lower than the standard rate of corporate tax in the UK. The differences are explained below:

	Continuing Operations £'000	Discontinued Operation £'000	Total £'000
2012			
Profit before tax	40,821	—	**40,821**
Profit before tax multiplied by the blended rate of corporation tax in the UK of 24.5%	10,001	—	**10,001**
Effects of:			
- Adjustments in respect of prior years	(362)	—	**(362)**
- Adjustments in respect of foreign tax rates	(726)	—	**(726)**
- Permanent differences	(1,198)	—	**(1,198)**
Taxation for the year ended 31 December 2012	**7,715**	**—**	**7,715**
2011			
Profit before tax	43,034	(26)	43,008
Profit before tax multiplied by the blended rate of corporation tax in the UK of 26.5%	11,404	(7)	11,397
Effects of:			
- Adjustments in respect of prior years	(634)	—	(634)
- Adjustments in respect of foreign tax rates	(1,502)	18	(1,484)
- Permanent differences	(463)	—	(463)
Taxation for the year ended 31 December 2011	8,805	11	8,816

During the year, a change in the UK corporation tax rate from 26% to 24%, effective from 1 April 2012, was substantively enacted. A further reduction to 23%, effective from 1 April 2013 was substantively enacted in July 2012 and the relevant deferred tax balances have been re-measured accordingly.

A further reduction in the UK corporation tax rate has been announced which will reduce the rate to 21% with effect from 1 April 2014. This change had not been substantively enacted and, therefore, is not recognised in these financial statements. Had the change in rate to 21% been substantively enacted as of the balance sheet date, there would have been no significant impact on the accounts.

11. Profit for the year

As permitted by Section 408 of the Companies Act 2006, the parent company's income statement and statement of comprehensive income have not been presented in these financial statements.

The parent company profit for the year is £6,153,000 (2011: £15,280,000).

12. Dividends

Group and company	2012 £'000	2011 £'000
Final paid of 5.5 pence per share (2011: 5.0 pence)	**9,061**	8,144
Interim paid of 2.65 pence per share (2011: 2.5 pence)	**4,372**	4,089
Unclaimed dividends from previous years	**(10)**	(6)
	13,423	12,227

During the year, dividends totalling £58,150 (2011: £90,000) were waived in respect of shares owned by the Devro Employee Share Ownership Trust.

The directors propose a final dividend of 5.85 pence per share in respect of the financial year ended 31 December 2012 which will absorb an estimated £9,690,000 of shareholders' funds. It will be paid on 3 May 2013 to shareholders who are on the register at close of business on 2 April 2013.

Notes to the financial statements

for the year ended 31 December 2012 continued

13. Earnings per share

	2012 £'000	2011 £'000
Profit attributable to equity holders		
- Continuing operations	**33,106**	34,229
- Discontinued operation	**—**	(37)
	33,106	34,192
Profit attributable to equity holders excluding net finance cost/income on pensions adjusted for tax (continuing operations)	**34,232**	33,296
Earnings per share - continuing operations		
- Basic	**20.0p**	20.8p
- Basic excluding net finance cost/income on pensions	**20.7p**	20.2p
- Diluted	**19.8p**	20.5p

	Number of shares	Number of shares
Shares in issue		
Weighted average number of shares	**165,479,397**	164,479,795
Adjustments for:		
- Performance share plan	**1,536,468**	2,259,154
Weighted average number of shares – diluted earnings per share	**167,015,865**	166,738,949

Basic earnings per share is calculated by dividing the profit for the year attributable to owners of the parent of £33,106,000 (2011: £34,192,000) by 165,479,397 (2011: 164,479,795) shares, being the weighted average number of shares in issue throughout the year.

Share options are only treated as dilutive in the calculation of diluted earnings per share if their exercise would result in the issue of shares at less than the average market price of the shares during the year. Shares arising from share options, the deferred bonus scheme or the performance share plan are only treated as dilutive where the effect is to reduce earnings per share. Diluted earnings per share is calculated by dividing the profit for the year attributable to ordinary shareholders of £33,106,000 (2011: £34,192,000) by the average number of shares, including the effect of all dilutive potential shares, of 167,015,865 (2011: 166,738,949).

14. Intangible assets

Group	Computer software £'000	Development costs £'000	Other £'000	Total £'000
Cost				
At 1 January 2012	7,308	1,238	18	8,564
Exchange differences	(33)	—	—	(33)
Additions	627	67	—	694
Disposals	—	—	—	—
At 31 December 2012	**7,902**	**1,305**	**18**	**9,225**
Accumulated amortisation				
At 1 January 2012	4,379	499	8	4,886
Exchange differences	(26)	(1)	3	(24)
Charge for year	944	80	3	1,027
Disposals	—	—	—	—
At 31 December 2012	**5,297**	**578**	**14**	**5,889**
Net book value at 31 December 2012	**2,605**	**727**	**4**	**3,336**
Cost				
At 1 January 2011	5,848	1,265	19	7,132
Exchange differences	(110)	(27)	(1)	(138)
Additions	1,625	—	—	1,625
Disposals	(9)	—	—	(9)
Sale of subsidiary	(46)	—	—	(46)
At 31 December 2011	7,308	1,238	18	8,564
Accumulated amortisation				
At 1 January 2011	4,159	418	6	4,583
Exchange differences	(114)	(2)	—	(116)
Charge for year	386	83	2	471
Disposals	(9)	—	—	(9)
Sale of subsidiary	(43)	—	—	(43)
At 31 December 2011	4,379	499	8	4,886
Net book value at 31 December 2011	2,929	739	10	3,678
Cost at 1 January 2011	5,848	1,265	19	7,132
Accumulated amortisation at 1 January 2011	4,159	418	6	4,583
Net book value at 1 January 2011	1,689	847	13	2,549

Included in the net book value of intangible assets is £610,000 (2011: £739,000) relating to internally generated development costs.

In the income statement, amortisation of £133,000 (2011: £149,000) is included in cost of sales; £nil (2011: £nil) in selling and distribution costs; £888,000 (2011: £310,000) in administrative expenses; and £6,000 (2011: £12,000) in research and development expenditure.

14. Intangible assets (continued)

Company	Computer software £'000	Total £'000
Cost		
At 1 January 2012	2,977	2,977
Additions	464	464
At 31 December 2012	**3,441**	**3,441**
Accumulated amortisation		
At 1 January 2012	396	396
Charge for year	777	777
At 31 December 2012	**1,173**	**1,173**
Net book value at 31 December 2012	**2,268**	**2,268**
Cost		
At 1 January 2011	1,529	1,529
Additions	1,448	1,448
At 31 December 2011	2,977	2,977
Accumulated amortisation		
At 1 January 2011	191	191
Charge for year	205	205
At 31 December 2011	396	396
Net book value at 31 December 2011	2,581	2,581
Cost at 1 January 2011	1,529	1,529
Accumulated amortisation at 1 January 2011	191	191
Net book value at 1 January 2011	1,338	1,338

15. Property, plant and equipment

Group	Freehold land and buildings £'000	Plant and machinery, and motor vehicles £'000	Fixtures and fittings, and computer equipment £'000	Construction in process £'000	Total £'000
Cost					
At 1 January 2012	81,803	218,255	3,704	32,779	336,541
Exchange differences	(407)	(1,966)	(626)	(259)	(3,258)
Additions	2,100	17,275	305	12,679	32,359
Disposals	(36)	(2,580)	(20)	(1)	(2,637)
Reclassification	3,792	23,843	641	(28,276)	—
At 31 December 2012	**87,252**	**254,827**	**4,004**	**16,922**	**363,005**
Accumulated depreciation					
At 1 January 2012	26,426	127,019	2,881	—	156,326
Exchange differences	(189)	(1,572)	(34)	—	(1,795)
Charge for year	1,989	11,885	1,084	—	14,958
Disposals	(21)	(2,305)	(20)	—	(2,346)
Reclassification	—	—	—	—	—
At 31 December 2012	**28,205**	**135,027**	**3,911**	**—**	**167,143**
Net book value at 31 December 2012	**59,047**	**119,800**	**93**	**16,922**	**195,862**
Cost					
At 1 January 2011	80,824	208,722	2,798	12,833	305,177
Exchange differences	(2,762)	(4,422)	(17)	(679)	(7,880)
Additions	2,421	9,183	323	29,878	41,805
Disposals	(10)	(2,033)	(10)	(1)	(2,054)
Reclassification	1,330	6,847	1,075	(9,252)	—
Sale of subsidiary	—	(42)	(465)	—	(507)
At 31 December 2011	81,803	218,255	3,704	32,779	336,541
Accumulated depreciation					
At 1 January 2011	25,122	120,659	2,372	—	148,153
Exchange differences	(698)	(2,372)	(14)	—	(3,084)
Charge for year	1,918	11,337	180	—	13,435
Disposals	(9)	(1,677)	(10)	—	(1,696)
Reclassification	93	(889)	796	—	—
Sale of subsidiary	—	(39)	(443)	—	(482)
At 31 December 2011	26,426	127,019	2,881	—	156,326
Net book value at 31 December 2011	55,377	91,236	823	32,779	180,215
Cost at 1 January 2011	80,824	208,722	2,798	12,833	305,177
Accumulated depreciation at 1 January 2011	25,122	120,659	2,372	—	148,153
Net book value at 1 January 2011	55,702	88,063	426	12,833	157,024

In the income statement, depreciation of £14,133,000 (2011: £12,677,000) has been charged in cost of sales; £124,000 (2011: £121,000) in selling and distribution costs; £527,000 (2011: £455,000) in administrative expenses; and £174,000 (2011: £182,000) in research and development expenditure.

Notes to the financial statements

for the year ended 31 December 2012 continued

15. Property, plant and equipment (continued)

Company	Plant and machinery, and motor vehicles £'000	Fixtures and fittings, and computer equipment £'000	Construction in process £'000	Total £'000
Cost				
At 1 January 2012	243	36	—	279
Additions	285	—	212	497
At 31 December 2012	**528**	**36**	**212**	**776**
Accumulated depreciation				
At 1 January 2012	71	33	—	104
Charge for year	44	1	—	45
At 31 December 2012	**115**	**34**	**—**	**149**
Net book value at 31 December 2012	**413**	**2**	**212**	**627**
Cost				
At 1 January 2011	175	36	—	211
Additions	68	—	—	68
At 31 December 2011	243	36	—	279
Accumulated depreciation				
At 1 January 2011	67	32	—	99
Charge for year	4	1	—	5
At 31 December 2011	71	33	—	104
Net book value at 31 December 2011	172	3	—	175
Cost at 1 January 2011	175	36	—	211
Accumulated depreciation at 1 January 2011	67	32	—	99
Net book value at 1 January 2011	108	4	—	112

16. Investments

Company	2012 £'000	2011 £'000
Interest in group undertakings		
Cost at 1 January and 31 December	**138,530**	138,530
Impairment at 1 January and 31 December	**—**	—
Net book value at 1 January and 31 December	**138,530**	138,530

The company's subsidiary undertakings at 31 December 2012 are shown below:

Name of undertaking	Country of incorporation or registration	Nature of business	Class of shares held	Proportion of nominal value of issued shares held by: Group	Company	Proportion of voting rights represented by shares held: Group	Company
Devro (Scotland) Limited	Scotland	Casings	Ordinary		100%		100%
Devro New Holdings Limited	Scotland	Holding	Ordinary		100%		100%
Devro Medical Limited	Scotland	Ceased trading	Ordinary		100%		100%
Devro Acquisition Corp	USA	Holding	Common	100%		100%	
Devro Asia Limited	Hong Kong	Casings	Ordinary	100%		100%	
Devro Pty Limited	Australia	Casings	Ordinary	100%		100%	
Devro KK	Japan	Casings	Ordinary	100%		100%	
Devro Inc	USA	Casings	Common	100%		100%	
Devro s.r.o	Czech Republic	Casings	Ordinary	100%		100%	
Devro Trading (Beijing) Co. Limited	China	Casings	Ordinary	100%		100%	

The group's subsidiary undertaking Devro GmbH was sold in 2011, as described in note 5.

Devro Pty Limited has a branch located in New Zealand.

17. Inventories

Details of inventories relating to the group are as follows:

	2012 £'000	2011 £'000
Raw materials and consumables	**6,579**	4,218
Work in progress	**4,315**	4,605
Finished goods and goods for resale	**17,214**	18,733
	28,108	27,556

At 31 December 2012, inventories amounting to £1,024,000 (2011: £147,000) were held at net realisable value.

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18. Trade and other receivables

	Group		Company	
	2012	2011	**2012**	2011
	£'000	£'000	**£'000**	£'000
Amounts falling due after more than one year				
Amounts owed by subsidiary undertakings	**–**	–	**13,798**	25,182
Amounts falling due within one year				
Trade receivables	**32,129**	31,099	**–**	25
Less: provision for doubtful debts	**(191)**	(288)	**–**	–
Trade receivables – net	**31,938**	30,811	**–**	25
Amounts owed by subsidiary undertakings	**–**	–	**413**	90
Other receivables	**2,526**	2,195	**72**	168
Prepayments and accrued income	**1,816**	1,814	**837**	837
	36,280	34,820	**1,322**	1,120

Group

At 31 December 2012, trade receivables of £181,000 (2011: £269,000) were impaired and fully provided. It was assessed that none of the impaired receivables would be recovered. The ageing of these receivables was as follows:

	2012	2011
	£'000	£'000
Less than 30 days past due	**68**	118
30 to 90 days past due	**19**	52
Greater than 90 days past due	**94**	99
	181	269

Movements on the group's provision for impairment of receivables were as follows:

	2012	2011
	£'000	£'000
At 1 January	**269**	240
Exchange differences	**5**	(15)
Receivables impaired	**29**	86
Receivables written off as uncollectible	**(121)**	(37)
Unused amounts reversed	**(1)**	(5)
At 31 December	**181**	269

In addition to the impairment provision, at 31 December 2012 there was a specific experience-based provision of £10,000 (2011: £19,000).

18. Trade and other receivables (continued)

At 31 December 2012, trade receivables of £3,841,000 (2011: £3,283,000) were past due but not impaired. These related to a number of customers for whom there is no recent history of default. The ageing of these receivables was as follows:

	2012 £'000	2011 £'000
Less than 30 days past due	**3,784**	2,903
30 to 90 days past due	**57**	380
	3,841	3,283

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 and other receivables were denominated in the following currencies:

	2012 £'000	2011 £'000
US dollar	**8,568**	8,119
Euro	**8,111**	7,608
Japanese yen	**6,079**	6,201
Sterling	**4,824**	5,809
Australian dollar	**4,448**	3,957
Czech koruna	**2,113**	1,193
Other currencies	**2,137**	1,933
	36,280	34,820

Company

At 31 December 2012, trade receivables of £nil (2011: £25,000) were neither past due nor impaired.

At 31 December 2012, receivables due from subsidiary undertakings of £14,211,000 (2011: £25,272,000) were neither past due nor impaired.

The carrying amounts of the company's trade and other receivables were denominated in the following currencies:

	2012 £'000	2011 £'000
Sterling	**8,399**	19,060
Japanese yen	**3,252**	3,855
US dollar	**3,079**	3,198
Other currencies	**390**	189
	15,120	26,302

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19. Cash and cash equivalents

	Group		Company	
	2012 £'000	2011 £'000	**2012 £'000**	2011 £'000
Cash at bank and in hand	**5,166**	6,390	**2,149**	3,054
Short-term bank deposits	**465**	1,224	**—**	—
	5,631	7,614	**2,149**	3,054

20. Trade and other payables - current

	Group		Company	
	2012 £'000	2011 £'000	**2012 £'000**	2011 £'000
Trade payables	**12,465**	8,505	**465**	461
Amounts owed to subsidiary undertakings	**—**	—	**27**	48
Taxation and social security payable	**2,631**	2,028	**245**	429
Accruals and deferred income	**15,097**	22,723	**2,262**	2,061
	30,193	33,256	**2,999**	2,999

21. Other payables - non-current

	Group		Company	
	2012 £'000	2011 £'000	**2012 £'000**	2011 £'000
Amounts owed to subsidiary undertakings	**—**	—	**10,011**	10,554
Accruals and deferred income	**1,782**	1,336	**—**	—
	1,782	1,336	**10,011**	10,554

22. Financial liabilities – borrowings

	Group		Company	
	2012 £'000	2011 £'000	**2012 £'000**	2011 £'000
Current				
Unsecured bank loans and overdrafts due within one year or on demand	**1,868**	2,213	**465**	1,168
Non-current				
Unsecured bank loans	**29,846**	28,103	**18,600**	20,847

Borrowings are denominated in a number of currencies, and bear interest based on the London Interbank Offered Rate ("LIBOR") as set by the British Bankers' Association or equivalent rates appropriate to the country in which the borrowing is incurred. All of the group's borrowings are exposed to interest rate changes within one year.

22. Financial liabilities – borrowings (continued)

The effective interest rates at the balance sheet dates were as follows:

	Currency/Country	Rate	2012	2011
Bank overdrafts:	Sterling* (UK)	Bank of England base rate plus 250 basis points	**3.00%**	3.00%
	US dollar (UK)	US Federal funds target rate plus 250 basis points	**2.75%**	3.00%
	Euro (UK)	European Central Bank marginal lending facility rate plus 250 basis points	**4.00%**	4.25%
	Australian dollar (UK)	Reserve Bank of Australia cash rate plus 250 basis points	**5.50%**	6.75%
	New Zealand dollar (UK)	New Zealand official cash rate plus 250 basis points	**5.00%**	5.00%
	Japanese yen (UK)	Japanese basic loan rate plus 250 basis points	**2.80%**	2.80%
	Swiss franc (UK)	Swiss National Bank target rate plus 250 basis points	**2.50%**	2.50%
	US dollar (USA)	US 1 month LIBOR plus 200 basis points	**2.21%**	2.30%
	Australian dollar (Australia)	National Australia Bank business overdraft prime rate minus 100 basis points	**7.47%**	8.31%
	Czech koruna (Czech Republic)	PRIBOR plus 90 basis points	**1.09%**	1.40%
	Euro (Czech Republic)	EUR LIBOR plus 90 basis points	**0.92%**	1.33%
	US dollar (Czech Republic)	US LIBOR plus 90 basis points	**1.07%**	1.05%
Bank borrowings:				
Floating rate	Sterling	LIBOR plus 100 basis points (2011: plus 100 basis points)	**1.50%**	1.76%
Floating rate	Australian dollar	AUD LIBOR plus 100 basis points (2011: plus 100 basis points)	**4.15%**	5.53%
Floating rate	Japanese yen	JPY LIBOR plus 100 basis points (2011: plus 100 basis points)	**1.13%**	1.14%
Average bank borrowings rate			**2.46%**	2.62%

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

Borrowings were denominated in the following currencies:

	Group		Company	
	2012 £'000	2011 £'000	**2012 £'000**	2011 £'000
Sterling	**15,818**	17,329	**15,818**	17,329
Australian dollar	**11,279**	7,256	**33**	—
Japanese yen	**3,200**	3,847	**3,200**	3,847
Czech koruna	**1,030**	1,045	**—**	—
US dollar	**12**	839	**—**	839
Euro	**375**	—	**14**	—
	31,714	30,316	**19,065**	22,015

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23. Financial risk management and financial instruments

Financial risk management

The Board reviews and agrees policies for managing each of the risks associated with interest rate, foreign exchange, credit, liquidity and capital. It is the group's policy that no 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:

Market risk

a) Interest rate risk

The group's interest rate risk arises from borrowings, cash and short-term deposits, together with currency swaps used to hedge inter-company loans.

The group borrows in the desired currencies at floating 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. Although group policy permits the hedging of up to 50% of interest rate exposures on borrowings for a period not exceeding five years, no interest rate hedging was in place at 31 December 2012 or 31 December 2011.

Cash is held in interest-bearing current accounts where practicable with any excess cash placed on deposit. Any deposits made are for periods of less than three months.

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 2012, would result in a movement in finance costs of £317,000 (2011: £303,000) and finance income of £56,000 (2011: £76,000). This would result in a post-tax impact on the group's income statement of £193,000 (2011: £164,000).

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 80% of the net external currency transaction exposures for periods of up to a maximum of fifteen months forward. It is not group policy to routinely hedge translation exposures apart from those created by inter-company loans. Specific Board approval is required for any other translation exposure hedging.

The table below details the impact of changes in foreign exchange rates on the group's post-tax profit for the year ended 31 December 2012 and 31 December 2011 and equity at 31 December 2012 and 31 December 2011. The gains and losses arise from translating receivables, payables, cash and derecognised currency hedges which are denominated in currencies other than each group company's reporting currency. The movements in equity arise from the translation of cash flow currency hedges.

In each case, it is assumed that the named currency is strengthening or weakening against all other currencies, while all the other currencies remain constant. The percentage foreign currency movement is based on the maximum annual percentage movement against sterling during the previous four years. In the case of sterling it is based on the maximum percentage movement against the US dollar during the previous four years. Results are shown for all currencies where the impact on group post-tax profits would be more than £50,000.

	Impact on group post-tax profits – gains/(losses)		Impact on equity – increase/(decrease)	
Foreign currency movement	Strengthening £'000	Weakening £'000	Strengthening £'000	Weakening £'000
2012				
Australian dollar: 25%	**(231)**	**231**	**4,691**	**(4,691)**
Czech koruna: 20%	**(189)**	**189**	**3,817**	**(3,817)**
Euro: 15%	**166**	**(166)**	**(4,333)**	**4,333**
Japanese yen: 35%	**177**	**(177)**	**(5,431)**	**5,431**
Sterling: 25%	**(714)**	**714**	**5,560**	**(5,560)**
US dollar: 25%	**433**	**(433)**	**(2,961)**	**(2,961)**
2011				
Australian dollar: 25%	(305)	305	4,608	(4,608)
Czech koruna: 20%	(255)	255	3,879	(3,879)
Euro: 15%	136	(136)	(3,761)	3,761
Japanese yen: 35%	1,181	(1,181)	(4,503)	4,503
Sterling: 25%	(1,054)	1,054	3,374	(3,374)
US dollar: 25%	307	(307)	(2,339)	2,339

23. Financial risk management and financial instruments (continued)

Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures with customers.

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 with rating agencies Fitch, S&P or Moody's. At the reporting date no single banking exposure was greater than £2.5m. The group does not hold any collateral as security.

Liquidity risk

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 2012 and 31 December 2011 are shown below:

	2012 £'000	2011 £'000
Expiring in more than one year but less than two years	—	—
Expiring in more than two years	21,154	22,897
	21,154	22,897

At 31 December 2012, the group had in place unsecured floating rate committed loan facilities totalling £51.0 million (2011: £51.0 million). These facilities are co-ordinated bilateral facilities with four banks, negotiated in September 2011 and due to expire in September 2016.

The group was in compliance with the covenants related to its loan facilities throughout the years ending 31 December 2012 and 31 December 2011.

In addition to the committed facilities, local uncommitted working capital facilities of £7.5 million (2011: £5.0 million), US dollars 2.0 million (2011: US dollars 2.0 million), Czech koruna 120 million (2011: Czech koruna 90.0 million) and Australian dollars 0.5 million (2011: Australian dollars 0.5 million) were also in place at 31 December 2012. These facilities are renewable within one year.

Capital risk

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 optimal capital structure. In order to maintain the 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 principal 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 net assets. Net debt is total borrowings less cash and cash equivalents. Net assets are as shown in the consolidated balance sheet. The gearing ratios at 31 December 2012 and 31 December 2011 were as follows:

	2012 £'000	2011 £'000
Total borrowings (note 22)	31,714	30,316
Less: cash and cash equivalents (note 19)	(5,631)	(7,614)
Net debt (note 33)	26,083	22,702
Net assets	146,926	140,479
Gearing ratio	17.8%	16.2%

23. Financial risk management and financial instruments (continued)

Financial instruments

Disclosures regarding financial instruments are set out below:

Fair value of derivative financial instruments

The fair values of derivative financial instruments were as follows:

	Group		Company	
	Assets £'000	**Liabilities £'000**	**Assets £'000**	**Liabilities £'000**
At 31 December 2012				
Forward foreign exchange contracts				
- cash flow hedge	2,893	286	—	—
- other	316	64	45	19
	3,209	**350**	**45**	**19**
At 31 December 2011				
Forward foreign exchange contracts				
- cash flow hedge	494	947	—	—
- other	78	668	—	308
	572	1,615	—	308

Forward foreign exchange contracts – other, shown in the table above, relates to cash flow hedges that have been derecognised due to the relevant sales and purchases having already taken place, together with currency swaps used to hedge exposures in respect of inter-company loans.

Assets and liabilities that are measured at fair value are disclosed by level of the following fair value measurement hierarchy:

Level 1 Quoted prices (unadjusted) in active markets for identical assets and liabilities
Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (that is, as prices) or indirectly (that is, derived from prices)
Level 3 Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

All of the group's financial assets and liabilities that are measured at fair value were classified as Level 2 as at 31 December 2012 (2011: Level 2).

At 31 December 2012, 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 £2,607,000 (2011: losses of £453,000). These will be transferred to the income statement when the forecast sales and purchases occur during 2013.

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

	2012 £'000	2011 £'000
Forward foreign exchange contracts	**81,398**	60,577
Currency swaps	**13,224**	16,994

23. Financial risk management and financial instruments (continued)

Fair values of non-derivative financial assets and liabilities

Group	2012 Book value £'000	2012 Fair value £'000	2011 Book value £'000	2011 Fair value £'000
Fair value of non-current borrowings				
Long-term borrowings (note 22)	**(29,846)**	**(29,846)**	(28,103)	(28,103)
Fair value of other financial assets and liabilities				
Primary financial instruments held or issued to finance the group's activities:				
Trade and other receivables (note 18)	**36,280**	**36,280**	34,820	34,820
Short-term bank deposits (note 19)	**465**	**465**	1,224	1,224
Cash at bank and in hand (note 19)	**5,166**	**5,166**	6,390	6,390
Trade and other payables (note 20)	**(30,193)**	**(30,193)**	(33,256)	(33,256)
Other non-current liabilities (note 21)	**(1,782)**	**(1,624)**	(1,336)	(1,166)
Short-term borrowings (note 22)	**(1,868)**	**(1,868)**	(2,213)	(2,213)

The fair values of the group's borrowings are equivalent to the carrying values reported in the balance sheets 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.

The fair value of other non-current liabilities has been calculated by discounting expected cash flows at prevailing interest and exchange rates.

Maturity of financial liabilities

The tables below analyse the group's and company's financial liabilities, which will be settled on a net basis, into relevant maturity groupings based on the remaining period to the contractual maturity dates at 31 December 2012 and 31 December 2011. The amounts disclosed in the tables are the relevant undiscounted cash flows.

Group	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 years £'000
At 31 December 2012				
Borrowings	**2,566**	**696**	**31,057**	**—**
Derivative financial instruments	**350**	**—**	**—**	**—**
Trade and other payables	**27,562**	**356**	**485**	**941**
At 31 December 2011				
Borrowings	2,963	742	30,144	—
Derivative financial instruments	1,615	—	—	—
Trade and other payables	31,228	218	413	705

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23. Financial risk management and financial instruments (continued)

Maturity of financial liabilities (continued)

Company	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 years £'000
At 31 December 2012				
Borrowings	**696**	**228**	**18,999**	**—**
Derivative financial instruments	**19**	**—**	**—**	**—**
Trade and other payables	**2,754**	**—**	**—**	**—**
At 31 December 2011				
Borrowings	1,516	342	21,788	—
Derivative financial instruments	308	—	—	—
Trade and other payables	2,570	—	—	—

The amounts shown as borrowings in the above tables include the capital outstanding at each balance sheet 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 taxation and social security payable.

Maturity of derivative financial instruments

The table below shows the group's and company's derivative financial instruments, which will be settled on a gross basis. The amounts disclosed in the tables are the contractual undiscounted cash flows.

	At 31 December 2012		At 31 December 2011	
	Less than 1 year £'000	**Between 1 and 2 years £'000**	Less than 1 year £'000	Between 1 and 2 years £'000
Group				
Forward foreign exchange contracts – cash flow hedges				
Outflow	**66,172**	**1,278**	51,231	—
Inflow	**68,596**	**1,431**	51,166	—
Forward foreign exchange contracts – other				
Outflow	**24,373**	**—**	26,340	—
Inflow	**24,594**	**—**	23,879	—
Company				
Forward foreign exchange contracts – other				
Outflow	**13,201**	**—**	15,327	—
Inflow	**13,224**	**—**	13,141	—

Forward foreign exchange contracts – other, shown in the table above, relates to cash flow hedges that have been derecognised due to the relevant sales and purchases having already taken place, together with currency swaps used to hedge exposures in respect of inter-company loans.

24. Deferred tax

	Group		Company	
	2012	2011	**2012**	2011
	£'000	£'000	**£'000**	£'000
Net asset/(liability) at 1 January	**1,759**	(5,280)	**(140)**	(73)
Exchange differences	**(227)**	424	**—**	—
(Charge)/credit for the year	**(3,415)**	(2,311)	**88**	(72)
Credit to equity	**2,677**	8,752	**—**	—
United Kingdom corporation tax rate change	**207**	174	**11**	5
Net asset/(liability) at 31 December	**1,001**	1,759	**(41)**	(140)

Group

Deferred tax assets can be analysed as follows:

	Retirement benefit obligations £'000	**Short term timing differences £'000**	**Total £'000**
At 1 January 2012	13,755	4,635	18,390
Exchange differences	(384)	—	(384)
Charge for the year	(337)	(1,263)	(1,600)
Credit/(charge) to equity	3,391	(114)	3,277
At 31 December 2012	**16,425**	**3,258**	**19,683**
At 1 January 2011	5,418	3,281	8,699
Exchange differences	31	—	31
(Charge)/credit for the year	(220)	1,128	908
Credit to equity	8,526	226	8,752
At 31 December 2011	13,755	4,635	18,390

Deferred tax liabilities can be analysed as follows:

	Accelerated capital allowances £'000	**Short term timing differences £'000**	**Total £'000**
At 1 January 2012	(13,777)	(2,854)	(16,631)
Exchange differences	157	—	157
Charge for the year	(990)	(618)	(1,608)
Charge to equity	—	(600)	(600)
At 31 December 2012	**(14,610)**	**(4,072)**	**(18,682)**
At 1 January 2011	(13,090)	(889)	(13,979)
Exchange differences	393	—	393
Charge for the year	(1,080)	(1,965)	(3,045)
At 31 December 2011	(13,777)	(2,854)	(16,631)

24. Deferred tax (continued)

Group (continued)

The net deferred tax asset/(liability) can be analysed as follows:

	Asset 2012 £'000	Asset 2011 £'000	**Liability 2012 £'000**	Liability 2011 £'000	**Total 2012 £'000**	Total 2011 £'000
Due within one year	**2,758**	3,955	**(105)**	(286)	**2,653**	3,669
Due after more than one year	**16,925**	14,435	**(18,577)**	(16,345)	**(1,652)**	(1,910)
	19,683	18,390	**(18,682)**	(16,631)	**1,001**	1,759

Company

	Accelerated capital allowances £'000	**Short term timing differences £'000**	**Total £'000**
(Liability)/asset at 1 January 2012	(145)	5	(140)
Credit for the year	58	30	88
United Kingdom corporation tax rate change	11	—	11
(Liability)/asset at 31 December 2012	**(76)**	**35**	**(41)**
(Liability)/asset at 1 January 2011	(85)	12	(73)
Charge for the year	(65)	(7)	(72)
United Kingdom corporation tax rate change	5	—	5
(Liability)/asset at 31 December 2011	(145)	5	(140)

The deferred tax asset can be analysed as follows:

	2012 £'000	2011 £'000
Due after more than one year	**35**	5

The deferred tax liability can be analysed as follows:

	2012 £'000	2011 £'000
Due after more than one year	**(76)**	(145)

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.

At 31 December 2012, unrecognised deferred tax is £nil (2011: £nil).

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 (2011: £nil).

25. Retirement benefit obligations

The amounts recognised as charges/(credits) in the income statement (continuing and discontinuing operations), are as follows:

	2012 £'000	2011 £'000
Pension obligations		
Defined benefit schemes:		
- Current service cost	**1,491**	799
- Net finance cost/(income)	**1,389**	(1,111)
	2,880	(312)
Defined contribution schemes	**1,701**	1,360
	4,581	1,048

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

	2012 £'000	2011 £'000
Pension obligations		
Fair value of scheme assets	**203,116**	196,617
Present value of scheme liabilities	**(262,387)**	(242,775)
	(59,271)	(46,158)

Pension obligations

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 net pension cost for the group was £4,581,000 (2011: £1,048,000), of which £2,365,000 (2011: £2,396,000) related to the overseas schemes. On the advice of the actuaries, cash contributions to the group's defined benefit schemes are expected to be £6.3 million for the year ending 31 December 2013 (2012: £6.5 million).

The most significant defined benefit scheme within the group is the Devro Limited (UK) Pension Plan, which operates in the United Kingdom. The latest formal actuarial valuation of the scheme was at 31 March 2011. The other major defined benefit schemes operate in Australia and the United States.

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 2012 by qualified independent actuaries. The major assumptions used by the actuaries in the following principal countries were:

	Australia		United Kingdom		United States	
	2012 %	2011 %	2012 %	2011 %	2012 %	2011 %
Discount rate	**3.40**	3.20	**4.30**	4.70	**3.65**	4.52
Rate of increase in salaries*	**3.50**	4.00	**1.00**	1.00	**—**	—
General inflation	**2.50**	2.50	**2.90**	3.10	**—**	—

* As part of the changes to the United Kingdom 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 United States plan as the plan is now frozen.

The expected return on scheme assets is based on market expectations at the beginning of the period for returns over the entire life of the benefit obligations.

25. Retirement benefit obligations (continued)

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 at 31 December 2012 are based on the following tables:

	Years of life expectancy for current pensioners aged 65			
	2012		2011	
	Male	Female	Male	Female
SAPS 'Normal' (YOB)*	22.3	24.5		
United Kingdom – PA92 mc (YOB) +1% underpin + 2			21.9	24.1
IRS Reg. 1.430(h)(3)-1 updated to 2012	19.2	21.1		
United States – RP-2000 healthy projected to 2011			19.1	21.0

* adjusted by -0.2 years for male non-pensioners and -0.6 years for female non-pensioners (no adjustment for pensioners) with CMI improvements using a long-term rate of 1.25% per annum.

The Australian defined benefit scheme provides only for a lump sum payment on retirement.

In addition to the above schemes, the group operates a defined benefit retirement plan in Germany which, in common with typical practice in that country, is supported by insurance policies. At 31 December 2012, the value of the insurance asset was £2.4 million (2011: £2.5 million) and the value of the liability was £3.0 million (2011: £2.7 million). As mentioned in note 5, a proportion of the assets and liabilities of the German plan, relating to the period when the business operated as a branch of Devro Inc or Devro (Scotland) Limited, was retained by the group after the sale of Devro GmbH.

In addition, the group has benefit arrangements in respect of two former executives in the United States 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 United States and Japan are included under the "other" heading in this note.

The aggregate fair values of assets in the group's defined benefit schemes at 31 December 2012 were estimated to be:

	Australia		United Kingdom		United States		Other		Total	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000	2012 £'000	2011 £'000	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Equities	6,075	6,296	24,295	72,993	14,715	14,493	–	–	45,085	93,782
Bonds	1,988	1,546	98,505	68,682	23,912	24,103	–	–	124,405	94,331
Other	4,310	3,204	24,447	2,494	2,493	323	2,376	2,483	33,626	8,504
	12,373	11,046	147,247	144,169	41,120	38,919	2,376	2,483	203,116	196,617

The long-term rates of return expected at 31 December 2012 in the principal countries were as follows:

	Australia		United Kingdom		United States	
	2012 %	2011 %	2012 %	2011 %	2012 %	2011 %
Equities	8.1	7.8	7.4	5.8	7.7	7.7
Bonds	4.7	4.6	4.2	2.8	3.4	3.9
Other	6.2	5.2	4.6	0.3	3.0	3.5

25. Retirement benefit obligations (continued)

Net pension assets and liabilities at 31 December 2012 were as follows:

	Australia		United Kingdom		United States		Other		Total	
	2012 £'000	2011 £'000	**2012 £'000**	2011 £'000	**2012 £'000**	2011 £'000	**2012 £'000**	2011 £'000	**2012 £'000**	2011 £'000
Total fair value of scheme assets (as above)	**12,373**	11,046	**147,247**	144,169	**41,120**	38,919	**2,376**	2,483	**203,116**	196,617
Present value of scheme liabilities	**(14,497)**	(15,057)	**(180,450)**	(164,127)	**(64,013)**	(60,377)	**(3,427)**	(3,214)	**(262,387)**	(242,775)
Deficit	**(2,124)**	(4,011)	**(33,203)**	(19,958)	**(22,893)**	(21,458)	**(1,051)**	(731)	**(59,271)**	(46,158)
Related deferred tax assets	**636**	1,202	**7,637**	4,990	**7,784**	7,296	**368**	267	**16,425**	13,755
Net pension liabilities	**(1,488)**	(2,809)	**(25,566)**	(14,968)	**(15,109)**	(14,162)	**(683)**	(464)	**(42,846)**	(32,403)

The net deficit position has increased during the year. The value of the scheme assets was relatively stable in the period. However, the present value of the pension liabilities increased predominantly as a result of the fall in discount rates. The UK scheme is the largest of the schemes and the discount rate decreased from 4.7% to 4.3% in 2012, generating £12 million of additional net liabilities. Work is ongoing with advisers to develop ways to manage future volatility. The results of the triennial valuation for the UK scheme as at 31 March 2011 were concluded in the first half of 2012 and a deficit contribution profile agreed with the Trustees. Further additional contributions will be made to the schemes in 2013 to reduce the deficit. The group continues to pay contributions to retirement schemes in accordance with local regulatory requirements and on the advice of qualified independent actuaries. The actuaries continually review the funding position of the schemes.

Changes in the fair value of scheme assets were as follows:

	2012 £'000	2011 £'000
At 1 January	**196,617**	198,518
Expected return on plan assets	**9,570**	12,086
Employer contributions	**6,542**	5,168
Member contributions	**446**	750
Benefits paid	**(11,627)**	(10,717)
Sale of subsidiary	**—**	(1,723)
Actuarial gains/(losses)	**3,436**	(7,708)
Exchange (losses)/gains	**(1,868)**	243
At 31 December	**203,116**	196,617

Changes in the present value of defined benefit obligations were as follows:

	2012 £'000	2011 £'000
At 1 January	**242,775**	211,923
Service cost	**1,491**	799
Interest cost	**10,959**	10,975
Member contributions	**446**	750
Benefits paid	**(11,627)**	(10,717)
Sale of subsidiary	**—**	(1,906)
Actuarial losses	**21,350**	30,623
Exchange (gains)/losses	**(3,007)**	328
At 31 December	**262,387**	242,775

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for the year ended 31 December 2012 continued

25. Retirement benefit obligations (continued)

Amounts charged/(credited) to the income statement and recognised in the statement of comprehensive income (continuing and discontinued operations) were as follows:

	Australia		United Kingdom		United States		Other		Total	
	2012 £'000	2011 £'000	**2012 £'000**	2011 £'000	**2012 £'000**	2011 £'000	**2012 £'000**	2011 £'000	**2012 £'000**	2011 £'000
Amounts charged to the income statement										
Current service cost	**564**	597	**927**	130	**—**	—	**—**	72	**1,491**	799
Net charge to operating profit	**564**	597	**927**	130	**—**	—	**—**	72	**1,491**	799
Expected return on pension scheme assets	**(735)**	(714)	**(6,836)**	(9,293)	**(1,999)**	(2,079)	**—**	—	**(9,570)**	(12,086)
Interest on pension scheme liabilities	**632**	569	**7,611**	7,408	**2,580**	2,769	**136**	229	**10,959**	10,975
Financing (credit)/charge	**(103)**	(145)	**775**	(1,885)	**581**	690	**136**	229	**1,389**	(1,111)
Net charge/(credit) to profit	**461**	452	**1,702**	(1,755)	**581**	690	**136**	301	**2,880**	(312)
Amounts recognised in statement of comprehensive income										
Actual return less expected return on assets	**500**	(1,009)	**572**	(6,056)	**2,364**	(675)	**14**	2	**3,450**	(7,738)
Experience (losses)/gains on liabilities	**(142)**	(81)	**(371)**	(4,709)	**(774)**	(348)	**54**	(32)	**(1,233)**	(5,170)
Changes in assumptions	**904**	(2,205)	**(14,291)**	(18,146)	**(6,331)**	(4,921)	**(413)**	(151)	**(20,131)**	(25,423)
Actuarial gains/(losses) on assets and liabilities	**1,262**	(3,295)	**(14,090)**	(28,911)	**(4,741)**	(5,944)	**(345)**	(181)	**(17,914)**	(38,331)
Exchange gains/(losses)	**82**	(64)	**—**	—	**896**	(186)	**161**	165	**1,139**	(85)
Total actuarial gains/(losses) recognised	**1,344**	(3,359)	**(14,090)**	(28,911)	**(3,845)**	(6,130)	**(184)**	(16)	**(16,775)**	(38,416)

Movements in the (deficit)/surplus during the year were as follows:

	Australia		United Kingdom		United States		Other		Total	
	2012 £'000	2011 £'000	**2012 £'000**	2011 £'000	**2012 £'000**	2011 £'000	**2012 £'000**	2011 £'000	**2012 £'000**	2011 £'000
(Deficit)/surplus in scheme at beginning of year	**(4,011)**	(962)	**(19,958)**	5,038	**(21,458)**	(16,884)	**(731)**	(597)	**(46,158)**	(13,405)
Movement in year:										
Pension (charge)/credit	**(461)**	(452)	**(1,702)**	1,755	**(581)**	(690)	**(136)**	(301)	**(2,880)**	312
Employer contributions	**1,004**	762	**2,547**	2,160	**2,991**	2,246	**—**	—	**6,542**	5,168
Actuarial gains/(losses)	**1,262**	(3,295)	**(14,090)**	(28,911)	**(4,741)**	(5,944)	**(345)**	(181)	**(17,914)**	(38,331)
Sale of subsidiary	**—**	—	**—**	—	**—**	—	**—**	183	**—**	183
Exchange gains/(losses)	**82**	(64)	**—**	—	**896**	(186)	**161**	165	**1,139**	(85)
Deficit in scheme at end of year	**(2,124)**	(4,011)	**(33,203)**	(19,958)	**(22,893)**	(21,458)	**(1,051)**	(731)	**(59,271)**	(46,158)

The actual return on plan assets in 2012 was £13.0 million (2011: £4.3 million).

The cumulative actuarial losses recognised in other comprehensive income are £75,737,000 (2011: £58,962,000).

25. Retirement benefit obligations (continued)

Historical information in the principal countries is as follows:

	Fair value of scheme assets £'000	Present value of defined benefit obligations £'000	(Deficit)/ surplus in the schemes £'000	Difference between expected and actual return on scheme assets £'000	Experience (losses)/gains on scheme liabilities £'000	Total amount recognised in statement of comprehensive income £'000
Australia						
2012	**12,373**	**(14,497)**	**(2,124)**	**500**	**(142)**	**1,344**
2011	11,046	(15,057)	(4,011)	(1,009)	(81)	(3,359)
2010	10,785	(11,747)	(962)	(349)	(181)	(1,373)
2009	9,130	(8,837)	293	240	(30)	1,924
2008	7,077	(8,619)	(1,542)	(2,402)	(59)	(3,094)
United Kingdom						
2012	**147,247**	**(180,450)**	**(33,203)**	**572**	**(371)**	**(14,090)**
2011	144,169	(164,127)	(19,958)	(6,056)	(4,709)	(28,911)
2010	144,815	(139,777)	5,038	7,053	(251)	873
2009	133,169	(149,414)	(16,245)	8,517	(3,767)	(13,644)
2008	120,192	(124,700)	(4,508)	(27,466)	5,064	(3,640)
United States						
2012	**41,120**	**(64,013)**	**(22,893)**	**2,364**	**(774)**	**(3,845)**
2011	38,919	(60,377)	(21,458)	(675)	(348)	(6,130)
2010	38,687	(55,571)	(16,884)	2,170	(845)	(2,607)
2009	34,564	(49,924)	(15,360)	2,993	37	2,193
2008	33,927	(52,859)	(18,932)	(11,882)	(971)	(15,664)

26. Ordinary shares

Group and company	2012 £'000	2011 £'000
Issued and fully paid		
165,633,564 (2011: 165,008,564) ordinary shares of 10 pence each	**16,563**	16,501

Nil ordinary shares of 10 pence each were issued during the year in connection with options exercised under the Devro (No.2) Executive Share Option Scheme (2011: 18,000).

625,000 ordinary shares of 10 pence each were issued during the year in connection with the Devro 2003 Performance Share Plan (2011: 1,381,557).

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27. Share-based payments

Under the Devro 2003 Performance Share Plan ("the plan"), the Executive Directors' Remuneration Committee can make 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 operating profit of the subsidiary undertaking in which the participant is employed, growth in earnings per share of the group, the company's Total Shareholder Return, or a combination of these.

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.

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, 625,000 shares vested under the plan (2011: 1,381,557).

At 31 December 2012, the maximum number of shares which may vest under the plan is as follows:

Allocation date	Form of allocation	Fair value per share	Normal vesting date	Number of shares
28 March 2008	Conditional award	£0.679	28 March 2011	375,000
26 September 2008	Conditional award	£0.693	26 September 2011	35,000
19 March 2009	Conditional award	£0.733	19 March 2012	342,000
24 March 2010	Conditional award	£1.475	24 March 2013	467,000
24 February 2011	Nil-priced option	£2.329	24 February 2014	103,846
24 February 2011	Nil-priced option	£2.242	24 February 2015	103,846
29 March 2011	Nil-priced option	£2.640	29 March 2014	300,000
2 April 2012	Nil-priced option	£2.900	2 April 2015	358,000
1 August 2012	Nil-priced option	£2.620	1 August 2015	40,000

28. Options on shares of Devro plc

At 31 December 2012, no options on ordinary shares had been granted under the Devro (No.2) Executive Share Option Scheme (the "scheme") but not yet exercised or lapsed.

A reconciliation of the movement in share options under the scheme during the year ended 31 December 2012 is shown below:

	2012 Number	2012 Weighted average exercise price (£)	2011 Number	2011 Weighted average exercise price (£)
Outstanding at 1 January	—	—	18,000	0.515
Exercised	—	—	(18,000)	0.515
Outstanding at 31 December	—	—	—	—
Exerciseable at 31 December	—	—	—	—

The weighted average remaining life (contractual) of outstanding options at 31 December 2012 is nil years (2011: nil years). There is no difference between the calculation on a contractual basis and on an expected basis.

The company has established an employee share ownership plan trust ("ESOP") with an independent professional trustee. The ESOP may acquire shares for the purpose of the company's employee share schemes. The ESOP will not hold more than 5% of the ordinary share capital of the company without obtaining prior approval of the shareholders.

29. Share premium

Group and company	2012 £'000	2011 £'000
At 1 January	**7,642**	6,773
Premium on shares issued under the Devro 2003 Performance Share Plan	**392**	869
At 31 December	**8,034**	7,642

30. Other reserves

Group	Capital redemption reserve £'000	Special reserve £'000	Performance share plan £'000	Hedging reserve £'000	Cumulative translation adjustment £'000	Total £'000
At 1 January 2012	35,587	8,888	1,604	(340)	34,178	79,917
Exchange adjustments	—	—	—	—	(1,570)	(1,570)
Cash flow hedges, net of tax	—	—	—	2,347	—	2,347
Performance share plan charge	—	—	510	—	—	510
Performance share plan credit in respect of shares vested	—	—	(454)	—	—	(454)
At 31 December 2012	**35,587**	**8,888**	**1,660**	**2,007**	**32,608**	**80,750**
At 1 January 2011	35,587	8,888	1,654	303	39,175	85,607
Exchange adjustments	—	—	—	—	(4,997)	(4,997)
Cash flow hedges, net of tax	—	—	—	(643)	—	(643)
Performance share plan charge	—	—	1,011	—	—	1,011
Performance share plan credit in respect of shares vested	—	—	(1,061)	—	—	(1,061)
At 31 December 2011	35,587	8,888	1,604	(340)	34,178	79,917

Company	Capital redemption reserve £'000	Special reserve £'000	Performance share plan £'000	Total £'000
At 1 January 2012	35,587	8,888	1,521	45,996
Performance share plan charge	—	—	201	201
Performance share plan credit in respect of shares vested	—	—	(248)	(248)
At 31 December 2012	**35,587**	**8,888**	**1,474**	**45,949**
At 1 January 2011	35,587	8,888	1,426	45,901
Performance share plan charge	—	—	938	938
Performance share plan credit in respect of shares vested	—	—	(843)	(843)
At 31 December 2011	35,587	8,888	1,521	45,996

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.

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31. Retained earnings

	Group		Company	
	2012 £'000	2011 £'000	**2012 £'000**	2011 £'000
At 1 January	**36,419**	44,259	**67,930**	64,877
Profit for the year	**33,106**	34,192	**6,153**	15,280
Dividends paid	**(13,423)**	(12,227)	**(13,423)**	(12,227)
Actuarial loss recognised in retirement benefit obligations, net of tax	**(14,523)**	(29,805)	**—**	—
At 31 December	**41,579**	36,419	**60,660**	67,930

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

	Group		Company	
	2012 £'000	2011 £'000	**2012 £'000**	2011 £'000
Continuing operations				
Profit/(loss) before tax	**40,821**	43,034	**(9,243)**	(4,780)
Adjustments for:				
Finance income	**(47)**	(121)	**(270)**	(290)
Finance cost	**1,085**	953	**703**	578
Net finance cost/(income) on pension assets and liabilities	**1,389**	(1,174)	**—**	—
Loss on disposal of property, plant and equipment	**22**	334	**—**	—
Depreciation of property, plant and equipment	**14,958**	13,414	**45**	5
Amortisation of intangible assets	**1,027**	471	**777**	205
Release from capital grants reserve	**(115)**	(54)	**—**	—
Expenses associated with the disposal of the discontinued operation	**—**	(212)	**—**	—
Retirement benefit obligations	**(5,037)**	(4,622)	**—**	—
Performance share plan	**56**	(50)	**(47)**	95
Changes in working capital:				
Increase in inventories	**(1,291)**	(2,322)	**—**	—
(Increase)/decrease in trade and other receivables	**(2,936)**	(4,217)	**11,140**	(9,355)
Decrease in trade and other payables	**(1,841)**	(347)	**(2,089)**	(4,313)
Cash generated from/(used in) continuing operations	**48,091**	45,087	**1,016**	(17,855)
Discontinued operation				
Profit before tax	**—**	266	**—**	—
Adjustments for:				
Finance income	**—**	(1)	**—**	—
Finance cost	**—**	2	**—**	—
Net finance cost on pension and assets and liabilities	**—**	63	**—**	—
Depreciation of property, plant and equipment	**—**	21	**—**	—
Retirement benefit obligations	**—**	21	**—**	—
Changes in working capital:				
Decrease in inventories	**—**	1,353	**—**	—
Increase in trade and other receivables	**—**	(116)	**—**	—
Decrease in trade and other payables	**—**	(939)	**—**	—
Cash generated from discontinued operation	**—**	670	**—**	—
Total cash generated from/(used in) operations	**48,091**	45,757	**1,016**	(17,855)

33. Analysis of net debt

	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
Cash and cash equivalents	**5,631**	7,614	**2,149**	3,054
Bank overdrafts	**(1,868)**	(2,213)	**(465)**	(1,168)
	3,763	5,401	**1,684**	1,886
Borrowings less bank overdrafts	**(29,846)**	(28,103)	**(18,600)**	(20,847)
	(26,083)	(22,702)	**(16,916)**	(18,961)

34. Capital commitments

Capital expenditure contracted for but not provided in the financial statements:

	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
Property, plant and equipment	**8,159**	11,956	**—**	—
Intangible assets	**35**	21	**—**	16
	8,194	11,977	**—**	16

35. Contingent liabilities

In the opinion of the directors, the group has no material contingent liabilities (2011: £nil).

36. Financial commitments

Operating leases

At 31 December 2012, the future aggregate minimum lease payments were as follows:

	2012 £'000	2011 £'000
Group		
No later than one year	**902**	745
Later than one year and no later than five years	**1,991**	838
Later than five years	**1**	93
	2,894	1,676
Company		
No later than one year	**187**	6
Later than one year and no later than five years	**1,085**	16
	1,272	22

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37. Related party transactions

The group had no related party transactions, other than key management compensation. Key management are deemed to be the Executive and Non-Executive Directors of the group as they have the authority and responsibility for controlling group activities. Total directors' emoluments for the year were £1,000,000 (2011: £1,145,000). A detailed analysis of directors' emoluments is provided in the Remuneration report on pages 30 to 38.

Related party transactions carried out by the company during the year ended 31 December 2012 were as follows:

	2012 £'000	2011 £'000
Sale of services to subsidiary undertakings	**4,000**	3,405
Purchase of services from subsidiary undertakings	**170**	177
Charges from subsidiary undertakings in respect of systems upgrade project	**—**	789
Royalty income received from subsidiary undertaking	**1,384**	1,276
Interest received from subsidiary undertakings	**257**	220
Interest paid to subsidiary undertakings	**85**	105
Balances at 31 December arising from transactions with subsidiary undertakings:		
Receivables		
- current	**413**	90
- non-current	**13,798**	25,182
Payables		
- current	**27**	48
- non-current	**10,011**	10,554

Independent auditors' report to the members of Devro plc

We have audited the financial statements of Devro plc for the year ended 31 December 2012 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the group and parent company balance sheets, the group and parent company statements of changes in equity, the group and parent company cash flow statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of directors' responsibilities set out on page 24, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

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 2012 and of the group's profit and group's and parent company's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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 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.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 29, in relation to going concern;
- the part of the Corporate governance report relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Caroline Roxburgh (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
14 March 2013

Notes:

(a) The maintenance and integrity of the Devro plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdiction.

Financial summary

For the years ended 31 December

	2012 £'m	2011 £'m	2010 £'m	2009 £'m	2008 £'m
Revenue *	**241.1**	227.7	213.6	197.4	164.9
Operating profit before exceptional items *	**43.2**	42.7	37.0	26.6	20.1
Exceptional items *	**—**	—	18.8	1.8	(3.5)
Operating profit *	**43.2**	42.7	55.8	28.4	16.6
Profit before tax *	**40.8**	43.0	54.0	26.2	15.0
Profit after tax *	**33.1**	34.2	41.5	19.7	12.2
Net assets	**146.9**	140.5	153.0	114.1	111.3
Earnings per share:					
- Basic *	**20.0p**	20.8p	25.4p	12.1p	7.5p
- Basic before exceptional items and excluding net finance cost/income on pensions *	**20.7p**	20.2p	17.5p	12.1p	7.7p
- Diluted *	**19.8p**	20.5p	24.9p	11.9p	7.4p
Dividends per share	**8.5p**	8.0p	7.0p	5.0p	4.45p
Net assets per share	**88.7p**	85.1p	93.5p	70.0p	68.3p

* The information above refers to continuing operations exclusive of the discontinued operation, Devro GmbH, which was sold on 30 September 2011.

Explanatory notes to AGM notice

The AGM of the company will be held on 18 April 2013 at 11.00 am at The Marriott Hotel, 500 Argyle Street, Glasgow G3 8RR. The Notice of Meeting is set out on pages 91 to 93. In addition to the ordinary business of the meeting under items 1 to 9, shareholders will be asked for their approval of the following matters:

Item 10: Remuneration Report

Shareholders will be invited to approve the Remuneration Report set out on pages 30 to 38.

Item 11: Allotment of new shares

This resolution is to renew, for a further year, the general authority to allot shares given to the directors at the last AGM of the company held on 19 April 2012. Paragraph (a) of the resolution will give the directors a general authority to allot up to 55,000,000 ordinary shares of 10 pence each, representing approximately one third of the company's issued ordinary share capital (excluding any shares held in treasury) as at 1 March 2013, which is the latest practicable date before publication of this notice. The company did not hold any of its own shares as treasury shares as at 1 March 2013.

Paragraph (b) of the resolution proposes that a further authority be conferred on the directors to allot unissued shares or rights to subscribe for shares in favour of holders of equity securities (which would include ordinary shareholders) as required by the rights of those securities or as the directors may otherwise consider necessary, up to a maximum aggregate nominal amount of £11,000,000 (such amount to be reduced by the nominal amount of any shares or rights to subscribe for shares issued under the authority conferred by paragraph (a) of this resolution), which represents an amount which is approximately two thirds of the aggregate nominal value of the issued and unconditionally allotted ordinary share capital of the company as at 1 March 2013, which is the latest practicable date before publication of this notice.

This resolution complies with the latest institutional guidelines issued by the Association of British Insurers ("ABI") and, if the directors do exercise the authority conferred by paragraph (b) of this resolution, they intend to follow emerging best practice as regards its use (including as regards the requirement for directors to stand for re-election) as recommended by the ABI. Other than in relation to the company's employee share plans, the directors have no present intention to use these authorities, which will expire at the earlier of the conclusion of the next AGM of the company and 30 June 2014. As is normal practice, the directors intend to seek renewal of these authorities at subsequent AGMs.

Item 12: Adoption of a new incentive plan

This resolution is to approve a new long term incentive plan, the Devro plc Performance Share Plan. A summary of the principal terms is on pages 88 to 90.

Item 13: Pre-emption rights

Resolution 13, which will be proposed as a special resolution, seeks to renew the authority conferred on the directors at the last AGM to issue equity securities of the company for cash without application of the pre-emption rights as provided by section 561 of the Companies Act 2006 (the "Act"). The authorities being sought provide for non-pre-emptive allotments of equity securities (i) to ordinary shareholders in proportion to their existing shareholdings; (ii) to holders of other equity securities as required by, or subject to (as the directors consider necessary), the rights of those securities, and to deal with treasury shares, fractional entitlements and legal and practical problems in any territory, for example on a rights issue or other similar share issue; and (iii) for cash up to an aggregate nominal value of £825,000 which represents slightly less than 5% of the issued ordinary share capital of the company as at 1 March 2013, which is the latest practicable date before publication of this notice. This authority will expire at the earlier of the conclusion of the next AGM of the company and 30 June 2014.

The authorities sought and the limits set by the resolution will also disapply the application of section 561 of the Act from a sale of treasury shares to the extent also specified in this resolution.

In accordance with the guidelines issued by the Pre-Emption Group, the Board confirms its intention that no more than 7.5% of the issued share capital will be issued for cash on a non-pre-emptive basis during any rolling three year period.

Item 14: Authorising market purchase of its own shares by the company

The authority for the company to purchase its own ordinary shares of 10 pence each granted at last year's AGM will expire on the date of the forthcoming AGM. The directors wish to renew this authority and a special resolution will be proposed as special business to give the company the authority to purchase its own ordinary shares in the market as permitted by the Act. The authority limits the number of shares that could be purchased to a maximum of 16,500,000 (representing less than 10% of the issued ordinary share capital of the company as at 1 March 2013, which is the latest practicable date before publication of this notice) and sets minimum and maximum prices. This authority will expire at the earlier of the conclusion of the next AGM of the company and 30 June 2014.

Although the directors have no present intention of exercising the authority to purchase the company's ordinary shares, they consider that it is in the best interests of the company to have available this authorisation, in case of circumstances when it would be appropriate to use it. They would only use it when satisfied that this would result in an increase in earnings per share and was in the best interests of shareholders generally.

Any ordinary shares purchased pursuant to this authority may either be held as treasury shares or cancelled by the company, depending on which course of action is considered by the directors to be in the best interests of shareholders at the time.

As at 1 March 2013, there were share scheme awards over 2,124,692 ordinary shares in the capital of the company, which represents 1.3% of the company's issued ordinary share capital. If the authority to purchase the company's ordinary shares were exercised in full, these awards would represent 1.4% of the company's issued ordinary share capital. As at 1 March 2013, the company did not hold any treasury shares in the company and no warrants over ordinary shares in the capital of the company existed.

Item 15: General meeting notice

Changes made to the Act by the Shareholders' Rights Regulations increased the notice period required for general meetings of the company to 21 days unless shareholders approve a shorter notice period, which cannot however be less than 14 clear days, and certain requirements are satisfied. AGMs will continue to be held on at least 21 clear days' notice.

Before the coming into force of the Shareholders' Rights Regulations on 3 August 2009, the company was able to call general meetings other than AGMs on 14 clear days' notice without obtaining such

Explanatory notes to AGM notice

continued

shareholder approval. At the last AGM, the shareholders approved a notice period of not less than 14 clear days (other than for AGMs) effective until the forthcoming AGM. The directors believe it is in the best interests of shareholders to preserve this ability and resolution 15, which will be proposed as a special resolution, seeks such approval. The approval will be effective until the company's next AGM, when it is intended that a similar resolution will be proposed.

It is intended that this flexibility will only be used for non-routine business and where merited in the interests of shareholders generally.

It should also be noted that in order to be able to call a general meeting on less than 21 clear days' notice, the company must make a means of electronic voting available to all shareholders for that meeting.

Item 16: Amendment to Articles of Association

Resolution 16, which will be proposed as a special resolution, is to amend the Articles of Association of the company to include an express provision that the directors may signify their agreement to written board resolutions electronically.

Whilst the current Article 106 does not expressly prevent electronic execution or approval of written board resolutions, the directors believe that it is in the best interests of the company to amend the Articles of Association to include an express right for the Board to do this in order to clarify the position given the increasing prevalence of electronic communication. This would maximise flexibility in the way that directors can agree to written resolutions. Accordingly, it is proposed that Article 106 is amended to permit the directors to pass written board resolutions by electronic means.

Summary of the principal terms of the Devro plc Performance Share Plan (the "Plan")

Operation

The Executive Directors' Remuneration Committee of the board of directors of the company (the "Committee") will supervise the operation of the Plan.

Eligibility

Any employee (including an executive director) of the company and its subsidiaries will be eligible to participate in the Plan at the discretion of the Committee.

Grant of awards

The Committee may grant awards to acquire ordinary shares in the company ("Shares") within six weeks following the company's announcement of its results for any period. The Committee may also grant awards within six weeks of shareholder approval of the Plan or at any other time when the Committee considers there are exceptional circumstances which justify the granting of awards. It is intended that the first awards will be made shortly following shareholder approval of the Plan.

The Committee may grant awards as conditional shares, nil (or nominal) cost options or as market value options. The Committee may also decide to grant cash-based awards of an equivalent value to share-based awards or to satisfy share-based awards in cash, although it does not currently intend to do so.

An award may not be granted more than 10 years after shareholder approval of the Plan.

No payment is required for the grant of an award. Awards are not transferable, except on death. Awards are not pensionable.

Individual limit

An employee may not receive awards in any financial year over Shares having a market value in excess of 150% of his annual base salary in that financial year.

In exceptional circumstances such as in relation to the recruitment or retention of an employee, this limit may be increased to 200% of an employee's annual base salary.

Market value options — option price

If market value options are granted, the price per Share payable upon exercise of an option will not be less than:

(a) the middle market price of a Share on the London Stock Exchange on the dealing day immediately before the date of grant (or an average of dealing days if the Committee so decides); and

(b) if the option relates only to new issue Shares, the nominal value of a Share.

Performance conditions

The vesting of awards will be subject to performance conditions set by the Committee.

The initial awards will be subject to two performance conditions. One half of an initial award will be subject to a performance condition based on earnings per share ("EPS") growth over a performance period of three financial years. This half of an initial award will not vest unless average annual EPS growth over the performance period is at least 6%. Details of the vesting schedule for this half of an initial award are as follows:

Average EPS growth over the performance period	Percentage of one half of an award that vests (i.e. expressed as a percentage of one half of the total number of Shares originally subject to the award)
Less than 6% per annum	0%
6% per annum	25%
Between 6% per annum and 14% per annum	On a straight-line basis between 25% and 100%
14% per annum or more	100%

The other half of an initial award will be subject to a performance condition based on the company's total shareholder return ("TSR") performance over a performance period of three financial years relative to the TSR performance of a comparator group of companies comprising 100 FTSE listed companies, being the 50 companies ranked by market value in the FTSE All Share Index above the company and the 50 companies ranked below the company (excluding investment trusts) at the start of the performance period. This half of an initial award will not vest unless the company's TSR performance over the performance period ranks at least at the median.

Details of the vesting schedule for this half of an initial award are as follows:

TSR ranking of the company against the comparator group over the performance period	Percentage of one half of an award that vests (i.e. expressed as a percentage of one half of the total number of Shares originally subject to the award)
Below median	0%
Median	25%
Between median and upper quartile	On a straight-line basis between 25% and 100%
Upper quartile or above	100%

The Committee can set different performance conditions from those described above for future awards provided that, in the reasonable opinion of the Committee, the new targets are not materially less challenging in the circumstances than those described above.

The Committee may also vary the performance conditions applying to existing awards if an event has occurred which causes the Committee to consider that it would be appropriate to amend the performance conditions, provided the Committee acts fairly and reasonably in making the variation and considers the varied conditions are fair and reasonable and not materially less challenging than the original conditions would have been but for the event in question.

Vesting of awards
Awards normally vest three years after grant (or such other period as specified at grant) to the extent that the applicable performance conditions (see above) have been satisfied and provided the participant is still employed in the company's group. Options are then exercisable up until one day before the tenth anniversary of grant unless they lapse earlier.

Dividend equivalents
The Committee may decide on or before grant that participants will receive a payment (in cash and/or Shares) on or shortly following the transfer of Shares in satisfaction of their award of an amount equivalent to the dividends that would have been paid on those Shares between the time when the awards were granted and the time when they vest. This amount may assume the reinvestment of dividends. Alternatively, participants may have their awards increased as if dividends were paid on the Shares subject to their award and then reinvested in further Shares.

Leaving employment
As a general rule, an award will lapse upon a participant ceasing to hold employment or be a director within the company's group.

However, if a participant ceases to be an employee or a director because of retirement, injury, disability, redundancy, his employing company or the business for which he works being sold out of the company's group or in other circumstances at the discretion of the Committee, then his award will vest on the date when it would have vested if he had not ceased such employment or office, subject to (i) the extent to which the performance conditions have been satisfied at that time; and (ii) the pro-rating of the award to reflect the reduced period of time between its grant and the date of cessation of employment, although the Committee can decide not to pro-rate an award if it regards it as inappropriate to do so in the particular circumstances.

If a participant ceases to be an employee or director in the company's group for one of the "good leaver" reasons specified above, the Committee can decide that his award will vest on the date of cessation of employment or office, subject to (i) the extent to which the performance conditions have been satisfied by reference to the date of cessation; and (ii) the pro-rating of the award by reference to the time of cessation as described above.

If a participant ceases to be an employee or director in the company's group because of his death, then his award will normally vest on his death on a similar basis as would apply in the case of "good leavers" as described above.

Awards structured as options will be exercisable for a period of 12 months from the date of vesting. Any options which have already vested (but which have not been exercised) on the date of cessation of employment will be exercisable for 12 months from the date of cessation.

Corporate events
In the event of a takeover or winding up of the company (not being an internal corporate reorganisation) all awards will vest early subject to: (i) the extent that the performance conditions have been satisfied at that time; and (ii) the pro-rating of the awards to reflect the reduced period of time between their grant and vesting, although the Committee can decide not to pro-rate an award if it regards it as inappropriate to do so in the particular circumstances.

In the event of an internal corporate reorganisation awards may be replaced by equivalent new awards over shares in a new holding company unless the Committee decides that awards should vest on the basis which would apply in the case of a takeover.

If a demerger, special dividend or other similar event is proposed which, in the opinion of the Committee, would affect the market price of Shares to a material extent, then the Committee may decide that awards will vest on the basis which would apply in the case of a takeover as described above.

Clawback
The Committee may decide at any time within three years of the date of vesting of an award that a participant will be subject to clawback (which is the recovery of any additional value that should not have been paid) in circumstances where there has been (i) a material misstatement of the company's accounts; or (ii) an error in assessing the performance condition which resulted in an award vesting at a higher level than it would otherwise have done; or (iii) in the event of termination of service for gross misconduct. The Committee may require the satisfaction of the clawback by way of a reduction in the vesting, or size of, any other award or bonus and/or a requirement to make a cash payment.

Participants' rights
Awards will not confer any shareholder rights until the awards have vested or the options have been exercised and the participants have received their Shares.

Explanatory notes to AGM notice
continued

Rights attaching to Shares
Any Shares allotted when an award vests or is exercised will rank equally with Shares then in issue (except for rights arising by reference to a record date prior to their allotment).

Variation of capital
In the event of any variation of the company's share capital or in the event of a demerger, payment of a special dividend or similar event which materially affects the market price of the Shares, the Committee may make such adjustment as it considers appropriate to the number of Shares subject to an award and/or the exercise price payable (if any).

Overall Plan limits
The Plan may operate over new issue Shares, treasury Shares or Shares purchased in the market.

In any ten calendar year period, the company may not issue (or grant rights to issue) more than:

(a) 10% of the issued ordinary share capital of the company under the Plan and any other employee share plan adopted by the company; and

(b) 5% of the issued ordinary share capital of the company under the Plan and any other executive share plan adopted by the company.

Treasury Shares will count as new issue Shares for the purposes of these limits unless institutional investors decide that they need not count.

Alterations to the Plan
The Committee may, at any time, amend the Plan in any respect, provided that the prior approval of shareholders is obtained for any amendments that are to the advantage of participants in respect of the rules governing eligibility, limits on participation, the overall limits on the issue of Shares or the transfer of treasury Shares, the basis for determining a participant's entitlement to, and the terms of, the Shares or cash to be acquired and the adjustment of awards. Any amendment to the material disadvantage of participants requires their majority consent.

The requirement to obtain the prior approval of shareholders will not, however, apply to any minor alteration made to benefit the administration of the Plan, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or for any company in the company's group. Shareholder approval will also not be required for any amendments to the performance conditions applying to an award.

Overseas Plans
The shareholder resolution to approve the Plan will allow the Board to establish further plans for overseas territories, any such plan to be similar to the Plan, but modified to take account of local tax, exchange control or securities laws, provided that any Shares made available under such further plans are treated as counting against the limits on individual and overall participation in the Plan.

Notice of meeting

Notice is hereby given that the twenty-second Annual General Meeting ("AGM") of Devro plc ("the company") will be held at The Marriott Hotel, 500 Argyle Street, Glasgow G3 8RR on 18 April 2013 at 11.00 am for the following purposes:

(1) To receive the company's accounts for the year ended 31 December 2012, together with the Directors' Report and the Auditors' Report on those accounts.

(2) To declare a final dividend for the year ended 31 December 2012.

(3) To re-elect as a director Mr Steve Hannam*.

(4) To re-elect as a director Mr Peter Page*.

(5) To re-elect as a director Ms Jane Lodge*.

(6) To re-elect as a director Mr Paul Neep*.

(7) To re-elect as a director Mr Simon Webb*.

(8) To re-elect as a director Mr Paul Withers*.

** In accordance with the UK Corporate Governance Code, the directors mentioned above will all offer themselves for re-election at the AGM.*

(9) To re-appoint PricewaterhouseCoopers LLP as the company's auditors to hold office until the conclusion of the next annual general meeting of the company and to authorise the directors to fix their remuneration.

To consider and, if thought fit, pass the following resolutions of which Resolutions 10, 11 and 12 will be proposed as ordinary resolutions and Resolutions 13, 14, 15 and 16 will be proposed as special resolutions:

Ordinary resolutions

(10) THAT the Remuneration Report contained within the company's Report and Accounts for the year ended 31 December 2012 be and is hereby approved.

(11) THAT, in substitution for all existing authorities, the directors be generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the company to:

(a) allot shares (as defined in section 540 of the Act) in the company or grant rights to subscribe for or to convert any security into shares in the company up to an aggregate nominal amount of £5,500,000; and

(b) allot equity securities (as defined in section 560 of the Act) up to an aggregate nominal amount of £11,000,000 (such amount to be reduced by the aggregate nominal amount of shares allotted or rights to subscribe for or to convert any security into shares in the company granted under paragraph (a) of this resolution 11) in connection with an offer by way of rights issue:

(i) to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and

(ii) to holders of other equity securities (as defined in section 560(1) of the Act) as required by the rights of those securities or, subject to such rights, as the directors otherwise consider necessary,

and so that the directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter,

such authorities to apply (unless previously renewed, varied or revoked by the company in general meeting) until the end of the company's next annual general meeting after this resolution is passed (or, if earlier, until the close of business on 30 June 2014) but, in each case, so that the company may make offers and enter into agreements before the authority expires which would, or might, require shares to be allotted or rights to subscribe for or to convert any security into shares to be granted after the authority expires and the directors may allot shares or grant such rights under any such offer or agreement as if the authority had not expired.

(12) THAT the Devro plc Performance Share Plan, the principal features of which are summarised on page 88 to 90, be and it is hereby approved and adopted, and the Board be and is hereby authorised to do all acts and things which it may consider necessary or desirable to carry the same into effect.

Special resolutions

(13) THAT, in substitution for all existing powers and subject to the passing of resolution 11, the directors be generally empowered pursuant to section 570 of the Act to allot equity securities (as defined in section 560 of the Act) for cash pursuant to the authority granted by resolution 11 and/or where the allotment constitutes an allotment of equity securities by virtue of section 560(3) of the Act, in each case free of the restriction in section 561 of the Act, such power to be limited:

(a) to the allotment of equity securities in connection with an offer of equity securities (but in the case of an allotment pursuant to the authority granted by paragraph (b) of resolution 11, such power shall be limited to the allotment of equity securities in connection with an offer by way of a rights issue only):

(i) to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and

(ii) to holders of other equity securities (as defined in section 560(1) of the Act), as required by the rights of those securities or, subject to such rights, as the directors otherwise consider necessary,

and so that the directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter; and

Notice of meeting
continued

(b) to the allotment of equity securities pursuant to the authority granted by paragraph (a) of resolution 11 and/or an allotment which constitutes an allotment of equity securities by virtue of section 560(3) of the Act (in each case otherwise than in the circumstances set out in paragraph (a) of this resolution 13) up to a nominal amount of £825,000,

such power to apply (unless previously renewed, varied or revoked by the company in general meeting) until the end of the company's next annual general meeting after this resolution is passed (or, if earlier, until the close of business on 30 June 2014) but so that the company may make offers and enter into agreements before the power expires which would, or might, require equity securities to be allotted after the power expires and the directors may allot equity securities under any such offer or agreement as if the power had not expired.

(14) THAT the company be and is hereby generally and unconditionally authorised for the purposes of section 701 of the Act to make one or more market purchases (within the meaning of section 693(4) of the Act) on the London Stock Exchange of ordinary shares of 10 pence each in the capital of the company ("Ordinary Shares") provided that:

(a) the maximum aggregate number of Ordinary Shares hereby authorised to be purchased is 16,500,000 (representing less than 10% of the issued ordinary share capital of the company as at 1 March 2013 which is the latest practicable date before publication of this notice);

(b) the minimum price (exclusive of expenses) which may be paid for an Ordinary Share is 10 pence, being the par value;

(c) 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;

(d) unless previously renewed, varied or revoked by the company in general meeting, the authority hereby conferred shall expire at the end of the company's next annual general meeting after this resolution is passed (or, if earlier, at the close of business on 30 June 2014); and

(e) the company may make a contract or contracts to purchase Ordinary Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority, and may make a purchase of Ordinary Shares in pursuance of any such contract or contracts.

(15) THAT a general meeting of the company, other than an annual general meeting of the company, may be called on not less than 14 clear days' notice, provided that this authority expires at the conclusion of the next annual general meeting of the company after the date of passing this resolution.

(16) THAT the Articles of Association of the company be amended by the insertion of a definition of "electronic communication" and a new Article 106 in substitution for and to the exclusion of the existing Article 106 in the form produced to the meeting and initialled by the Chairman for the purposes of identification.

By order of the Board

John Meredith,
Company Secretary
Devro plc
Moodiesburn
14 March 2013

Notes

1. A member of the company is entitled to appoint a proxy to exercise all or any of his/her rights to attend, speak and vote at a general meeting of the company. A member may appoint more than one proxy in relation to the meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy need not be a member of the company but must attend the meeting in person. A proxy form which may be used to make such appointment and give proxy instructions accompanies this notice.

2. To be valid, the instrument appointing a proxy, together with the power of attorney or other authority, if any, under which it is signed (or a notarially certified copy of such power or authority) must be deposited at the office of the company's registrars, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY, not later than 11.00 am on 16 April 2013. Completion and return of a form of proxy will not preclude shareholders from attending or voting in person at the AGM, if they wish to do so.

3. Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 (the "Act") to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.

4. The statement of the rights of shareholders in relation to the appointment of proxies in paragraphs 1 and 2 above does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by shareholders of the company.

5. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of the same powers as the corporation could exercise if it were an individual member provided they do not do so in relation to the same shares.

6. To be entitled to attend and vote at the meeting (and for the purpose of the determination by the company of the votes they may cast), shareholders must be registered in the register of members of the company at 6.00 pm on 16 April 2013 (or, in the event of any adjournment, on the date which is 48 hours (excluding any part of a day that is not a working day) before the time of the adjourned meeting). Changes to the register of members of the company after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.

7. Under section 527 of the Act members meeting the threshold requirements set out in that section have the right to require the company to publish on a website a statement setting out any matter relating to: (i) the audit of the company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the meeting; or (ii) any circumstance connected with an auditor of the company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Act. The company may not require the shareholders requesting any such website publication to pay its expenses in complying with section 527 or 528 of the Act. Where the company is required to place a statement on a website under section 527 of the Act, it must forward the statement to the company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the meeting includes any statement that the company has been required under section 527 of the Act to publish on a website.

8. Any member of the company attending the meeting has the right to ask questions. The company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if (a) to do so would interfere unduly with the preparations for the meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the company or the good order of the meeting that the question be answered.

9. The following documents are available for inspection at the company's registered office, Gartferry Road, Moodiesburn, Chryston, G69 0JE and at the offices of Clifford Chance LLP, 10 Upper Bank Street, London E14 5JJ during usual business hours, and will also be available at the place of the AGM from 10.00 am until the close of the meeting:

   (a) copies of all service contracts of the Executive Directors;

   (b) copies of all appointment letters of the Non-Executive Directors; and

   (c) a copy of the company's current Articles of Association (under article 135 of which the directors have the benefit of a "qualifying third party indemnity provision" for the purposes of sections 232, 234 and 236 of the Act) and a copy marked to show the changes being proposed in resolution 16.

10. At 1 March 2013 (being the latest practicable date prior to the publication of this notice) the issued share capital of the company consists of 165,633,564 ordinary shares, carrying one vote each. Therefore, the total voting rights in the company as at 1 March 2013 are 165,633,564.

11. A copy of this notice, and other information required by section 311A of the Act, can be found at www.devro.com.

Shareholder information

If you have sold or transferred all of your holding of ordinary shares, you should pass this document and the accompanying form of proxy to the person through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

Financial calendar

18 April 2013	Annual General Meeting
3 May 2013	Final Dividend Paid
31 July 2013	Half Year Results and Interim Dividend Announced
October 2013	Interim Dividend Paid
31 December 2013	Financial Year End
February 2014	2013 Results and Proposed Final Dividend Announced

Dividends

The final dividend will be paid on 3 May 2013 to shareholders on the register at close of business on 2 April 2013.

Dividend mandates

Shareholders wishing dividends to be paid directly into a bank or building society account should apply online at www.investorcentre.co.uk or, alternatively, contact the registrar for a dividend mandate form at the address below. Dividends paid in this way will be paid through the Bankers Automated Clearing System (BACS).

Dividend Reinvestment Plan

Dividends are normally paid twice a year in May and October. We offer shareholders the opportunity to join the Computershare regulated Dividend Reinvestment Plan ("the Plan"), which allows you to reinvest your cash dividend in Devro plc ordinary shares. If you wish to participate in the Plan, please apply online at www.investorcentre.co.uk or, alternatively, you can complete a mandate form and return it to the registrar. If you do not have a mandate form, please contact our registrar at the address below.

Payment of dividends in foreign currency

The company's registrar offers a Global Payment Service, which allows you to receive your dividends directly into your bank account in your local currency. Interested parties can view terms and register at www.investorcentre.co.uk or contact the registrar at the address below.

Half year results

Any shareholder wishing to receive a paper copy of the Interim Report and Results for the six months to 30 June 2013 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 – 0870 889 4050
Website – www.investorcentre.co.uk

For other shareholder enquiries contact:

Company Secretary
Devro plc
Moodiesburn
Chryston
G69 0JE

Telephone – 01236 879191

Investor Centre is a free, secure share management website provided by Computershare. This service allows you to view your share portfolio and see the latest market price of your shares, check your dividend payment and tax information, change your address, update payment instructions and receive your shareholder communications online. To take advantage of this service, please register at www.investorcentre.co.uk. To register you will be required to enter Devro as the name of the company in which you hold shares, your Shareholder Reference Number (SRN) which can be found on your share certificate or on your dividend tax voucher, your postcode or country if outside of the UK or Channel Islands and security code (provided on screen). For security purposes, Computershare will send a unique activation code to your registered address to complete registration.

Website

The company has a website (www.devro.com) which provides up-to-date information on the company and its products.

Directors and advisers

Executive directors
P W B Page
S C Webb

Non-executive directors
S J Hannam
J A Lodge (appointed 1 March 2012)
P A J Neep
P N Withers

Company secretary and registered office
J Meredith
Moodiesburn
CHRYSTON
G69 0JE
Registered number: SC129785

Chartered accountants and statutory auditors
PricewaterhouseCoopers LLP
Erskine House
68-73 Queen Street
EDINBURGH
EH2 4NN

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
Barclays Bank plc
1st Floor, Aurora Building
120 Bothwell Street
GLASGOW
G2 7JS

Clydesdale Bank PLC
Clydesdale Bank Exchange
20 Waterloo Street
GLASGOW
G2 6DB

HSBC Bank plc
Thames Valley
Corp. Banking Centre
5th Floor
Apex Plaza
READING
RH1 1AX

Rabobank International
Thames Court
One Queenhithe
LONDON
EC4V 3RL

Stockbrokers
Investec Securities
2 Gresham Street
LONDON
EC2V 7QP

Registrars
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
BRISTOL
BS99 6ZZ

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DEVRO

Registered Office
Devro plc
Moodiesburn
Chryston
G69 0JE
Scotland

Tel: +44 (0) 1236 879191
www.devro.com