BUILDING FOR THE FUTURE

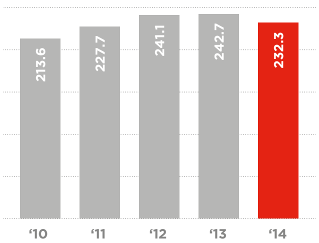
Devro plc Annual Report & Accounts **2014**

DEVRO

DEVRO IS ONE OF THE WORLD'S LEADING MANUFACTURERS OF COLLAGEN FOOD PRODUCTS

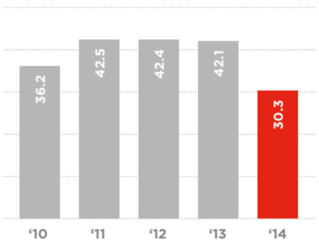
Group Revenue*

£232.3m



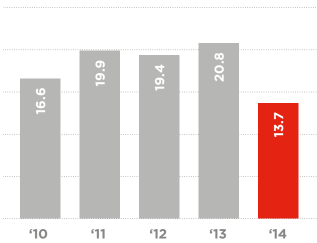
Operating profit before exceptional items*

£30.3m



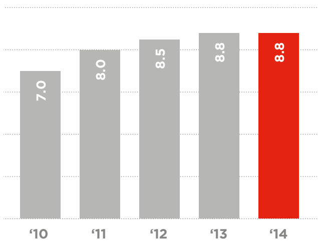
Earnings per share before exceptional items*

13.7p



Dividends per share

8.8p



*Continuing operations, and restated for revised pensions accounting rules (IAS 19R) where relevant.

Strategic Report

Report of Directors

Financial Statements

Shareholder Information

Our Markets

Devro sells to over 1,500 customers in more than 100 countries in both developed and emerging markets.

P4

Our Strategy

Our strategic objective is to achieve sustained earnings growth and improve return on capital by growing revenue, improving manufacturing efficiency and product differentiation.

P6

How we Operate

We use our world-class collagen technology to make consistently better casing.

P2

Operating Responsibly

As a global manufacturer, we take our responsibilities to society and the environment seriously, and make sure this is reflected in our policies.

P22

Investing in the Future

Devro is investing in the future of our company at unprecedented levels.

P11 & 12

WE MANUFACTURE CONSISTENTLY BETTER CASING FOR EVERY SAUSAGE TYPE

Our mission

Operating safely, to provide the world's food manufacturers with a safe and secure supply of consistently better collagen products, helping them optimise efficiency and enhancing the value of their offering.

Our 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 and 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 homogeneous gel and extruding it to tightly controlled dimensions, before being compressed and packed for supply to customers. Devro's manufacturing processes are unique and have evolved over many years of technical development.

Who we sell to

Devro's revenue comes primarily from the sale of collagen products directly to food manufacturers and, in some markets, local distributors. Devro sells to over 1,500 customers in more than 100 countries, with a product range in excess of 500 individual items, covering eight principal types of application.

Approximately one-third of Devro's sales are in emerging markets and two-thirds are in developed markets. Over 100 Devro employees work in customer-facing operations as sales and technical advisers.

The market we are in

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

What makes us different

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

Why our customers choose Devro

To satisfy our customers' demands, we use our knowledge of how to manipulate the complex chemistry of collagen to balance the requirements of food producers for strength and size stability with consumer preferences for tenderness and bite.

Our business process

Extracting Collagen

Collagen used for casing is taken from the hides of carefully selected animals – officially approved for human consumption.

Applied Technology

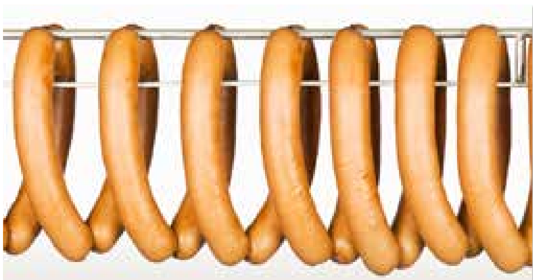
The production of collagen casing is a complex technological process. Devro combines expertise and innovation to produce casings that allow our customers to make better sausage.

Manufacture

Devro is a world leader in the manufacturing technology of this highly sophisticated process. Our casings are consistent, reliable and versatile to suit the needs of both sausage manufacturers and consumer preferences.

Sales, Marketing & Distribution

Devro products are sold across all continents in over 100 countries. We sell directly to food manufacturers and via agents and distributors.



Customer Products to Consumers

Devro's innovation and casing performance allow our customers to produce differentiated products for the consumer. Our casings consistently score highly for appearance, colour, bite and overall acceptance in independent research and consumer testing.

Reinvesting in Our Business

Devro has a successful track record of applied research & development and focused capital investment.

A GLOBAL FOOTPRINT IN CHANGING TIMES

From our creation over 50 years ago, Devro has evolved into an established leading supplier of edible collagen casing throughout the world.

Introduction

There have been many improvements in edible collagen casing over the past 50 years; some as a result of technical developments and others as a result of improved plant manufacturing systems. The significant investment over many years by Devro has enabled the provision of a unique, modern, safe and secure, consistent edible collagen casing range. These casings run more efficiently on sausage production lines at much higher speeds and produce better sausage products that are widely accepted by consumers.

Today, Devro products are sold by our dedicated commercial teams, in association with our experienced distributor network, to over 100 individual markets and are used in the production of a huge variety of regional and national sausage types.

Maintaining a detailed understanding of our markets and our customers has been, and continues to be, a key aspect of our business philosophy.

Increasingly, we are partnering with our customers to develop innovative new products for growing market segments.

Growth

Lower cost opportunities for sausage producers and consumer acceptance continue to drive strong demand for edible collagen casings.

Over the past ten years there has been a steady increase in the global market share of edible collagen casing used in sausage production.

Trends

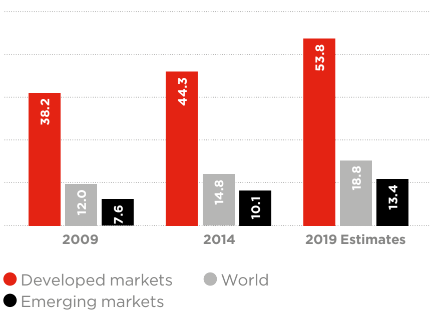
There are numerous social and demographic factors that are contributing significantly to the growth in the consumption of sausage, and consequently an increased growth in the use of edible collagen casings, across both developed and emerging markets.

The growth in global population is a key driver, particularly in relation to the rapid increase in the rate of urbanisation. Consumers are being exposed to a much wider choice and better availability of sausage within the urban environment, compared to those who are living in rural areas.

The global population living in an urban environment has surpassed that of rural and is forecast to continue to rise steeply. This urbanisation trend contributes significantly towards improved living standards and rising incomes which in turn influence the affordability of sausage and processed meat products.

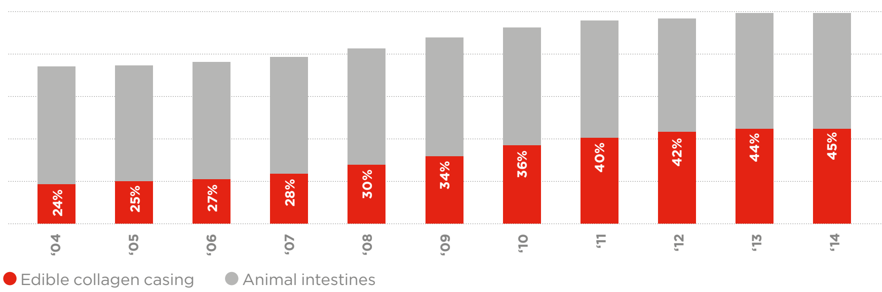
The improvement in the availability of sausage and processed meat products gives rise to increased average meat consumption across both developed and emerging markets.

GDP growth
(US$'000 per capita)



Source: International Monetary Fund (IMF) – World Economic Outlook Database October 2014

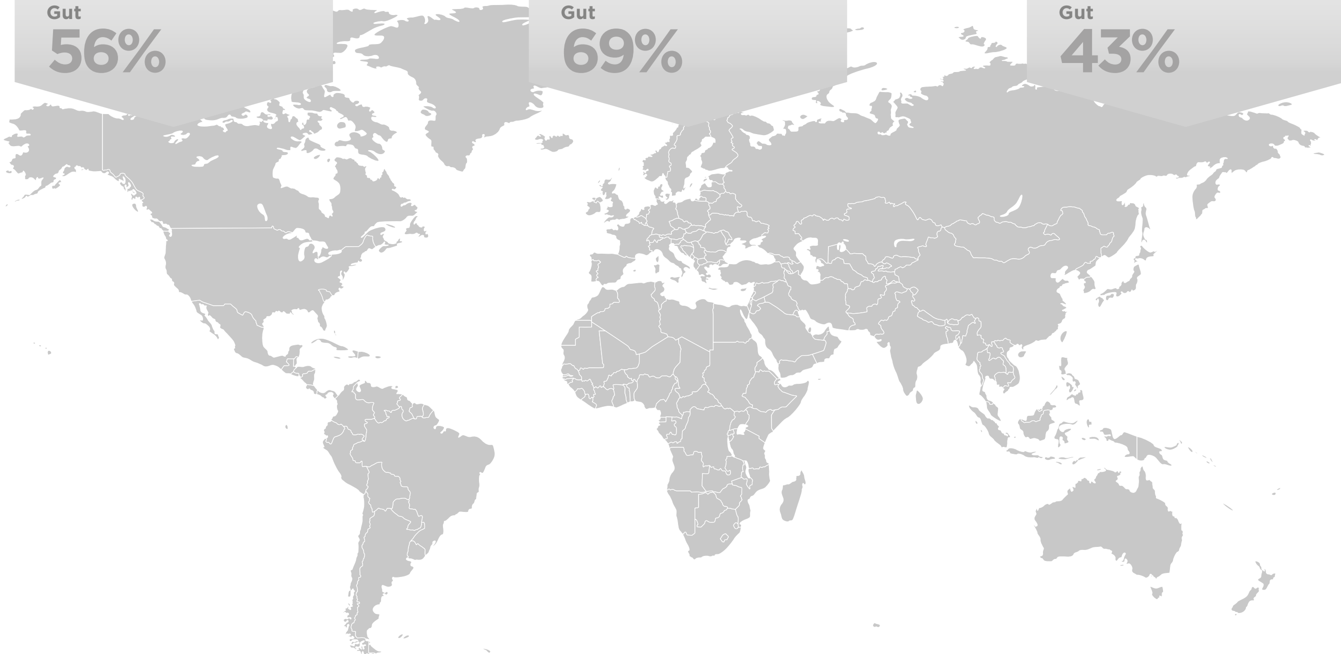
Global market share of edible collagen casings used in sausage production
Market share almost doubled in last decade



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

Edible collagen casing regional market share

Americas	EMEA	Asia-Pacific
Edible collagen casing **44%**	Edible collagen casing **31%**	Edible collagen casing **57%**
Gut **56%**	Gut **69%**	Gut **43%**



Americas

The Americas remains a strong market for edible collagen casing, particularly small calibre sausage production in North America. Growth in demand in a number of Latin American countries continues, driven by increasing meat consumption and improving economic conditions. However, in some countries, volumes in 2014 were reduced by currency and economic instability.

Europe, Middle East & Africa (EMEA)

EMEA continues to be a major market for the use of edible collagen casing and remains a market where there is excellent potential for future growth, including further conversions of gut (animal intestines) to edible collagen casing. Many regions within Western Europe, including Germany, are highly developed, sophisticated and mature markets for sausage manufacture. However, traditional techniques are still widely employed, and many of the premium products remain in gut. As Devro's new generation of edible collagen products are introduced, more and more producers and retailers are looking closely at the cost savings that can be made by converting to edible collagen casings.

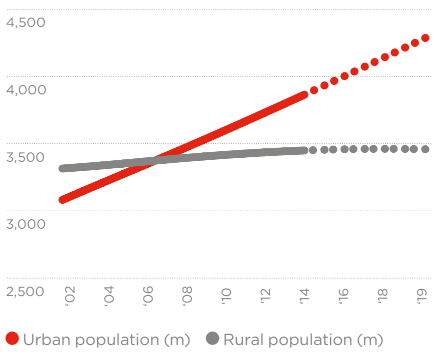
Asia-Pacific

In Asia and the Pacific region, growth in the use of edible collagen casing continues strongly. Asia-Pacific is the fastest-growing region, with the largest single edible collagen casing market being China. Use of the product has grown considerably, primarily due to the increase in urbanisation and the growing popularity for Western-style sausage. The need for efficient manufacturing of safe and secure quality sausage has driven producers to explore more urgently the benefits of edible collagen casing.

Global urban population

(million)

+24% in decade to 2014

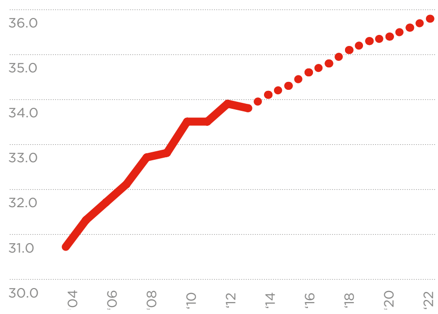


Source: Food and Agriculture Organization of the United Nations (FAO)

Global meat consumption

(kg per capita per year)

+11% in decade to 2014



Source: OECD/FAO

Our aim is to achieve earnings growth and improve return on capital. We have three strategic priorities in place to achieve this:

Our priorities	Our approach
REVENUE GROWTH	**Growing in developed and emerging markets** • Growth in developed markets through displacement of gut casing • Volume growth in emerging markets where demand is rising • Price and value enhancement
MANUFACTURING EFFICIENCY	**Optimising our use of existing assets and investing in new technology** • Upgrading existing assets to improve efficiency • Bringing on new capacity using most-efficient technology • Improving raw material sourcing and cost management
DIFFERENTIATION	**Differentiating ourselves through research & development** • Investment in research & development • Product and process technology development • Unique collagen science knowledge built up over 50 years

STRATEGY IN ACTION

REVENUE GROWTH

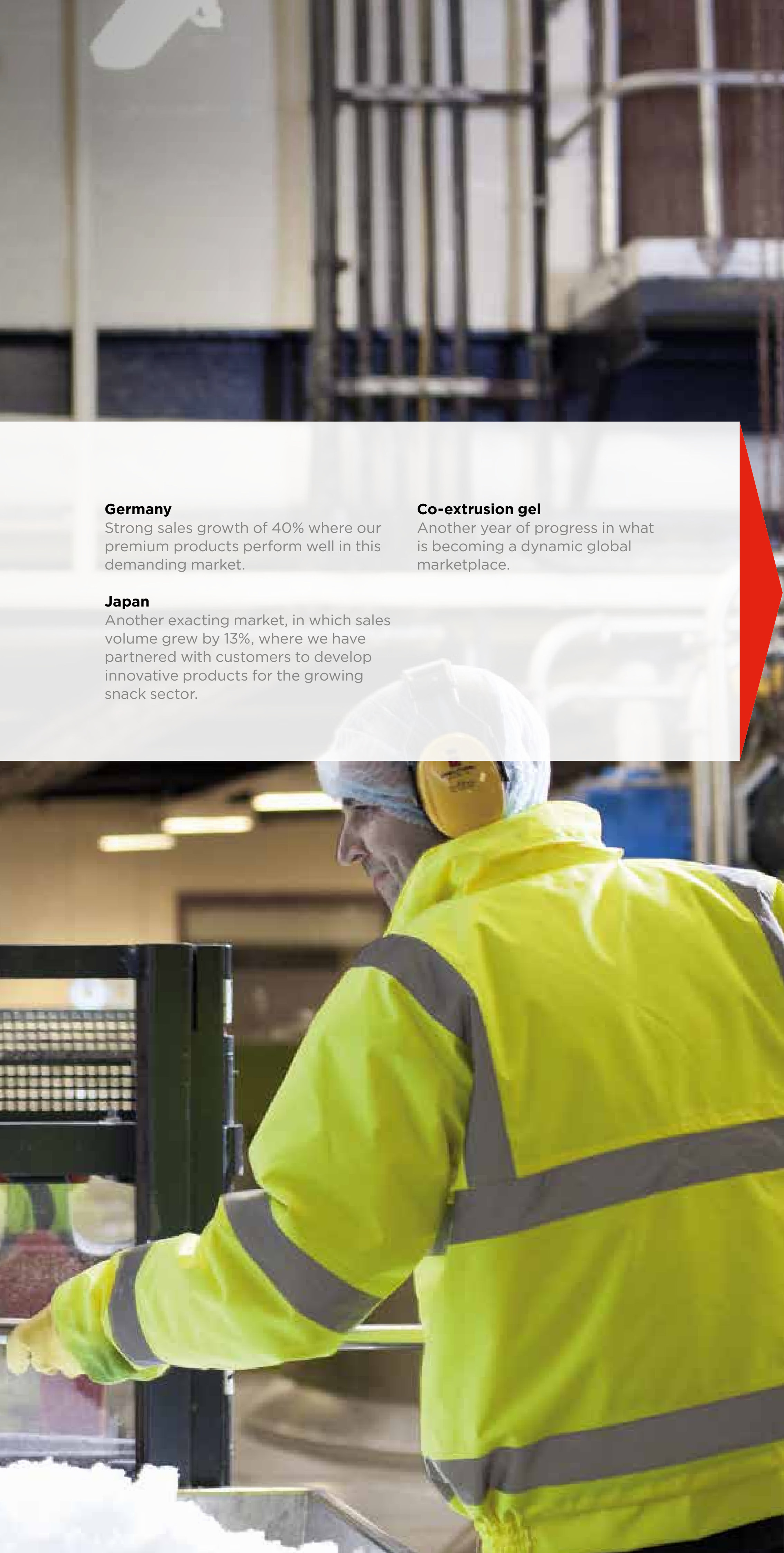
2014 highlights

Although revenue declined during the year by 4% in underlying terms, adjusting for movements in foreign currency, it grew by 2%. This is despite a slow start to the year. Sales volumes of edible collagen grew by 3%.

We had some notable successes in our key strategic markets.

China
Our sales volumes more than doubled in the world's largest collagen casing market, as we strengthened our market presence in advance of our new Nantong factory coming on-line in 2016.

North America
Solid volume growth of 6% in this mature market reinforces the opportunity for our £45 million investment in our new USA plant.



Germany
Strong sales growth of 40% where our premium products perform well in this demanding market.

Japan
Another exacting market, in which sales volume grew by 13%, where we have partnered with customers to develop innovative products for the growing snack sector.

Co-extrusion gel
Another year of progress in what is becoming a dynamic global marketplace.

STRATEGY IN ACTION

MANUFACTURING EFFICIENCY

2014 highlights

During the year, we invested £69 million as part of our three-year programme to transform our manufacturing footprint. This programme will reduce the unit cost of manufacture, increase capacity in Asia and align our product portfolio with local markets.

USA investment

We have now completed the construction of the building and commenced installation of equipment for our new manufacturing hall in South Carolina. This high-technology plant will replace our existing ageing, inefficient manufacturing equipment and will produce proven products for the Americas snack stick market.

China investment
Having secured land at a long-established industrial development park earlier in the year, the construction of the new plant is well advanced with the building structure now in place and equipment arriving ready for installation. This new plant will create production capacity in the fastest-growing collagen market in the world.

Restructuring of existing operations
After careful consideration and planning, we have restructured our operations in Scotland to take out older, less efficient capacity and focus production on the products which best match our customers' needs. In Australia, we have outsourced our hide preparation operations. Together these changes will reduce fixed costs and generate annual savings of £5 million.

DIFFERENTIATION

2014 highlights

Investment projects
The global research & development team, established in 2013, has successfully co-ordinated resources across our businesses to support product development for our new plants in the USA and China. This complex product development programme is now almost complete, ahead of the commissioning of the new plants in 2015/2016.

Significant developments
A number of new products, and improvements to existing products, were developed in Europe and Australia. Building on the development work in 2013, the new Select Fresh product was successfully launched in the UK, winning over customers with its greater clarity and translucency – attributes that customers normally associate with gut casings.

Co-extrusion gel development
A new facility for manufacturing co-extrusion gel was commissioned at our Czech factory, aimed at servicing the growing European market.

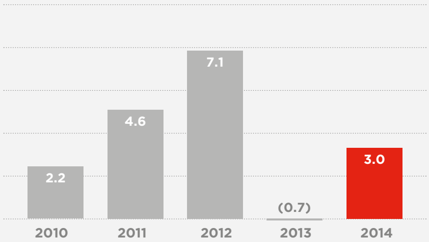
MEASURING OUR PERFORMANCE

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:

Key Performance Indicators

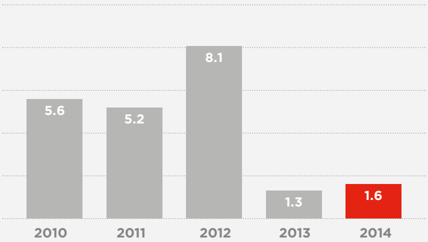
SALES VOLUME GROWTH*

Volume growth of edible collagen casings (%)



REVENUE GROWTH*

Value growth at constant currency (%)**



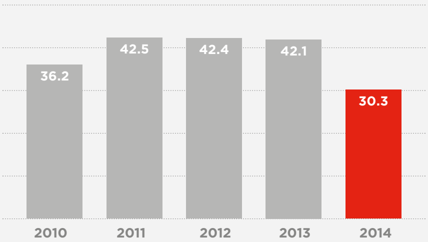
A key element underpinning the group's strategy is to deliver growth in sales revenue. There are several components to revenue growth, including changes in sales volumes and in price/mix. As a result, the group monitors sales volume growth separately, and changes in price/mix are monitored through revenue 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 and Europe. Given the significant distorting effects of movements in exchange rates, revenue growth is monitored in constant currency.**

#1 #3

#2 #3

OPERATING PROFIT*

Operating profit before exceptional items (£m)

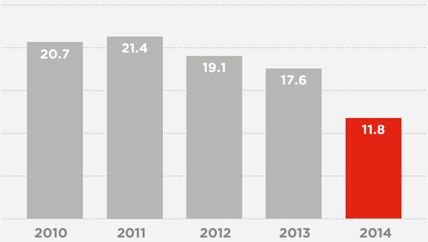


While the group aims to take a long-term perspective on shareholder value, it also monitors the financial performance of each of its businesses in the shorter term. The KPI used in this monitoring process is operating profit before exceptional items. This measure is used to evaluate the performance of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

#1 #2 #3

RETURN ON CAPITAL EMPLOYED*

Operating profit before exceptional items/average capital employed (%)



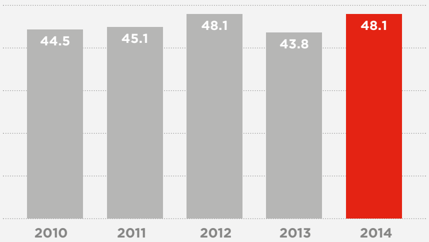
Return on capital employed (ROCE) represents operating profit before exceptional items as a percentage of average capital employed. Capital employed is defined as fixed assets plus current assets less current liabilities, excluding all balances related to interest-bearing assets and liabilities, any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

#1 #2 #3

#1 Revenue growth
#2 Manufacturing efficiency
#3 Differentiation

OPERATING CASH FLOW*

Cash generated from operations before exceptional items (£m)

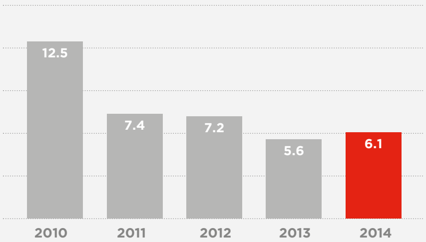


Operating cash flow before exceptional items is the amount of cash generated by the group through its trading activities and manufacturing operations before investment in capital expenditure. This measure is used to evaluate the performance of each business and to assist the management of working capital.

#1 #2 #3

HEALTH AND SAFETY

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

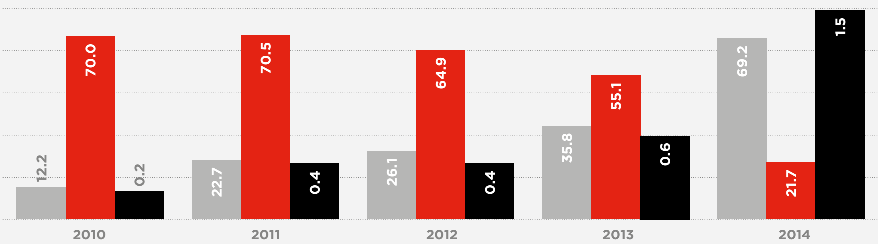


Health and safety matters are discussed further on pages 22 and 23 of this Annual Report. Safety performance is measured in various ways at a local level. At group level, it is measured by the rate of injuries requiring treatment by a health professional, which is calculated as the number of injuries per million hours worked, comprising both lost working day injuries and recordable injuries.

#2

DEBT*

Net debt (£m) **EBITDA/interest (times)** **Net debt/EBITDA (times)**



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

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

#1 #2 #3

* Continuing operations, and restated for revised pensions accounting rules (IAS 19R) where relevant.
** Constant currency growth rates are calculated by restating prior year figures using 2014 exchange rates.

Selected 2015 goals

REVENUE GROWTH

By the end of 2015, we will have completed the construction of our new plant in Nantong, China and have commissioning underway. This will provide the group with local production capacity from mid-2016 in the world's fastest-growing collagen casing market, supporting future sales growth.

MANUFACTURING EFFICIENCY

We will complete the restructuring of our operations in Scotland and Australia and start to realise the annual cost savings of £5 million.

We will also complete the construction of our new high-tech plant in the USA and commence commissioning ready for production from mid-2016.

DIFFERENTIATION

A range of differentiated, value-added casings with enhanced cooking properties is under development and we expect to make significant progress within the course of 2015.

CHAIRMAN'S STATEMENT

We are currently undertaking a three-year programme to transform our business, which was initiated in 2013. This will support our strategy by growing revenue as a result of adding capacity in Asia and aligning all products with market opportunities, and by improving manufacturing efficiency and reducing unit costs. 2014 was an important year in this transformation.

Gerard Hoetmer
Chairman

DURING THE YEAR WE MADE SIGNIFICANT PROGRESS ON THE IMPLEMENTATION OF OUR TWO STRATEGIC INVESTMENT PROJECTS IN CHINA AND THE USA

In early 2014 we took the decision to accelerate the restructuring of our existing manufacturing footprint. This included taking out production of older, less efficient technology at one of our factories in Scotland. This step-change in production capacity had an adverse impact on our profits for 2014 but was a critical step in aligning our product portfolio with the market opportunities and will improve our manufacturing efficiency from 2015.

During the year we also made significant progress on the implementation of our two strategic investment projects in China and the USA which are on plan to commence production in 2016 and start delivering benefits.

Strategic investments

Devro has a three part strategy:

1. Revenue growth in developed and emerging markets, through gut displacement and meeting growing market demand;
2. Manufacturing efficiency through optimising our existing assets and investing in new technology; and
3. Differentiation through research & development, using our unique collagen science knowledge built up over 50 years.

In March 2014, we announced our plans to build a plant in China, to establish a manufacturing presence in the world's largest collagen casing market. This followed our November 2013 announcement of a new plant in South Carolina, USA which will reduce unit costs and improve manufacturing efficiency.

These two projects represent unprecedented levels of investment for Devro. The construction of the new plants, together with the restructuring actions undertaken this year, involve the investment of £95 million of capital over two years and of £24 million of exceptional items in 2014 to implement the transformation which will complete in 2016. Both projects are on track to commence production in 2016, with the buildings now structurally complete.

There is, of course, much more to these projects than erecting new plants. In China, we are creating an entire regional business team with 200 employees. All will be trained to the highest technical standards in the industry, and integrated into our culture of innovation and excellence which has been the cornerstone of our success over the years. Whilst we have traded in China for many years, establishing a local manufacturing base represents a step-change in our commitment to the region. Progress to date has been highly encouraging as we build customer relationships, but we recognise that we have much work ahead of us.

The new factory in South Carolina will allow us to largely decommission the existing plant, which has continued to underperform in 2014 as it reaches the end of its useful life. The Americas will then be supplied from a combination of our plants in the USA and Europe, all using our most advanced technology.

In anticipation of these significant investments, we raised US$100 million of long-term funding from a US private placement in the first half of 2014, and I am pleased to announce that we have now also successfully completed the refinancing of our shorter-term borrowing facilities. Together these facilities will cover our increased borrowing requirements for the next period of our growth.

Financial highlights

Trading, since the first quarter of 2014, has shown a steady recovery, with sales volumes of edible collagen for the full year 3% ahead of prior year and sales value 2% ahead in constant currency terms. As previously announced, the decisions taken to manage production capacity, together with adverse foreign exchange movements, contributed to lower profits in 2014 compared with 2013. Operating profit before exceptional items ended the year in line with management expectations at £30 million.

This business is very cash generative and in 2014 we saw operating cash flow before exceptional items rise above last year, despite lower operating profits, as we took actions to reduce our inventory levels and improve sales growth.

Dividend

The Board is recommending an unchanged final dividend of 6.1p per share (2013: 6.1p) bringing the total for the year to 8.8p per share (2013: 8.8p). Subject to shareholder approval at the Annual General Meeting in April, the dividend will be paid on 15 May 2015, to those on the register at 27 March 2015.

DEVRO'S SUCCESS IS BUILT UPON THE COMMITMENT OF OUR EMPLOYEES AND, ON BEHALF OF THE WHOLE BOARD, I WOULD LIKE TO THANK THEM

Employees

Devro's success is built upon the commitment of our employees and, on behalf of the whole Board, I would like to thank them for their efforts across our business in 2014.

A number of people have left the business in 2014, or will leave in 2015, whose roles have been impacted by the restructuring actions taken. I am grateful to these people for their professionalism and support over many years and particularly during this difficult transition period.

Board

In May 2014, Steve Hannam stepped down from the Board. He left with our best wishes after five years as Chairman of the company. I was delighted to be elected as his successor at such an exciting period in the company's evolution.

Outlook

We enter 2015 with sales momentum which has been building through 2014, despite challenging economic conditions in some regions. In 2015 we will also begin to see the benefits of the restructuring actions taken in 2014.

We have made good progress on the construction of the new plants in China and the USA, and are now entering a critical period of transition as we integrate these new operations into our global manufacturing footprint. This will be a complex transition but we have plans in place to manage this.

We are on course to develop the most advanced collagen casings company in the world, well placed to benefit from a dynamic and growing global market, to create long-term value for our shareholders.

Gerard Hoetmer
Chairman

CHIEF EXECUTIVE'S REVIEW

2014 was an important year in the development of Devro with two major projects now well advanced. Total sales volumes of edible collagen grew by 3% and revenues, in constant currency, were 2% ahead of 2013.

Peter Page
Chief Executive

Markets

Global demand for collagen casings remains strong with an estimated growth of 6% for the year.

In the first quarter of 2014, some issues impacted short-term demand, including the residual consequences of the 2013 'horsemeat scandal' in Europe, an endemic porcine virus in the USA and an incidence of African swine fever in wild boar in Lithuania, which led to a ban on the importation of EU-produced pork into Russia.

Overall, the opportunities for Devro remain attractive.

Sales

Total sales volumes of edible collagen grew by 3% and revenues, in constant currency, were 2% ahead of 2013. There was some change in market mix as outlined below.

In line with our strategy, sales increased in developed markets that have been important targets for Devro in recent years, despite strong competitor activity.

Sales in Germany grew by 40% in volume and 45% in value in constant currency as the result of initiatives that match specific product attributes to identified customer needs.

Japan had 13% volume growth in 2014, continuing the success of previous years. Product innovation in this market has led to new business in the snack and confectionery product categories.

Volumes in North America increased by 6%, principally in the snack stick category that requires large volumes of small diameter casings of consistent specification.

GLOBAL DEMAND IS STRONG AND THE OPPORTUNITIES FOR DEVRO REMAIN ATTRACTIVE

The strategy also includes growth in emerging markets. In 2014 there was a particular effort to develop business in China, to build demand in anticipation of the new factory coming into production in 2016. This has proved successful with volumes in China growing by 154%, taking total volumes to 50% of the new factory capacity.

Region-specific issues included currency issues in Latin America where sales volumes reduced by 10%, weaker consumer demand in the UK & Ireland and a temporary shortage of raw materials in Russia which contributed to a decline in sales volumes in Eastern Europe and Russia of 10%.

Sales volumes in South East Asia were lower by 16%, following limitations in available capacity for this region in 2013 but these are now recovering well.

Trading improved significantly during the second half of the year in all markets.

Manufacturing

2014 was the first full year of production at our Czech plant following a three-year, £25 million, investment programme to upgrade technology. This is part of our long-term strategy to reduce unit costs and is reflected in the manufacturing efficiency gains generated during 2014.

Output at the two factories in Scotland was reduced by 18% through a programme of redundancies and decommissioning capacity of the oldest technology. These facilities will now focus on the capacity upgraded by £30 million of capital investment in the past five years. Whilst it was expected that

Groundbreaking

Build month 4 – April 2014

CASE STUDY

AMERICAS INVESTMENT

North America is a large market for edible collagen casings, with major brands supplying a broad customer base. There are three main types of end product: snack sticks, fresh and cooked sausage. Each has specific requirements for casings. The company's ambition is to lead the market in all three categories.

Devro's USA manufacturing operation is 37 years old and now operates beyond its designed engineering life. Unit costs are high as a result of low yields and poor productivity.

During 2015, a new manufacturing hall will be completed on land adjacent to the existing factory, with plant and equipment installed prior to final commissioning in 2016.

The £45 million capital investment is part of a three-year transformation programme of Devro's manufacturing footprint. Enhanced products are being developed for supply from both the new plant and facilities in Europe, to ensure that the company is capable of meeting customer needs by working in close partnership on operational performance and new product development.

Increased expenditure on product development and customer service in the Americas will be funded by the reductions in unit costs expected at the new factory, which will use technology already installed in the Czech Republic and Scotland. The project is supported by Devro's experienced team in the Czech Republic.

The new building has been designed so that further capacity can be added at relatively low cost and in less time, with higher returns on investment expected from the subsequent phases.

2015 will be a year of construction, installation and commissioning, and planning for the transition from old to new facilities in 2016. Improved earnings are expected from mid-2016 as the old plant is decommissioned.

Build month 13 – January 2015

Groundbreaking

Build month 6 – December 2014

CASE STUDY
CHINA INVESTMENT

China will soon represent half of the world's market for edible collagen casings. There have been significant investments in new sausage manufacturing capacity for domestic consumption. Rising demand stems from a growing proportion of the population living in urban areas with higher disposable incomes.

Devro has traded successfully in China for over ten years, importing product from our factories in Europe, America and Australia. The company and its products are well known to local food manufacturers. There is a well-established sales team based in Beijing.

With the size of the market and the growing availability of raw materials, Devro is confident that now is the right time to commence production operations inside China. At the end of 2015, construction of a new factory will be completed, with commissioning at the end of the year and first sales in mid-2016.

A local operations management team has been recruited during 2014. During 2015, there will be comprehensive training and commissioning programmes in all disciplines, from line operators to laboratory technicians. Establishing the business processes required to be an effective part of the Devro group will be managed in collaboration with the long-established team at Devro's operations in Scotland.

The value of the investment is £50 million. This will establish a facility in China that supports two strategic objectives: volume growth in emerging markets and reduced unit costs. Once fully operational, the new plant will contribute at margins comparable to other factories, ensuring that group earnings continue to grow.

Assuming successful commissioning of the new plant, there is considerable scope to expand the factory, with higher returns on investment in subsequent phases.

Build month 8 – February 2015

this change would be required at some stage in the future, it was brought forward to this year as a result of the weaker than anticipated demand during the last quarter of 2013 and the first quarter of 2014.

The Australian plant improved productivity as a result of continuous improvement work and new line installations in the second half of the year. A restructuring has now been completed at this plant to reduce unit costs by outsourcing hide preparation which will also align these operations with our other manufacturing plants.

Performance at the 37-year-old plant in the USA caused considerable adverse costs as productivity and reliability were below management's expectations. Whilst some steps were taken to address this, most effort has been directed to sourcing product from newer factories and pressing ahead with the project to build a new plant at the same site, which will be completed in 2016.

The increase in raw material costs in 2014 slowed considerably compared with the previous two years.

Research & development

A significant part of the strategy is to achieve differentiation through product development. Since mid-2013 there has been a single global R&D team, co-ordinating a wide variety of projects and initiatives.

The priority for 2014 and 2015 is to support the major investment programmes in China and the USA, to ensure that products from the new factories match and improve on the products currently supplied to customers. Good progress has been made during the year.

Select Fresh is a new casing introduced to the UK and Ireland in 2014. Based on Devro's Select technology, this casing is for the fresh uncooked sausage segment that is the mainstay of these markets, particularly where sheep gut is used for higher-value products. The product has been well received by customers.

People

Devro's three-part strategy involves transformation in a number of areas that affect people, particularly the growth in emerging markets and investments to reduce unit costs. Over the two years of 2014-2015, there will be 130 redundancies in Scotland, 200 redundancies in the USA and 20 redundancies in Australia, whilst at the same time around 200 new colleagues are being recruited and trained in China. Whilst these changes have a significant impact on the people most affected by them, the levels of co-operation and acceptance have been extremely helpful and greatly appreciated.

At the end of 2014, two new appointments were made to the Executive Board. Bill McGowan joins as the President for the Americas, with responsibility for sales and manufacturing in the region, particularly for ensuring that the major investment in manufacturing facilities is successfully integrated with leading customers. Sarah Murphy, as Group HR Director, joins with responsibility for ensuring that the organisation is aligned with the strategy.

SAFETY IS THE TOP PRIORITY FOR DEVRO. THE OBJECTIVE IS ZERO INCIDENTS

Safety

Safety is the top priority for Devro. The objective is zero incidents. All efforts are directed to achieving this through a combination of ensuring that facilities and equipment are adequate, by providing appropriate training and, most importantly, ensuring that behaviours always support the objective.

Devro works with all contractors to ensure that they meet our own expectations for safety. It is extremely regrettable that an employee of one of the sub-contractors working on the new factory site in China was killed in a fatal accident on the afternoon of 31 December 2014. A full and thorough investigation has been carried out by the local authorities, the general contractor and Devro. Whilst lessons have been learned, this tragedy has had a significant impact on the colleagues and employees who were most closely involved.

Outlook

Devro has started 2015 with good order levels and momentum in sales growth. Cost reductions from the restructuring programmes in Scotland and Australia will be achieved at the same time as a slowing of input cost increases compared with recent years.

2015 is an important year in the development of Devro with the construction of the two new plants in the USA and China reaching completion whilst continuing to decommission the older, less efficient capacity.

These developments will enable Devro to take advantage of the considerable opportunities worldwide for long-term growth in demand for collagen casing.

Peter Page

Peter Page
Chief Executive

Actions taken to transform the manufacturing footprint, together with foreign exchange, impacted operating profits for 2014. However, sales volumes recovered well delivering 3% growth in edible collagen casings.

Simon Webb
Group Finance Director

Revenue

	2014 £'m	2013 £'m	Change	Change constant currency
Revenue	**232.3**	242.7	-4.3%	+1.6%

Overall Devro delivered 3.0% growth in edible casing sales volumes in 2014. This growth showed an improving trend during the year with second half volumes 7.1% ahead of the same period last year. China, Japan and Germany all grew strongly, together with the USA market, which benefitted from solid demand for snack stick products. Trading in Latin America and Russia continue to be volatile reflecting the underlying economic conditions.

Sales of gel continue to grow in the USA, as customers transfer from cellulose applications to collagen co-extrusion.

Year-on-year change in revenue can be analysed as follows:

	2014 vs 2013	2013 vs 2012	2012 vs 2011
Volume	**+2.6%**	-0.8%	+5.3%
Price/mix	**-1.0%**	+2.1%	+2.8%
Foreign exchange	**-5.9%**	-0.6%	-2.2%
Total	**-4.3%**	+0.7%	+5.9%

Revenue, excluding the impact of exchange, grew by 1.6% in 2014 predominantly as a result of improved volumes, particularly in China, Japan, Germany and North America.

Price/mix showed a small decline mainly reflecting the growth in sales in China as Devro looks to establish its presence in that market ahead of the completion of the new factory.

Operating profit

	2014 £'m	2013 £'m	Change
Operating profit before exceptional items	**30.3**	42.1	-27.9%

The movement in operating profit before exceptional items between 2013 and 2014 can be analysed as follows:

	£'m
Operating profit before exceptional items 2013	42.1
Volumes	+2.2
Price/mix	-2.6
Production capacity management	-6.6
Manufacturing efficiencies	+0.5
Foreign exchange	-4.3
Input costs	-1.6
Depreciation	-0.8
Other costs	+1.4
Operating profit before exceptional items 2014	**30.3**

Production capacity management

The restructuring of operations in Scotland during the year resulted in a permanent closure of some of the group's older and less efficient capacity. In addition, certain lines in the USA were decommissioned ahead of the completion of the new factory and at other plants output was managed to ensure supply and demand remained in balance. Together these actions contributed a £6.6 million reduction in operating profit during the year, with less overhead recovery on the lower production volumes, but helped reduce inventory in 2014 and will lead to savings in fixed costs in 2015.

Further line closures are planned in the USA in 2015 as part of the transition to the new manufacturing plant.

Manufacturing efficiencies

The improved manufacturing efficiencies relate to the upgraded lines in the Czech Republic and Australia following the investments made at these plants in 2013 and 2014. The improvement in operating profits was partially offset by the continued manufacturing challenges at the USA plant, as this ageing plant nears the end of its useful life, underlining the importance of the investment in new technology being made at this plant.

As the investment projects in the USA and China are completed, overall group manufacturing costs will be reduced with the benefits being realised from mid-2016.

Foreign exchange

Devro has operations around the world in multiple currencies. The net foreign exchange loss in 2014 compared with 2013 was £4.3 million, reflecting sterling being stronger against all other key trading currencies of the group for the majority of the year. This includes the adverse impact of the sharp decline in the value of the Japanese yen in 2013, the effects of which were largely mitigated in 2013 through hedging, deferring the impact to 2014.

Based on current levels of exchange, 2015 is expected to have further adverse exchange impact of between £1.0 million and £2.0 million which reflects the weaker euro/Czech koruna.

Input and other costs

Input costs have now stabilised with the increases in 2014 lower than in recent years. Over the year they increased by £1.6 million with higher raw material costs in the USA and Australia being offset by lower costs in Europe and generally lower energy costs at most locations.

Higher depreciation of £0.8 million was incurred following the significant capital investment programme undertaken in the last three years, particularly the capacity expansion in the Czech Republic which was completed in the second half of 2013.

Other costs include the benefits of some of the restructuring undertaken within the group and other cost saving measures, partially offset by wages and salaries inflation of £1.9 million.

Operating margin

	2014	2013
Operating margin before exceptional items	13.0%	17.3%

We achieved an operating margin before exceptional items of 13.0%, compared with 17.3% in 2013, largely reflecting the production capacity management decisions and adverse foreign exchange movements highlighted above.

Exceptional items

	2014 £'m	2013 £'m
Investment projects	7.0	1.3
Restructuring	16.9	–
Total exceptional items	**23.9**	1.3
Cash	15.4	1.1
Non-cash	8.5	0.2
Total exceptional items	**23.9**	1.3

Exceptional items relate to the actions being taken as part of the three-year programme to transform the business. These include the two investment projects to build and commission new plants in China and the USA, and a significant restructuring of existing operations, particularly in Scotland and Australia.

Investment projects exceptional items included redundancy provisions, accelerated depreciation and decommissioning costs related to the assets being made redundant by the USA investment, together with project management costs and professional fees for the two projects.

Restructuring exceptional items primarily relate to our operations in Scotland, where older, less efficient lines are being permanently shut down. Other restructuring actions relate to the outsourcing of hide preparation operations in Australia, which will reduce unit costs and align manufacturing processes with our other plants around the world, and changes to the global management structure. Together these actions will deliver annual cost savings of £5 million from early 2015.

These restructuring costs include redundancy costs of £7.1 million and accelerated depreciation of £5.7 million on the assets being made redundant in Scotland and Australia, together with decommissioning costs at these plants and an increase in the pension liability related to people leaving the business.

The non-cash exceptional items of £8.5 million comprise the accelerated depreciation of £6.5 million, the increased pension liability of £1.7 million and the write-off of raw materials which are specific to some of the equipment being decommissioned.

In 2015, further exceptional costs will be incurred, the majority of which will be related to the investment projects.

Capital investment

	2014 £'m	2013 £'m	Change
Capital investment	**60.5**	35.1	+72.4%

Devro is on track to invest £95 million on the two investment projects in China and the USA. Of this total, £45 million was deployed in 2014 and the remaining £50 million will be invested in 2015. This is marginally higher than the amount originally planned for the two projects in order to provide some additional functionality in the USA plant.

These two strategic projects are both on plan to be fully commissioned and contributing to the group's operating results from mid-2016.

Working capital and cash flow

	2014		2013	
	£'m	Number of days	£'m	Number of days
Inventories	**33**	**53**	38	65
Trade and other receivables	**34**	**49**	34	49
Trade and other payables	**(34)**	**26**	(29)	23
	33		43	

The actions taken to manage production capacity and the increase in sales have both contributed to reduced inventory levels during the year from their peak at the end of the first quarter of 2014.

The focus on working capital has enabled operating cash flow, excluding exceptional items and capital expenditure, to remain ahead of last year at £48.1 million (2013: £43.8 million), despite the reduction in operating profit.

Cash out-flow from exceptional items was £6.5 million (2013: £1.1 million).

Financing and net debt

Key financial measures are as follows:

	2014	2013
Net debt	**£69.2m**	£35.8m
Net debt/EBITDA	**1.5**	0.6
Return on capital employed (ROCE)	**11.8%**	17.6%

As expected, net debt increased during the year, principally reflecting progress on the two major investment projects.

During 2014, the group's funding structure was reshaped to provide secure medium and longer-term funds to support the business's growth. This included raising US$100 million in a US private placement which took place in the first half of 2014. Further to this, a £110 million revolving credit facility was negotiated in December providing funding out to 2019.

Net debt/EBITDA ended the year at 1.5 times and is expected to peak towards the end of 2015 but will remain within the banking covenants of three times.

ROCE reduced from 17.6% to 11.8% which reflects the significant investment programme currently being undertaken by the group.

Interest

	2014 £'m	2013 £'m	Change
Net interest cost	**2.2**	1.1	+100.0%
Net finance cost on pensions	**2.0**	2.2	-9.1%
Total net interest cost	**4.2**	3.3	+27.3%

The net interest cost for the year was higher than 2013 which reflects the increased debt levels during the period and the borrowing costs for the US private placement.

In addition to the interest charged to the income statement, the group has capitalised interest of £0.6 million, reflecting the capital invested in the group's two major projects and funded by the US private placement.

The small decrease in net finance cost on pensions over 2013 reflects the decrease in the opening net pension liability.

Pension schemes

We operate a number of defined benefit schemes around the group, although all of these are now closed to new entrants. The net pension liabilities of these schemes can be analysed as follows:

	2014 £'m	2013 £'m
Fair value of scheme assets	**231.8**	202.6
Present value of scheme liabilities	**(290.8)**	(248.7)
Net pension liabilities	**(59.0)**	(46.1)

The increase in the pension liability during the year largely reflects the decrease in the discount rates, together with amended life expectancy tables issued in the USA in 2014.

Devro is currently in discussions with the trustees of the UK scheme as part of the triennial valuation as at 31 March 2014. The conclusion of these discussions is anticipated in the first half of 2015.

Earnings per share ("EPS")

	2014	2013	Change
Basic earnings per share	**2.6p**	20.1p	-87.1%
Basic earnings per share excluding exceptional items	**13.7p**	20.8p	-34.1%

We have again presented an adjusted EPS to exclude exceptional items to provide a better indication of our underlying performance. The fall in EPS reflects the group's lower operating profit before exceptional items.

Tax

	2014 £'m	2013 £'m
Tax charge on profit before tax excluding exceptional items	**3.2**	4.1
Tax credit on exceptional items	**(5.4)**	(0.2)
Tax (credit)/charge in income statement	**(2.2)**	3.9

The group operates around the world and earns profits which are subject to tax at varying rates.

The 2014 effective rate of tax excluding exceptional items continues to be low due to the investment incentive scheme in the Czech Republic. This benefit was originally expected to continue into 2016 but, due to the higher profits now generated in the region, is likely to come to an end in 2015.

Dividend

	2014	2013
Interim per share	**2.7p**	2.7p
Final per share	**6.1p**	6.1p
Total	**8.8p**	8.8p

The Board is recommending an unchanged dividend in 2014, which reflects its confidence for the future following the restructuring and the investment plans currently being undertaken.

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:

- Delays or cost overruns on major projects
- Foreign exchange rate movements
- Disruption to supply or increase in price of key raw materials
- Product contamination
- Higher levels of net debt and reduced headroom on bank covenants
- Increased funding requirements of pension schemes
- Loss of market share/profit margins due to increased competitive pressures
- Shortage of people with relevant technical expertise
- Impact of changes in regulations affecting food production
- Development of non-casing technologies
- Constitutional change

Going concern

As at 31 December 2014, the group was operating comfortably within the banking covenants related to the revolving credit facility and the US private placement facilities. The detailed financial forecasts indicate that there is sufficient headroom in the facilities for the foreseeable future and that they can be repaid in line with the expected terms.

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

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 set up risk management processes to monitor, manage and mitigate the risks involved in our operations.

The Board has established a Risk 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 2014. The responsibilities of the Committee are:

1. To assess and monitor risk across the group and to recommend mitigating strategies in respect of the key risks;
2. To review and update the Risk Register four times a year;
3. To review the group process for evaluating risk to ensure it remains appropriate and relevant;
4. To co-ordinate an annual 'bottom up' review of risk across the group, culminating in formal reports to the Audit Committee and the Board in the fourth quarter of each year;
5. To agree with the Board an annual programme whereby several key risks will be thoroughly reviewed and evaluated;
6. To report on its work in the Annual Report; and
7. To review its own performance annually.

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.

In 2015, the Board will receive four reports from the Risk Committee, to assist it in monitoring and reviewing the risk management and internal control systems.

KEY RISK	IMPACT	MITIGATION	TREND
Delays or cost overruns on major projects The group is undertaking two investment projects in South Carolina, USA and Nantong, China. Unexpected delays or cost overruns would reduce returns.	The capitalised project costs are estimated at £45 million (USA) and £50 million (China). Cost overruns would reduce the returns on these investments and use more cash resources. A delay in completing the commissioning of these plants could significantly impact earnings in 2016 and 2017.	Dedicated project teams have been set up for each project. Experienced external engineers and contractors have been engaged.	Decreased
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. Almost 90% 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 12 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.	Increased

KEY RISK	IMPACT	MITIGATION	TREND
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 15% 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.	Unchanged
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.	Unchanged
Higher levels of debt and reduced headroom on banking covenants The increased level of borrowing to support the group's investment projects means that banking covenants are more challenging.	A breach of the banking covenants could result in a renegotiation of the loans on more costly terms or the requirement to raise further equity funding.	The Board's detailed financial planning anticipates sufficient profits and cash flow growth to meet all relevant covenants. Scenario planning is used to develop mitigating strategies.	Unchanged

PRINCIPAL RISKS AND UNCERTAINTIES
continued

RISK	IMPACT	MITIGATION	TREND
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.	Increased
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 & 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.	Unchanged
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.	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.	Unchanged

RISK	IMPACT	MITIGATION	TREND
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 our business. The group is a founder member of the Collagen Casings Trade Association, which represents the industry and promotes its excellent record in regulatory and health issues. Supplier approval and traceability are under constant review.	Increased
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.	The group makes substantial investments in product development and manufacturing processes 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.	Unchanged
Constitutional change One UK political party is promising a referendum on the UK's continued membership of the European Union in 2017 if they win the 2015 UK General Election. This could result in significant constitutional change.	The proposed referendum could result in the UK exiting the European Union. Devro has two factories in Scotland with significant trading links to Europe. Trading and regulatory relationships beyond Europe are in many cases facilitated by EU membership.	The situation is uncertain and is being monitored.	Unchanged

BEING A RESPONSIBLE BUSINESS

As a global manufacturing business, we inevitably have an impact on the wider world. We take our responsibilities to society and the environment seriously and make sure they are reflected in all our group policies and statements.

Health and safety

Devro believes in strong health and safety principles. One of our core beliefs is that all accidents are preventable and we promote health and safety to work towards a target of zero accidents of employees, contractors, visitors and the public.

The Board Health and Safety Committee reviews and monitors safety performance in each of the regions. In 2014, the Board met four times to review progress and meet with safety committees.

Safety underpins all our operational procedures with accountability for safety at every level of the organisation.

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; and
- Behavioural safety: helping our employees to act in a safe way.

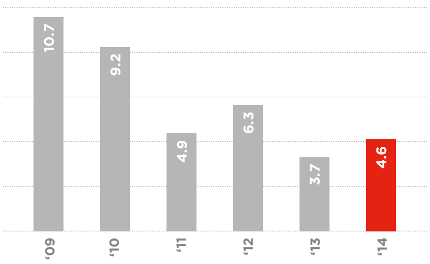
In 2010, we introduced the Golden Rules. Their purpose is to establish some basic guidelines to ensure that all locations have a set of key safety procedures. In 2013, we started to audit compliance with the Golden Rules requirements and, in 2014, extended this to the office locations. The Board Health and Safety Committee monitors the progress made by all locations throughout the year.

How we did in 2014

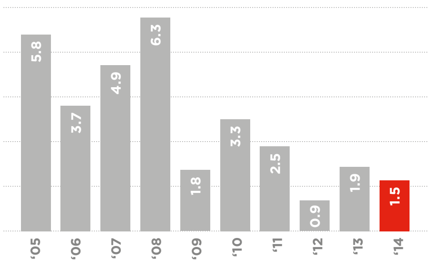
The reported rate of lost working day injuries ("LWDIs") decreased in the past year. We recorded seven lost working day incidents in 2014 compared to nine in 2013. The number of working days lost due to injury was 144 (2013: 115).

Following every LWDI, a full report is drafted with all remedial actions put in place as soon as is practical, and the circumstances shared at all sites to ensure the chance of recurrence elsewhere in the group is minimised. The Chief Executive meets personally with every colleague who has been involved in an LWDI.

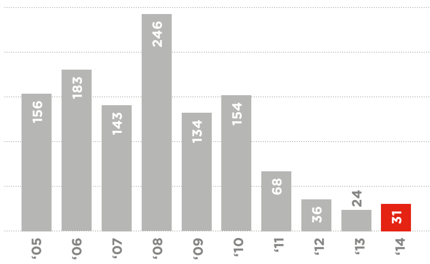
Recordable injury rate
(per million hours worked)



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



Number of lost working days
(per million hours worked)



In late 2015, Devro will be commissioning a new factory in China; construction work started in 2014 and the site is under the control of a locally based General Contractor until completion and handover to Devro later this year.

On 31 December 2014, there was a fatal accident on the site. Mr Qingming Chen, a 46-year-old employee of a sub-contractor died as a result of injuries sustained in a fall of eight metres. Following a thorough investigation in conjunction with the local authorities, specific actions were identified and implemented to prevent a recurrence, before work on-site recommenced.

Safety is our number one priority and, while the Nantong site is under the control of others, we were deeply saddened by the loss of life at a project being conducted on our behalf.

We also measure our performance by looking at the number of recordable injuries; those that need more attention than basic first aid and require the attention of a health professional but do not result in lost working days. In 2014, 21 recordable incidents were reported, an increase from the 18 reported in 2013.

In 2014, we introduced contractor activities into our statistics. Our contractors hours worked during 2014 were the equivalent to 160 full time staff. In addition, contractor activities can be non-routine and high risk. Therefore, although we are disappointed to see an increase in the number of recordable incidents, these do include contractor incidents.

There were 1,965 behavioural audits conducted in 2014, lasting 702 hours, which identified over 1,000 unsafe acts which are seen as leading indicators. We encourage the reporting of unsafe acts and conditions so they can be addressed, which will enhance the safety culture and performance at our sites and should result in a reduction in actual accidents and injuries.

OUR AIM IS TO DO EVERYTHING SAFELY AND WE HAVE A GOAL OF ZERO INJURIES

The performance in the second half of the year showed marked improvement with two LWDIs and 25 working days lost compared to five LWDIs in the first half of the year and 119 working days lost.

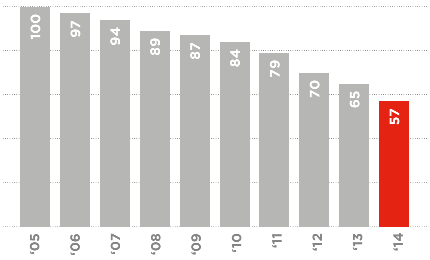
Safety Statistics

	2014	2013
Number of LWDIs	**7**	9
Number of days lost	**144**	115
Number of cases of occupational illness	**2**	4
Number of dangerous incidents	**18**	9
Number of recordable injuries	**21**	18
Number of first aid cases	**102**	155
Number of minor incidents	**112**	98
Number of near misses	**91**	117
Unsafe act rate (per hour)	**0.54**	0.40
Employee hours worked	**4,240,350**	4,503,132
Contractor hours worked	**332,351**	304,686

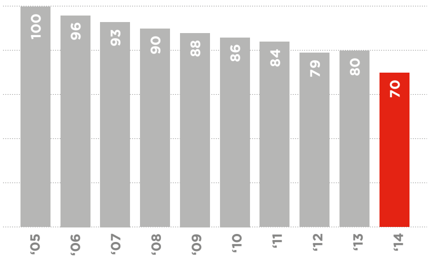
Policies are reviewed annually and the latest versions were fully updated and endorsed by the Board at the end of 2014. They are available to read on our website.

devro.com

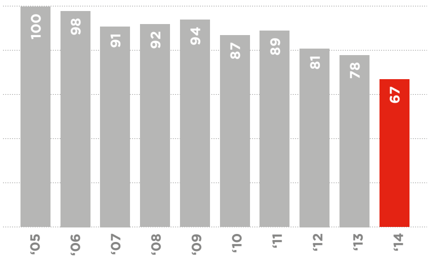
CO_2 emissions
(tonnes CO_2/million metres equivalent casing sold)
2005 = 100; 2015 target = 75.6



Water use
(m³ water/million metres equivalent casing sold)
2005 = 100; 2015 target = 77.6



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



Environment

As a global manufacturer, the main environmental impacts of our processes are the emission of carbon dioxide and the generation of the solid waste we send to landfill or incineration. We operate our own waste water treatment plants in three of our manufacturing 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.

Our worldwide operations 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.

Individual business units will measure many environmental impacts aligned to the specific country or regional legislation, but at group level we collectively monitor our performance via three main measures:

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

All three are important to us but our major concern and, as such, a main area of focus remains climate change and the twin issues of fuel consumption and electricity-related CO_2 emissions. This year, our investments in the USA and China facilities have incorporated the best available technologies to ensure a positive impact on our emissions and energy usage per kilometre of product.

Targets

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

Our 2014 performance shows that we are already surpassing these targets, and as we reach the target deadline of 2015 we are now focusing on the next target period of 2025. This will outline our aspirations in making a step-change in environmental performance for the next decade and underlines our commitment and resolve as an organisation to address our environmental impacts and responsibilities.

Environment key performance indicators

	2014 performance	2015 target
Carbon dioxide	**57**	76
Water use	**70**	78
Solid waste	**67**	78

(per million metres equivalent casing, 2005 = 100)

Carbon dioxide

Last year we saw that the emissions as a result of energy used in our manufacturing plants were already below our 2015 target. As a result of various group-wide reduction programmes and investments in cleaner and more carbon efficient equipment, we have again reduced our emissions in 2014.

Water

Overall water use has reduced in 2014 at all four production locations and, as a result, it is currently tracking below the group 2015 target. Changes in the USA process will also help strengthen this performance measure although the full effect will not be seen in 2015 figures. The 2014 performance demonstrates a 30% reduction from the baseline.

Solid waste to landfill or incineration

In the various regions in which we operate, local legislation governs landfill use, and is quite diverse. However, there is a common message and that is to reduce the impact wherever and whenever possible. In most areas landfill from inert sources (bricks, concrete, building waste) is under less restrictive control. We aim to reduce waste from our manufacturing processes in the short term and find new avenues for disposal in the longer term.

Environmental management systems

All our major manufacturing sites employ Environmental Management Systems, based around the ISO 14001 model. Four of the plants have now been accredited with the ISO 14001 Standard and both the remaining plant and the Chinese operation are currently evaluating the accreditation process as part of their environmental strategies.

GHG emissions data (tonnes of CO_2e)

	2014	2013	2012
Scope 1 emissions (tes)	**76,805**	79,297	76,958
Scope 2 emissions (tes)	**65,240**	67,584	66,605
Scope 1 + 2 emissions (tes)	**142,045**	146,881	143,563
Intensity measure (£'m turnover)	**232.3**	242.7	241.1
Normalised emissions (tonnes of CO_2e per £'m turnover)	**611**	605	595

Greenhouse gas emissions

Our emissions of greenhouse gases are mainly due to the use of energy in our factories. In addition, we use HFCs and HCFCs in refrigeration equipment, own a number of vehicles and rent offices. The figures above cover all of these activities except where we rent an office where the energy use is not measured separately. The impact of this on our numbers is not material.

We started collecting information in this format in 2012 as part of our responsibilities as a FTSE4good company.

Methodology

We have reported on all of the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

These sources fall within our consolidated financial statement. We do not have responsibility for any emission sources that are not included in our consolidated statement.

We have used emission factors from UK Government's GHG Conversion Factors for Company Reporting.

Note

Overseas electricity conversion factors taken from DEFRA's tables refer to tes CO_2 rather than tes CO_2e. In the UK the difference is less than 1%.

ALL OUR MAJOR MANUFACTURING SITES EMPLOY ENVIRONMENTAL MANAGEMENT SYSTEMS, BASED AROUND THE ISO 14001 MODEL

People and human rights

The group places considerable value on the active involvement of its employees on matters affecting them locally and on matters that affect the group. This is achieved through visible and regular communications, both formal and informal, from their own management and that of visiting Executive Board members. Increasingly, we have brought together multi-cultural teams to work on strategically important projects with the benefit of creating a more unified and stronger business culture. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

Devro is an equal opportunities employer and our employees and applicants are treated fairly and equally regardless of their age, colour, creed, disability, full or part-time status, gender, marital status, nationality or ethnic origin, race, religion or sexual orientation. Applications from disabled people are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the group continues and the appropriate training is arranged. It is the policy of the group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

WE ENCOURAGE THE DEVELOPMENT OF EMPLOYEES THROUGH TRAINING

We employed 2,226 people, on average, around the world during 2014. As at 31 December 2014 the group employed 2,162 people.

We encourage the development of employees through training and invest both time and money in this which provides benefits for both the group, through a more highly skilled workforce, and the individual employees, who gain both qualifications and experience that they can use to further their careers whilst with the group and in any future roles elsewhere. As at 31 December 2014 we were training 19 apprentices around the world. During the course of the year ten apprenticeships were completed. As at 31 December 2014 24 people who had successfully completed apprenticeships with us were still employed by the group.

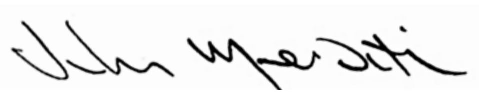
The group is supporting two employees in their MBAs through the Open University Business School, following successful Professional Certificate in Management accreditation in 2013. The group has introduced 10,000 hours worth of Open University-supported web-based learning to give greater access to self-motivated training to a wider range of employees.

Devro does not have a specific human rights policy. However, we have judged that human rights are not a material risk for the business due to the existing regulatory requirements in the regions where the group's significant operations are based. We run our business responsibly and ensure that all our employees, customers, suppliers and other stakeholders are treated fairly and with respect. We will continue to behave responsibly in all regions that the group may base operations in the future, and adhere to the highest standards, even where local regulatory requirements are not as advanced as those the group currently operates within.

As at the end of the year the gender breakdown of the workforce was as follows:

	As at 31 December 2014			As at 31 December 2013		
	Male	**Female**	**Total**	Male	Female	Total
Board of Directors	5 83%	1 17%	6	6 86%	1 14%	7
Executive Board (excluding directors)	3 75%	1 25%	4	6 86%	1 14%	7
Other senior managers	44 75%	15 25%	59	36 68%	17 32%	53
Other employees	1,352 65%	741 35%	2,093	1,459 66%	764 34%	2,223
Total	**1,404** **65%**	**758** **35%**	**2,162**	1,507 66%	783 34%	2,290

The Strategic Report, comprising pages 1 to 27 inclusive, was approved by the Board of Directors of the company on 17 March 2015.



John Meredith
Company Secretary
17 March 2015

DIRECTORS AND SENIOR MANAGEMENT

Board of Directors

Gerard Hoetmer
Chairman

Gerard joined Devro in July 2013.

A Dutch national, Gerard was appointed Chairman of the Board on 15 May 2014, having joined the Board ten months earlier as a Non-Executive Director.

Previously Chief Executive of Corbion, an international bio-based products company, Gerard started his career with Unilever in 1980. He held a number of positions there until 2005, latterly as Senior Vice President Supply Chain, Unilever Foods and a member of the Unilever Foods Executive.

Gerard holds two unpaid positions. He is Chairman of the supervisory board of Feyenoord, the Rotterdam football club, and also of Spieren voor Spieren, a Dutch charity aimed at supporting research for muscular disease.

Gerard is Chairman of the Nomination Committee.

Peter Page
Chief Executive

Peter joined Devro as Chief Executive in June 2007.

Peter has worked for 28 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.

Peter is Chairman of the Non-Executive Directors' Remuneration Committee.

Simon Webb
Group Finance Director

Simon joined Devro at the start of 2011.

Simon 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.

Executive Board

Gordon Frame
Business Director

Gordon joined Devro in 1986. Over the past 28 years, Gordon has worked for Devro in the USA, the UK, Europe and Asia, and so has a broad understanding of markets, technologies and customer applications. Gordon has been based in Hong Kong since 2011 and is responsible for the group's activities in China, Japan and South East Asia.

Bill McGowan
Business Director

Bill joined Devro in January 2015 as Business Director with responsibility for all the group's activities in the Americas region. He brings with him over 37 years' experience in both B2B and B2C food-related industries holding senior level positions in sales, marketing and supply chain. His most recent role was President, America's for Corbion, an international bio-based products company.

Sarah Murphy
Group Human Resources Director

Sarah joined the company in December 2014, bringing 30 years of experience across a broad range of technology-based industry sectors. A metallurgist and mechanical engineer holding operational roles for 12 years, she subsequently held responsibility for executive level, global HR management positions. Sarah brings with her a practical understanding of how to develop organisational effectiveness and strong leadership teams. She is a Fellow of the Chartered Institute of Personnel and Development, a Fellow of the Institution of Mechanical Engineers and holds qualifications in executive coaching as well as mediation practice.

Jane Lodge
Non-Executive Director

Jane joined Devro in March 2012.

Jane is a Non-Executive Director and Audit Chairman of Costain Group PLC, DCC plc and Stemcor Holdings Limited. A Chartered Accountant, Jane was a senior audit partner with Deloitte, where she spent over 25 years advising global manufacturing companies including businesses in the food and automotive sectors. Jane was a member of the CBI Manufacturing Council until 2011. Her extensive experience with manufacturing companies and her strategic work with Deloitte has given her a strong international business perspective.

Jane is Chairman of the Audit Committee.

Paul Neep
Non-Executive Director
Senior Independent Director

Paul joined Devro in February 2005.

Paul is Chairman of The Glenmorangie Company, part of LVMH, having previously been President and 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.

Paul is Chairman of the Executive Directors' Remuneration Committee.

Paul Withers
Non-Executive Director

Paul joined Devro in April 2011.

At BPB plc, Paul 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 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 is Chairman of the Health and Safety Committee.

Michal Stocek
Business Director

Michal has worked in product development and, more recently, general management for 30 years, bringing in-depth knowledge of collagen products. A chemical engineer, he was appointed to the Czech management team in 1997 and became a member of the Executive Board of Devro and Business Director with responsibility for Eastern Europe in August 2006. In 2011, his remit was expanded to include all of Europe and Africa and in 2014 he assumed responsibility for Devro's research & development activities.

The leadership and effectiveness of the Board are primarily the Chairman's responsibility. We recognise the importance of, and are committed to, high standards of corporate governance, aligned with the needs of the company and the interests of all our stakeholders. My fellow directors and I fully appreciate 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 following report sets out how we do this. It covers how the Board and its committees operated in 2014.

Gerard Hoetmer
Chairman

From 1 January 2014 until 31 December 2014, the company applied the 2012 edition of the UK Corporate Governance Code (the "Code").

1. Board composition

Mr G J Hoetmer, Chairman, Mr P W B Page, Chief Executive, Mr S C Webb, Group Finance Director, Ms J A Lodge, Non-Executive Director, Mr P A J Neep, Non-Executive Director, and Mr P N Withers, Non-Executive Director, served as directors throughout 2014. Mr S J Hannam stepped down from the Board on 15 May 2014.

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, other than as set out in the following paragraph.

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 or she has been in that role for a long period of time. The Board, with the assistance of the Nomination Committee, 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 Annual General Meeting ("AGM").

The Board views the Senior Independent Director's role generally as 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.

All directors will stand for re-election at the 2015 AGM. As in previous years, brief biographies of Board members, giving details of their experience and other main commitments, can be found on pages 28 and 29, allowing shareholders to make an informed decision on the question of re-election. All the directors have had their performance reviewed recently, as described on page 33 below, and the Chairman is satisfied that each continues to be effective and to demonstrate commitment to the role.

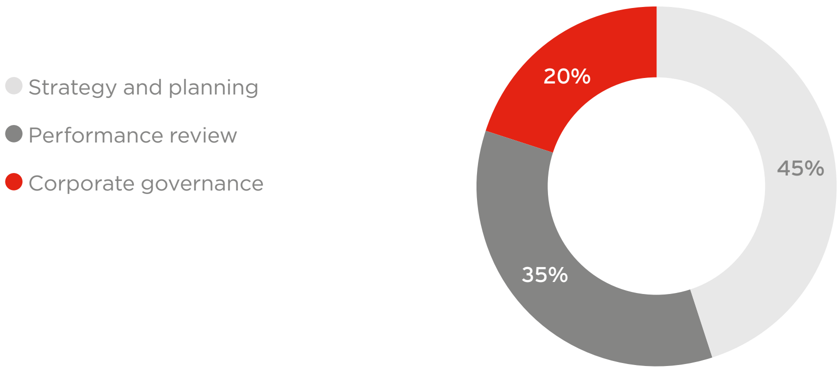
There is a clear division of authority and responsibility through the separation of the roles of the Chairman and Chief Executive. This demarcation is set out in writing and was reviewed by the Board in 2014.

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.

In 2014, the Board broadly divided its time as follows:



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

Balance and diversity
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 relatively 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 34 sets out how we do this. Ultimately, however, 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.

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 on the Board and committees of the Board effectively.

The directors are authorised to obtain independent professional advice at the company's expense in 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.

1. Board composition (continued)

Board and committee proceedings

The Board acknowledges that it is collectively responsible for the success of the company by providing entrepreneurial leadership, setting the company's strategic aims, ensuring that the necessary financial and human resources are in place and reviewing management performance.

A number of committees carry out detailed independent oversight on behalf of the Board in relation to the audit of the company, health and safety issues, the remuneration of directors, appointments to the Board and the risks facing the group.

In order to discharge these responsibilities, the Board and its committees meet on a regular basis throughout the year. In 2014, the Board held seven meetings. Full details of the Board and committee attendance are shown in the table below:

	G J Hoetmer[1]	P W B Page	S J Hannam[2]	J A Lodge	P A J Neep	S C Webb	P N Withers
Board – 7 meetings	7	7	4	7	7	7	7
Audit Committee – 5 meetings	2	–	–	5	5	–	5
Executive Directors' Remuneration Committee – 3 meetings	3	–	1	3	3	–	3
Non-Executive Directors' Remuneration Committee – 2 meetings	–	2	–	–	–	2	–
Nomination Committee – 3 meetings	–	–	3	3	3	–	3
Health and Safety Committee – 4 meetings	–	4	1	–	–	–	4
Risk Committee – 4 meetings	–	3	–	–	–	3	–

1. Mr G J Hoetmer stepped down from the Audit Committee and Health and Safety Committee upon his election to Chairman on 15 May 2014.
2. Mr S J Hannam stepped down from the Board on 15 May 2014.

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

The Audit, Remuneration, Nomination, Health and Safety and Risk Committees, all appropriately resourced, met a total of 21 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 December 2014, the Board conducted an evaluation process based on a detailed questionnaire which was distributed to the directors for their consideration. Results were collated confidentially by the Company Secretary, and reviewed by the Chairman. Individual and collective discussions on the Board's performance then followed.

The questionnaire examines the balance of the skills of the directors, the operation of the Board in practice, including governance issues, and the content of Board meetings. Feedback from the process is used to identify opportunities to improve the performance of the Board and the directors.

This process also addresses the effectiveness of the Board committees, covering such matters as meeting arrangements, and information provision. The results of the 2014 process were discussed by the Board and, where areas of improvement were identified, actions were agreed.

A satisfactory review of the performance of the Chairman was completed by the Non-Executive Directors, led by the Senior Independent Director.

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. Notice of the meeting is sent to shareholders at least 20 working days before the meeting.

3. Directors' remuneration

Details of the level of remuneration received by the directors in 2014 are set out in the Remuneration Report on pages 39 to 52. The Board believes that the current levels of remuneration are at the right level 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 strategy, is set out in the Remuneration Report on pages 39 to 52. 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 annually 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 2014. The other members of the Committee were Mr G J Hoetmer, Ms J A Lodge and Mr P N Withers for the full year. Mr S J Hannam stepped down from the Committee on 15 May 2014 when he left the Board. The Committee met three times in 2014.

Throughout 2014, 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 twice in 2014.

The Remuneration Report contains a detailed statement of the remuneration of each director for 2014, 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 Nomination Committee

The members of the Committee during the year were Ms J A Lodge, Mr P A J Neep and Mr P N Withers, with Mr G J Hoetmer joining as Committee Chairman on 15 May 2014. Mr S J Hannam stepped down as Committee Chairman when he left the Board on 15 May 2014. 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. In 2014, the Committee met formally on three occasions.

During the course of the year, the Committee sought a new Chairman of the Board following Mr S J Hannam's decision to step down. Mr P A J Neep, Senior Independent Director, chaired the proceedings for this process.

Mr G J Hoetmer, already a Non-Executive Director of the company, put himself forward, and after a comprehensive search of external candidates using independent consultants, a number of additional strong contenders were identified. The Committee then reviewed the various candidates against the agreed specification before unanimously agreeing to nominate Mr G J Hoetmer to the Board for the post.

4. Report from the Nomination Committee (continued)

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

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, whenever possible, that a significant proportion of any longlist put forward should be women. Shortlists will, where possible, be drawn up in a way which forces diversity amongst the final candidates.

5. Report from the Health and Safety Committee

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

The members of the Committee during the year were Mr P N Withers, who chaired the Committee, Mr P W B Page and Ms F L Curran, the company's Group Health and Safety Manager. Mr G J Hoetmer stepped down from the Committee following his election as Chairman in May 2014.

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

The Committee convened four times in 2014 and on all of these occasions met (either by video, telephone 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.

6. Report from the Risk Committee

An ongoing process is in place to identify, evaluate and manage the significant risks the group faces, which accords with the Turnbull Guidance and the 2014 edition of the UK Corporate Governance Code. A Risk Committee was formed in 2010, chaired by the Group Company Secretary and comprising the Executive Directors and other members of the Executive Board, as listed on pages 28 and 29. This Committee meets four times a year and is charged with reviewing risk throughout the group and reporting thereon to the Board. As part of the process, risk assessment procedures are applied 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 and the Risk Committee also agree a number of key risks for in-depth review by the 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 18 to 21.

7. Financial reporting

The Board acknowledges its responsibility to present a fair, balanced and understandable assessment of the company's position and prospects. The Annual Report contains a Strategic Report on pages 1 to 27, including a Chairman's Statement, Chief Executive's Review and Financial Review. The Board believes that this additional narrative sets the accounts in context and promotes a better understanding of the current status of the business and its outlook.

To ensure consistency of reporting, the group has an established consolidation process as well as formal financial and operational procedures manuals. Management monitors the publication of new reporting standards and works closely with the external auditors in evaluating the impact of these standards.

8. Internal control

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

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

Financial reporting

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

Operating controls
Financial and operational policies and procedures are set out in formal procedures manuals. Business directors and senior financial staff are responsible for ensuring that all relevant staff are familiar with their content and application.

Treasury
Formal written treasury procedures are in operation, covering banking arrangements, hedging instruments, investment of cash balances and borrowing procedures. Individual staff responsibilities and levels of delegated authority in relation to treasury matters are defined.

Internal audit
The company has an internal audit function, which has a reporting line to the Chairman of the Audit Committee and also direct access to the Chairman of the Board. The internal auditor normally attends Audit Committee meetings and makes a formal report to the Committee annually.

Capital investment appraisal
The company has clearly defined guidelines for the approval and review of capital expenditure projects, which include annual budgets and designated levels of authority.

Integrity of personnel
The company has a Policy on Business Conduct which sets out specific requirements for all staff to meet the company's standards of conduct and integrity in their business dealings.

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

9. Going concern

The group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 1 to 27, along with the financial position of the group, its debt levels and borrowing facilities.

The directors have, at the time of approving the financial statements, a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis of accounting in preparing the financial statements.

Key factors to support the going concern basis of accounting include:

- As at 31 December 2014, the group was operating within the £110 million revolving credit facility negotiated in December 2014, and due to expire in 2019, and the US$100 million US private placement, completed in June 2014 and due to expire between 2021 and 2026, and related key covenants.
- Forecasts of profits and cash flow have been prepared which indicate that the group is expected to operate within its key covenants and funding facilities for the foreseeable future.

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 pages 54 to 56 of this report.

11. Statement on compliance

This statement, together with the Directors' Remuneration Report set out on pages 39 to 52, and the Audit Committee report on pages 36 to 38, describes how, in respect of the year ended 31 December 2014, the company has applied the provisions and principles of corporate governance as set out in the 2012 edition of 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.

Gerard Hoetmer
Chairman

AUDIT COMMITTEE REPORT

As Chairman of the Audit Committee, I am pleased to present the report in respect of 2014. This report summarises the work of the Committee in the course of the year, including the decision to change the statutory auditor.

Jane Lodge
Chairman, Audit Committee

The Audit Committee (the "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.

Ms J A Lodge chaired the Committee throughout the period under review. The other members of the Committee throughout 2014 were Mr P A J Neep and Mr P N Withers. Mr G J Hoetmer resigned from the Committee on 15 May 2014 when he was elected as Chairman of the Board. 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 five meetings, which were attended as required by the Group Finance Director, management and the Group Risk and Control Manager, as invitees. Representatives of the auditors also attend as appropriate.

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.

Change of statutory auditor

PricewaterhouseCoopers LLP ("PwC") have been statutory auditors to the company since it was formed in 1991. In view of this long period of appointment, and following emerging best practice, the Committee recommended that the audit contract be put out to tender in 2014. This process was concluded during the course of the year and from 2015, if agreed by shareholders, KPMG LLP ("KPMG") will be the company's statutory auditors.

The tender process was led by the Group Financial Controller and overseen by the Committee Chairman. In view of PwC's very long tenure, they were excluded from the process. Careful consideration was given as to which firms to invite to tender, including consideration of firms outside the "Big Four". Following initial discussions with a number of firms, the two strongest candidates were identified and invited to participate in the final, decisive stage of the process.

Each participant was allowed extensive access to company information and to key members of senior management both within the central team and the regional teams. This included meetings with local management at each of the manufacturing locations across the group, with feedback from these sessions being summarised and presented to the Committee.

In December 2014, the two candidates each submitted detailed proposals to the Committee, and gave individual presentations followed by rigorous question and answer sessions.

The Committee acknowledged that both candidates had the capability and global reach to conduct a high-quality audit, but after careful deliberation, the Committee agreed to propose to the Board that KPMG be appointed as statutory auditor, subject to approval at the forthcoming Annual General Meeting. The Board accepted this recommendation.

The Committee thanks the firms who participated in the tender process and, on behalf of the Board, would like to warmly thank PwC for many years of service to the company as statutory auditors.

In February 2015, KPMG attended, with the current statutory auditors, the meeting of the Committee at which the preliminary results for 2014 were considered and commended to the Board.

Statutory audit

Prior to the 2014 audit process commencing, the Committee had already decided to recommend a change in statutory auditor for subsequent years for the reasons described above. Having made the decision to change, and to exclude PwC from the tender process, the Committee still had to consider carefully their fitness for the 2014 audit, and in particular their independence and objectivity. During a pre-audit meeting between the Committee and PwC, the Committee received confirmation of the actions PwC had 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 statutory auditors.

As part of the review of PwC's independence, the Committee looked carefully at the level of non-audit work conducted by them and the detailed safeguards which they have in place. In 2013, the company's policy covering the pre-approval of non-audit work was reviewed and clarified. The Committee acknowledged that the non-audit fees were significant, but in view of the safeguards in place, was satisfied that there is no risk to the objectivity and independence of the external auditors as a result. The fees paid to the statutory auditors in 2014 are set out in Note 8 to the financial statements on page 75. Almost all of the non-audit fees relate to tax and pension advice. The Committee appreciates the sensitivity of the non-audit fees being significant, but believes that there are sound commercial and practical reasons for the tax and pension work being conducted by PwC.

Following completion of the 2014 audit, a number of processes were used to judge the effectiveness of the statutory auditors:

- A survey was conducted of all businesses within the group to assess the effectiveness of the group and local statutory audit teams.
- The Committee received a detailed audit plan from the statutory auditors at the beginning of the annual audit process which included an outline of the proposed scope of the audit, and identification of key audit risks and areas of focus. This was discussed and agreed with the Committee.
- The Committee challenged the work done by the statutory auditors to test management's assumptions and estimates in relation to the significant issues.
- At the completion of the statutory audit the Committee received feedback from the Group Finance Director on how effectively issues were addressed at the statutory audit clearance meetings.

Based on the above processes and feedback, and its own ongoing assessment of the statutory auditors' performance (for example through consideration of the statutory auditors' reports and interactions with the group audit partner) the Committee was satisfied with the independence, objectivity and overall effectiveness of the statutory auditors with regard to the 2014 audit process.

Significant issues

The significant issues considered by the Committee during 2014, and how these were addressed, are as follows:

Investment projects and restructuring activities

In 2013 and 2014 the group approved significant capital expenditure to construct new manufacturing plants in the USA and China. During 2014 significant progress has been made on the implementation of these two projects and alongside them the group took the decision to accelerate the restructuring of its existing manufacturing operations in Scotland and Australia. Together these actions give rise to a number of areas of judgement, including whether amounts incurred in relation to the investment projects should be expensed as incurred or capitalised, and whether any existing assets should be impaired or useful lives should be amended as a result of either the restructuring or the investment projects. Where amounts have been expensed in relation to the investment projects or the restructuring, judgement is also required to determine whether these amounts should be disclosed as exceptional items, taking account of their nature and size, and in particular whether they are incremental to normal operations. The implementation of the investment projects and the scope of the restructuring activities undertaken during the year have generated a significant level of exceptional items, which would have distorted the reported results had they not been disclosed separately. This includes the recognition of liabilities related to activities that will be implemented in the future, but for which there was an obligation at 31 December 2014. Quantifying these liabilities involves some estimation, since there is a degree of uncertainty over the amounts involved, which will be resolved as the detailed plans are finalised. After reviewing and discussing reports from management outlining the nature and amount of the relevant costs, the impairment assessments of remaining assets, the estimates involved and the proposed accounting treatments, in particular reviewing the disclosure of amounts presented as exceptional items in the financial statements, the Committee was satisfied with the treatment of these matters. The statutory auditors have also carefully examined this area and have reported their assessment to the Committee.

Significant issues (continued)

Carrying value of inventory

The transformation of the group's manufacturing footprint involving the construction of two new plants and a restructuring of existing production operations will result in significant changes in the group's supply chain. This, combined with the ongoing manufacturing challenges at our ageing USA plant, increases the level of judgement required relating to the carrying value of inventory. The Committee has assessed the judgements of management over the carrying value of inventory and challenged assumptions over the recoverability of the carrying value by reviewing data on inventory ageing, the level of historic inventory write-offs and future sales projections. Additionally, the Committee has discussed with management the application of the group's accounting policy with respect to provisioning for inventory obsolescence and the need for additional specific provisions where heightened risk has been identified. This was also an area of focus identified by the statutory auditors, and they provided detailed reporting on this area to the Committee.

Valuation of net pension obligations

The group operates a number of defined benefit pension schemes around the world. Valuation of these schemes is dependent on certain key assumptions and complex calculations. External actuaries are engaged to provide advice on key assumptions and determine the value of the pension obligations. During the year, the movement in assumptions over discount rates and mortality assumptions in the USA have had a significant impact on the value of the group's pension obligations. These areas have been addressed by the Committee through receiving reports from management outlining the key assumptions and the resulting valuations from actuaries. The Committee discussed these topics with management and challenged the key assumptions, including the degree to which these were supported by professional advice from the external actuaries. The statutory auditors have also focused attention on this area, including consultation with their own actuarial experts, and have provided their report to the Committee.

Whistleblowing procedure

The company's whistleblowing procedures are also reviewed annually. Following a decision by the Committee in 2013, a new, confidential, multi-language system, entitled 'SpeakUp', was set up and communicated to everyone in the group. The Committee believe that these arrangements will facilitate a proportionate and independent investigation of such matters. In 2014, two matters were logged through the 'SpeakUp' system. Neither involved any suggestion of financial impropriety, and both were referred to executive management for resolution.

Fair, balanced and understandable

The Committee acknowledges that, taken as a whole, the Annual Report and Accounts should be fair, balanced and understandable. The Committee advises the Board on whether it believes that the Annual Report and Accounts meet this requirement. In order for the Committee to make this assessment, it considers reports from management received during the year, monitoring financial performance and at year end in support of the financial statements, and also reports from the statutory auditors on the findings of their annual audit. Formal review processes are in place to ensure that the Annual Report and Accounts are factually accurate.

The Committee also satisfies itself that the key messages in the narrative are consistent with the financial reporting, and that the Annual Report and Accounts as a whole are clear and understandable both in terms of the language used, and the layout and framework.

Following its review, the Committee was satisfied that the 2014 Annual Report and Accounts present a fair, balanced and understandable overview, including the necessary information for shareholders to assess the group's performance, business model and strategy.

The responsibility statement of the directors in respect of the Annual Report and Accounts is on pages 55 and 56.

Jane Lodge

Jane Lodge
Chairman, Audit Committee
17 March 2015

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for 2014. 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, as well as how our remuneration policy will be operated in 2015.

Paul Neep
Chairman, Executive Directors' Remuneration Committee

Overview of policy and link to our business strategy

The Committee sets the strategy, structure and levels of remuneration for the Executive Directors and reviews the remuneration of other members of senior management in the group generally. It does so in the context of the group's overall strategy and performance to align the financial interests of the Executive Directors and other senior managers with the achievement of the group's objectives, and with shareholder returns.

How we do this is set out in the policy table on pages 41 and 42 but, broadly speaking, here is how we address the three main elements:

- **Salary** is set at a level which enables us to attract and retain individuals with the experience and commitment we need to implement a challenging strategic programme.
- **Annual bonus** rewards performance against specific near-term goals and milestones, and is only paid for out-performance.
- **Long-term incentives** aim to reward value-creation over the longer term. The targets, which are consistent with our strategy, are group Earnings Per Share ("EPS") growth, and Total Shareholder Return ("TSR").

The Committee believes that the policy which was approved at the 2014 AGM remains appropriate, and should continue for 2015 and we have included it again for reference on pages 41 to 45. The Annual Report on Remuneration on pages 46 to 52 sets out how our policy was operated in 2014 and will be operated in the current year. This will be subject to an advisory vote at the 2015 AGM.

Base salary

Our long-standing policy is for base salaries of Executive Directors to be around mid-market levels. In 2014, the Committee awarded the Group Finance Director an increase of 2%, a little less than the average of other pay rises elsewhere in the group. The Chief Executive declined an increase.

For 2015, an increase of 2% will be made for both Executive Directors, effective from 1 April 2015. Again this is consistent with average increases made across the group.

Annual bonus

The Committee believes annual bonus targets should be genuinely challenging, clearly linked to the company's strategy and performance, and designed to align the interests of executives and shareholders. In 2014, the company faced a number of challenges, and the financial performance was significantly behind prior year. As a result, no bonus was paid in respect of 2014. Further details are on page 48.

For 2015, we have introduced non-financial strategic targets for the first time to the annual bonus, accounting for a maximum of 20% of the award. These targets are specific, measureable and, above all, designed to support delivery of key milestones in our strategy. The Committee has made this change for 2015 recognising that the company is at a crucial point in its strategic development. The objectives include delivery of the two major capital projects underway in Nantong, China and South Carolina, USA, on which much of our strategic planning is based. They are underpinned by a condition requiring underlying profit growth in 2015. Further details can be found on page 46 of this report.

Long-term incentive plan

The Chief Executive and Group Finance Director received conditional awards under the 2003 Performance Share Plan in 2012 and 2011 respectively. The performance targets for these awards were partly based on EPS growth and partly on relative TSR measured across a performance period ending on 31 December 2014. The Committee reviewed the performance of the company against these conditions in February 2015, and concluded that neither threshold had been met. As a result, the awards in question have lapsed. A full explanation of the performance metric is shown on page 51.

Summary

We continue to monitor our approach to remuneration to ensure it remains relevant and consistent both with our strategy and performance, and is aligned to shareholder values. I look forward to your support of the advisory vote on our 2014 Annual Report on Remuneration at the forthcoming AGM.

Paul Neep
Chairman, Executive Directors' Remuneration Committee
17 March 2015

Policy report

This part of the Directors' Remuneration Report sets out the remuneration policy for the company directors, approved at the 2014 AGM. It has been prepared in accordance with The Large and Medium-sized Companies and groups (Accounts and Reports) (Amendment) Regulations 2013 (the "Regulations").

The 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.

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, particularly salary increases, is also carried out each year when reviewing overall remuneration policy and this is taken into account when setting policy for the Executive Directors. No consultation process with employees was conducted in 2014 in respect of the directors' remuneration policy.

The Committee welcomes dialogue with shareholders and consults with its major investors and investor bodies regarding changes to Executive Director remuneration policy. Any views and feedback on arrangements from our investors will be considered by the Committee as part of its annual review of directors' remuneration.

Remuneration of Executive Directors

The following table summarises each element of the Executive Directors' remuneration package, the policy for how these are operated and their link to the company's strategy.

Policy table

Element of pay	Purpose and link to company's strategy	How operated in practice	Maximum opportunity	Performance metrics where relevant
Base salary	Reflects the value of the individual and their role. Takes account of experience 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. Policy is for salaries to be around those paid by other companies comparable on the basis of size and complexity, but also takes account of other factors including any change in responsibilities or the scope of the role.	There is no prescribed annual increase. The Committee is guided by the wider workforce increases, but may also need to recognise increases in certain circumstances such as assumed additional responsibility, or an increase in the scope or size of the role.	Takes into account the performance and personal contribution of the individual and performance of the company.
Annual Bonus Plan (including Devro 2009 Deferred Share Bonus Plan)	Rewards performance against specific near-term 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. Clawback and deferral discourage excessive risk-taking and encourage a long-term view.	Assessed by the Committee against the audited results of the company, where relevant. Any bonus paid in excess of 50% of salary is deferred into shares for three years subject to continued employment but no further performance conditions. Clawback may be applied to all of the bonus (cash and share deferred amounts), in the event of: (i) material misstatement of the company's accounts; (ii) an error in the computation of a bonus amount; or (iii) termination of service for gross misconduct.	A bonus of up to a maximum of 100% of salary may be awarded.	No less than 80% of the bonus is based on one or more relevant financial performance metrics such as group operating profit. Up to 20% of the bonus may be based on appropriate non-financial targets. Any non-financial target will be subject to an appropriate financial underpin.

Element of pay	Purpose and link to company's strategy	How operated in practice	Maximum opportunity	Performance metrics where relevant
Devro plc Performance Share Plan ("PSP")	Aims to reward long-term value creation. Facilitates share ownership and provides further alignment with shareholders. Provides a retention tool.	PSP awards structured as nil-cost options are usually granted annually so that no undue emphasis is placed on performance in any one particular financial year. Awards generally vest on the third anniversary of award subject to performance over three financial years. Clawback may be applied, in the event of: (i) material misstatement of the company's accounts; (ii) an error in the computation of a bonus amount; or (iii) termination of service for gross misconduct. The Committee has discretion under the PSP rules to pay dividend equivalents for the vesting period in respect of any awards which vest. Any shares vesting from the PSP must be held for a further period of two years post-vesting, subject to the right to sell sufficient shares to cover tax charges arising on vesting.	Under the PSP rules, 150% of salary with scope for higher awards in exceptional recruitment situations, but not exceeding 200% of salary. The Committee will not increase above the 2014 award levels without prior consultation with the company's major shareholders.	50% subject to EPS growth targets (or some other financial measure deemed to be appropriate) with 25% of the award vesting for threshold performance, and 50% subject to relative TSR targets. TSR performance is compared to a comparator group to be selected by the Committee at the time of grant. No vesting below median, 25% vesting at median and full vesting at upper quartile performance with straight-line vesting in between. 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.
Benefits	To remain competitive in the market place, and provide medical care for the Executive Directors and their families.	Executive Directors are entitled to private medical insurance.	There is no prescribed maximum. The value of the benefit is determined by the cost to the company.	Not performance related.
Pension contribution/ payment in lieu	To 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.	10% of base salary.	Not performance related.
Policy for Non-Executive Chairman and Directors' fees				
Non-Executive Chairman and Directors' fees	To attract and retain high-quality and experienced Non-Executive Chairman and Directors.	The Non-Executive Chairman and Directors are paid an annual fee. Fee levels are determined and reviewed taking into account experience, time commitment, responsibility and scope of role as well as market data for similar roles in other companies of a similar size and complexity to Devro.	There is no prescribed maximum fee or maximum increase. There may be a need to recognise increases in certain circumstances such as assumed additional responsibility (for example, taking on the Chairmanship of a Committee) or an increase in the scope or size of the role.	No performance-related element of remuneration.

Notes to the policy table

1. Annual Bonus Plan performance metrics

Performance measures, the weighting between them and stretching targets will be set at the start of each year by the Committee, based on the company's financial KPIs and strategic priorities for the year and taking account of the business plan, budget for the year and market conditions. At least 80% will be based on relevant financial targets and up to 20% may be attributed to a relevant non-financial target. Together, these targets are intended to incentivise and reward shorter-term performance, consistent with the interests of the shareholders and the overall strategy of the company.

2. PSP metrics

The Committee selects performance measures for the PSP awards that are aimed at incentivising and rewarding performance over the medium term, aligned with the interests of the shareholders and consistent with the group strategy. For a comparative TSR measure, the targets are as set out in the policy table with the Committee selecting the most appropriate comparator group at the time awards are made. For EPS growth and any other relevant financial targets, the Committee will set stretching targets based on the company's budget, business plan, and external economic environment at that time.

3. Deferred Share Bonus Plan

The Deferred Share Bonus Plan contains no additional performance conditions as any awards arise from an annual bonus which was itself subject to performance conditions.

4. Comparison with employees' remuneration policy

The key differences between Executive Directors' remuneration policy and that of employees generally is that, for the Executive Directors, there is significantly more weighting to variable performance-related pay. Variable pay is seen as more relevant for senior executives because of their greater ability to influence the overall performance of the company.

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.

Remuneration awarded prior to the effective date

For the avoidance of doubt, following approval of this Policy Report, authority was given to the company to honour any commitments entered into with current or former directors that have been disclosed to shareholders in previous remuneration reports including those share plan awards set out on pages 50 and 51. Details of any payments to former directors will be set out in the Annual Report on Remuneration as they arise.

Annual Bonus Plan and PSP policy

The Committee will operate the Annual Bonus Plan and PSP according to the rules of each respective plan and consistent with normal market practice and the Listing Rules of the London Stock Exchange, including flexibility in a number of aspects. How the Committee will retain flexibility includes (albeit with quantum and performance targets restricted to the descriptions detailed above):

- Who participates in the plans.
- When to make awards and payments.
- How to determine the size of an award, a payment, or when and how much of an award should vest.
- How to deal with a change of control or restructuring of the group.
- Whether a director is a "good/bad" leaver for incentive plan purposes and whether and what proportion of awards vest at the time of leaving or at the original vesting date(s).
- How and whether an award may be adjusted in certain circumstances (e.g. for a rights issue, a corporate restructuring or for special dividends).
- What the weighting, measures and targets should be for the Annual Bonus Plan and PSP from year to year.

The Committee also retains the discretion within the policy to adjust targets and/or set different measures and alter weightings for the Annual Bonus Plan and to adjust targets for the PSP if events happen that cause it to determine that the metrics are unable to fulfil their originally intended purpose, provided the new metrics are not materially less difficult to satisfy. Any adjustments will be fully disclosed in the following year's Annual Report on Remuneration.

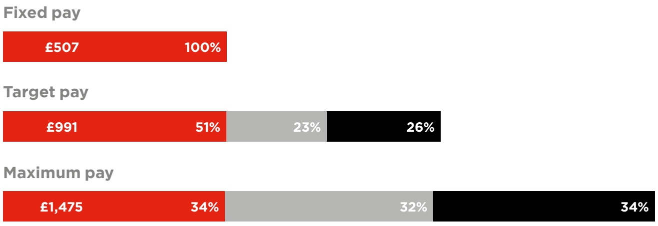
All historic awards that were granted under any current or previous share schemes operated by the company but remain outstanding, detailed on page 50, remain eligible to vest based on their original award terms.

Payment under different scenarios

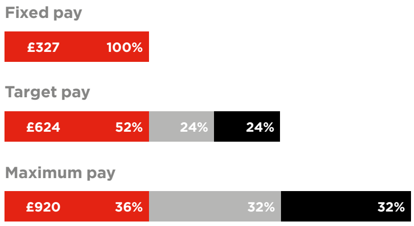
Under the Regulations, we are required to show a bar-chart indicating the level of remuneration which would be received by the Executive Directors in 2015 under different scenarios. Three scenarios are shown below:

- "**Fixed pay**" is based on salary, benefits and pension contributions;
- "**Target pay**" is fixed pay, plus 50% of the maximum of variable pay; and
- "**Maximum pay**" is fixed pay, plus the maximum of variable pay.

Chief Executive
£'000



Group Finance Director
£'000



- Fixed
- Bonus
- Long-term incentive

Assumptions:
1. Based on policy to be applied for Financial Year 2015.
2. Salaries are based on salaries as at 1 April 2015. Taxable benefits are based on those disclosed for 2014.
3. Pension is 2015 policy applied to 1 April 2015 salaries.
4. No share price appreciation is assumed in long-term incentive awards.

Service agreements and payments for loss of office of Executive Directors

It is the company's policy that Executive Directors should have contracts with an indefinite term, which are subject to one year's notice by the company and the director. In the event of early termination (including following a change of control in the company), the directors' contracts provide for compensation in line with their contractual notice period. In summary, the contractual provisions are as follows:

Provision	Detailed terms
Notice period	12 months by the company, 12 months by the director.
Termination payment	There is no provision for specific payment. If any existing contract is breached by the company, it would be liable to pay, as damages, an amount approximating to the net loss of salary and contractual benefits for the unexpired notice period, subject to mitigation and phased payments where appropriate. Any statutory amounts would be paid as necessary.
Remuneration entitlements	Pro-rata bonus may also become payable for the period of active service along with vesting for outstanding share awards (in certain circumstances – see below). In all cases performance targets would apply.
Change of control	No Executive Director's contract contains additional provisions in respect of change of control.

Any share-based entitlements granted to an Executive Director under the company's share plans will be determined based on the relevant plan rules. The default treatment under the PSP is that any outstanding awards lapse on cessation of employment. However, in certain prescribed circumstances, such as death, ill-health, disability, redundancy, retirement or other circumstances at the discretion of the Committee, "good leaver" status may be applied. For good leavers, awards will normally vest on cessation, or on the original vesting date, subject to the satisfaction of the relevant performance conditions at that time and reduced pro-rata to reflect the proportion of the three-year period actually served. However, the Committee has discretion to determine that awards vest at a later date and/or to disapply time pro-rating.

The default treatment under the 2009 Deferred Share Bonus Plan is that any awards lapse on cessation of employment. However, good leavers are entitled to retain their awards, and to vest after leaving, subject to the rules of the Plan.

Details of the service agreements 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 other than detailed above	12 months' notice	12 months' notice; "good leaver" status under share schemes
S C Webb	14 January 2011	N/A	12	12			

Recruitment and promotion policy for directors

The remuneration package for a new Executive Director would be set in accordance with the terms of the company's prevailing approved remuneration policy at the time of appointment and take into account the skills and experience of the individual, the market rate for a candidate of that experience and the importance of securing the relevant individual.

Salary would be provided at such a level as is required to attract the most appropriate candidate. It may be set initially at a below mid-market level on the basis that it may progress towards the mid-market level once expertise and performance has been proven and sustained. The annual bonus potential would be limited to 100% of salary, and conditional awards under the Devro plc Performance Share Plan may be up to the Plan maximum of 150% of salary or 200% on recruitment in exceptional circumstances. In addition, the Committee may offer additional cash and/or share-based elements to replace deferred or incentive pay forfeited by an executive leaving a previous employer. It would seek to ensure, where possible, that these awards would be consistent with awards forfeited in terms of vesting periods, expected value and performance conditions.

For an internal Executive Director appointment, any variable pay element awarded in respect of the prior role may be allowed to pay out according to its terms, adjusted as relevant to take into account the appointment. In addition, any other ongoing remuneration obligations existing prior to appointment may continue. For external and internal appointments, the Committee may agree that the company will meet certain relocation and other incidental expenses as appropriate.

If appropriate, the Committee may agree on the recruitment of a new executive to a notice period in excess of 12 months but to reduce to 12 months over a specified period.

The fees for a new Chairman or Non-Executive Director will be reflective of experience, time commitment, responsibility and scope of the role and will be consistent with the approved remuneration policy at the time.

Chairman and Non-Executive Directors

The Non-Executive Directors are engaged for fixed terms, with no notice period, with an entitlement to accrued fees and expenses only up to the date of termination. These appointments are subject to the company's Articles of Association. All directors submit themselves for re-election at the Annual General Meeting in accordance with the UK Corporate Governance Code.

The dates 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
G J Hoetmer	30 July 2013	29 July 2016
J A Lodge	27 February 2012	AGM 2018
P A J Neep	5 February 2005	AGM 2016
P N Withers	12 April 2011	AGM 2017

Annual Report on Remuneration

How the policy will be implemented in 2015

Executive Directors' salaries

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

Chief Executive: £451,880
Group Finance Director: £291,321

From 1 April 2015 the salaries will be increased by 2% as follows:

Chief Executive: £460,918
Group Finance Director: £297,147

Non-Executive Directors' fees

The fees for Non-Executive Directors in 2015 are as follows:

Name	Base annual remuneration	Additional fee for committee chairmanships	Total annual remuneration
G J Hoetmer	£130,000	N/A	£130,000
P A J Neep	£41,500	£5,000	£46,500
P N Withers	£41,500	£5,000	£46,500
J A Lodge	£41,500	£5,000	£46,500

Annual bonus

For 2015, 80% of the annual bonus for Executive Directors will be determined by growth in group operating profit and 20% by non-financial strategic targets. The non-financial targets are linked to key milestones in our strategy, including the delivery of the two major investment projects underway in Nantong, China and South Carolina, USA. They are underpinned by a condition requiring underlying profit growth in 2015.

When reviewing the profit performance condition for 2015, the Committee will look at operating profit before exceptional items and will restate the actual figures using the budgeted exchange rates in order to strip out the effect of currency fluctuations.

The Board considers that the actual targets for the 2015 bonus are commercially sensitive and full details will be fully disclosed in the 2015 report provided they are not considered commercially sensitive at that time.

Long-term incentive plan

Awards will be made in 2015 to the Chief Executive to the extent of 110% of base salary; and to the Group Finance Director to the extent of 100% of base salary. The performance measures for these awards will be reviewed by the Committee when the awards are made.

Pension and other benefits

The pension and benefits arrangements are as set out in the policy table above.

External appointments

Neither of the Executive Directors has any external paid directorships. Executive Directors are permitted to accept external board or committee appointments provided they do not interfere with the Executive Directors' obligations to the company. The Board will decide at the time of appointment whether an Executive Director may retain the fees for such appointments.

The Remuneration Committees

The members of the Executive Directors' Remuneration Committee (the "Committee") throughout 2014 were Mr P A J Neep (Committee Chairman), Mr G J Hoetmer, Ms J A Lodge and Mr P N Withers. Mr S J Hannam stepped down from the Board and the Committee on 15 May 2014.

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 as advisers by the Committee.

No director is involved in any part of a meeting of the Committee when their individual remuneration or contractual terms are being decided.

The remuneration of the Non-Executive Directors and the Chairman is set by the Non-Executive Directors' Remuneration Committee, whose members in 2014 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 Committee has satisfied itself that advice from New Bridge Street is objective. The total fees paid to New Bridge Street for the advice provided to the Committee during the year were £24,770. 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.

Engagement with investors

The Committee understands the need to engage with major investors when considering significant changes to remuneration policy. This was not considered necessary in 2014. The Chairman of the Committee is always available to talk to investors should they have any concerns.

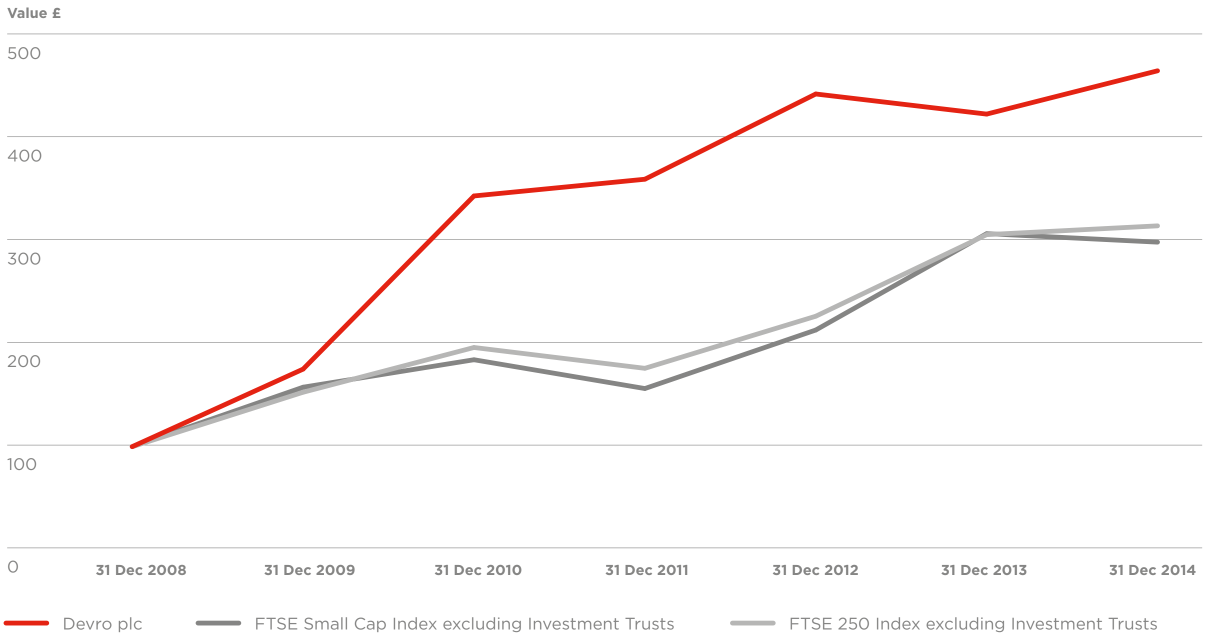
Statement of shareholding voting at AGM

At the Annual General Meeting held on 30 April 2014, votes cast by proxy and at the meeting in respect of the directors' remuneration were as follows:

Resolution	Votes For	% For	Votes Against	% Against	Total votes cast	Votes withheld (abstentions)
Approval of remuneration report	115,993,434	99.92	97,120	0.08	116,090,554	55,373
Approval of remuneration policy	115,886,098	99.88	134,045	0.12	116,020,143	122,784

Performance graph

Total Shareholder Return



Source: Datastream (Thomson Reuters)

This graph shows the value, by 31 December 2014, of £100 invested in Devro plc on 31 December 2008 compared with the value of £100 invested in the FTSE SmallCap excluding Investment Trusts and the FTSE 250 Index excluding Investment Trusts. The other points plotted are the values at intervening financial year-ends.

General FTSE indices have 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 six years.

Table of historic data

The following table sets out the total remuneration and the amount vesting under short-term and long-term incentives (as a percentage of the maximum that could have been achieved) in each of the past six years for the Chief Executive.

Year	Chief Executive single figure of total remuneration (£'000)	Annual bonus payout against maximum opportunity %	Long-term incentive vesting rates against maximum opportunity %
2014	498	0	0
2013	565	0	18.25
2012	1,154	0	100
2011	1,670	40	100
2010	1,767	100	100
2009	862	100	100

Single total figure of remuneration

	Base salaries/fees in payment at 31 December		Base salaries/fees		Bonuses		Benefits in kind		Pension contributions or payments in lieu of pension contributions		Long-term incentives with performance period ending during the year		Single total figure of remuneration	
Director	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000
G J Hoetmer	**130**	40	**107**	17	**–**	–	**–**	–	**–**	–	**–**	–	**107**	17
P W B Page[1]	**452**	452	**452**	449	**–**	–	**1**	1	**45**	45	**–**	56[3]	**498**	551
S J Hannam[2]	**N/A**	110	**41**	110	**–**	–	**–**	–	**–**	–	**–**	–	**41**	110
J A Lodge	**45**	45	**45**	45	**–**	–	**–**	–	**–**	–	**–**	–	**45**	45
P A J Neep	**45**	45	**45**	45	**–**	–	**–**	–	**–**	–	**–**	–	**45**	45
S C Webb[1]	**291**	286	**290**	284	**–**	–	**1**	1	**29**	28	**–**	45[3]	**320**	358
P N Withers	**45**	45	**45**	45	**–**	–	**–**	–	**–**	–	**–**	–	**45**	45
Total	**1,008**	1,023	**1,025**	995	**–**	–	**2**	2	**74**	73	**–**	101	**1,101**	1,171

1. Benefits in kind for Mr P W B Page and Mr S C Webb relate to medical insurance.
2. Mr S J Hannam stepped down from the Board on 15 May 2014.
3. Based on the share price on the date of exercise.

Details of variable pay earned in the year

Annual bonus

Set out below are the performance conditions which applied to the 2014 Annual Bonus Plan:

	Proportion of total bonus available					
Performance condition	% of maximum	% of salary	Actual performance achieved	Performance target for threshold vesting	Performance target for maximum vesting	Resulting bonus out-turn
Group Operating Profit[1]	80%	80%	£30.3m	£42.5m	£47.5m	0%
Operating Cash Flow[2]	20%	20%	£52.1m	£55.8m	£61.7m	0%
Total	**100%**	**100%**				**0%**

1. Adjusted to exclude exceptional items.
2. Adjusted to exclude additional pension contributions.

The Devro 2003 Performance Share Plan

The three-year performance period for the award under the Devro 2003 Performance Share Plan made to Mr P W B Page on 2 April 2012, and the award made to Mr S C Webb on 24 February 2011 with a four-year performance period ended on 31 December 2014. 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) (50%)		Earnings Per Share ("EPS") growth (50%)				
Performance required	**Performance achieved**	**Performance required**	**Performance achieved**	**Vesting %**	**Number of shares vesting in 2014**	**Value of shares vesting in 2014**
30% vesting for median performance rising to maximum vesting for upper quintile performance with straight-line vesting in between	Ranking below median	30% vesting for RPI + 3% p.a. rising to RPI + 12% p.a. or above	-17% for 2011 awards -31% for 2012 awards	0%	P W B Page Nil S C Webb Nil	£0 £0

The TSR condition and performance set out above were independently reviewed by New Bridge Street.

Relative importance of spend on pay

	Total remuneration of all employees of the Devro group £'000	Dividends paid £'000
2014	**81,399 (+4.3%)**	**14,663 (+3.6%)**
2013	78,049	14,151

Percentage change in Chief Executive's remuneration

	2014 £'000	2013 £'000	% change
Salary	452	449	+0.7
Benefits	1	1	0
Bonus	0	0	0

Percentage change in average remuneration of all Devro Group employees

	2014 £'000	2013 £'000	% change
Salary	27[1]	29	-7
Benefits	1	1	0
Bonus	1	1	0

1. The decrease reflects significant currency movements, as the majority of Group employees are paid in currencies other than Sterling.

Performance Share Plan awards granted on 9 June 2014

	Plan	Basis of award granted	Face value of award[1] £,000	Maximum vesting (% of face value)	Percentage vesting for threshold performance	Vesting and performance period
P W B Page	The Devro plc Performance Share Plan	110% of salary 185,400 shares	496,872	100%	25% under TSR & EPS element together (i.e., 12.5% for each part of the award)	Performance period 3 financial years from 1 January 2014. Vesting period 3 years from date of grant.
S C Webb	The Devro plc Performance Share Plan	100% of salary 108,700 shares	291,316	100%		

Further details regarding the Performance Share Plan, together with the performance conditions applying to the above awards are set out on pages 50 and 51.

1. Based on share price of 268p on 6 June 2014, being the working day before the date of grant.

Audited information

The following information has been audited by the company's auditors, PricewaterhouseCoopers LLP. The single total figure table on page 48 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 £28,989 (2013: £28,373) 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. The contribution in respect of 2014 is shown in the table on page 48.

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 Performance Share Plans

The Executive Directors' awards outstanding under the Devro plc Performance Share Plan and its predecessor, 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 2014	Number of shares awarded during year	Number of shares exercised during year[1]	Number of shares lapsed during year	Number of shares at 31 December 2014	Earliest normal vesting date
P W B Page	29 March 2011	287.8p	55,845	21,900	–	(21,900)	–	–	29 March 2014
	2 April 2012	315.9p	N/A	118,000	–	–	–	118,000[2]	2 April 2015
	11 September 2013	336.2p	N/A	150,800	–	–	–	150,800	11 September 2016
	9 June 2014	268p	N/A	–	185,400	–	–	185,400	9 June 2017
S C Webb[1]	24 February 2011	256.6p	45,058	18,952	–	(18,952)	–	–	24 February 2014
	24 February 2011	256.6p	N/A	103,846	–	–	–	103,846[2]	24 February 2015
	11 September 2013	336.2p	N/A	86,670	–	–	–	86,670	11 September 2016
	9 June 2014	268p	N/A	–	108,700	–	–	108,700	9 June 2017

1. 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 three-year performance period, and the other for a four-year period, with the targets extended pro rata. No awards were made to him in 2012.
2. These shares lapsed following a review of the relevant performance conditions by the Committee in February 2015.

Conditional nil-priced options under the Devro plc Performance Share Plan are considered annually, with earliest vesting occurring generally after three years and normally being dependent on both continued employment with the group and the extent to which the performance conditions set out below are met. 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 100 listed companies (excluding Investment Trusts) closest to the company in terms of market capitalisation (i.e. 50 higher and 50 lower).

The awards made in 2013 and the year under review were granted as nil-priced options subject to the performance conditions below. These conditions will also apply to the awards to be made in 2015:

Annual EPS growth during the performance period	Performance shares vesting percentage
Less than 6% per annum	0%
6% per annum	12.5%
Between 6% and 14% per annum	On a straight-line basis between 12.5% and 50%
14% per annum or more	50%

TSR ranking relative to comparator group	Performance shares vesting percentage
Below median	0%
Median	12.5%
Between median and upper quartile	On a straight-line basis between 12.5% and 50%
Upper quartile or above	50%

Awards made in 2011 and 2012 to Executive Directors were granted as nil-priced options subject to the performance conditions below:

EPS growth above RPI during the performance period	Performance shares vesting percentage
For three-year performance period	
Below 9%	0%
9%	15%
9%–36%	Pro rata 15%–50%
At or above 36%	50%
For four-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%

The Devro 2009 Deferred Share Bonus Plan

There are no outstanding awards under the Devro 2009 Deferred Share Bonus Plan at the date of this report. The following table gives details of an award to Mr P W B Page in 2011 which was exercised on 31 July 2014.

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 2014	Number of shares exercised during year	Number of shares lapsed during year	Number of shares held at 31 December 2014	Earliest normal vesting date
P W B Page	9 March 2011	287.0p	255.0p	**58,025**	(58,025)	–	–	N/A

The above award was granted as a nil-priced option. No performance conditions applied to this award, which was made in respect of past performance.

The market price of the company's shares at the end of the financial year was 305p. The range of market prices during the year was between 210p and 324.8p.

Directors' interests

The interests, all of which are beneficial, of the directors (and their immediate families) in the share capital of the company (ordinary shares of 10 pence each), and details of awards held under the Devro plc Performance Share Plan and its predecessor, the Devro 2003 Performance Share Plan (which have performance conditions) and the Devro 2009 Deferred Share Bonus Plan (which have no performance conditions) at the beginning and end of the financial year, are as follows:

Director	Total number of ordinary shares 1 January 2014	Total number of ordinary shares 31 December 2014	Performance Share Plans 1 January 2014	Performance Share Plans 31 December 2014	Deferred Share Bonus Plan 1 January 2014	Deferred Share Bonus Plan 31 December 2014
G J Hoetmer	**10,000**	**30,000**	–	–	–	–
P W B Page	**600,080**	**662,440**	**388,800**[2]	**454,200**[4]	**58,025**	–
S J Hannam[1]	**223,622**	**N/A**	–	–	–	–
J A Lodge	**17,500**	**17,500**	–	–	–	–
P A J Neep	**220,893**	**220,893**	–	–	–	–
S C Webb	**24,000**	**42,952**	**294,362**[3]	**299,216**[5]	–	–
P N Withers	**70,000**	**90,000**	–	–	–	–

1. Mr S J Hannam stepped down from the Board on 15 May 2014.
2. Includes 98,100 shares which lapsed following a review by the Committee in February 2014.
3. Includes 84,894 shares which lapsed following a review by the Committee in February 2014.
4. Includes 118,000 which lapsed following a review by the Committee in February 2015.
5. Includes 103,846 which lapsed following a review by the Committee in February 2015.

On 3 March 2015, Mr G J Hoetmer notified the company that he had purchased a further 15,000 ordinary shares in the company.

Shareholding guidelines

To provide alignment between shareholders and directors, the Executive Directors are required to build up a shareholding equivalent to 100% of base 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 2014	Shares held as a % of salary[1]	Number of shares vested in 2014	Number of shares vested under share schemes, but unexercised
P W B Page	**662,440**	393%	**Nil**	Nil
S C Webb	**42,952**	39%	**Nil**	Nil

1. Calculated on basis of three-month average share price to 31 December 2014, using salaries at 31 December 2014.

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 2014, amounted to 75,285 ordinary shares.

On behalf of the Board

Paul Neep
Chairman, Executive Directors' Remuneration Committee
17 March 2015

Introduction

The directors of Devro plc (the "company") are pleased to present this Directors' Report for the year ended 31 December 2014 which sets out certain disclosures about the Devro group of companies (including the company) (the "group"), required under the Companies Act 2006 (the "Act") and under the Financial Conduct Authority's Listing Rules ("LRs") and Disclosure and Transparency Rules ("DTRs").

The Corporate Governance Report, which can be found on pages 30 to 35 also forms part of this Directors' Report as do other disclosures elsewhere in the Annual Report and Accounts, incorporated by cross reference in this Directors' Report.

In accordance with the Act, we have chosen to set out information about the following items in the discrete Strategic Report section of this Annual Report on pages 1 to 27:

- An indication of future developments in the business of the group;
- Its activities in the field of research & development;
- Greenhouse gas emissions; and
- Employee equality, diversity and involvement.

The information required to be included in the Annual Report under LR9.8.4R which is applicable to the company is set out as follows:

Section	Topic	Location
9.8.4R(1)	Capitalised interest	Note 14 to the financial statements

The company

The company is a public limited company and is incorporated in Scotland under number SC129785.

The company's principal subsidiary undertakings and branches, including those located outside the UK, are listed in Note 15 to the financial statements.

Amendment of the company's articles of association (the "Articles")

Any amendments to the company's Articles must be made in accordance with the provisions of the Act by way of special resolution.

Directors

The names and biographical details of the directors of the company at the date of this Directors' Report, having also been directors during the year ended 31 December 2014, are set out on pages 28 and 29. Additionally, Mr S J Hannam served as a director until he stepped down from the Board on 15 May 2014.

Directors shall be no less than two and no more than 11 in number. Directors may be appointed by the company by ordinary resolution or by the Board. A director appointed by the Board holds office only until the next Annual General Meeting of the company ("AGM") and is then eligible for election by the shareholders.

In line with the recommendations of the Code, the company requires every director to stand for election or re-election by the shareholders at each AGM, if he or she wishes to continue being a director.

The company may, by ordinary resolution, remove any director before the expiration of his or her term of office. The office of director shall also be vacated if: (i) he or she resigns; (ii) where he or she has been appointed for a fixed term, the term expires; (iii) he or she ceases to be a director by virtue of a provision of the Act, is removed from office pursuant to the company's Articles or becomes prohibited by law from being a director (including circumstances in which a director is declared bankrupt or, suffering from mental ill health, the Board resolves that the director's office should be vacated); (iv) he or she is absent, without the permission of the Board, from Board meetings for six consecutive months and the Board resolves that his or her office be vacated; or (v) he or she is removed from office by notice addressed to him or her at his or her last-known address and signed by all his or her co-directors.

Directors (continued)

The company maintains directors' and officers' liability insurance for the benefit of personnel throughout the group including its directors and the directors of its subsidiary undertakings in respect of their duties as directors. Following shareholder approval, the company has also provided an indemnity for its directors and the Company Secretary, which is a qualifying third party indemnity provision for the purposes of the Act. This indemnity was in force throughout the year and remains in place at the date of this Directors' Report.

None of the directors had, during the year ended 31 December 2014, or has an interest in any material contract relating to the business of the company or of any of its subsidiary undertakings.

The interests of the directors in the share capital of the company as at 31 December 2014 are shown on page 52.

Share capital

The share capital of the company consists entirely of ordinary shares of 10 pence each. The company had 166,921,042 shares in issue at 31 December 2014 (2013: 166,779,230) as shown in Note 26 to the financial statements.

Dividends

The Board is recommending a final dividend in respect of 2014 of 6.1 pence per share (2013: 6.1 pence), making a total dividend for the year of 8.8 pence per share (2013: 8.8 pence). If approved, the final dividend will be payable to shareholders on the register as at 27 March 2015.

Shareholders' rights

Subject to applicable laws and the Articles, each registered holder of ordinary shares is entitled to receive all communications that the company sends to its members generally, including the Annual Report and notice of any general meeting; to attend, speak and exercise voting rights at general meetings, either in person or by proxy; and to participate in any distribution of income or capital.

The company's Articles specify a deadline for receipt of electronic and paper proxy forms of not less than 48 hours before a general meeting.

Subject to applicable laws and regulations, there are no restrictions on transfer or limitations on the holding of shares and no requirements for prior approval of any transfers.

None of the shares carry any special rights with regard to control of the company.

The company is also not aware of any agreements between its shareholders which may restrict the transfer of their shares or the exercise of their voting rights.

Shares acquired through company share schemes and plans rank pari passu with the shares in issue and have no special rights. During the year 141,812 shares were issued under the rules of the Devro 2003 Performance Share Plan (2013: 1,145,666) and Nil shares were issued under the rules of the Devro plc Performance Share Plan (2013: Nil).

Powers of the directors

The business of the company is managed by the Board who may exercise all the powers of the company, subject to the provisions of the company's Articles and applicable legislation.

At the company's AGM on 30 April 2014, shareholders renewed the authority for the directors to exercise all powers of the company to allot relevant securities up to an aggregate nominal amount of £11,000,000.

At the same AGM, shareholders granted the company authority to make market purchases of up to 16,600,000 of its issued ordinary shares, provided that: the minimum price which may be paid for any such ordinary share is 10 pence (exclusive of expenses), its par value; the maximum price (exclusive of expenses) which may be paid for an ordinary share is an amount equal to not more than 5% above the average of the middle market quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the date on which that ordinary share is purchased. Except in relation to a purchase of ordinary shares, the contract for which was concluded before this authority expires and which will or may be executed wholly or partly after the expiry of such authority, the authority granted shall expire at the conclusion of this year's AGM.

Political contributions
The group made no political donations and incurred no political expenditure in 2014 (2013: Nil).

Post balance sheet events
There have been no material events from 31 December 2014 to the date of this Directors' Report.

Financial instruments
Details of the group's financial risk management policies and objectives in respect of its use of financial instruments are included in Note 23 to the financial statements together with a description of its exposure, including its exposure to market risk, credit risk, liquidity risk and capital risk of the group, in connection with such financial instruments.

Change of control
The company has a number of financial agreements which it considers significant, with major banks containing certain termination rights for those banks upon a change of control of the company.

The company does not have agreements with any director or employee that would provide compensation for loss of office or employment resulting from a takeover, except that provisions of the company's share schemes and plans may cause options and awards granted to directors and employees under such schemes and plans to become exercisable on takeover.

Substantial shareholdings
As at 31 December 2014, the company had been notified of the following material interests in the issued ordinary share capital of the company under DTR5:

	Notified number of ordinary shares	Notified Percentage (%) of issued share capital
ING Groep N.V.	16,727,056	10.02
Marathon Asset Management	11,492,268	7.06
Neptune Investment Management Limited	8,520,812	5.10
Aberdeen Asset Managers Limited	8,350,475	5.01

During the period 1 January 2015 to 17 March 2015 the company has received no additional notifications of material interests in the issued ordinary share capital of the company under DTR5.

Annual General Meeting
The AGM of the company will be held on 29 April 2015 at 11am at Glasgow City Halls, Candleriggs, Glasgow G1 1NQ. The notice of meeting is set out on pages 116 to 117. Shareholders will be asked for their approval of the items of business which are explained in the notes on pages 118 to 121.

Disclosure of information to auditors
So far as each person who is a director at the date of approval of this Report is aware, there is no relevant audit information of which the auditors are unaware. Each of the directors has taken all the steps that he or she ought to have taken as a director in order to make him or herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

A resolution to appoint KPMG LLP as auditors to the company will be proposed at the AGM.

Statement of directors' responsibilities
The directors are responsible for preparing the Annual Report, the Directors' 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 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 company and the group 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 judgments 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.

Statement of directors' responsibilities (continued)

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 Act and, as regards the group financial statements, Article 4 of the IAS Regulation. 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 corporate and financial information published on 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.

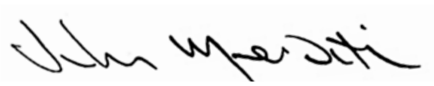
Directors' statement pursuant to the Disclosure and Transparency Rule 4.1

Each of the directors, whose names and functions are listed on pages 28 to 29, confirms that, to the best of his or her 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 company and of the group included in the consolidation taken as a whole; and
- the management report required by DTR4.1.8R (set out in the Strategic Report and this Directors' Report) includes a fair review of the development and performance of the business and the position of the company and group included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

In addition, each of the directors considers that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy.

By order of the Board



John Meredith
Company Secretary
17 March 2015

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Financial Statements

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2014

	Note	2014			2013		
		Before exceptional items £'m	Exceptional items £'m	Total £'m	Before exceptional items £'m	Exceptional items £'m	Total £'m
Revenue	2	232.3	–	232.3	242.7	–	242.7
Operating profit	3,4	30.3	(23.9)	6.4	42.1	(1.3)	40.8
Finance income	7	0.1	–	0.1	–	–	–
Finance cost	7	(2.3)	–	(2.3)	(1.1)	–	(1.1)
Net finance cost on pensions	7	(2.0)	–	(2.0)	(2.2)	–	(2.2)
Profit before tax	8	26.1	(23.9)	2.2	38.8	(1.3)	37.5
Tax	9	(3.2)	5.4	2.2	(4.1)	0.2	(3.9)
Profit for the year attributable to owners of the parent		22.9	(18.5)	4.4	34.7	(1.1)	33.6
Earnings per share							
Basic	12			2.6p			20.1p
Diluted	12			2.6p			20.0p

All results relate to continuing operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2014

	Note	2014 £'m	2013 £'m
Profit for the year		**4.4**	33.6
Other comprehensive (expense)/income for the year			
Items that will not be reclassified to profit or loss			
Pension obligations:			
– re-measurements	25	**(11.2)**	11.3
– movement in deferred tax	24	**4.6**	(4.9)
Total items that will not be reclassified to profit or loss		**(6.6)**	6.4
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges:			
– net fair value losses	29	**(0.9)**	(1.2)
– reclassified and reported in operating profit	29	**0.2**	(1.5)
– movement in deferred tax	29	**0.1**	0.6
Net investment hedges:			
– fair value gains	29	**0.7**	0.9
– movement in deferred tax	29	**(0.1)**	(0.2)
Net exchange adjustments	29	**(8.1)**	(13.5)
Total items that may be reclassified subsequently to profit or loss		**(8.1)**	(14.9)
Other comprehensive expense for the year, net of tax		**(14.7)**	(8.5)
Total comprehensive (expense)/income for the year attributable to owners of the parent		**(10.3)**	25.1

BALANCE SHEETS
at 31 December 2014

	Note	Group		Company	
		2014 £'m	2013 £'m	**2014 £'m**	2013 £'m
ASSETS					
Non-current assets					
Intangible assets	13	**4.0**	3.2	**0.8**	1.5
Property, plant and equipment	14	**230.3**	199.1	**0.3**	0.9
Investments	15	**–**	–	**153.7**	138.7
Deferred tax assets	24	**24.5**	14.8	**–**	–
Trade and other receivables	17	**–**	–	**63.2**	26.3
		258.8	217.1	**218.0**	167.4
Current assets					
Inventories	16	**33.4**	38.1	**–**	–
Current tax assets		**0.2**	0.5	**6.5**	6.7
Trade and other receivables	17	**33.7**	33.6	**3.1**	2.8
Derivative financial instruments	23	**1.7**	2.1	**0.8**	0.9
Cash and cash equivalents	18	**11.1**	6.0	**0.1**	–
		80.1	80.3	**10.5**	10.4
Total assets		**338.9**	297.4	**228.5**	177.8
LIABILITIES					
Current liabilities					
Borrowings	22	**1.7**	2.4	**1.8**	2.7
Derivative financial instruments	23	**2.7**	1.4	**0.5**	–
Trade and other payables	19	**31.7**	26.7	**2.6**	1.6
Current tax liabilities		**5.3**	4.2	**–**	–
Provisions for other liabilities and charges	21	**6.3**	–	**–**	–
		47.7	34.7	**4.9**	4.3
Non-current liabilities					
Borrowings	22	**78.6**	39.4	**66.5**	28.4
Deferred tax liabilities	24	**15.4**	17.3	**0.1**	–
Pension obligations	25	**59.0**	46.1	**–**	–
Other payables	20	**2.4**	1.9	**15.8**	12.2
Provisions for other liabilities and charges	21	**2.6**	–	**–**	–
		158.0	104.7	**82.4**	40.6
Total liabilities		**205.7**	139.4	**87.3**	44.9
Net assets		**133.2**	158.0	**141.2**	132.9
EQUITY					
Capital and reserves attributable to owners of the parent					
Ordinary shares	26	**16.7**	16.7	**16.7**	16.7
Share premium	28	**9.3**	9.0	**9.3**	9.0
Other reserves	29	**56.5**	64.9	**45.2**	45.2
Retained earnings	30	**50.7**	67.4	**70.0**	62.0
Total equity		**133.2**	158.0	**141.2**	132.9

The financial statements on pages 58 to 107 were approved by the Board of Directors and signed on its behalf by:

S C Webb, Group Finance Director
17 March 2015

STATEMENTS OF CHANGES IN EQUITY
for the year ended 31 December 2014

Group	Note	Ordinary shares £'m	Share premium £'m	Other reserves £'m	Retained earnings £'m	Total equity attributable to owners of the parent £'m
Balance at 1 January 2014		16.7	9.0	64.9	67.4	158.0
Comprehensive expense						
Profit for the year		–	–	–	4.4	4.4
Other comprehensive (expense)/income						
Cash flow hedges, net of tax	29	–	–	(0.6)	–	(0.6)
Net investment hedges, net of tax	29	–	–	0.6	–	0.6
Pension obligations, net of tax	25,24	–	–	–	(6.6)	(6.6)
Exchange adjustments	29	–	–	(8.1)	–	(8.1)
Total other comprehensive expense		–	–	(8.1)	(6.6)	(14.7)
Total comprehensive expense		–	–	(8.1)	(2.2)	(10.3)
Transactions with owners						
Performance Share Plan charge	29	–	–	0.2	–	0.2
Performance Share Plan credit in respect of shares vested	29	–	–	(0.3)	–	(0.3)
Performance Share Plan credit in respect of awards lapsed	29	–	–	(0.2)	0.2	–
Issue of share capital		–	0.3	–	–	0.3
Dividends paid	11	–	–	–	(14.7)	(14.7)
Total transactions with owners		–	0.3	(0.3)	(14.5)	(14.5)
Balance at 31 December 2014		**16.7**	**9.3**	**56.5**	**50.7**	**133.2**
Balance at 1 January 2013		16.6	8.0	80.7	41.6	146.9
Comprehensive income						
Profit for the year		–	–	–	33.6	33.6
Other comprehensive income/(expense)						
Cash flow hedges, net of tax	29	–	–	(2.1)	–	(2.1)
Net investment hedges, net of tax	29	–	–	0.7	–	0.7
Pension obligations, net of tax	25,24	–	–	–	6.4	6.4
Exchange adjustments	29	–	–	(13.5)	–	(13.5)
Total other comprehensive (expense)/income		–	–	(14.9)	6.4	(8.5)
Total comprehensive income/(expense)		–	–	(14.9)	40.0	25.1
Transactions with owners						
Performance Share Plan charge	29	–	–	0.2	–	0.2
Performance Share Plan credit in respect of shares vested	29	–	–	(1.1)	–	(1.1)
Issue of share capital		0.1	1.0	–	–	1.1
Dividends paid	11	–	–	–	(14.2)	(14.2)
Total transactions with owners		0.1	1.0	(0.9)	(14.2)	(14.0)
Balance at 31 December 2013		16.7	9.0	64.9	67.4	158.0

STATEMENTS OF CHANGES IN EQUITY
for the year ended 31 December 2014
continued

Company	Note	Ordinary shares £'m	Share premium £'m	Other reserves £'m	Retained earnings £'m	Total equity attributable to owners of the parent £'m
Balance at 1 January 2014		16.7	9.0	45.2	62.0	132.9
Comprehensive income						
Profit for the year		–	–	–	22.5	22.5
Cash flow hedges, net of tax	29	–	–	0.3	–	0.3
Total comprehensive income		–	–	0.3	22.5	22.8
Transactions with owners						
Performance Share Plan charge	29	–	–	0.2	–	0.2
Performance Share Plan credit in respect of shares vested	29	–	–	(0.3)	–	(0.3)
Performance Share Plan credit in respect of awards lapsed	29	–	–	(0.2)	0.2	–
Issue of share capital		–	0.3	–	–	0.3
Dividends paid	11	–	–	–	(14.7)	(14.7)
Total transactions with owners		–	0.3	(0.3)	(14.5)	(14.5)
Balance at 31 December 2014		**16.7**	**9.3**	**45.2**	**70.0**	**141.2**
Balance at 1 January 2013		16.6	8.0	45.9	60.7	131.2
Comprehensive income						
Profit for the year		–	–	–	15.5	15.5
Transactions with owners						
Performance Share Plan charge	29	–	–	0.2	–	0.2
Performance Share Plan credit in respect of shares vested	29	–	–	(0.9)	–	(0.9)
Issue of share capital		0.1	1.0	–	–	1.1
Dividends paid	11	–	–	–	(14.2)	(14.2)
Total transactions with owners		0.1	1.0	(0.7)	(14.2)	(13.8)
Balance at 31 December 2013		16.7	9.0	45.2	62.0	132.9

CASH FLOW STATEMENTS
for the year ended 31 December 2014

	Note	Group 2014 £'m	Group 2013 £'m	Company 2014 £'m	Company 2013 £'m
Cash flows from operating activities					
– Cash generated from/(used in) operations	31	**41.6**	42.7	**(35.4)**	(15.2)
– Interest received		**0.1**	–	**1.2**	0.3
– Interest paid		**(2.3)**	(1.2)	**(2.0)**	(0.7)
– Tax paid		**(2.7)**	(3.8)	**(0.1)**	(0.1)
Net cash generated from/(used in) operating activities		**36.7**	37.7	**(36.3)**	(15.7)
Cash flows from investing activities					
– Purchase of property, plant and equipment		**(53.0)**	(35.8)	**–**	(0.4)
– Proceeds from disposal of property, plant and equipment		**–**	–	**0.4**	–
– Purchase of intangible assets		**(1.9)**	(1.0)	**(0.1)**	–
– Capital grants received		**0.7**	0.4	**–**	–
– Investment in subsidiary undertakings		**–**	–	**(15.0)**	–
– Dividends received from subsidiary undertakings		**–**	–	**25.9**	14.6
Net cash (used in)/generated from investing activities		**(54.2)**	(36.4)	**11.2**	14.2
Cash flows from financing activities					
– Proceeds from the issue of ordinary shares		**0.3**	1.1	**0.3**	1.1
– Repayment under the loan facilities		**(31.1)**	–	**(22.1)**	–
– Borrowing under the loan facilities		**8.0**	12.0	**2.0**	10.3
– Proceeds from issue of other loans		**60.6**	–	**60.6**	–
– Dividends paid	11	**(14.7)**	(14.2)	**(14.7)**	(14.2)
Net cash generated from/(used in) financing activities		**23.1**	(1.1)	**26.1**	(2.8)
Net increase/(decrease) in cash and cash equivalents		**5.6**	0.2	**1.0**	(4.3)
Net cash and cash equivalents at 1 January		**3.6**	3.7	**(2.7)**	1.6
Exchange gain/(loss) on cash and cash equivalents		**0.2**	(0.3)	**–**	–
Cash and cash equivalents	18	**11.1**	6.0	**0.1**	–
Bank overdrafts	22	**(1.7)**	(2.4)	**(1.8)**	(2.7)
Net cash and cash equivalents at 31 December		**9.4**	3.6	**(1.7)**	(2.7)

Devro plc ("the company") is a public limited company, which is listed on the London Stock Exchange and is incorporated and domiciled in Scotland. The address of its registered office is Moodiesburn, Chryston, Glasgow G69 0JE.

1. 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 and pension scheme assets.

The group's reporting currency is sterling and unless otherwise stated the financial statements are rounded to the nearest £0.1 million.

Going concern

The group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 2 to 27, along with the financial position of the group, its debt levels and borrowing facilities.

In addition, Note 23 includes the group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The directors have, at the time of approving the financial statements, a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis of accounting in preparing the financial statements.

Key factors to support the going concern basis of accounting include:

- As at 31 December 2014 the group was operating within the £110 million revolving credit facility negotiated in December 2014 and due to expire in December 2019, and the US$100 million US private placement, completed in June 2014 and due to expire between 2021 and 2026, and related key covenants.
- Forecasts of profits and cash flows have been prepared which indicate that the group is expected to operate within its key covenants and funding facilities for the foreseeable future.

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 year. 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 accounting for the group's investment projects and restructuring activities, carrying value of inventory, measurement of pension obligations and tax.

Investment projects and restructuring activities

The group's two major investment projects, to construct new manufacturing plants in the USA and China, and the restructuring of its existing manufacturing operations in Scotland and Australia, require judgement including whether related costs should be expensed as incurred or capitalised, and whether any existing assets should be impaired or their useful lives amended. Both the investment project and the restructuring activities involve some elements which will be implemented over a number of months or longer, including redundancy programmes and decommissioning of equipment. Provisions are recognised when the obligation arises and judgement is applied relating to the timing of recognition and in estimating the amount of the provisions. Where amounts are expensed, judgement is also required to determine whether these amounts should be disclosed as exceptional items, taking account of their nature and size, and in particular whether they are incremental to normal operations. An analysis of exceptional items recognised is included in Notes 3 and 4. Details of provisions are included in Note 21.

Carrying value of inventory

Determining the carrying value of inventory involves a degree of judgement as to whether the group will be able to sell the inventory it has on hand for more than the value recorded in the balance sheet, which is typically the cost of production. The group adopts a policy of providing for inventory when it reaches a certain age, and also for any inventory where there are specific concerns. These estimated provisions are based on management's best assessments of future sales volumes and the likely selling prices, and actual results may differ from these estimates.

1. Accounting policies (continued)

Pension obligations

The cost of defined benefit pension schemes is determined using actuarial valuations. The actuarial valuation involves certain key assumptions and complex calculations. The key assumptions include discount rates, 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. An analysis of the sensitivity of the pension obligations to changes in key assumptions is provided based on movements in key assumptions that could reasonably occur. Further details are provided in Note 25.

Tax

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 years. Further details are provided in Notes 9 and 24.

Changes in accounting policies and disclosures

(a) New standards, amendments to standards and interpretations effective in 2014

The following new standards, amendments to standards and interpretations became mandatory for the first time during the financial year beginning 1 January 2014. All were either not relevant for the group or had no material impact on the financial statements of the group:

	Effective date
IFRS 10 (amendment) – Consolidated financial statements	1 January 2014
IFRS 12 (amendment) – Disclosure of interest in other entities	1 January 2014
IAS 27 (amendment) – Separate financial statements	1 January 2014
IAS 32 (amendment) – Financial instruments: Presentation	1 January 2014
IAS 36 (amendment) – Impairment of assets	1 January 2014
IAS 39 (amendment) – Financial instruments: Recognition and measurement	1 January 2014
IFRIC 21 – Levies	1 January 2014

(b) New standards, amendments to standards and interpretations not applied

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

	Effective date
IFRS 9 – Financial instruments	1 January 2018
IFRS 10 (amendment) – Consolidated financial statements	1 January 2016
IFRS 11 (amendment) – Joint arrangements	1 January 2015
IFRS 14 – Regulatory deferral accounts	1 January 2016
IFRS 15 – Revenue from contracts with customers	1 January 2017
IAS 16 (amendment) – Property, plant and equipment	1 January 2016
IAS 19 (amendment) – Employee benefits	1 January 2015
IAS 27 (amendment) – Separate financial statements	1 January 2016
IAS 28 (amendment) – Investments in associates	1 January 2016
Annual improvements 2012	1 January 2015
Annual improvements 2013	1 January 2015
Annual improvements 2014	1 January 2016

It is expected that the group will adopt these amendments to standards on their effective dates. The directors do not anticipate that the adoption of these amendments to standards will have a material impact on the financial statements of the group, apart from IFRS 9 which will impact both the measurement and disclosures of financial instruments.

Basis of consolidation

The consolidated financial statements include the financial statements of the company and all its subsidiary undertakings made up to 31 December 2014. 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.

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 four to five 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 directly attributable to bringing the asset to its working condition for its intended use.

Intangible assets are valued at cost less accumulated amortisation.

Research & development

In general, research & development expenditure is charged to the income statement in the year 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 and directly attributable costs. Provision for depreciation is made so as to write off the costs of the assets on a straight-line basis over their expected useful economic lives.

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, or more frequently if there have been indications of any significant change in either.

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

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

Impairment of non-financial assets

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.

1. Accounting policies (continued)

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 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. For the purposes of the cash flow statement, net cash and cash equivalents comprise cash and cash equivalents net of bank overdrafts.

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 in each entity are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are 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.

The trading results of foreign currency denominated subsidiaries are translated into sterling, the presentation currency of the group and functional currency of the parent, using average rates of exchange for the year. The balance sheets of foreign currency denominated subsidiaries are translated into sterling at the rates of exchange ruling at the year end and exchange differences arising are taken directly to the translation reserve in equity. On disposal of a foreign denominated subsidiary, the deferred cumulative amount recognised in the translation reserve (since 1 January 2004 under the transitional rules of IFRS 1) relating to that entity is recognised in the income statement. All other translation differences are taken to the income statement, with the exception of differences on foreign currency borrowings and forward foreign currency contracts which are used to provide a hedge against the group's net investments in foreign enterprises. These are taken directly to equity until the disposal of the net investment, at which time they are recognised 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 when the goods have either been delivered to or collected by the customer and the risks and rewards of ownership of the goods have been transferred to them.

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.

Tax

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

1. Accounting policies (continued)

Tax (continued)

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 tax authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Pensions

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

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

The group's obligations in respect of defined benefit pension plans are valued by independent actuaries using the projected unit credit method. All group plans are funded externally, with the exception of Germany, where, in line with local practice, obligations are supported by insurance policies. Plan assets are valued at fair market value and are held completely separate from the group's assets. Full formal actuarial valuations of obligations are carried out at frequencies of not more than three years and are updated regularly for reporting purposes.

Amounts recorded in the 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 year, which is included in operating profit, and net finance income or cost , i.e. interest income on assets less interest cost on liabilities calculated using the discount rate, which is included as a separate component of finance income and cost. Other 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 interest income over the year, and the actual return achieved.

Share schemes

The group operates a number of equity-settled share based incentive plans as consideration for services received from employees. The fair value of services received in exchange for the grant of share awards is recognised as an expense with the total amount to be expensed being determined by reference to the fair value of the awards granted. The fair value of the awards includes any market performance conditions, but excludes the impact of any service or non-market performance vesting conditions and is reduced by any consideration received from employees. Any non-market performance or service conditions are included in assumptions over the number of awards expected to vest, and the total expense is recognised over the full vesting period in the income statement with a corresponding credit made to equity. At the end of each year the group revises its estimates of the number of awards expected to vest based on non-market vesting conditions and recognises the impact of any revision in the income statement, with a corresponding adjustment to equity.

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

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.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred and subsequently re-measured at fair value where associated risks are hedged by derivative financial instruments. Un-hedged borrowings are subsequently carried at

1. Accounting policies (continued)

Borrowings (continued)

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 12 months after the balance sheet date.

Borrowing costs are recognised as an expense in the year in which they are incurred, except where they are directly attributable to the acquisition, construction or production of a qualifying asset, in which case they are capitalised as part of the cost of that asset.

Trade payables

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

Provisions for other liabilities and charges

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that the group will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, with the present value of estimated cash flows used if the effect of the time value of money is material.

Restructuring provisions are recognised when the group has a detailed formal plan for the restructuring and has either started implementing the plan or announced its main features to those affected by it. The measurement of the obligation comprises costs which are directly related to the restructuring.

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 or net investment hedge.

In order to qualify for hedge accounting, the group is required to document in advance the relationship between the item being hedged and the hedging instrument, and demonstrate that the hedge will be highly effective on an ongoing basis. This effectiveness testing is re-performed at each reporting date to ensure that the hedge remains highly effective.

Cash flow hedges

The group has designated forward foreign exchange contracts and the interest rate differential of cross currency interest rate swaps as cash flow hedges.

For cash flow hedges, the effective part of changes in the fair value of the derivative is recognised in 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.

Fair value hedges

The group has designated the exchange element of cross currency interest rate swaps as fair value hedges.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the income statement immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The fair value adjustment to the carrying amount of the hedged risk is amortised in the income statement from the time the hedging contracts cease to be fair value hedges.

Net investment hedges

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised in other comprehensive income. Gains or losses relating to any ineffective portion are taken immediately to the income statement. Amounts accumulated in equity are transferred to the income statement when the foreign operation is partially disposed of or sold.

1. Accounting policies (continued)

Segment reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Board, which is responsible for allocating resources and assessing the performance of the operating segments.

Exceptional items
Exceptional items are those significant items which are incremental to normal operations and are separately disclosed by virtue of their nature or size to enable a better understanding of the group's underlying financial performance.

2. Segment information

The chief operating decision maker has been identified as the Board. The Board reviews the group's financial results on a geographical segment basis with three identifiable operating segments:

- Americas: which includes North America and Latin America.
- Asia-Pacific: which includes Australia, New Zealand, Japan, China 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 operating profit. This measurement basis excludes the effects of exceptional income and expenditure from the operating segments. During the year the basis used by the Board to allocate operating profits between segments was amended to focus on group profit for external sales in each region, rather than statutory profit for the region which included profit on intercompany sales. As a result the segmental information has been presented on this amended basis and the prior year figures have been restated on a consistent basis.

Finance income and cost, and net finance cost on pensions, 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.

	Americas		Asia-Pacific		Europe		Total group	
	2014 £'m	2013* £'m	**2014 £'m**	2013* £'m	**2014 £'m**	2013* £'m	**2014 £'m**	2013 £'m
Revenue Sales to external customers	**57.8**	62.4	**70.1**	68.9	**104.4**	111.4	**232.3**	242.7
Operating profit before corporate overheads & exceptional items	**1.8**	6.2	**8.7**	10.9	**21.8**	26.6	**32.3**	43.7
Corporate overheads							**(2.0)**	(1.6)
Operating profit before exceptional items							**30.3**	42.1
Exceptional items	**(5.3)**	(0.3)	**(4.9)**	(1.0)	**(12.6)**	–	**(22.8)**	(1.3)
Corporate exceptional items							**(1.1)**	–
Operating profit after exceptional items							**6.4**	40.8
Finance income							**0.1**	–
Finance cost							**(2.3)**	(1.1)
Net finance cost on pensions							**(2.0)**	(2.2)
Profit before tax							**2.2**	37.5

* Restated

The reduction in operating profit in each of the regions relates principally to adverse exchange movements and higher unit costs of production due to the actions taken across all regions to manage production capacity, together with the effects of the manufacturing challenges in the USA, increased sales volumes partially offset by changes in sales mix towards China within the Asia-Pacific region and improved manufacturing efficiencies in Europe.

2. Segment information (continued)

Other Segment information

	Americas		Asia-Pacific		Europe		Total group	
	2014 £'m	2013 £'m	**2014 £'m**	2013 £'m	**2014 £'m**	2013 £'m	**2014 £'m**	2013 £'m
Additions to property, plant and equipment:								
– Segment	**29.4**	7.1	**22.6**	6.6	**6.6**	20.0	**58.6**	33.7
– Corporate							**–**	0.4
Total							**58.6**	34.1
Additions to intangible assets:								
– Segment	**0.7**	0.8	**0.7**	–	**0.4**	0.2	**1.8**	1.0
– Corporate							**0.1**	–
Total							**1.9**	1.0
Depreciation of property, plant and equipment:								
– Segment	**2.8**	2.3	**5.2**	3.4	**14.6**	11.1	**22.6**	16.8
– Corporate							**0.2**	0.1
Total							**22.8**	16.9
Amortisation of intangible assets:								
– Segment	**0.1**	0.1	**–**	–	**0.2**	0.2	**0.3**	0.3
– Corporate							**0.8**	0.8
Total							**1.1**	1.1

Segment assets and liabilities can be analysed as follows:

	2014 £'m	2013 £'m
Assets		
Americas	**73.3**	41.8
Asia-Pacific	**81.6**	62.3
Europe	**155.5**	173.8
Total segment assets	**310.4**	277.9
Corporate assets	**3.8**	4.2
Tax	**24.7**	15.3
Total assets	**338.9**	297.4
Liabilities		
Americas	**33.6**	17.5
Asia-Pacific	**15.4**	10.0
Europe	**52.5**	46.7
Total segment liabilities	**101.5**	74.2
Corporate liabilities	**4.9**	4.3
Borrowings	**78.6**	39.4
Tax	**20.7**	21.5
Total liabilities	**205.7**	139.4

2. Segment information (continued)

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:

	2014 £'m	2013 £'m
United Kingdom	28.2	27.9
Other Europe	77.2	84.6
Total Europe	105.4	112.5
USA	40.5	40.1
Other Americas	17.8	22.6
Total Americas	58.3	62.7
Australia	21.3	23.3
Other Asia-Pacific	47.3	44.2
Total Asia-Pacific	68.6	67.5
Total	232.3	242.7

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

	2014 £'m	2013 £'m
Americas	56.6	26.4
Asia-Pacific	53.0	36.2
Europe	123.6	137.3
Corporate	1.1	2.4
Total	234.3	202.3

3. Operating profit

	2014			2013		
	Before exceptional items £'m	Exceptional items £'m	Total £'m	Before exceptional items £'m	Exceptional items £'m	Total £'m
Revenue	232.3	–	232.3	242.7	–	242.7
Cost of sales	(161.8)	(20.5)	(182.3)	(157.3)	(0.2)	(157.5)
Gross profit	70.5	(20.5)	50.0	85.4	(0.2)	85.2
Selling and distribution costs	(15.2)	–	(15.2)	(18.4)	–	(18.4)
Administrative expenses	(17.2)	(3.4)	(20.6)	(18.7)	(1.0)	(19.7)
Research & development expenditure	(6.0)	–	(6.0)	(6.6)	(0.1)	(6.7)
Other expenses	(1.9)	–	(1.9)	(2.2)	–	(2.2)
Total operating expenses	(40.3)	(3.4)	(43.7)	(45.9)	(1.1)	(47.0)
Other operating income	0.1	–	0.1	2.6	–	2.6
Net operating expenses	(40.2)	(3.4)	(43.6)	(43.3)	(1.1)	(44.4)
Operating profit/(expense)	30.3	(23.9)	6.4	42.1	(1.3)	40.8

An additional £1.6 million (2013: £0.7 million) of development expenditure has been capitalised within intangible assets (Note 13).

4. Exceptional items

Exceptional charges included in operating profit were £23.9 million (2013: £1.3 million).

	2014			2013
	Investment projects £'m	**Restructuring £'m**	**Total £'m**	Total £'m
Redundancy costs (i)	**1.6**	**7.1**	**8.7**	–
Pension charge (ii)	**–**	**1.7**	**1.7**	–
Costs to establish new manufacturing plants (iii)	**2.0**	**–**	**2.0**	1.1
Accelerated depreciation (iv)	**0.8**	**5.7**	**6.5**	0.2
Decommissioning costs (v)	**2.6**	**2.1**	**4.7**	–
Other costs (vi)	**–**	**0.3**	**0.3**	–
	7.0	**16.9**	**23.9**	1.3

Exceptional items relate to the actions being taken to transform the business. These include the two investment projects to build and commission new plants in China and the USA, and a significant restructuring of existing operations, particularly in Scotland and Australia. The restructuring of operations in Scotland involves older, less efficient lines being permanently shut down and the restructuring in Australia relates to the closure of the hide preparation plant.

(i) Redundancy costs principally relate to the restructuring of operations in Scotland where 130 roles have been impacted. Redundancy costs have also been incurred in the USA where the completion of the new plant will require significantly fewer operators compared with the existing less efficient operation, in Australia related to the outsourcing of hide preparation operations and in relation to changes to the global management structure. The costs include provisions for redundancy costs of £4.2 million that are expected to be paid in 2015.

(ii) Estimate of the incremental UK pension liability expected to arise related to people leaving the business as part of the restructuring of operations in Scotland.

(iii) Incremental costs related to the projects to establish new manufacturing plants in China and the USA, including project management, legal and professional fees. These costs do not meet the recognition criteria of intangible assets (under IAS 38) or tangible assets but are of such significance, in terms of nature and size, that they have been shown separately from the underlying operating profits of the business.

(iv) An accelerated depreciation charge incurred on assets that will be replaced earlier than their previously estimated useful economic lives due to the group's planned investment in the new USA plant, and the restructuring actions in Scotland and Australia. The 2013 charge related entirely to the new USA plant.

(v) Estimate of the costs that will be incurred to ensure the affected sites are made safe and that food hygiene and environmental standards are maintained, for which a constructive obligation exists at the balance sheet date. These costs relate to the removal of equipment that will no longer be used once the restructuring is complete in Scotland and Australia, and the new manufacturing plant is operational in the USA. These costs are expected to be settled over the next two years.

(vi) Costs related to the write-off of raw materials which are specific to some of the equipment being decommissioned as part of the restructuring of operations in Scotland.

5. Directors' emoluments

A detailed analysis of directors' emoluments, shareholdings, long-term incentive schemes and pension arrangements is provided in the Annual Report on Remuneration on pages 46 to 52. Emoluments are summarised as follows:

	2014 £'m	2013 £'m
Aggregate emoluments (including long-term incentives with performance period ending during the year)	**1.0**	1.1
Payments in lieu of pension contributions	**0.1**	0.1

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

	2014 £'m	2013 £'m
Aggregate emoluments (including long-term incentives with performance period ending during the year)	**0.4**	0.5
Payments in lieu of pension contributions	**0.1**	0.1

6. Employee information

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

	2014	2013
By employee category		
Operations and engineering	1,833	1,883
Sales and marketing	96	100
Distribution	33	37
Administration	153	142
Research & development	111	107
	2,226	2,269

Staff costs for the group were:

	2014 £'m	2013 £'m
Wages and salaries (including bonus and other benefits)	63.6	70.1
Social security costs	7.7	8.9
Pension obligation costs (Note 25)	8.9	7.7
Performance Share Plan charge	0.2	0.2
Redundancy costs	8.7	–
	89.1	86.9

£11.4 million (2013: £0.2 million) of staff costs above were included within exceptional items.

The key management of the group comprises of the directors and the Executive Board.

7. Finance income and cost

	2014 £'m	2013 £'m
Finance income Interest receivable and similar income: – On bank balances	0.1	–
Finance cost Interest payable and similar charges: – On loans and overdrafts	(2.3)	(1.1)
Net finance cost on pensions	(2.0)	(2.2)

8. Profit before tax

	2014 £'m	2013 £'m
Profit before tax is stated after charging/(crediting):		
Depreciation of property, plant and equipment – including exceptional items of £6.5 million (2013: £0.2 million)	**22.8**	16.9
Amortisation of intangible assets	**1.1**	1.1
Loss on disposal of property, plant and equipment	**–**	0.7
Inventory recognised as an expense	**125.8**	121.1
Inventory written down or written off – including exceptional items of £0.3 million (2013: Nil)	**5.5**	3.5
Repairs and maintenance expenditure	**15.2**	16.8
Research & development expenditure	**6.0**	6.7
Hire of assets – operating leases	**1.7**	1.7
Net foreign exchange losses/(gains)	**0.4**	(2.4)
Auditors' remuneration (see below)	**0.6**	0.6

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.

Services provided by the company's auditors and its associates
During the year the group (including its overseas subsidiaries) obtained the following services from the company's auditors and its associates:

Group	2014 £'m	2013 £'m
Fees payable to the company's auditors and its associates for the audit of the parent company and consolidated accounts	**0.1**	0.1
Fees payable to the company's auditors and its associates for other services:		
– The audit of the company's subsidiaries	**0.2**	0.2
– Audit related assurance services	**–**	–
– Tax advisory services	**0.1**	0.1
– Tax compliance services	**0.1**	0.1
– All other services	**0.1**	0.1
	0.6	0.6

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 £36,000 (2013: £18,000).

9. Tax

2014	Before exceptional items £'m	Exceptional items £'m	Total £'m
Current Tax			
United Kingdom corporation tax at 21.5%	–	–	–
Foreign tax	5.6	(1.0)	4.6
	5.6	(1.0)	4.6
Adjustment in respect of prior years	(0.4)	–	(0.4)
Total current tax charge/(credit)	5.2	(1.0)	4.2
Deferred tax			
Origination and reversal of temporary differences representing:			
– United Kingdom corporation tax	(0.3)	(2.4)	(2.7)
– Foreign tax	(2.2)	(2.0)	(4.2)
	(2.5)	(4.4)	(6.9)
Adjustments in respect of prior years	0.5	–	0.5
Total deferred tax credit to the income statement (Note 24)	(2.0)	(4.4)	(6.4)
Tax (credit)/charge for the year ended 31 December 2014	**3.2**	**(5.4)**	**(2.2)**
Tax on items charged to equity			
Deferred tax credit on pension obligations	(4.6)	–	(4.6)
Deferred tax credit on net fair value losses on cash flow hedges	(0.2)	–	(0.2)
Deferred tax charge on other hedges	0.2	–	0.2
Total deferred tax on items charged to equity	**(4.6)**	**–**	**(4.6)**
Total current tax charge/(credit) for the year ended 31 December 2014	**5.2**	**(1.0)**	**4.2**
Total deferred tax credit for the year ended 31 December 2014	**(6.6)**	**(4.4)**	**(11.0)**

9. Tax (continued)

2013	Before exceptional items £'m	Exceptional items £'m	Total £'m
Current Tax			
United Kingdom corporation tax at 23.25%	–	–	–
Foreign tax	5.1	(0.2)	4.9
	5.1	(0.2)	4.9
Adjustment in respect of prior years	(0.6)	–	(0.6)
Total current tax	4.5	(0.2)	4.3
Deferred tax			
Origination and reversal of temporary differences representing:			
– United Kingdom corporation tax	(0.3)	–	(0.3)
– United Kingdom corporation tax rate change	(0.4)	–	(0.4)
– Foreign tax	1.1	–	1.1
	0.4	–	0.4
Adjustments in respect of prior years	(0.8)	–	(0.8)
Total deferred tax credited to the income statement (Note 24)	(0.4)	–	(0.4)
Tax charge/(credit) for the year ended 31 December 2013	4.1	(0.2)	3.9
Tax on items charged to equity			
Deferred tax charge on pension obligations	4.9	–	4.9
Deferred tax credit on net fair value losses on cash flow hedges	(0.6)	–	(0.6)
Deferred tax charge on net fair value gains on net investment hedges	0.2	–	0.2
Total deferred tax on items charged to equity	4.5	–	4.5
Total current tax charge for the year ended 31 December 2013	4.5	(0.2)	4.3
Total deferred tax charge for the year ended 31 December 2013	4.1	–	4.1

9. Tax (continued)

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

2014	Before exceptional items £'m	Exceptional items £'m	Total £'m
Profit before tax	26.1	(23.9)	2.2
Profit before tax multiplied by the blended rate of corporation tax in the UK of 21.5%	5.6	(5.1)	0.5
Effects of:			
– Adjustments in respect of prior years	0.1	–	0.1
– Adjustments in respect of foreign tax rates	(1.2)	(0.9)	(2.1)
– Permanent differences	(1.3)	0.6	(0.7)
Tax (credit)/charge for the year ended 31 December 2014	**3.2**	**(5.4)**	**(2.2)**
2013			
Profit before tax	38.8	(1.3)	37.5
Profit before tax multiplied by the blended rate of corporation tax in the UK of 23.25%	9.0	(0.3)	8.7
Effects of:			
– Adjustments in respect of prior years	(1.4)	–	(1.4)
– Adjustments in respect of foreign tax rates	(1.1)	0.1	(1.0)
– Permanent differences	(2.4)	–	(2.4)
Tax charge/(credit) for the year ended 31 December 2013	4.1	(0.2)	3.9

During the year, a change in the UK corporation tax rate from 23% to 21%, effective from 1 April 2014, was substantively enacted. A further reduction to 20% from 1 April 2015 was substantively enacted in July 2013 and the relevant deferred tax balances have been re-measured accordingly.

Permanent differences have principally arisen due to an investment incentive scheme in the Czech Republic.

10. 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 £22.5 million (2013: £15.5 million).

11. Dividends

Group and company	**2014 £'m**	2013 £'m
Final paid of 6.10 pence per share (2013: 5.85 pence)	**10.2**	9.7
Interim paid of 2.70 pence per share (2013: 2.70 pence)	**4.5**	4.5
	14.7	14.2

During the year, dividends totalling £0.1 million (2013: £0.1 million) were waived in respect of shares owned by the Devro Employee Share Ownership Trust.

The directors propose a final dividend of 6.10 pence per share in respect of the financial year ended 31 December 2014 which will absorb an estimated £10.2 million of shareholders' funds. It will be paid on 15 May 2015 to shareholders who are on the register at close of business on 27 March 2015.

12. Earnings per share

	2014 £'m	2013 £'m
Profit attributable to equity holders	**4.4**	33.6
Profit attributable to equity holders excluding exceptional items	**22.9**	34.7

Earnings per share		
– Basic	**2.6p**	20.1p
– Basic excluding exceptional items	**13.7p**	20.8p
– Diluted	**2.6p**	20.0p
– Diluted excluding exceptional items	**13.6p**	20.7p

Shares in issue	**2014**	2013
Weighted average number of shares	**166,866,949**	166,405,899
Adjustments for: – Performance Share Plan	**1,032,452**	843,314
Weighted average number of shares – diluted earnings per share	**167,899,401**	167,249,213

Basic earnings per share is calculated by dividing the profit for the year attributable to owners of the parent of £4.4 million (2013: £33.6 million) by 166,866,949 (2013: 166,405,899) shares, being the weighted average number of shares in issue throughout the year.

Shares arising from the Performance Share Plan are only treated as dilutive where the effect is to reduce earnings per share. Diluted earnings per share is calculated by dividing the profit for the year attributable to ordinary shareholders of £4.4 million (2013: £33.6 million) by the average number of shares, including the effect of all dilutive potential shares, of 167,899,401 (2013: 167,249,213).

Earnings per share before exceptional items is calculated in order to eliminate the effect of exceptional items after tax in 2014 of £18.5 million (2013: £1.1 million) on the results. Basic earnings per share before exceptional items is calculated by dividing the profit attributable to ordinary shareholders before exceptional items, after attributable tax, of £22.9 million (2013: £34.7 million) by 166,866,949 (2013: 166,405,899) shares, being the weighted average number of shares in issue throughout the year.

13. Intangible assets

Group	Computer software £'m	Development costs £'m	Total £'m
Cost			
At 1 January 2014	8.0	1.9	9.9
Exchange differences	(0.1)	–	(0.1)
Additions	0.3	1.6	1.9
At 31 December 2014	8.2	3.5	11.7
Accumulated amortisation			
At 1 January 2014	6.0	0.7	6.7
Exchange differences	(0.1)	–	(0.1)
Charge for year	1.0	0.1	1.1
At 31 December 2014	6.9	0.8	7.7
Net book value at 31 December 2014	**1.3**	**2.7**	**4.0**
Cost			
At 1 January 2013	7.9	1.3	9.2
Exchange differences	(0.2)	(0.1)	(0.3)
Additions	0.3	0.7	1.0
At 31 December 2013	8.0	1.9	9.9
Accumulated amortisation			
At 1 January 2013	5.3	0.6	5.9
Exchange differences	(0.3)	–	(0.3)
Charge for year	1.0	0.1	1.1
At 31 December 2013	6.0	0.7	6.7
Net book value at 31 December 2013	2.0	1.2	3.2
Cost at 1 January 2013	7.9	1.3	9.2
Accumulated amortisation at 1 January 2013	(5.3)	(0.6)	(5.9)
Net book value at 1 January 2013	2.6	0.7	3.3

Included in the net book value of intangible assets is £2.5 million (2013: £0.9 million) relating to internally generated development costs.

In the income statement, amortisation of £0.2 million (2013: £0.2 million) is included in cost of sales and £0.9 million (2013: £0.9 million) in administrative expenses.

13. Intangible assets (continued)

Company	Computer software £'m
Cost	
At 1 January 2014	3.5
Additions	0.1
At 31 December 2014	3.6
Accumulated amortisation	
At 1 January 2014	2.0
Charge for year	0.8
At 31 December 2014	2.8
Net book value at 31 December 2014	**0.8**
Cost	
At 1 January 2013 & 31 December 2013	3.5
Accumulated amortisation	
At 1 January 2013	1.2
Charge for year	0.8
At 31 December 2013	2.0
Net book value at 31 December 2013	1.5
Cost at 1 January 2013	3.5
Accumulated amortisation at 1 January 2013	(1.2)
Net book value at 1 January 2013	2.3

14. Property, plant and equipment

Group	Freehold land and buildings £'m	Plant and machinery, and motor vehicles £'m	Fixtures and fittings,and computer equipment £'m	Assets in the course of construction £'m	Total £'m
Cost					
At 1 January 2014	86.8	252.0	10.4	19.4	368.6
Exchange differences	(3.9)	(4.5)	(0.2)	1.4	(7.2)
Additions	0.9	5.0	0.5	52.2	58.6
Disposals	–	(0.3)	(0.2)	–	(0.5)
Reclassification	2.5	10.7	0.5	(13.7)	–
At 31 December 2014	86.3	262.9	11.0	59.3	419.5
Accumulated depreciation					
At 1 January 2014	28.4	132.7	8.4	–	169.5
Exchange differences	(1.1)	(1.3)	(0.2)	–	(2.6)
Charge for year	3.3	18.7	0.8	–	22.8
Disposals	–	(0.3)	(0.2)	–	(0.5)
At 31 December 2014	30.6	149.8	8.8	–	189.2
Net book value at 31 December 2014	**55.7**	**113.1**	**2.2**	**59.3**	**230.3**
Cost					
At 1 January 2013	87.3	254.8	4.0	16.9	363.0
Exchange differences	(6.0)	(15.5)	–	(1.6)	(23.1)
Additions	3.0	13.7	1.0	16.4	34.1
Disposals	(0.1)	(4.9)	(0.4)	–	(5.4)
Reclassification	2.6	3.9	5.8	(12.3)	–
At 31 December 2013	86.8	252.0	10.4	19.4	368.6
Accumulated depreciation					
At 1 January 2013	28.2	135.0	3.9	–	167.1
Exchange differences	(2.0)	(8.3)	0.5	–	(9.8)
Charge for year	2.2	14.0	0.7	–	16.9
Disposals	–	(4.3)	(0.4)	–	(4.7)
Reclassification	–	(3.7)	3.7	–	–
At 31 December 2013	28.4	132.7	8.4	–	169.5
Net book value at 31 December 2013	58.4	119.3	2.0	19.4	199.1
Cost at 1 January 2013	87.3	254.8	4.0	16.9	363.0
Accumulated depreciation at 1 January 2013	(28.2)	(135.0)	(3.9)	–	(167.1)
Net book value at 1 January 2013	59.1	119.8	0.1	16.9	195.9

In the income statement, depreciation of £15.4 million (2013: £15.7 million) has been charged in cost of sales before exceptional items; £0.1 million (2013: £0.1 million) in selling and distribution costs; £0.7 million (2013: £0.7 million) in administrative expenses; £0.1 million (2013: £0.2 million) in research & development expenditure and £6.5 million (2013: £0.2 million) in exceptional items.

Borrowing costs of £0.6 million (2013: Nil) have been capitalised to property, plant and equipment with a tax effect of £0.1 million (2013: Nil).

14. Property, plant and equipment (continued)

Company	Plant and machinery, and motor vehicles £'m	Assets in the course of construction £'m	Total £'m
Cost			
At 1 January 2014	0.8	0.4	1.2
Disposals	–	(0.4)	(0.4)
At 31 December 2014	0.8	–	0.8
Accumulated depreciation			
At 1 January 2014	0.3	–	0.3
Charge for year	0.2	–	0.2
At 31 December 2014	0.5	–	0.5
Net book value at 31 December 2014	**0.3**	**–**	**0.3**
Cost			
At 1 January 2013	0.6	0.2	0.8
Additions	0.2	0.2	0.4
At 31 December 2013	0.8	0.4	1.2
Accumulated depreciation			
At 1 January 2013	0.2	–	0.2
Charge for year	0.1	–	0.1
At 31 December 2013	0.3	–	0.3
Net book value at 31 December 2013	0.5	0.4	0.9
Cost at 1 January 2013	0.6	0.2	0.8
Accumulated depreciation at 1 January 2013	(0.2)	–	(0.2)
Net book value at 1 January 2013	0.4	0.2	0.6

15. Investments

Company	**2014 £'m**	2013 £'m
Interest in group undertakings		
Cost and net book value at 1 January	**138.7**	138.5
Additions	**15.0**	0.2
Cost and net book value at 31 December	**153.7**	138.7

Additions during the year have arisen due to the company's investment in its China subsidiary and Performance Share Plan charges for employees within subsidiaries which will be settled with the company's shares.

15. Investments (continued)

The company's subsidiary undertakings at 31 December 2014 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 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%	
Devro (Nantong) Technology Co. Limited	China	Casings	Ordinary	100%		100%	

Devro Pty Limited has a branch located in New Zealand.

Devro (Scotland) Limited has a non-trading branch located in Hamburg.

16. Inventories

Details of inventories relating to the group are as follows:

	2014 £'m	2013 £'m
Raw materials and consumables	**5.7**	6.0
Work in progress	**3.9**	4.2
Finished goods and goods for resale	**23.8**	27.9
	33.4	38.1

At 31 December 2014, inventories amounting to £4.5 million (2013: £3.1 million) were held at net realisable value.

17. Trade and other receivables

	Group 2014 £'m	Group 2013 £'m	Company 2014 £'m	Company 2013 £'m
Amounts falling due after more than one year				
Amounts owed by subsidiary undertakings	**–**	–	**63.2**	26.3
Amounts falling due within one year				
Trade receivables	**29.6**	28.8	**–**	–
Less: provision for doubtful debts	**(0.9)**	(0.2)	**–**	–
Trade receivables – net	**28.7**	28.6	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**1.3**	1.9
Other receivables	**2.4**	3.2	**–**	–
Prepayments and accrued income	**2.6**	1.8	**1.8**	0.9
	33.7	33.6	**3.1**	2.8

17. Trade and other receivables (continued)

Group

At 31 December 2014, trade receivables of £0.2 million (2013: £0.2 million) 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:

	2014 £'m	2013 £'m
Less than 30 days past due	**0.1**	0.1
Greater than 90 days past due	**0.1**	0.1
	0.2	0.2

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

	2014 £'m	2013 £'m
At 1 January	**0.2**	0.2
Receivables impaired	**0.9**	0.1
Receivables written off as uncollectible	**(0.2)**	(0.1)
At 31 December	**0.9**	0.2

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The group does not hold any collateral as security.

At 31 December 2014, trade receivables of £5.5 million (2013: £3.9 million) 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:

	2014 £'m	2013 £'m
Less than 30 days past due	**3.6**	3.7
30 to 90 days past due	**1.9**	0.2
	5.5	3.9

Formal procedures are in place to minimise, as far as possible, losses from non-collection of receivables. These procedures, which include designated levels of authority, cover the opening of new accounts, payment terms and the setting up and review of credit limits. Where considered appropriate, payment in advance or confirmed letters of credit are required before product is released to customers.

There have been no significant losses due to the impairment or non-collection of receivables in recent years.

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

	2014 £'m	2013 £'m
US dollar	**10.0**	9.3
Euro	**5.5**	6.8
Japanese yen	**4.1**	4.2
Sterling	**5.8**	5.7
Australian dollar	**3.3**	3.1
Czech koruna	**2.1**	1.8
Other currencies	**2.9**	2.7
	33.7	33.6

17. Trade and other receivables (continued)

Company

At 31 December 2014, trade receivables of Nil (2013: Nil) were neither past due nor impaired.

At 31 December 2014, receivables due from subsidiary undertakings of £64.5 million (2013: £28.2 million) were neither past due nor impaired.

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

	2014 £'m	2013 £'m
Sterling	**15.2**	11.9
Japanese yen	**3.8**	4.8
US dollar	**43.6**	12.0
Other currencies	**3.7**	0.4
	66.3	29.1

18. Cash and cash equivalents

	Group		Company	
	2014 £'m	2013 £'m	2014 £'m	2013 £'m
Cash at bank and in hand	**10.3**	4.6	**0.1**	–
Short-term bank deposits	**0.8**	1.4	**–**	–
	11.1	6.0	**0.1**	–

19. Trade and other payables – current

	Group		Company	
	2014 £'m	2013 £'m	2014 £'m	2013 £'m
Trade payables	**12.6**	8.7	**0.1**	0.4
Tax and social security payable	**1.7**	2.6	**0.2**	0.1
Accruals and deferred income	**17.4**	15.4	**2.3**	1.1
	31.7	26.7	**2.6**	1.6

Accruals and deferred income include £0.3 million (2013: £0.1 million) in respect of government grants payable within one year.

20. Other payables – non-current

	Group		Company	
	2014 £'m	2013 £'m	2014 £'m	2013 £'m
Amounts owed to subsidiary undertakings	**–**	–	**15.8**	12.2
Accruals and deferred income	**2.4**	1.9	**–**	–
	2.4	1.9	**15.8**	12.2

Accruals and deferred income include £2.0 million (2013: £1.6 million) in respect of government grants payable after more than one year. Government grants are primarily used for the purpose of funding capital expenditure.

21. Provisions for other liabilities and charges

Group	£'m
At 1 January 2014	–
Charge to the income statement during the year	13.4
Utilised during the year	(4.5)
At 31 December 2014	**8.9**
Non-current	2.6
Current	6.3
Total	**8.9**

The closing provision as at 31 December 2014 includes redundancy provisions of £4.2 million which are expected to be paid before the end of 2015. The provision also includes an estimated £4.7 million for decommissioning costs for the sites that need to be made safe following the cessation of associated manufacturing activities, and to ensure food hygiene and environmental standards are maintained at those sites. The amounts are expected to be settled over the next two years.

22. Financial liabilities – borrowings

	Group		Company	
	2014 £'m	2013 £'m	**2014 £'m**	2013 £'m
Current				
Bank overdrafts due within one year or on demand	**1.7**	2.4	**1.8**	2.7
Non-current				
Unsecured bank loans	**15.8**	39.4	**3.7**	28.4
US dollar private placement	**62.8**	–	**62.8**	–
	78.6	39.4	**66.5**	28.4

Bank overdrafts and bank loans are denominated in a number of currencies, and bear interest based on the London Interbank Offered Rate (LIBOR) as set by ICE Benchmark Administration or equivalent rates appropriate to the country in which the borrowing is incurred. The group is exposed to short-term interest rate changes on all of its bank borrowings.

The group issued a US private placement of senior unsecured notes on 17 April 2014 for a total of US$100 million, of which US$50 million was received in April 2014 and the remainder was received in June 2014. The US private placement notes provide funding with fixed terms of between 7 and 12 years, with an average fixed interest rate of 4.48%.

US$60 million of this cash was retained in US dollars to fund the investment project in the USA, and the remainder has been swapped into sterling at an average fixed interest rate of 4.49%.

22. Financial liabilities – borrowings (continued)

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

	Currency	Rate	2014	2013
Bank overdrafts:				
	Sterling*	Bank of England base rate plus 150 basis points	**2.00%**	3.00 %
	US dollar	US 1 month LIBOR plus 200 basis points	**2.17%**	2.17 %
	Australian dollar	National Australia Bank business overdraft prime rate minus 100 basis points	**6.97%**	6.97 %
	Czech koruna	PRIBOR plus 90 basis points	**1.06%**	1.05 %
	Euro	EUR LIBOR plus 90 basis points	**0.93%**	1.22 %
Bank borrowings:				
Floating rate	Sterling	LIBOR plus 100 basis points (2013: plus 100 basis points)	**1.50%**	1.49%
Floating rate	US dollar	US LIBOR plus 100 basis points (2013: plus 100 basis points)	**N/A**	1.17%
Floating rate	Australian dollar	BBSW (Bank Bill Swap Rate) plus 100 basis points (2013: AUD LIBOR plus 100 basis points)	**3.69%**	3.62%
Floating rate	Japanese yen	JPY LIBOR plus 100 basis points (2013: plus 100 basis points)	**N/A**	1.11%
Average bank borrowings rate			**2.97%**	1.95%
Other debt payable:				
Fixed rate	US dollar		**4.48%**	N/A

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

Borrowings were denominated in the following currencies:

	Group				Company			
	Bank borrowings £'m	**Other debt £'m**	**Total 2014 £'m**	2013 £'m	**Bank borrowings £'m**	**Other debt £'m**	**Total 2014 £'m**	2013 £'m
Sterling	**3.7**	**–**	**3.7**	13.0	**5.5**	**–**	**5.5**	15.6
Australian dollar	**12.1**	**–**	**12.1**	11.0	**–**	**–**	**–**	–
Japanese yen	**–**	**–**	**–**	5.2	**–**	**–**	**–**	5.2
Czech koruna	**1.7**	**–**	**1.7**	2.3	**–**	**–**	**–**	–
US dollar	**–**	**62.8**	**62.8**	10.3	**–**	**62.8**	**62.8**	10.3
	17.5	**62.8**	**80.3**	41.8	**5.5**	**62.8**	**68.3**	31.1

23. Capital and financial risk management and financial instruments

Financial risk management

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

Capital 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. The group's capital structure consists of net debt and equity of the group. In order to maintain its capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The covenants related to the group's bank loan facilities determine a minimum EBITDA to net interest payable ratio and a maximum net debt to EBITDA ratio. EBITDA is measured as operating profit before exceptional items excluding depreciation, amortisation and profit or loss on disposal of assets. The group had significant headroom within both covenants throughout the years ending 31 December 2014 and 31 December 2013.

Another measure used to monitor the strength of the group's balance sheet is the gearing ratio, which expresses the group's net debt as a percentage of its equity. Net debt is total borrowings less cash and cash equivalents. Equity comprises issued share capital, reserves and retained earnings. The covenant and gearing ratios at 31 December 2014 and 31 December 2013 were as follows:

	2014 £'m	2013 £'m
Total borrowings (Note 22)	**80.3**	41.8
Less: cash and cash equivalents (Note 18)	**(11.1)**	(6.0)
Net debt (Note 32)	**69.2**	35.8
Equity	**133.2**	158.0
Bank loan covenant ratios:		
Net debt to EBITDA	**1.5**	0.6
EBITDA to net interest payable	**21.7**	55.1
Gearing ratio	**52.0%**	22.7%

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 both floating and fixed rates of interest and may use forward rate agreements or interest rate swaps to generate the desired interest rate profile and manage the group's exposure to interest rate fluctuations. The US dollar private placement completed during the year means that the majority of the group's debt is currently at a fixed rate of interest. The group entered into cross currency interest rate swaps of US$40 million during the year to convert a portion of the US dollar private placement into synthetic sterling denominated debt at a fixed rate of interest. These swaps are measured at fair value, with any gains or losses being taken immediately to the income statement to offset any fair value gains or losses on the hedged portion of the US dollar private placement.

No interest rate hedging was in place at 31 December 2013.

23. Capital and financial risk management and financial instruments (continued)

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.

The sensitivity of net finance costs to a movement in interest rates is restricted by the level of fixed rate borrowing now in place. A variation of, for example, 100 basis points in interest rates, applied to the group's borrowings, cash and short-term deposits at 31 December 2014, would result in a movement in finance costs of £0.2 million (2013: £0.4 million) and finance income of £0.1 million (2013: £0.1 million). This would result in an adverse post-tax impact on the group's income statement of £0.1 million (2013: £0.3 million) and a post-tax impact on the group's equity of £0.1 million (2013: £0.3 million).

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 12 months forward. It is not group policy to routinely hedge translation exposures apart from those created by inter-company loans or where foreign currency denominated assets are planned to be returned to the UK in the form of a dividend. Specific Board approval is required for any other translation exposure hedging.

The table below details the impact changes in foreign exchange rates would have had on the group's operating profit before exceptional items and post-tax profit for the years ended 31 December 2014 and 31 December 2013 due to the translation of both subsidiary profits from their functional currency into sterling, and also underlying currency transactions and balances within group companies which are denominated in currencies other than the reporting currency of that group company. The movements in equity as at 31 December 2014 and 31 December 2013 includes the impact changes in foreign exchange rates would have on the translation of subsidiary net assets, as well as the effect of cash flow currency and net investment hedges.

In each case, it is assumed that the named currency is strengthening or weakening against all other currencies, while all the other currencies remain constant. The percentage foreign currency movement is based on the maximum annual percentage movement against sterling during the previous four years. Results are shown for all currencies where the impact on group post-tax profits would be more than £25,000.

	Impact on group operating profit before exceptional items gains/(losses)		Impact on group profit after tax and exceptional items gains/(losses)		Impact on equity increase/(decrease)	
Foreign currency movement	**Strengthening £'m**	**Weakening £'m**	**Strengthening £'m**	**Weakening £'m**	**Strengthening £'m**	**Weakening £'m**
2014						
Australian dollar: 19%	**(0.2)**	**0.4**	**(0.7)**	**1.0**	**5.3**	**(5.1)**
Czech koruna: 8%	**0.6**	**(0.2)**	**0.5**	**(0.2)**	**6.8**	**(6.6)**
Euro: 7%	**1.4**	**(1.4)**	**1.3**	**(1.3)**	**0.4**	**(0.4)**
Japanese yen: 25%	**2.0**	**(2.0)**	**1.8**	**(1.8)**	**0.4**	**(0.4)**
US dollar: 6%	**0.7**	**(0.7)**	**0.2**	**(0.2)**	**2.0**	**(2.0)**
2013						
Australian dollar: 19%	–	0.4	(0.1)	0.4	6.0	(5.1)
Czech koruna: 7%	0.6	(0.3)	0.5	(0.3)	6.8	(6.2)
Euro: 3%	0.8	(0.8)	0.7	(0.7)	0.2	(0.2)
Japanese yen: 25%	1.1	(1.1)	1.0	(1.0)	0.3	(0.3)
US dollar: 4%	0.8	(0.8)	0.7	(0.6)	1.3	(1.3)

Credit risk

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

	2014 £'m	2013 £'m
Cash and cash equivalents	**11.1**	6.0
Derivative financial instruments	**1.7**	2.1
Trade receivables	**28.7**	28.6
Other receivables	**2.4**	3.2
	43.9	39.9

23. Capital and financial risk management and financial instruments (continued)

The group monitors its credit exposure using credit ratings, where applicable, and through its policy of requiring appropriate credit checks on potential customers before sales commence. These procedures limit the group's exposure to any one party to approved levels. Exposure to banking counterparties is only permitted with approved banks which have one minimum short-term rating of A1/P1/F1 with rating agencies S&P, Moody's or Fitch. At the reporting date no single banking exposure was greater than £2.4 million (2013: £1.1 million). The group does not hold any collateral as security.

Liquidity risk

Alongside the longer-term funding provided by the US dollar private placement completed during 2014, which was put in place to support the group's two major investment projects, the group has medium-term loan facilities which are regularly reviewed to ensure that they provide adequate liquidity for the group. The facilities are managed on a centralised basis with appropriate local availability. Details of the undrawn committed borrowing facilities available at 31 December 2014 and 31 December 2013 are shown below:

	2014 £'m	2013 £'m
Expiring in more than two years	**94.2**	21.6

At 31 December 2014, the group had in place unsecured floating rate committed loan facilities totalling £110.0 million (2013: £61.0 million). These facilities consist of a single syndicated revolving credit facility with four banks, negotiated in December 2014 and expiring on 19 December 2019. This facility replaced the previous co-ordinated bilateral facilities which were due to mature on 30 September 2016.

In addition to the committed facilities, local uncommitted working capital facilities of £9.5 million (2013: £7.5 million), US dollars 2.0 million (2013: US dollars 2.0 million), Czech koruna 120.0 million (2013: Czech koruna 120.0 million) and Australian dollars 0.5 million (2013: Australian dollars 0.5 million) were also in place at 31 December 2014. These facilities are renewable within one year.

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	
	Asset £'m	Liability £'m	Asset £'m	Liability £'m
At 31 December 2014				
Forward foreign exchange contracts				
– cash flow hedge	**0.7**	**1.9**	**–**	**–**
– net investment hedge	**0.2**	**–**	**0.2**	**–**
– other	**0.4**	**0.8**	**0.2**	**0.5**
Cross-currency interest rate swap	**0.4**	**–**	**0.4**	**–**
	1.7	**2.7**	**0.8**	**0.5**
At 31 December 2013				
Forward foreign exchange contracts				
– cash flow hedge	1.0	1.1	–	–
– net investment hedge	0.9	–	0.9	–
– other	0.2	0.3	–	–
	2.1	1.4	0.9	–

23. Capital and financial risk management and financial instruments (continued)

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.

Derivative financial instruments that are measured at fair value are disclosed by level of the following fair value measurement hierarchy:

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

All of the group's derivative financial instruments that are measured at fair value were classified as Level 2 as at 31 December 2014 (2013: Level 2) and comprise forward foreign exchange contracts as disclosed in the table above. There are no financial instruments measured as Level 3.

At 31 December 2014, the net fair value losses on open forward foreign exchange contracts that hedge the foreign currency risk of anticipated future sales and purchases amounted to £1.2 million (2013: £0.1 million). These will be transferred to the income statement and recognised in other operating income or expense when the forecast sales and purchases occur during 2015.

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

	2014 £'m	2013 £'m
Forward foreign exchange contracts	**99.0**	64.6
Currency swaps	**51.2**	27.2

Fair values of non-derivative financial assets and liabilities

	2014		2013	
Group	**Book value £'m**	**Fair value £'m**	Book value £'m	Fair value £'m
Fair value of non-current borrowings				
Other financial liabilities at amortised cost				
Long-term borrowings (Note 22)	**(54.4)**	**(52.1)**	(39.4)	(39.4)
Other financial liabilities at fair value				
Long-term borrowings (Note 22)	**(24.2)**	**(24.2)**	–	–
	(78.6)	**(76.3)**	(39.4)	(39.4)
Fair value of other financial assets and liabilities				
Loans and receivables				
Trade and other receivables (Note 17)	**31.1**	**31.1**	31.8	31.8
Short-term bank deposits (Note 18)	**0.8**	**0.8**	1.4	1.4
Cash at bank and in hand (Note 18)	**10.3**	**10.3**	4.6	4.6
Other financial liabilities at amortised cost				
Trade and other payables (Note 19)	**(30.0)**	**(30.0)**	(24.1)	(24.1)
Short-term borrowings (Note 22)	**(1.7)**	**(1.7)**	(2.4)	(2.4)
Provisions for other liabilities and charges (Note 21)	**(8.9)**	**(8.9)**	–	–

The fair values of the group's bank 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.

23. Capital and financial risk management and financial instruments (continued)

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 2014 and 31 December 2013. The amounts disclosed in the tables are the relevant undiscounted cash flows.

Group	Less than 1 year £'m	Between 1 and 2 years £'m	Between 2 and 5 years £'m	Over 5 years £'m
At 31 December 2014				
Bank borrowings	**2.2**	**0.5**	**17.2**	**–**
US dollar private placement	**2.8**	**2.8**	**8.4**	**74.5**
Derivative financial instruments	**2.7**	**–**	**–**	**–**
Trade and other payables	**30.0**	**–**	**–**	**–**
Provisions for liabilities and other charges	**6.3**	**2.6**	**–**	**–**
At 31 December 2013				
Borrowings	3.2	0.8	40.0	–
Derivative financial instruments	1.4	–	–	–
Trade and other payables	24.1	–	–	–

Company	Less than 1 year £'m	Between 1 and 2 years £'m	Between 2 and 5 years £'m	Over 5 years £'m
At 31 December 2014				
Bank borrowings	**2.0**	**0.1**	**4.0**	**–**
US dollar private placement	**2.8**	**2.8**	**8.4**	**74.5**
Trade and other payables	**2.4**	**–**	**–**	**–**
At 31 December 2013				
Borrowings	0.5	0.4	28.7	–
Trade and other payables	1.5	–	–	–

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 tax and social security payable.

23. Capital and financial risk management and financial instruments (continued)

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 2014			
	Less than 1 year £'m	Between 1 and 2 years £'m	Between 2 and 5 years £'m	Over 5 years £'m
Group				
Forward foreign exchange contracts – cash flow hedges				
Outflow	(91.2)	–	–	–
Inflow	88.4	–	–	–
Forward foreign exchange contracts – net investment hedges				
Outflow	(12.6)	–	–	–
Inflow	12.8	–	–	–
Forward foreign exchange contracts – other				
Outflow	(12.5)	–	–	–
Inflow	12.1	–	–	–
Cross-currency interest rate swaps				
Outflow	(0.8)	(0.8)	(2.5)	(21.9)
Inflow	0.8	0.8	2.6	22.2
Company				
Forward foreign exchange contracts – net investment hedges				
Outflow	(12.6)	–	–	–
Inflow	12.8	–	–	–
Forward foreign exchange contracts – other				
Outflow	(4.7)	–	–	–
Inflow	4.6	–	–	–
Cross-currency interest rate swaps				
Outflow	(0.8)	(0.8)	(2.5)	(21.9)
Inflow	0.8	0.8	2.6	22.2

	At 31 December 2013
	Less than 1 year £'m
Group	
Forward foreign exchange contracts – cash flow hedges	
Outflow	(55.4)
Inflow	54.8
Forward foreign exchange contracts – net investment hedges	
Outflow	(13.8)
Inflow	14.7
Forward foreign exchange contracts – other	
Outflow	(22.2)
Inflow	22.1

23. Capital and financial risk management and financial instruments (continued)

	At 31 December 2013 Less than 1 year £'m
Company	
Forward foreign exchange contracts – net investment hedges	
Outflow	(13.8)
Inflow	14.7
Forward foreign exchange contracts – other	
Outflow	(12.3)
Inflow	12.3

24. Deferred tax

	Group		Company	
	2014 £'m	2013 £'m	**2014 £'m**	2013 £'m
Net (liability)/asset at 1 January	**(2.5)**	1.0	**–**	(0.1)
Exchange differences	**0.6**	0.6	**–**	–
Credit for the year to profit	**6.4**	–	**–**	0.1
Credit/(charge) to equity	**4.6**	(4.5)	**(0.1)**	–
United Kingdom corporation tax rate change	**–**	0.4	**–**	–
Net asset/(liability) at 31 December	**9.1**	(2.5)	**(0.1)**	–

Group

Deferred tax assets can be analysed as follows:

	Pension obligations £'m	Short term timing differences £'m	Accelerated capital allowances £'m	Total £'m
At 1 January 2014	11.2	3.6	–	14.8
Exchange differences	0.4	–	–	0.4
Credit/(charge) for the year to profit	(0.8)	4.6	0.9	4.7
Credit to equity	4.6	–	–	4.6
At 31 December 2014	**15.4**	**8.2**	**0.9**	**24.5**
At 1 January 2013	16.4	3.3	–	19.7
Exchange differences	0.1	(0.2)	–	(0.1)
(Charge)/credit for the year to profit	(0.4)	0.4	–	–
(Charge)/credit to equity	(4.9)	0.1	–	(4.8)
At 31 December 2013	11.2	3.6	–	14.8

24. Deferred tax (continued)

Deferred tax liabilities can be analysed as follows:

	Accelerated capital allowances £'m	Short-term timing differences £'m	Total £'m
At 1 January 2014	(13.4)	(3.9)	(17.3)
Exchange differences	0.3	(0.1)	0.2
Credit/(charge) for the year to profit	(1.3)	3.0	1.7
At 31 December 2014	**(14.4)**	**(1.0)**	**(15.4)**
At 1 January 2013	(14.6)	(4.1)	(18.7)
Exchange differences	0.6	0.1	0.7
Credit/(charge) for the year to profit	0.6	(0.2)	0.4
Credit to equity	–	0.3	0.3
At 31 December 2013	(13.4)	(3.9)	(17.3)

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

	Asset		Liability		Total	
	2014 £'m	2013 £'m	**2014 £'m**	2013 £'m	**2014 £'m**	2013 £'m
Due within one year	**1.4**	3.0	**(0.3)**	–	**1.1**	3.0
Due after more than one year	**23.1**	11.8	**(15.1)**	(17.3)	**8.0**	(5.5)
	24.5	14.8	**(15.4)**	(17.3)	**9.1**	(2.5)

Company

	Accelerated capital allowances £'m	Short-term timing differences £'m	Total £'m
Liability at 1 January 2014	–	–	–
Charge to equity	–	(0.1)	(0.1)
Liability at 31 December 2014	**–**	**(0.1)**	**(0.1)**
Liability at 1 January 2013	(0.1)	–	(0.1)
Credit for the year to profit	0.1	–	0.1
Liability at 31 December 2013	–	–	–

The deferred tax liability can be analysed as follows:

	2014 £'m	2013 £'m
Due after more than one year	**(0.1)**	–

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 2014, unrecognised deferred tax is Nil (2013: 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 (2013: Nil).

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25. Pension obligations

The amounts recognised as charges in the income statement are as follows:

	2014 £'m	2013 £'m
Defined benefit schemes: – Current service cost	**1.8**	2.2
– Scheme administrative expenses	**1.0**	0.8
Defined benefit costs included within operating profit before exceptional items	**2.8**	3.0
Defined benefit schemes curtailment – restructuring exceptional item	**1.7**	–
Defined benefit costs included within operating profit after exceptional items	**4.5**	3.0
Net finance cost	**2.0**	2.2
Net defined benefit scheme charge	**6.5**	5.2
Defined contribution schemes	**2.4**	2.5
Total pension obligation costs	**8.9**	7.7

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

	2014 £'m	2013 £'m
Fair value of scheme assets	**231.8**	202.6
Present value of scheme liabilities	**(290.8)**	(248.7)
Pension obligations	**(59.0)**	(46.1)

The group operates a number of pension schemes throughout the world. The major schemes are of the defined benefit type and, with the exception of Germany where book reserves are supported by insurance policies, the assets of the schemes are held in separate trustee-administered funds. The defined benefit schemes are closed to new entrants. The total pension obligation cost for the group was £8.9 million (2013: £7.7 million), of which £3.0 million (2013: £3.5 million) related to the overseas schemes. On the advice of the actuaries, cash contributions to the group's defined benefit schemes are expected to be £5.4 million for the year ending 31 December 2015 (2014: £6.0 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 2014, and the full results are expected during 2015. The other major defined benefit schemes operate in Australia and the USA.

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 2014 by qualified independent actuaries. The major assumptions used by the actuaries in the following principal countries were:

	Australia		United Kingdom		USA	
	2014 %	2013 %	2014 %	2013 %	2014 %	2013 %
Discount rate	**3.10**	4.30	**3.55**	4.50	**3.80**	4.60
Rate of increase in salaries*	**3.50**	3.50	**1.00**	1.00	**–**	–
General inflation	**2.50**	2.50	**2.95**	3.30	**–**	–

* 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 USA plan as the plan is now frozen.

25. Pension 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 2014 are based on the following tables:

	2014		2013	
Years of life expectancy for current pensioners aged 65	**Male**	**Female**	Male	Female
SAPS 'Normal' (YOB)* United Kingdom – PA92 mc (YOB) +1% underpin + 2	**22.4**	**24.7**	22.4	24.6
USA – RP-2014 and projection scale MP-2014	**21.1**	**23.3**	18.6	20.5

* Adjusted by -0.2 years for male non-pensioners and -1.1 years for female non-pensioners (-0.4 for female 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 pension plan in Germany which, in common with typical practice in that country, is supported by insurance policies. At 31 December 2014, the value of the insurance asset was £2.2 million (2013: £2.4 million) and the value of the liability was £3.5 million (2013: £3.0 million). A proportion of the assets and liabilities of the German plan, relating to the period when the business operated as a branch of Devro Inc or Devro (Scotland) Limited, was retained by the group after the sale of Devro GmbH in September 2011.

In addition, the group has benefit arrangements in respect of two former executives in the USA for which the group has made adequate provisions on the advice of the actuaries. There is also an individual pension arrangement in Japan in respect of which appropriate contributions are made annually. The plan in Germany and these additional arrangements in the USA and Japan are included under the 'other' heading in this note.

The aggregate fair values of assets in the group's defined benefit schemes at 31 December 2014 were estimated to be:

	Australia		United Kingdom		USA		Other		Total	
	2014 £'m	2013 £'m	**2014 £'m**	2013 £'m	**2014 £'m**	2013 £'m	**2014 £'m**	2013 £'m	**2014 £'m**	2013 £'m
Assets with quoted market prices										
Equities	**6.0**	6.0	**45.6**	48.9	**14.4**	16.1	**–**	–	**66.0**	71.0
Bonds	**1.7**	1.6	**97.0**	83.7	**31.7**	25.7	**–**	–	**130.4**	111.0
Other	**1.6**	1.5	**30.7**	15.7	**0.4**	0.3	**2.2**	2.4	**34.9**	19.9
Assets without quoted market prices										
Other	**0.5**	0.7	**–**	–	**–**	–	**–**	–	**0.5**	0.7
	9.8	9.8	**173.3**	148.3	**46.5**	42.1	**2.2**	2.4	**231.8**	202.6

Investments in each of the main schemes are well diversified. Strategy is split between liability matching and return generating assets determined depending on the duration of the scheme, the funding position and the relevant country's pension rules. For the UK scheme the investment managers are mandated to invest 60% of the portfolio in growth assets with the remainder in UK government bonds matched to scheme liabilities. The increased value of other assets within the UK scheme during the year principally reflects the increased value of the interest rate hedging instruments which have helped to mitigate the effect of the lower discount rate on the net deficit of the scheme. For the USA scheme a defensive approach is taken given the shorter maturity of the scheme liabilities with around 70% of the portfolio to be invested in fixed income assets and the remainder in growth assets, principally equities. For the Australian scheme the strategy is for 70% of the portfolio to be invested in growth assets, with the remainder invested in defensive, primarily fixed income assets. In all three schemes, the investment approach will be de-risked over time as the funding position improves and market conditions allow.

25. Pension obligations (continued)

Net pension assets and liabilities at 31 December 2014 were as follows:

	Australia		United Kingdom		USA		Other		Total	
	2014 £'m	2013 £'m	**2014 £'m**	2013 £'m	**2014 £'m**	2013 £'m	**2014 £'m**	2013 £'m	**2014 £'m**	2013 £'m
Fair value of scheme assets (as above)	**9.8**	9.8	**173.3**	148.3	**46.5**	42.1	**2.2**	2.4	**231.8**	202.6
Present value of scheme liabilities	**(10.0)**	(9.7)	**(207.1)**	(180.4)	**(70.0)**	(55.3)	**(3.7)**	(3.3)	**(290.8)**	(248.7)
(Deficit)/surplus	**(0.2)**	0.1	**(33.8)**	(32.1)	**(23.5)**	(13.2)	**(1.5)**	(0.9)	**(59.0)**	(46.1)
Related deferred tax assets	**0.1**	–	**6.8**	6.4	**8.0**	4.5	**0.5**	0.3	**15.4**	11.2
Net pension (liabilities)/assets	**(0.1)**	0.1	**(27.0)**	(25.7)	**(15.5)**	(8.7)	**(1.0)**	(0.6)	**(43.6)**	(34.9)

The net deficit position has increased during the year. The discount rate fell for all of the group's schemes, increasing the present value of the liabilities in each of the schemes. The impact of the fall in the discount rate on the net deficit of the UK scheme was mitigated by the increase in the value of the scheme assets which benefit from the hedging strategy put in place. The value of the USA scheme liabilities was also increased by around £6.0 million due to the amended life expectancy tables issued by the US Society of Actuaries during the year. Additional contributions will be made to the schemes in 2015 to reduce the deficit as part of a contribution profile agreed with Trustees following the results of the triennial valuation of the UK scheme as at 31 March 2011. The group continues to pay contributions to pension schemes in accordance with local regulatory requirements and on the advice of qualified independent actuaries. The latest triennial valuation of the UK scheme as at 31 March 2014 will be finalised during 2015 and the group will make any changes to contributions as appropriate.

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

	2014 £'m	2013 £'m
At 1 January	**202.6**	203.1
Interest income	**8.9**	8.2
Scheme administrative expenses	**(1.0)**	(0.8)
Employer contributions	**5.8**	6.8
Member contributions	**0.3**	0.4
Benefits paid	**(12.8)**	(13.0)
Re-measurements – return on plan assets (excluding interest income)	**25.7**	1.3
Exchange gains/(losses)	**2.3**	(3.4)
At 31 December	**231.8**	202.6

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

	2014 £'m	2013 £'m
At 1 January	**248.7**	262.4
Service cost	**1.8**	2.2
Interest cost	**10.9**	10.4
Curtailment cost (restructuring exceptional items)	**1.7**	–
Member contributions	**0.3**	0.4
Benefits paid	**(12.8)**	(13.0)
Re-measurements – changes in financial assumptions	**34.1**	(10.4)
Re-measurements – changes in demographic assumptions	**6.5**	0.1
Re-measurements – experience adjustments	**(3.7)**	0.3
Exchange losses/(gains)	**3.3**	(3.7)
At 31 December	**290.8**	248.7

25. Pension obligations (continued)

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

	Australia		United Kingdom		USA		Other		Total	
	2014 £'m	2013 £'m	**2014 £'m**	2013 £'m	**2014 £'m**	2013 £'m	**2014 £'m**	2013 £'m	**2014 £'m**	2013 £'m
Amounts charged to the income statement										
Current service cost	**0.3**	0.6	**1.4**	1.3	**–**	–	**0.1**	0.3	**1.8**	2.2
Scheme administrative expenses	**0.3**	0.2	**0.4**	0.4	**0.3**	0.2	**–**	–	**1.0**	0.8
Restructuring costs included in exceptional items	**–**	–	**1.7**	–	**–**	–	**–**	–	**1.7**	–
Net charge to operating profit	**0.6**	0.8	**3.5**	1.7	**0.3**	0.2	**0.1**	0.3	**4.5**	3.0
Interest income on pension scheme assets	**(0.4)**	(0.4)	**(6.6)**	(6.3)	**(1.9)**	(1.5)	**–**	–	**(8.9)**	(8.2)
Interest on pension scheme liabilities	**0.4**	0.4	**8.0**	7.6	**2.5**	2.3	**–**	0.1	**10.9**	10.4
Net interest cost	**–**	–	**1.4**	1.3	**0.6**	0.8	**–**	0.1	**2.0**	2.2
Net charge to profit	**0.6**	0.8	**4.9**	3.0	**0.9**	1.0	**0.1**	0.4	**6.5**	5.2

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

	Australia 2014 £'m	Australia 2013 £'m	United Kingdom 2014 £'m	United Kingdom 2013 £'m	USA 2014 £'m	USA 2013 £'m	Other 2014 £'m	Other 2013 £'m	Total 2014 £'m	Total 2013 £'m
Amounts recognised in statement of comprehensive income										
Return on plan assets less interest income	**0.4**	1.1	**24.0**	(1.7)	**1.3**	1.9	**–**	–	**25.7**	1.3
Experience gains/(losses) on liabilities	**0.2**	0.1	**4.4**	(0.1)	**(0.8)**	(0.3)	**(0.1)**	–	**3.7**	(0.3)
Changes in financial assumptions	**(1.0)**	0.8	**(27.5)**	3.1	**(5.0)**	6.5	**(0.6)**	–	**(34.1)**	10.4
Changes in demographic assumptions	**–**	–	**(0.4)**	–	**(6.1)**	(0.1)	**–**	–	**(6.5)**	(0.1)
Re-measurements	**(0.4)**	2.0	**0.5**	1.3	**(10.6)**	8.0	**(0.7)**	–	**(11.2)**	11.3

25. Pension obligations (continued)

Movements in the deficit during the year were as follows:

	Australia		United Kingdom		USA		Other		Total	
	2014 £'m	2013 £'m	**2014 £'m**	2013 £'m	**2014 £'m**	2013 £'m	**2014 £'m**	2013 £'m	**2014 £'m**	2013 £'m
(Deficit)/surplus in scheme at beginning of year	**0.1**	(2.1)	**(32.1)**	(33.3)	**(13.2)**	(22.9)	**(0.9)**	(1.0)	**(46.1)**	(59.3)
Movement in year: Pension charge	**(0.6)**	(0.8)	**(4.9)**	(3.0)	**(0.9)**	(1.0)	**(0.1)**	(0.4)	**(6.5)**	(5.2)
Employer contributions	**0.6**	0.9	**2.7**	2.9	**2.4**	2.6	**0.1**	0.4	**5.8**	6.8
Re-measurements	**(0.4)**	2.0	**0.5**	1.3	**(10.6)**	8.0	**(0.7)**	–	**(11.2)**	11.3
Exchange (losses)/ gains	**0.1**	0.1	**–**	–	**(1.2)**	0.1	**0.1**	0.1	**(1.0)**	0.3
(Deficit)/surplus in scheme at end of year	**(0.2)**	0.1	**(33.8)**	(32.1)	**(23.5)**	(13.2)	**(1.5)**	(0.9)	**(59.0)**	(46.1)

The actual return on plan assets in 2014 was £33.6 million (2013: £8.7 million).

The cumulative re-measurements in other comprehensive income are £72.2 million loss (2013: £61.0 million loss).

The weighted average duration of the defined benefit obligation is 15 years, with benefit payments over the next ten years expected to be as follows:

	2014 £'m
In the next year	**11.5**
In years 2-5	**46.9**
In years 6-10	**64.0**
	122.4

The schemes' funds have been invested in a range of assets which are due to be realised in line with the associated liabilities. The trustees review the schemes' assets and adjust the weighting between short-term and long-term assets to combine security and growth with the liquidity required to meet the obligations as they fall due.

Sensitivity analysis of the principal assumptions used to measure defined benefit obligations:

Assumption	**Change in assumption**	**Indicative impact on defined benefit obligation (before deferred tax)**
Discount rate	Increase by 0.25%	Decrease by £11.5m
	Decrease by 0.25%	Increase by £11.2m
Rate of salary increase	Increase by 0.25%	Increase by £0.2m
	Decrease by 0.25%	Decrease by £0.2m
General inflation	Increase by 0.25%	Increase by £3.3m
	Decrease by 0.25%	Decrease by £3.2m
Life expectancy	Increase by 1 year	Increase by £8.9m

The above sensitivity analyses are based on the same change in assumption in each of the group's schemes (except where changes are limited through the individual scheme rules), while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the projected unit credit method is applied in the same way as for the calculation of the pension liability recognised in the financial statements.

25. Pension obligations (continued)

Risks

Through its defined benefit pension obligations, the group is exposed to a number of risks, the most significant of which are detailed below:

Market volatility

The accounting estimate of net pension obligations is very sensitive to changes in market conditions. The discount rate used to estimate the defined benefit obligation is linked to yields on AA-rated corporate bonds, or similar, whilst scheme assets are invested in a range of other assets, which are themselves subject to fluctuations in value. Changing market conditions and movements in the discount rate will lead to volatility in the net pension obligation on the group's balance sheet, in other comprehensive income and in the income statement.

Choice of accounting assumptions

The value of the defined benefit obligation is determined by actuarial valuations over long-term cash flows. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future inflation. Due to the long-term nature of these schemes these estimates are subject to significant uncertainty, and the final outcome could be significantly different to the assumptions used.

However, the risk is limited in certain respects for some schemes. The Australian scheme allows for a lump sum payment on retirement, so is not sensitive to changes in mortality assumptions, whilst the USA scheme is frozen so that it is not sensitive to inflation or salary rises. Similarly the rate of increase in UK salaries is limited to 1% per annum.

26. Ordinary shares

Group and company	**2014 £'m**	2013 £'m
Issued and fully paid		
166,921,042 (2013: 166,779,230) ordinary shares of 10 pence each	**16.7**	16.7

141,812 ordinary shares of 10 pence each were issued during the year in connection with the Devro 2003 Performance Share Plan (2013: 1,145,666).

27. Share based payments

Under the Devro plc Performance Share Plan and its predecessor, the Devro 2003 Performance Share Plan (together "the plans"), the Executive Directors' Remuneration Committee made provisional allocations of ordinary shares in the company to employees of the group, including Executive Directors. No payment for an allocation is made by a participant. Allocations normally vest over a three-year period, are conditional on the continued employment of the participant and are subject to certain performance conditions. These performance conditions relate to growth in the company's earnings per share, the company's Total Shareholder Return in comparison to its peer group.

For awards where vesting is subject to the growth in earnings per share the fair value of an allocation represents the market value of the ordinary shares in the company on the date of the provisional allocation, less the discounted value of estimated dividends expected to be paid during the vesting period. A participant is not entitled to receive dividends during this period. The fair value of awards subject to the company's Total Shareholder Return performance is determined using a Monte Carlo option valuation methodology. The weighted average fair value of options granted during the year using this method was £1.69 (2013: £2.07) with the significant inputs to the model being the share price at the grant date, an expected volatility in the share price of 26.0% (based on historic trends), the term of three years, risk free interest rate of 1.1% and expected dividend yield.

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 141,812 shares vested under the Devro 2003 Performance Share Plan (2013: 1,145,666).

27. Share based payments (continued)

At 31 December 2014, the maximum number of shares which may vest under the plans is as follows:

Grant date	Fair value per share	Normal vesting date	Number of shares at 1 January 2014	Number of shares awarded during the year	Number of shares vested and exercised during the year	Number of shares lapsed during the year	Number of shares at 31 December 2014	Weighted average share price at exercise
26 September 2008	£0.693	26 September 2011	20,000	–	(15,000)	–	5,000	£2.38
24 March 2010	£1.475	24 March 2013	40,000	–	(40,000)	–	–	£2.38
24 February 2011	£2.329	24 February 2014	18,952	–	(18,952)	–	–	£2.38
24 February 2011	£2.242	24 February 2015	103,846	–	–	–	103,846	–
29 March 2011	£2.640	29 March 2014	90,840	–	(67,860)	–	22,980	£2.41
2 April 2012	£2.900	2 April 2015	358,000	–	–	(120,000)	238,000	–
1 August 2012	£2.620	1 August 2015	40,000	–	–	(40,000)	–	–
12 September 2013	£2.080	12 September 2016	677,470	–	–	(160,000)	517,470	–
20 December 2013	£1.840	20 December 2016	40,000	–	–	–	40,000	–
9 June 2014	£1.690	9 June 2017	–	954,100	–	(120,000)	834,100	–
			1,389,108	954,100	(141,812)	(440,000)	1,761,396	£2.39

A more detailed summary of the performance conditions of the plans is included in the Directors' Remuneration Report on pages 39 to 52.

28. Share premium

Group and company	2014 £'m	2013 £'m
At 1 January	**9.0**	8.0
Premium on shares issued under the Devro 2003 Performance Share Plan	**0.3**	1.0
At 31 December	**9.3**	9.0

29. Other reserves

Group	Capital redemption reserve £'m	Special reserve £'m	Performance Share Plan £'m	Hedging reserve £'m	Cumulative translation adjustment £'m	Total £'m
At 1 January 2014	35.6	8.9	0.7	0.6	19.1	64.9
Exchange adjustments	–	–	–	–	(8.1)	(8.1)
Cash flow hedges, net of tax	–	–	–	(0.6)	–	(0.6)
Net investment hedges, net of tax	–	–	–	0.6	–	0.6
Performance Share Plan charge	–	–	0.2	–	–	0.2
Performance Share Plan credit in respect of shares vested	–	–	(0.3)	–	–	(0.3)
Performance Share Plan credit in respect of awards lapsed	–	–	(0.2)	–	–	(0.2)
At 31 December 2014	**35.6**	**8.9**	**0.4**	**0.6**	**11.0**	**56.5**
At 1 January 2013	35.6	8.9	1.6	2.0	32.6	80.7
Exchange adjustments	–	–	–	–	(13.5)	(13.5)
Cash flow hedges, net of tax	–	–	–	(2.1)	–	(2.1)
Net investment hedges, net of tax	–	–	–	0.7	–	0.7
Performance Share Plan charge	–	–	0.2	–	–	0.2
Performance Share Plan credit in respect of shares vested	–	–	(1.1)	–	–	(1.1)
At 31 December 2013	35.6	8.9	0.7	0.6	19.1	64.9

29. Other reserves (continued)

Company	Capital redemption reserve £'m	Special reserve £'m	Performance Share Plan £'m	Hedging reserve £'m	Total £'m
At 1 January 2014	35.6	8.9	0.7	–	45.2
Cash flow hedges, net of tax	–	–	–	0.3	0.3
Performance Share Plan charge	–	–	0.2	–	0.2
Performance Share Plan credit in respect of shares vested	–	–	(0.3)	–	(0.3)
Performance Share Plan credit in respect of awards lapsed	–	–	(0.2)	–	(0.2)
At 31 December 2014	**35.6**	**8.9**	**0.4**	**0.3**	**45.2**
At 1 January 2013	35.6	8.9	1.4	–	45.9
Performance Share Plan charge	–	–	0.2	–	0.2
Performance Share Plan credit in respect of shares vested	–	–	(0.9)	–	(0.9)
At 31 December 2013	35.6	8.9	0.7	–	45.2

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.

30. Retained earnings

	Group		Company	
	2014 £'m	2013 £'m	**2014 £'m**	2013 £'m
At 1 January	**67.4**	41.6	**62.0**	60.7
Profit for the year	**4.4**	33.6	**22.5**	15.5
Dividends paid	**(14.7)**	(14.2)	**(14.7)**	(14.2)
Re-measurements of pension obligations, net of tax	**(6.6)**	6.4	**–**	–
Performance Share Plan credit in respect of awards lapsed	**0.2**	–	**0.2**	–
At 31 December	**50.7**	67.4	**70.0**	62.0

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

	Group		Company	
	2014 £'m	2013 £'m	**2014 £'m**	2013 £'m
Profit before tax	**2.2**	37.5	**22.9**	13.4
Adjustments for:				
Finance income	**(0.1)**	–	**(1.2)**	(0.3)
Finance cost	**2.3**	1.1	**2.6**	0.7
Dividends from subsidiaries	**–**	–	**(25.9)**	(14.6)
Net finance cost on pensions	**2.0**	2.2	**–**	–
Pension cost adjustment for normal contributions	**2.7**	0.8	**–**	–
Loss on disposal of property, plant and equipment	**–**	0.7	**–**	–
Depreciation of property, plant and equipment	**22.8**	16.9	**0.2**	0.1
Amortisation of intangible assets	**1.1**	1.1	**0.8**	0.8
Release from capital grants balance	**(0.1)**	(0.1)	**–**	–
Additional cash contributions to pension schemes	**(4.0)**	(4.6)	**–**	–
Performance Share Plan	**0.2**	0.2	**0.2**	0.2
Changes in working capital:				
Decrease/(increase) in inventories	**4.2**	(13.0)	**–**	–
Increase in trade and other receivables	**(0.2)**	(0.2)	**(39.0)**	(15.4)
(Decrease)/increase in trade and other payables	**(0.4)**	0.1	**4.0**	(0.1)
Increase in provisions	**8.9**	–	**–**	–
Cash generated from/(used in) operations	**41.6**	42.7	**(35.4)**	(15.2)
Of which: Cash generated from/(used in) operations before exceptional items	**48.1**	43.8	**(34.3)**	(14.5)
Exceptional items	**(6.5)**	(1.1)	**(1.1)**	(0.7)
Cash generated from/(used in) operations	**41.6**	42.7	**(35.4)**	(15.2)

32. Analysis of net debt

	Group		Company	
	2014 £'m	2013 £'m	**2014 £'m**	2013 £'m
Cash and cash equivalents	**11.1**	6.0	**0.1**	–
Bank overdrafts	**(1.7)**	(2.4)	**(1.8)**	(2.7)
	9.4	3.6	**(1.7)**	(2.7)
Other bank borrowings	**(15.8)**	(39.4)	**(3.7)**	(28.4)
US dollar private placement	**(62.8)**	–	**(62.8)**	–
Net debt	**(69.2)**	(35.8)	**(68.2)**	(31.1)

33. Capital commitments

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

	Group		Company	
	2014 £'m	2013 £'m	**2014 £'m**	2013 £'m
Property, plant and equipment	**31.1**	4.5	**–**	–

The directors expect the group to enter into further capital expenditure commitments as it progresses with its investment projects to establish new manufacturing plants in the USA and China.

34. Contingent liabilities

In the opinion of the directors, the group has no material contingent liabilities (2013: Nil).

35. Financial commitments

Operating leases

At 31 December 2014, the future aggregate minimum lease payments were as follows:

	Group		Company	
	2014 £'m	2013 £'m	**2014 £'m**	2013 £'m
No later than one year	**0.7**	0.7	**0.1**	0.1
Later than one year and no later than five years	**0.9**	0.9	**0.2**	0.4
	1.6	1.6	**0.3**	0.5

36. 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 and the Executive Board of the group as together they have the authority and responsibility for controlling group activities. The compensation paid or payable to key management for employee services is shown below:

	2014 £'m	2013 £'m
Emoluments payable to executive and non-executive directors		
Short-term employee benefits	**1.0**	1.0
Post-employment benefits	**0.1**	0.1
Share based payments	**–**	0.1
	1.1	1.2
Emoluments payable to remainder of the Executive Board		
Short-term employee benefits	**1.2**	1.6
Post-employment benefits	**0.1**	0.1
Share based payments	**–**	0.1
Compensation for loss of office	**1.0**	–
	2.3	1.8
Total emoluments payable to key management	**3.4**	3.0

36. Related party transactions (continued)

Related party transactions carried out by the company during the year ended 31 December 2014 were as follows:

	2014 £'m	2013 £'m
Sale of services to subsidiary undertakings	**4.3**	4.9
Purchase of services from subsidiary undertakings	**0.1**	0.1
Royalty income received from subsidiary undertakings	**1.1**	1.2
Interest received from subsidiary undertakings	**1.2**	0.3
Interest paid to subsidiary undertakings	**0.1**	0.1

Balances at 31 December arising from transactions with subsidiary undertakings:

	2014 £'m	2013 £'m
Receivables		
– current	**1.3**	1.9
– non-current	**63.2**	26.3
Payables		
– non-current	**15.8**	12.2

Current receivables from subsidiaries arise mainly on the sale of services. The receivables are unsecured and do not bear interest. No provisions are held against receivables from subsidiaries, and all sales are made on an arm's length basis.

Non-current receivables and payables principally relate to loans to and from subsidiaries and interest is charged on them at commercial rates.

Report on the financial statements

Our opinion

In our opinion:

- Devro plc's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2014 and of the group's profit and the group's and the company's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the company financial statements have been properly prepared in accordance with International Financial Reporting Standards ("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.

What we have audited

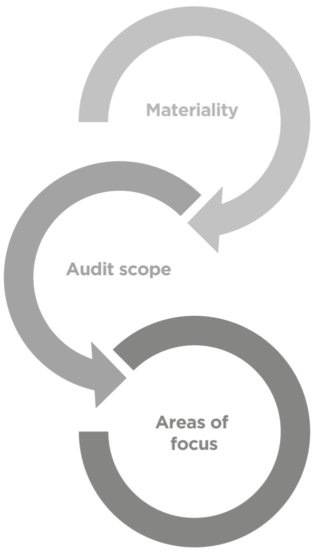
Devro plc's financial statements comprise:

- the group and company Balance Sheets as at 31 December 2014;
- the Consolidated Income Statement and Statement of Comprehensive Income for the year then ended;
- the group and company Cash Flow Statements for the year then ended;
- the group and company Statements of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union and, as regards the company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Our audit approach

Overview



- Overall group materiality: £1.75 million which represents 5% of the 3 year average profit before tax and exceptionals.

- We performed an audit of the complete financial information of 4 reporting units and the central head office function.
- Our audit scope addressed 83% of the group's revenues and 95% of the group's result before tax.

Our audit focused on the following areas:

- Accounting for investment projects;
- Accounting for restructuring programme;
- Presentation of exceptional items;
- Carrying value of inventory; and
- Pension obligations.

The scope of our audit and our areas of focus
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
Accounting for investment projects (refer to page 37 "Investment projects and restructuring activities" within the Audit Committee report and page 64 (Critical accounting estimates and judgements))	
The group has been progressing with two significant investment projects, one in the USA and one in China. The total capital spend in the year on these two projects was £45 million, with other costs incurred of £7 million which have been expensed and are included in exceptional items on the face of the income statement. We focused on this area as the capital expenditure is significant and involves building specialised factories with complex technical production processes for the manufacture of collagen casings and also involves product development processes at the new manufacturing facilities that are specific to local conditions in the USA and China. As a result there are significant judgements and estimates associated with the categorisation and capitalisation of costs. In the USA we also focused on the impact of the construction of the new factory and introduction of new production lines on the carrying value of existing property, plant and equipment. Revising asset lives, the costs of decommissioning existing plant and the costs of environmental and other obligations associated with decommissioning are based on estimates of future costs and actions which require significant judgement. The revised useful lives of plant and equipment being decommissioned reflect the project timeline for the new factory which has resulted in accelerated depreciation of £0.8 million. A decommissioning provision of £2.6 million has been estimated and we focused on this due to the judgements involved in assessing the costs and the timing of recognition.	We performed detailed testing over the amounts capitalised as property, plant and equipment and intangibles assets by tracing items of expenditure to supporting evidence including invoices and payroll records and checked that the costs were correctly capitalised and categorised, finding that they were. As part of this testing, we confirmed internal costs relating to capitalised intangible assets were related directly to the development of new products for the new factories. We assessed the impact of the new factory build on the carrying value of the existing property, plant and equipment in the USA (after accelerated depreciation charge), considering the directors' identification of assets to be decommissioned by checking these against the detailed project plans and recalculating the accelerated depreciation charge. We assessed whether all assets to be directly impacted had been captured by comparing the detailed asset register with the project plan. We assessed whether there was any impairment on the remaining assets by evaluating the USA production forecasts for these assets. Our testing supported the carrying value of the USA assets. We evaluated the estimates of decommissioning costs which were based on estimates from independent third parties of the costs of removing surplus equipment and addressing environmental, food hygiene and health and safety requirements. We consider the evidence supports the existence of an obligation at the balance sheet date. The detailed decommission plan will be finalised as the investment project continues, and as such the estimate of decommissioning costs has some uncertainty and will be refined as more information becomes available.

Area of focus	How our audit addressed the area of focus
Accounting for restructuring programme (refer to page 37 "Investment projects and restructuring activities" within the Audit Committee report and page 64 (Critical accounting estimates and judgements))	
During the year the group commenced a significant restructuring programme related to the change to the group's manufacturing footprint. The most significant elements include the decommissioning of production lines at one of the two plants in Scotland and the decommissioning of the hide processing facility in Australia. Total costs of restructuring incurred in the year were £16.9 million which are included in exceptional items in the income statement. As part of the restructuring a significant number of employees have been made redundant; determining the amount and timing of redundancy payments requires judgement and affects both the expense recognised in the year and the year-end provision. Redundancy costs of £7.1 million have been recognised in Australia and the UK, not all of which had been settled at the year end. The restructuring has also had an impact on the useful lives of the existing property, plant and equipment and will cause the group to incur decommissioning costs in those locations. Revising useful lives of assets and estimating the costs of decommissioning involves significant judgement at each of these sites. Revised useful lives have resulted in accelerated depreciation of £5.7 million in Scotland and Australia. Decommissioning provisions of £2.1 million in Scotland and Australia have been estimated for the removal of the machines and associated costs of obligations arising as a result of the decision. Production will continue at the factory in Scotland after lines are decommissioned, but at significantly reduced volumes and in assessing the carrying value of the remaining assets there is significant judgement.	We obtained the detailed redundancy calculations along with redundancy letters and recalculated the costs of redundancies to which the group was committed for both Scotland and Australia. We tested the timing of recognition of redundancy provisions by checking that the group was committed to the redundancy programme prior to the year-end, obtaining evidence confirming the existence of an obligation at 31 December 2014. Estimates of costs for decommissioning provisions for Scotland and Australia have been based on previous experience of decommissioning lines in Scotland and we evaluated the estimates against costs previously incurred at the same location. We considered the obligation as a result of the decision to decommission the assets in Scotland and concluded that the health and safety, food hygiene and environment requirements support the recognition of a provision in this year's financial result. We considered the directors' revised useful lives for the Scotland and Australian assets and found them to be consistent with the decommissioning plans and re-performed the accelerated depreciation calculations. We tested the impairment assessment of the remaining assets at the factory in Scotland with decommissioned lines by confirming that the forecasts used in the impairment calculations agreed to approved budgets. We assessed the key sales, costs and production assumptions against the group's production plans, which include this factory, the discount rate against Devro's weighted average cost of capital and performed sensitivity analysis and agree with the conclusion that no further impairment was required at the year end.
Exceptional items (refer to page 37 "Investment projects and restructuring activities" within the Audit Committee report, page 64 (Critical accounting estimates and judgements) and page 73 (Note 4))	
The financial statements include certain items which are disclosed as exceptional. There are exceptional items of £7.0 million in respect of the incremental costs associated with building the two new factories in the USA and China which include expenses of decommissioning existing plant, redundancy in relation to employees and other direct costs associated with the projects. There is a further £16.9 million related to the restructuring programme which includes redundancy costs, accelerated depreciation and other direct costs associated with the group's restructuring plan. We focused on exceptional items because they are not defined by IFRS as adopted by the EU and therefore require judgement by the directors in identifying exceptional costs and considering the impact they have on the underlying performance and disclosed results of the group.	We tested the presentation of the exceptional items in the financial statements against the group's defined exceptional items accounting policy (page 70) and against our understanding of the nature of these expenses from work carried out on the investment projects and restructuring programme. We also considered whether there were other significant items which should have been included as exceptional by considering any significant one-off transactions and assessing these against the policy for exceptional items. We found that the classification judgements and disclosures made by management were in line with the policy and that the expenses are appropriate to include within exceptional costs in the income statement.

Area of focus	How our audit addressed the area of focus
Carrying value of inventory (refer to page 37 "Carrying value of inventory activities" within the Audit Committee report and page 64 (Critical accounting estimates and judgements))	
The group holds £33.4 million of perishable inventory on the balance sheet at the year-end date. Establishing a provision for slow-moving, obsolete and damaged inventory requires significant judgement taking into account customer demand, quality of product and manufacturing processes and cost of manufacturing. In 2014 the decommissioning of production processes in Scotland and Australia and the production performance of the existing USA plant, where performance was lower than plan, were a factor in considering the appropriate calculation of the cost of inventory by way of overhead cost absorption and adjustments for variances from standard costs. As the group continues to face market change, there is a higher risk that inventory is sold at less than attributable cost.	We tested the inventory provision calculations for each of the four separate manufacturing sites against the group's policy for the calculation of provisions for obsolete and slow-moving inventory and by evaluating the inventory quality reports which supported the provisions which have been recognised. For the Australia, Scotland and USA plants we obtained and re-performed the variance and cost absorption adjustments to the closing balance of inventory. We considered the sales and manufacturing performance of each of the factories, including the production yields and average cost per km, and assessed the adjustments to inventory for variances from standard cost and overhead cost absorption as appropriate against the underlying production performance of each plant. We also tested a sample of inventory to sales subsequent to the year end and confirmed that they were sold at more than net book value.
Pension obligations (refer to page 38 "Valuation of net pension obligations activities" within the Audit Committee, page 65 (Critical accounting estimates and judgements) and page 97 (Note 25))	
The group has defined benefit obligations in Australia, Germany, Scotland and the USA. We focused on this area because of the materiality of the obligations to the financial statements, particularly the UK scheme, and the key judgements involved in determining the net pension obligation including discount rates, inflation rates and mortality rates and the geographical locations of each of the schemes.	We evaluated the group's key judgements taking into account the specific characteristics of each of the group's pension schemes. We assessed the assumptions with respect to discount rates, inflation rates and mortality rates used by the directors by comparing them to our own, independently formed expectations for Australia, Germany, Scotland and the USA. We found the assumptions adopted by the directors to be in line with our expectations.

How we tailored the audit scope
We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the group, the accounting processes and controls, and the industry in which the group operates.

The group has manufacturing facilities in Australia, Czech Republic, Scotland and the USA, supplying markets in Asia-Pacific, Europe and North and South America. The group financial statements are a consolidation of eight reporting units, comprising the group's manufacturing locations, sales offices and centralised functions of which the four manufacturing facilities and head office are the most significant.

In establishing the overall approach to the group audit, we determined the type of work that needed to be performed at the reporting units by us, as the group engagement team, or component auditors from other PwC network firms operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the group financial statements as a whole.

Accordingly, of the group's eight reporting units, we identified one that, in our view, required an audit of their complete financial information due to their financially significant contribution to the group's overall results. We carried out audits of the complete financial information of four further reporting units which we considered necessary to achieve sufficient audit evidence over the group's activities. Together the reporting units where we performed full-scope audit work comprised 83% of revenue and 95% of the group's result before tax. Specific audit procedures on certain balances and transactions were performed at a further reporting unit where the significance of accounts receivables held by this reporting unit to the overall group financial statements had increased. This, together with additional procedures performed at the group level, gave us the evidence we needed for our opinion on the group financial statements as a whole.

Materiality

The scope of our audit is influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall group materiality	£1,750,000 (2013: £1,935,000)
How we determined it	Three year average, 5% of profit before tax and before exceptional costs
Rationale for benchmark applied	We believe that profit before tax, adjusted for exceptional items, provides us with a consistent year on year basis for determining materiality by eliminating the non-recurring disproportionate impact of these items. We also believe the current year circumstances have resulted in volatility which is related to the investment and restructuring decisions taken and do not reflect the normal level of profitability of the underlying activities.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £60,000 (2013: £95,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the directors' statement, set out on page 35, in relation to going concern. We have nothing to report having performed our review.

As noted in the directors' statement, the directors have concluded that it is appropriate to prepare the financial statements using the going concern basis of accounting. The going concern basis presumes that the group and company have adequate resources to remain in operation, and that the directors intend them to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the group's and company's ability to continue as a going concern.

Other required reporting

Consistency of other information

Companies Act 2006 opinion

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

• Information in the Annual Report is: – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group and company acquired in the course of performing our audit; or – otherwise misleading.	We have no exceptions to report arising from this responsibility.
• the statement given by the directors on page 56, in accordance with provision C.1.1 of the UK Corporate Governance Code ("the Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the group's and parent company's performance, business model and strategy is materially inconsistent with our knowledge of the group and parent company acquired in the course of performing our audit.	We have no exceptions to report arising from this responsibility.
• the section of the Annual Report on pages 36 to 38, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report arising from this responsibility.

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Directors' Remuneration Report – Companies Act 2006 opinion

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the company's compliance with ten provisions of the UK Corporate Governance Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on pages 55 and 56, 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 ISAs (UK & 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.

What an audit of financial statements involves

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 the 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report and Accounts (the "Annual Report") to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Caroline Roxburgh (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
17 March 2015

FINANCIAL SUMMARY
for the years ended 31 December

	2014 £'m	2013 £'m	Restated 2012 £'m	Restated 2011 £'m	Restated 2010 £'m
Revenue*	**232.3**	242.7	241.1	227.7	213.6
Operating profit before exceptional items*	**30.3**	42.1	42.4	42.5	36.2
Exceptional items*	**(23.9)**	(1.3)	–	–	18.8
Operating profit*	**6.4**	40.8	42.4	42.5	55.0
Profit before tax*	**2.2**	37.5	39.3	41.2	53.0
Profit after tax*	**4.4**	33.6	32.0	32.7	40.8
Net assets	**133.2**	158.0	146.9	140.5	153.0
Earnings per share:					
– Basic*	**2.6p**	20.1p	19.4p	19.9p	25.0p
– Basic before exceptional items*	**13.7p**	20.8p	19.4p	19.9p	16.6p
– Diluted*	**2.6p**	20.0p	19.2p	19.6p	24.5p
Dividends per share	**8.8p**	8.8p	8.5p	8.0p	7.0p
Net assets per share	**79.8p**	94.9p	88.7p	85.1p	93.5p

* The information above refers to continuing operations exclusive of the discontinued operation, Devro GmbH, which was sold on 30 September 2011, and restated for revised pension accounting rules (IAS 19R) where relevant.

Notice is hereby given that the twenty-fourth Annual General Meeting ("AGM") of Devro plc (the "Company") will be held at Glasgow City Halls, Candleriggs, Glasgow, G1 1NQ on 29 April 2015 at 11am.

THIS NOTICE IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to what action you should take, you are recommended to seek your own financial advice from your stockbroker or other independent adviser authorised under the Financial Services and Markets Act 2000.

If you have sold or transferred all of your shares in the Company, please forward this notice, together with the accompanying documents, as soon as possible either to the purchaser or transferee or to the person who arranged the sale or transfer so they can pass these documents to the person who now holds the shares.

Shareholders will be asked to consider and, if thought fit, pass at the AGM the resolutions below. Resolutions 1 to 12 will be proposed as ordinary resolutions and resolutions 13, 14 and 15 will be proposed as special resolutions.

Recommendation
The directors of the Company ("Directors") consider that all the proposals to be considered at the AGM are in the best interests of the Company and its members as a whole and are most likely to promote the success of the Company for the benefit of its members as a whole. The Directors unanimously recommend that shareholders vote in favour of all the proposed resolutions as they intend to do in respect of their own beneficial holdings.

Ordinary resolutions

1. To receive the Company's accounts for the year ended 31 December 2014, together with the Directors' Report, the Strategic Report and the Auditors' Report on those accounts.

2. To declare a final dividend of 6.1 pence per ordinary share for the year ended 31 December 2014.

3. To re-elect as a Director Mr Gerard Hoetmer.

4. To re-elect as a Director Mr Peter Page.

5. To re-elect as a Director Mr Simon Webb.

6. To re-elect as a Director Ms Jane Lodge.

7. To re-elect as a Director Mr Paul Neep.

8. To re-elect as a Director Mr Paul Withers.

9. To appoint KPMG LLP as the Company's Auditors to hold office until the conclusion of the next AGM of the Company.

10. To authorise the Audit Committee of the Board to determine the remuneration of the Company's Auditors.

11. THAT the Directors' Remuneration Report contained within the Company's Annual Report and Accounts for the year ended 31 December 2014, excluding the Directors' Remuneration Policy set out on pages 41 to 45 of the Directors' Remuneration Report for reference only, be and is hereby approved.

12. THAT, in accordance with section 551 of the Companies Act 2006 (the "Act"), the Directors be generally and unconditionally authorised to allot Relevant Securities (as defined in the explanatory notes to this resolution) up to an aggregate nominal amount of £5,500,000 provided that this authority shall, unless renewed, varied or revoked by the Company, expire at the close of business on 30 June 2016 or, if earlier, the date of the Company's next AGM, save that the Company may, before such expiry, make offers or agreements which would or might require Relevant Securities to be allotted and the Directors may allot Relevant Securities in pursuance of such offer or agreement notwithstanding that the authority conferred by this resolution has expired.

Special resolutions

13. THAT, subject to the passing of resolution 12, the Directors be given the general power to allot equity securities (as defined by section 560 of the Act) for cash, either pursuant to the authority conferred by resolution 12 or by way of a sale of treasury shares, as if section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:
    - 13.1. the allotment of equity securities in connection with an offer of equity securities:
        - a. to the holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings; and
        - b. to holders of other equity securities as required by the rights of those securities or as the Directors otherwise consider necessary,

      but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates, legal or practical problems in or under the laws of any territory or the requirements of any regulatory body or stock exchange; and
    - 13.2. the allotment (otherwise than pursuant to paragraph 13.1 above) of equity securities up to an aggregate nominal amount of £834,000.

    The power granted by this resolution will expire at the close of business on 30 June 2016, or, if earlier, the conclusion of the Company's next AGM (unless renewed, varied or revoked by the Company prior to or on such date) save that the Company may, before such expiry make offers or agreements which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement notwithstanding that the power conferred by this resolution has expired.

    This resolution revokes and replaces all unexercised powers previously granted to the Directors to allot equity securities as if section 561(1) of the Act did not apply but without prejudice to any allotment of equity securities already made or agreed to be made pursuant to such authorities.

14. THAT the Company be and is generally and unconditionally authorised to make market purchases (within the meaning of section 693(4) of the Act) of ordinary shares of 10 pence each in the capital of the Company ("Ordinary Shares") provided that:
    - 14.1. the maximum aggregate number of Ordinary Shares that may be purchased is 16,600,000;
    - 14.2. the minimum price (excluding expenses) which may be paid for each Ordinary Share is 10 pence;
    - 14.3. the maximum price (excluding expenses) which may be paid for each Ordinary Share is the higher of:
        - a. 105% of the average market value of an Ordinary Share for the five business days prior to the day the purchase is made; and
        - b. the value of an Ordinary Share calculated on the basis of the higher of the price quoted for:
            - i. the last independent trade of; and
            - ii. the highest current independent bid for,

      any number of Ordinary Shares on the trading venue where the purchase is carried out.
    - 14.4. the authority conferred by this resolution shall expire at close of business on 30 June 2016 or, if earlier, at the conclusion of the Company's next AGM, save that the Company may, before the expiry of the authority granted by this resolution, enter into a contract to purchase Ordinary Shares which will or may be executed wholly or partly after the expiry of such authority.

15. THAT a general meeting of the Company, other than an AGM 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 AGM of the Company after the date of passing this resolution.

By order of the Board

John Meredith
Company Secretary
Devro plc
17 March 2015

Registered Office:
Moodiesburn, Chryston, G69 0JE

EXPLANATORY NOTES

1. Appointment of proxies

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.

Members may register their appointment of a proxy either electronically or by returning the hard copy proxy form (where supplied) in accordance with the instructions set out below.

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 copy of such power or authority, certified by a notary) 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 11am on 27 April 2015. 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.

Shareholders can also register their appointment of a proxy to attend the AGM electronically via the internet by visiting https://www.investorcentre.co.uk/eproxy where full instructions are given. A proxy appointment made electronically will not be valid if sent to any address other than that provided or, if received after 11am on 27 April 2015 or, if the meeting is adjourned, if received less than 48 hours (excluding any part of a day which is a non-working day) before the time of the adjourned meeting. Please note that any electronic communication found to contain a computer virus will not be accepted.

CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the AGM and any adjournment(s) of it by using the procedures described in the CREST Manual (available via www.euroclear.com). CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider, should refer to their CREST sponsor or voting service provider, who will be able to take the appropriate action on their behalf.

In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a CREST Proxy Instruction) must be properly authenticated in accordance with specifications of Euroclear UK & Ireland Limited ("EUI") and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the issuer's agent (ID number 3RA50) no later than 48 hours before the time appointed for holding the AGM. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

2. Nominated persons

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 registered 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 registered shareholder as to the exercise of voting rights.

The statement of the rights of shareholders in relation to the appointment of proxies in section 1 above does not apply to Nominated Persons. The rights described in that section can only be exercised by registered shareholders of the Company.

3. Corporate representatives

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.

4. Entitlement to attend and vote
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 6pm on 27 April 2015 (or, in the event of any adjournment, not less than 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.

5. Poll vote
All resolutions at the AGM will be taken on a poll rather than on a show of hands, so as to reflect accurately the view of all of the Company's shareholders by ensuring that every vote is recognised, including the votes of shareholders who are unable to attend the AGM but who have appointed a proxy. On a poll, each shareholder has one vote for each share held.

6. Website publication of audit concerns
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 the audit of the Company's accounts (including the Auditors' Report and the conduct of the audit) that are to be laid before the meeting. 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 Auditors 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.

7. Shareholders' right to ask questions
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 preparation 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.

8. Documents available for inspection
Copies of all service contracts of the Executive Directors, and all appointment letters of the Non-Executive Directors 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. They will also be available at the place of the AGM from 10.45am until the close of the meeting.

9. Issued share capital and total voting rights
At 6 March 2015 (being the latest practicable date prior to the publication of this notice) the issued share capital of the Company consists of 166,921,042 Ordinary Shares, carrying one vote each. Therefore, the total voting rights in the Company as at 6 March 2015 are 166,921,042.

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

11. Resolutions
Resolution 1: Accounts and reports of the Directors and the Auditors, and the Strategic Report
The Directors of the Company have a duty to present (to shareholders in general meeting) the annual accounts together with the Directors' Report, the Strategic Report and the Report of the Auditors. The Auditors' Report can be found on pages 108 to 114 of this Annual Report.

Resolution 2: Final dividend
The Directors recommend that a final dividend of 6.1 pence per share be paid on 15 May 2015 to shareholders whose names appear on the register of members at the close of business on 27 March 2015. Payment of the final dividend will bring the total dividend for the year ended 31 December 2014 to 8.8 pence per share.

Resolutions 3 to 8: Re-election of Directors
In line with best practice on corporate governance, each Director of the Company wishing to remain a Director is subject to election or re-election by shareholders at each AGM. All of the current Directors are standing for re-election to the Board and their biographies are set out on pages 28 and 29 of this Annual Report.

Resolutions 9 and 10: Appointment and remuneration of the Company's Auditors
PricewaterhouseCoopers LLC ("PwC") have acted as the Auditors to the Company since its formation in 1991. In accordance with good governance the Board decided in 2014 that it should seek to appoint new statutory auditors. Following a thorough tender process, the Board has approved its Audit Committee's recommendation that KPMG LLP ("KPMG") should replace PwC as the Company's Auditors. As required by section 519 of the Act, PwC has provided to the Company a statement of the circumstances in which they have ceased to be the Company's Auditors and this statement is reproduced in the letter from the Company Secretary also included in this Annual Report communication.

Resolutions 9 and 10 are standard resolutions proposing the appointment of KPMG as the Company's Auditors and authorising the Audit Committee of the Board to determine the remuneration of the Company's Auditors.

Resolution 11: Directors' Remuneration Report
Shareholders will be invited to approve the Directors' Remuneration Report for the year ended 31 December 2014 set out on pages 39 to 52 (other than the part containing the Directors' Remuneration Policy which is included in this year's report for reference only, having been approved at the Company's AGM in 2014).

Resolution 12: Allotment of new shares
This resolution seeks authority for the Directors to allot Relevant Securities similar to the authority given to the Directors at the Company's last AGM, held on 30 April 2014.

This resolution complies with the guidelines of the Investment Management Association Share Capital Management Guidelines issued in July 2014 (which replace guidelines previously issued by the Association of British Insurers).

The resolution will authorise the Directors to allot Relevant Securities up to a maximum nominal amount of £5,500,000 which represents approximately one-third of the Company's issued Ordinary Shares (excluding treasury shares) as at 6 March 2015.

Other than in relation to the Company's employee share plans, the Directors have no present intention to use this authority, which will expire at the earlier of the conclusion of the next AGM of the Company and 30 June 2016. As is normal practice, the Directors intend to seek renewal of this authority at subsequent AGMs.

In this resolution, Relevant Securities means:
- shares in the Company, other than shares allotted pursuant to:
  - a right to subscribe for shares in the Company where the grant of the right itself constituted a Relevant Security; or
  - a right to convert securities into shares in the Company where the grant of the right itself constituted a Relevant Security; and
- any right to subscribe for or to convert any security into shares in the Company. References to the allotment of Relevant Securities in this resolution include the grant of such rights.

Resolution 13: Pre-emption rights
This resolution seeks to renew the authority conferred on the Directors at the last AGM, pursuant to the authority to allot granted by resolution 12, to allot equity securities (as defined by section 560 of the Act) or to sell treasury shares for cash without first offering them to existing shareholders in proportion to their existing holdings: (a) in relation to pre-emptive offers and offers to holders of other equity securities if required by the rights of those securities or as the Directors otherwise consider necessary, up to a maximum nominal amount of £5,500,000 which represents approximately one-third of the Company's issued Ordinary Shares (excluding treasury shares) as at 6 March 2015; and (b) in any other case, up to a maximum nominal amount of £834,000 which represents slightly less than 5% of the Company's issued Ordinary Shares (excluding treasury shares) as at 6 March 2015, which is the latest practicable date before publication of this notice.

In compliance with the guidelines issued by the pre-emption group, the Directors confirm their intention that, other than in relation to a rights issue, no more than 7.5% of the issued Ordinary Shares (excluding treasury shares) will be allotted for cash on a non pre-emptive basis over a rolling three-year period unless shareholders have been notified and consulted in advance.

This resolution complies with relevant guidance issued by the pre-emption group and the Investment Management Association.

The power granted by this resolution will expire at close of business on 30 June 2016 or, if earlier, the conclusion of the next AGM of the Company.

The Directors have no present intention to exercise this authority.

Resolution 14: Authority for market purchases by the Company of its own shares

The authority for the Company to purchase its own Ordinary Shares 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 to give the Company the authority to purchase its own Ordinary Shares in the market as permitted by the Act. The resolution gives authority for the Company to purchase up to 16,600,000 of its Ordinary Shares, representing just under 10% of the Company's issued Ordinary Share capital as at 6 March 2015.

The resolution specifies the minimum and maximum prices which may be paid for any Ordinary Shares purchased under this authority. The authority will expire on the earlier of close of business on 30 June 2016 and the end of the Company's 2016 AGM.

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 6 March 2015, there were share scheme award options over 1,419,550 Ordinary Shares in the capital of the Company, which represents 0.85% of the Company's issued Ordinary Share capital. If the authority to purchase the Company's Ordinary Shares were exercised in full, these options would represent 0.94% of the Company's issued Ordinary Share capital. As at 6 March 2015, the Company did not hold any treasury shares in the Company and no warrants over Ordinary Shares in the capital of the Company existed.

Resolution 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 from 14 clear days to 21 days, unless shareholders approve a shorter notice period, which cannot however be less than 14 clear days, and certain requirements are satisfied. In accordance with the Act, AGMs will continue to be held on at least 21 clear days' notice.

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 this resolution, 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. This condition is met if there is a facility to appoint a proxy by means of a website.

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

29 April 2015	Annual General Meeting
15 May 2015	Final Dividend Paid
5 August 2015	Half Year Results and Interim Dividend Announced
October 2015	Interim Dividend Paid
31 December 2015	Financial Year End
March 2016	2015 Results and Proposed Final Dividend Announced

Dividends

The final dividend will be paid on 15 May 2015 to shareholders on the register at close of business on 27 March 2015.

Dividend mandates

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

Dividend Reinvestment Plan

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

Payment of dividends in foreign currency

The company's registrar offers a Global Payment Service which is available in certain countries. This may make it possible to receive dividends direct into your bank account in your local currency. Please note that a payment charge would be deducted from each individual payment before conversion into your local currency. This service can be set up at www.investorcentre.co.uk or by contacting the registrar.

Half year results

Any shareholder wishing to receive a paper copy of the Interim Report and Results for the six months to 30 June 2015 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.

NOTES

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DIRECTORS AND ADVISERS

Executive Directors
P W B Page
S C Webb

Non-Executive Directors
G J Hoetmer
J A Lodge
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
Atria One
144 Morrison Street
EDINBURGH
EH3 8EX

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 7JT

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

KBC Bank NV
111 Old Broad Street
LONDON
EC2N 1BR

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

MIX
Paper from
responsible sources
FSC® C023105
FSC
www.fsc.org

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