INVESTING FOR GROWTH

Devro plc Annual Report & Accounts **2013**

DEVRO

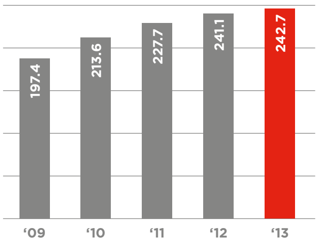
What's inside this Annual Report

2013 Highlights

DEVRO IS ONE OF THE WORLD'S LEADING SUPPLIERS OF COLLAGEN FOOD CASINGS

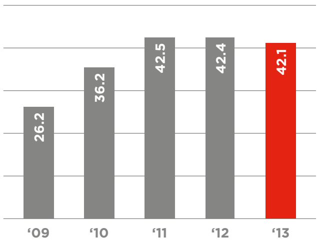
Revenue*

£242.7m



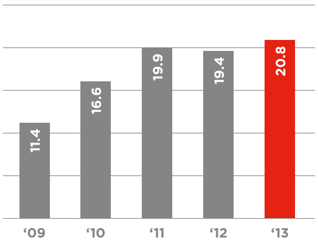
Operating profit before exceptional items*

£42.1m



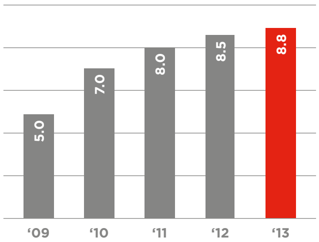
Earnings per share before exceptional items*

20.8p



Dividends per share

8.8p



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

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

Operating Responsibly

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

P32

How we Operate

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

P2

Investment Plans

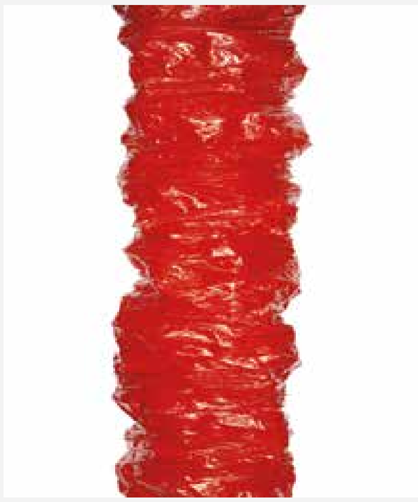
Devro is investing in the future of our company at unprecedented levels.

P20 & 22

Innovative Products

We aim to differentiate our products through continued research and development.

P12 & 13



DEVRO'S BUSINESS AT A GLANCE

WE USE OUR COLLAGEN TECHNOLOGY TO MAKE CASINGS THAT ARE CONSISTENTLY BETTER

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, 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.

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.

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

Getting the balance

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.

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

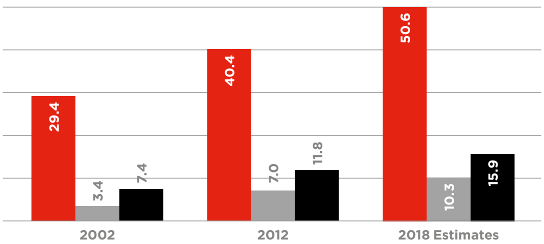
Devro's innovation and casing performance allow our customers to produce differentiated products for the consumer. Our casings consistently score highly for appearance, colour, bite and overall acceptance in independent research and consumer testing.

UNDERSTANDING
OUR MARKETS

A GLOBAL FOOTPRINT IN CHANGING TIMES

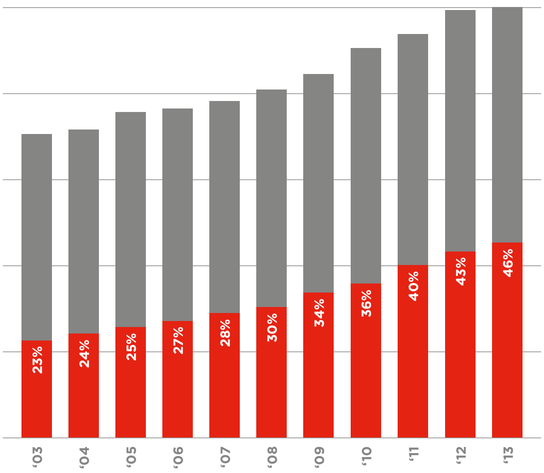
From our creation over 50 years ago, Devro has evolved into an established leading supplier of edible collagen casing throughout the world.

Average global income (US$'000 per capita)



Source: International Monetary Fund (IMF)

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



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

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 edible collagen casing that runs more efficiently on sausage production lines at much higher speeds and produces 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.

Growth

Cost savings 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 developing 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 developing and emerging markets.

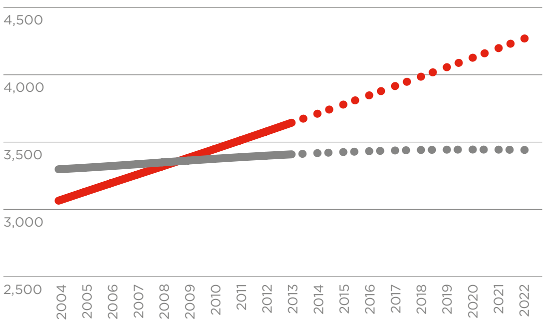
Europe, Middle East & Africa (EMEA)
EMEA continues to be a major market for the use of edible collagen casing and remains a market where there is excellent potential for future growth, including further conversions of animal intestines (gut) to edible collagen casing. Many regions within Western Europe, 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 savings to 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. The fastest growing market, and now the largest single edible collagen casing market, is 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 quality sausage has driven producers to explore more urgently the benefits of edible collagen casing.

Americas
The Americas remains a strong market for edible collagen casing, particularly small calibre sausage production in North America. Rapid growth in demand in a number of Latin American countries continues, driven by increasing meat consumption and improving economic conditions.

Global urban population (m)

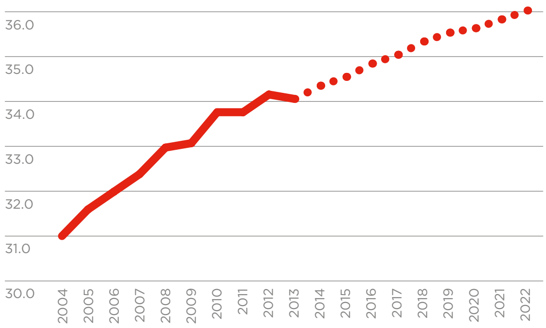
+19% in decade to 2013



Urban population (m) Rural population (m)
Source: Food and Agriculture Organization of the United Nations (FAO)

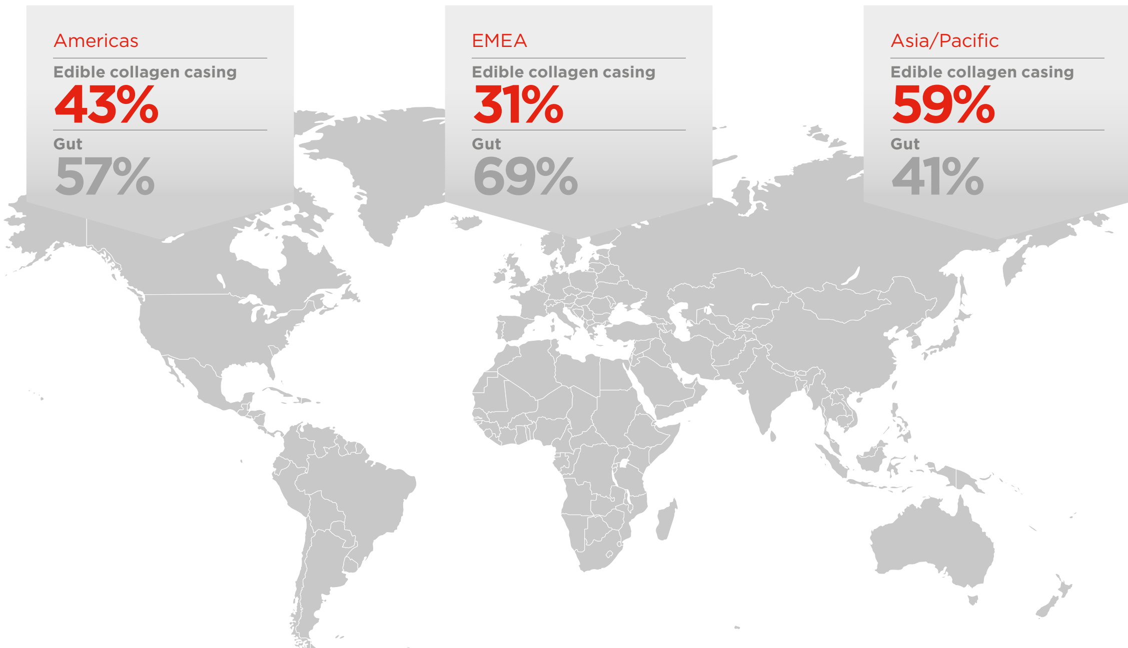
Global meat consumption (kg per capita per year)

+10% in decade to 2013



Source: OECD/FAO.

Edible collagen casing regional market share



OUR STRATEGY

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 strategic objectives

Our aim is to achieve earnings growth and improve return on capital. We have three strategic priorities 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 and development** • Investment in research and development • Product and process technology development • Unique collagen science knowledge built up over 50 years

STRATEGY IN ACTION

STRATEGY IN ACTION (continued)

Revenue growth
What we did in 2013

In a year when revenue was broadly flat, Devro had some notable successes in key strategic markets.

Germany
Volumes sold in Germany increased 30% as we continued to introduce our premium Select range to manufacturers of wiener sausages and Devro Stix casing was strongly promoted to the snack sector, following a change in distribution arrangements and a more focused approach to customers. Sales revenues from the German market have doubled since 2010.

Latin America
Increased product availability and sales activity enabled a 23% annual growth in sales to the Latin American market in 2013. Since 2010, volumes to the region have increased 61% whilst the average price has grown 12%. Appointment of a new sales director in 2012 and additional Czech capacity have supported this growth.

Japan
Volumes grew in Japan following the expansion of capacity in Australia, enabling more supply and inventory build in Tokyo, and the promotion of advantages of collagen over gut, led by a recently appointed General Manager and stronger sales team. Sales volumes in Japan have more than doubled since 2010.

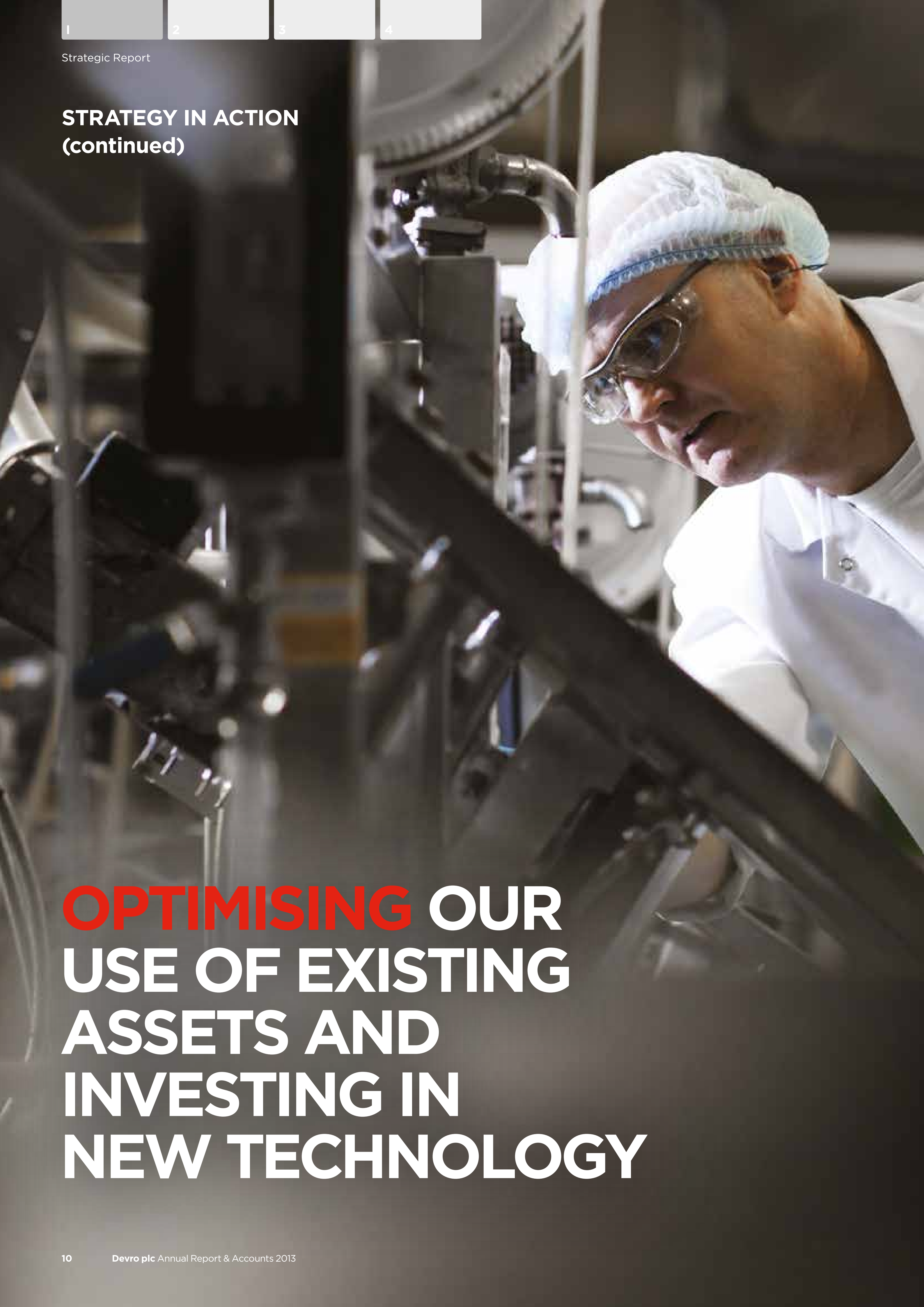
China
Volumes continued to increase as we built our market presence, sourcing from capacity in Scotland and the Czech Republic and building upon the relationships developed by the new Beijing sales team since 2011.

South East Asia
Additional Czech capacity and specific product enhancements supported volume growth.

Co-extrusion gel
Following capacity expansions at the South Carolina plant in 2012 and 2013, we have supported key accounts in the USA as they use collagen gel to convert from cellulose casing.

GROWING IN DEVELOPED AND EMERGING MARKETS

STRATEGY IN ACTION (continued)



OPTIMISING OUR USE OF EXISTING ASSETS AND INVESTING IN NEW TECHNOLOGY

Manufacturing efficiency

What we did in 2013

Upgraded Czech facility
Completion of a three-year, £25 million capital investment project at Jilemnice, completely upgraded a manufacturing hall, including boilers, electrical supply and air-handling systems.

Added capacity
With more efficient new lines and through a redesign of the floor space in the Jilemnice hall, group capacity was increased 9% by using the most modern manufacturing lines, leading to a 25% per unit cost reduction in the upgraded hall.

Continuous improvement
During 2013 every Devro site has established a Lean Six Sigma programme using knowledge and expertise in the company, and collaborating across sites to share learning and techniques.

Upgrade of our USA plant
Our plant in South Carolina, the oldest in the group, experienced a number of operational problems in 2013. In October, we announced that a new plant would be built on the site using our latest, most efficient, technology.

STRATEGY IN ACTION
(continued)

DIFFERENTIATING OURSELVES THROUGH RESEARCH AND DEVELOPMENT

Differentiation
What we did in 2013

Established a global approach to R&D worldwide
During the year, a focused group of R&D specialists was brought together to prioritise and co-ordinate near-term product developments around the world and to allocate resources for longer-term product development.

Significant developments
Development of a Fresh Select product for the UK market, with greater clarity and translucency, attributes that customers normally associate with gut.

Extension of our FINE Processed product range for Bratwurst applications.

Line speed and raw material processing have both progressed further in the year.

Knowledge capture
Working with a leading UK university, we are undertaking a major programme of systematically recording and documenting our unique knowledge, developed over the past 50 years.

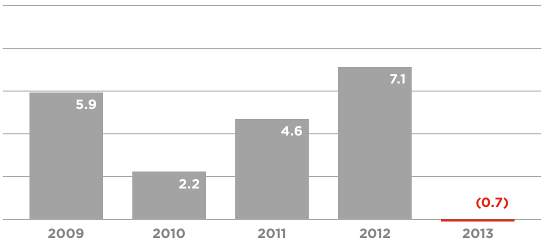
MEASURING OUR PERFORMANCE

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

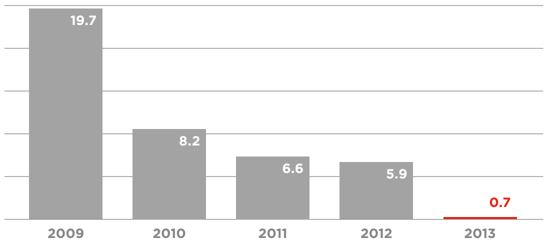
Sales volume growth*

Volume growth of edible collagen casings (%)



Revenue growth*

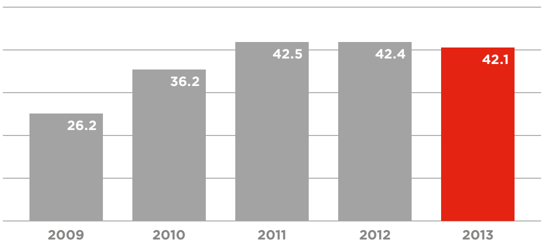
Value growth (%)



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.

Operating profit*

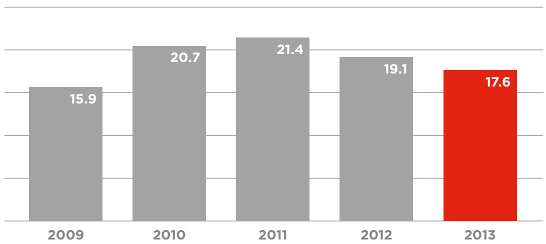
Operating profit before exceptional items (£m)



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.

Return on capital employed*

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

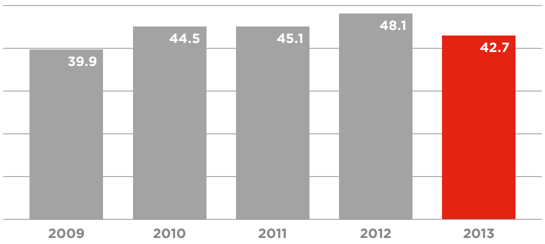


Return on capital employed (ROCE) represents operating profit before exceptional items as a percentage of average capital employed. Capital employed is defined as fixed assets plus current assets less current liabilities, excluding all balances related to interest-bearing assets and liabilities, any derivative financial instruments, any deferred tax balances, and any pension assets or liabilities. It is a key indicator of how the company is making use of its available capital, and is a good reflection of the performance of the company in terms of both earnings and cash flow.

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

Operating cash flow*

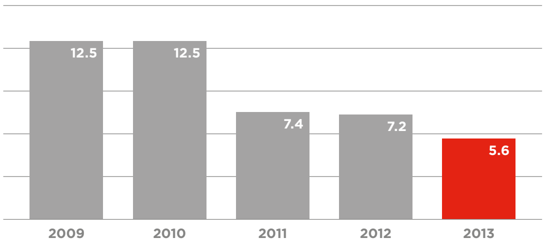
Cash generated from operations (£m)



Operating cash flow 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.

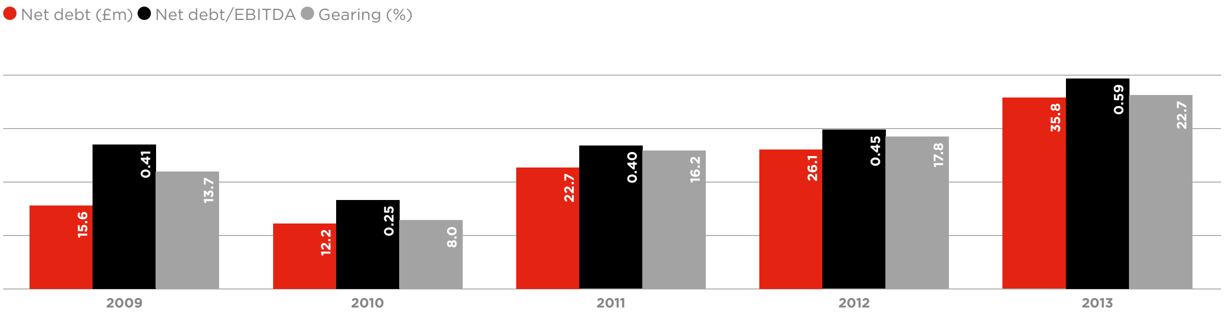
Health and safety

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



Health and safety matters are discussed further on pages 32 and 33 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.

Debt*



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

The principal measure used to monitor the strength of the group's balance sheet is the gearing ratio, which expresses the group's net debt as a percentage of its net assets.

CHAIRMAN'S STATEMENT

Steve Hannam

DURING THE YEAR, WE MADE MAJOR NEW INVESTMENT DECISIONS WHICH WILL FURTHER DEVELOP OUR GLOBAL MANUFACTURING FOOTPRINT.

Devro made considerable progress in 2013, despite a more difficult trading background, as we completed the upgrade at our world-class facility in the Czech Republic and established the programme of investment at our plant in the USA. In addition, we have now announced plans to invest £50 million to build a manufacturing plant in China. These key investments will ensure Devro is in a strong position to benefit from the significant opportunities in the growing global casings market, and the increase in the dividend reflects the Board's confidence in the group's strategy and its future prospects.

Financial highlights

Profits were maintained despite, as previously announced, a number of challenges during the first half of 2013, including slow demand in some of our key markets, manufacturing issues in the USA and a sharp rise in raw material costs. However, in the last six months of the year Devro achieved an uplift in earnings. Although sales were slightly behind prior year levels, we benefitted from price increases introduced earlier in the year and also from some stability returning to the market for hides, our main raw material. Production volumes increased by a further 11% compared to 2012, generating improved profitability whilst enabling us to build inventories ahead of the current year.

Earnings per share for the year has shown growth over the past six years, with an increased proportion of group profits now coming from the Czech Republic, where we benefit from a relatively low tax rate.

Strategic outlook

During the year, we concluded a review of our five-year plan and made major new investment decisions which will further develop our global manufacturing footprint. This will better position the business for continued growth for the future.

Over the past three years Devro has invested £70 million in upgrading technology and creating 20% additional capacity. We are now moving into a new phase of targeted strategic investments to reduce our manufacturing cost per unit and to extend our reach into emerging markets.

In November 2013 we announced a £40 million investment at our plant in South Carolina, USA, in order to reduce manufacturing costs from 2016, with full benefits of c. £8 million per annum from 2017. The project is progressing well with the relevant permits now approved, contracts for the civil work signed and plans to break ground this month.

On 4 March 2014 we announced that we have approved plans to establish a manufacturing plant in China, which is now the world's biggest collagen casing market. We will build a new facility in Nantong, near Shanghai, with work planned to start in the first half of 2014. This investment of £50 million over two years will see commissioning during 2015, with space to expand in line with future market demand.

These two projects represent an unprecedented level of investment for Devro and demonstrate both the Board's confidence in the opportunities before us, and the company's ability to address them.

Dividend

The Board is proposing a final dividend of 6.10p per share (2012: 5.85p) bringing the total for the year to 8.8p per share (2012: 8.5p), an increase of 4%. Subject to shareholder approval at the Annual General Meeting (AGM) in April, the dividend will be paid on 16 May 2014 to those on the register on 28 March 2014.

Employees

Our employees are key to Devro's success and, on behalf of the whole Board, I pay tribute to them and thank them for their efforts across our global business. The challenges of 2013, and the changes across the group, required considerable commitment from our people.

I believe that Devro has a highly skilled, motivated workforce ambitious for future success. To ensure we use this talent pool and have the right resources in place as the company grows, we are continuing our programme of employee development.

Board

In July 2013, we strengthened the Board further with the appointment of Gerard Hoetmer as a Non-Executive Director. A Dutch national, Gerard brings a wealth of experience of the international food sector.

Our Senior Independent Director, Paul Neep, was appointed in 2005 and therefore has served as a director for nine years. The UK Corporate Governance Code requires that Paul's independence is confirmed by the rest of the Board, if he is to continue as an Independent Director. This they have done and we are delighted that Paul will continue his valuable service to the group.

At the AGM in April I shall have completed five years as Chairman of Devro plc. During this period we have seen a recovery in the business, an upgrading and expansion of manufacturing, the launch of new products, the strengthening of the Board and a further increase in the professionalism of the company. Our recently completed five-year plan has established the foundations on which we will build an exciting future for Devro. Personal circumstances dictate that this is an appropriate time for me to stand down as Chairman and I shall relinquish the post as soon as a suitable replacement can be appointed. Paul Neep, as Senior Independent Director, is leading the search process and an announcement will be made once the new Chairman has been appointed.

Outlook

We expect growth in total sales in 2014, particularly in Germany, China, Japan and parts of Latin America. The outlook for other important markets, such as the UK, Russia, USA and Australasia, is less clear. In order to limit any further increase in the inventory levels that had been increased during 2013 in anticipation of stronger demand in 2014, Devro will lower production volumes during the year to balance short-term supply and demand.

Currency is also likely to have a negative impact on results in 2014 with the strengthening of sterling and other currency changes. If the 2013 operating profits had been translated at current exchange rates they would have been approximately £5 million lower.

Looking further forward the Board remains confident in the opportunity for supplying a dynamic and growing global market for edible casings. Our major capital investment programme involves installing high-technology equipment in the USA to reduce manufacturing costs and building new capacity in China to supply a significant part of the global market. These projects will progress our plan to transform Devro's global manufacturing footprint and, together with our investment in research & development and people, will position us well to compete in the market and create long-term growth.

S Hannam

Steve Hannam
Chairman

CHIEF EXECUTIVE'S REVIEW

Peter Page

2013 WAS A YEAR OF CONSIDERABLE ACHIEVEMENTS, WITH COMPLETION OF THE MAJOR INVESTMENT PROJECT IN THE CZECH REPUBLIC, THE INITIATION OF A SIGNIFICANT REDEVELOPMENT IN THE USA AND COMPREHENSIVE PREPARATION FOR ESTABLISHING A LOCAL MANUFACTURING PLANT TO SERVICE THE RAPIDLY GROWING CHINESE MARKET.

Profits were maintained, despite raw material cost increases and challenging conditions in some markets. As a result of these activities, Devro is building a sound base for growth in the future.

Market overview and Devro's strategy

During 2013, the global market for edible collagen casings grew by 7%, and the total value of the market worldwide is now estimated to be approximately £650 million.

In emerging markets, the total volume of casings sold increased by 10%, most markedly in China, South East Asia and Latin America. This occurred as the result of a growing urban population, with higher disposable incomes, consuming greater quantities of protein per person.

In many developed markets, the demand for edible collagen casings was flat or declining for a variety of reasons. In the USA, total volumes of sausage sold increased by 2%. In the UK, although total sales value increased, actual volumes of sausage sold declined 5% over the two year period 2012-2013, attributable to the rise of pork prices to all-time high levels. Demand in Western Europe was subdued, as a result of the general economic climate adversely affecting consumer spending patterns, particularly during the first half of the year. The market in Japan improved in 2013, but Australia saw a decline in volumes of processed sausage consumed and therefore a lower demand for collagen casings.

Devro's strategy is to ensure that the business is well-positioned to supply growing demand in emerging markets, to continue to displace gut with more efficient casings in developed markets, and to lead the category worldwide with product innovations such as Select casings and co-extrusion gel. This strategy will ensure that Devro continues to grow long-term sales.

Devro sales in 2013

Overall sales volumes were marginally down, with emerging markets growing 6%, offset by developed markets, which reduced by 5%.

Emerging markets now account for 41% of total sales, up from 38% in 2012. Volumes increased most significantly in Latin America (volume +21%; local currency value +22%), South East Asia (volume +16%; local currency value +25%) and China, which grew rapidly from a low base. In all these markets, strong support for local distributors and greater availability of product in the second half of the year enabled further growth.

Sales volumes in Eastern Europe, Russia and Ukraine fell by 9% reflecting subdued demand compared to previous years, higher levels of competitor activity and, in some markets, a reaction to Devro's price increases at the start of the year.

Developed markets now account for 59% of total sales. Whilst overall sales were 5% down on 2012, there was an impressive increase in sales in Germany, with both volume and revenue in local currency up 30%. This growth came from activities to promote Select casing for wiener sausage applications, a new Bratwurst casing, and growing use of the standard FINE product range. Germany is a key market for developing Devro's sales.

Sales volumes in Japan increased 6% as the demand for Select and Devro's regular casings remained strong. Availability of product increased with the completion of capacity upgrade projects at Devro's plant in Australia at the end of 2012.

UK and Australia/New Zealand sales volumes both reduced, by 6% and 9% respectively, in part reflecting lower market demand, but also due to significant cost pressures on customers. Sales volumes in USA and Canada were down 6%, where manufacturing challenges restricted capacity available for sale.

One example of developing innovative products is our co-extrusion gel business which expanded during the year, principally attributable to a key customer bringing on additional capacity in the Americas as they transfer from cellulose applications to collagen co-extrusion.

Overall, in constant currency, the price per unit of edible collagen sold increased by 2%. In some markets prices were raised to recover input costs, in others they were held constant in order to retain volumes, particularly in instances such as Japan where exchange rates changed significantly. The overall average price was also affected by changes in market, product and customer mix.

Manufacturing in 2013

The highlight of 2013 was the completion, on budget and on time, of a three-year, £25 million investment project at our plant in Jilemnice in the Czech Republic. This added 9% to the group's total manufacturing capacity and will lead to further unit cost reductions at this site, which has now benefitted from over £100 million of capital expenditure in the past decade.

The factory in Bathurst, Australia manufactured higher volumes than the prior year following a partial upgrade during late 2012, enabling increased supplies to key markets in Asia.

Both factories in Glasgow, Scotland ran well, benefitting from recent capital investment projects and an ongoing programme of continuous improvement which is being implemented at all plants.

The plant at Sandy Run, South Carolina, USA, which is 35 years old and uses a markedly different technology to our other factories, tends to experience more operational difficulties. This was particularly evident in the first half of the year and total group operating profit for the year was adversely impacted by an estimated £2 million. The £40 million investment project is based on the well-proven and dependable manufacturing technology used at our plants in Europe, and is expected to give cost savings of c.£8 million per annum, which will start to come through from mid 2016.

CHIEF EXECUTIVE'S REVIEW (continued)

Since the announcement in November 2013, this project has progressed well. Permits have been approved, contracts for the civil work have been signed and we expect to break ground this month. A global project team, including colleagues from the USA, UK and Czech Republic, has been established to harness the expertise and knowledge that have been built over many years of successful investment projects.

As in 2012, the biggest challenge to manufacturing operations was the rise in hide costs, with a total increase of £4 million during the year. This is due to an increase in the overall global demand for food grade collagen from trusted sources of cattle hides.

Group activities

Safety is a priority and the overall group performance reflected further progress in 2013, with the number of days lost due to injury at work being the lowest recorded since 2000. Devro Scotland had a particularly commendable year where, with over 500 employees, there were no lost working day injuries nor working days lost due to an incident in previous years, and the rate of recordable incidents per million hours worked was the lowest ever seen at Devro.

The successful management of a five-year product development pipeline is the key to supporting future growth of the group. A global Research & Development team has been brought together from existing resources during 2013 to ensure that the whole group benefits from product innovations and that all development resources are used to best effect.

One new product to emerge from this is Fresh Select, which will be introduced to customers in the UK in 2014. Fresh Select is based on our successful Select technology, achieving high levels of clarity and translucency in its appearance, attributes that

DEVELOPED MARKETS INVESTMENT IN THE USA

Background

The USA & Canada market for all sausage casings is estimated to be in excess of £80 million in value. Edible collagen casings are used for three types of sausage: processed, snack stick and dinner sausage. Skinless hot dogs manufactured using cellulose remain a very large part of the category. Branded products lead the market.

Currently Devro has a 35% share of the market, employing over 400 people and supplying 398 customers in North America, including the major brands.

Devro's plant at Sandy Run, South Carolina is now 35 years old and uses a markedly different technology to our other factories. As a result it tends to experience more operational difficulties, which was particularly evident in the first half of 2013.

customers normally associate with gut. These are combined with high elasticity and wall strength, whilst having a thin wall which gives a light bite.

Following a programme launched in 2012 to establish a single global Devro marque, the benefits of the strong brand were evident at the triennial IFFA show, the meat industry's biggest international gathering, which was held in 2013 at Frankfurt Messe.

People

The commitment and dedication of over 2,000 colleagues at Devro is critical to the group's success. Eleven people completed the Open University Business School Certificate in Management on a course specifically tailored to Devro's needs. The Devro Academy consolidated the group's proprietary knowledge in a programme facilitated by Strathclyde University. Five people completed their apprenticeships in 2013. Worldwide 20 people are on accredited apprenticeship and technical skills development programmes.

At the end of 2013, Graeme Walford joined the Executive Board, principally to take responsibility for the group's major capital investment projects. He brings over 30 years' experience of engineering and project management in global businesses.

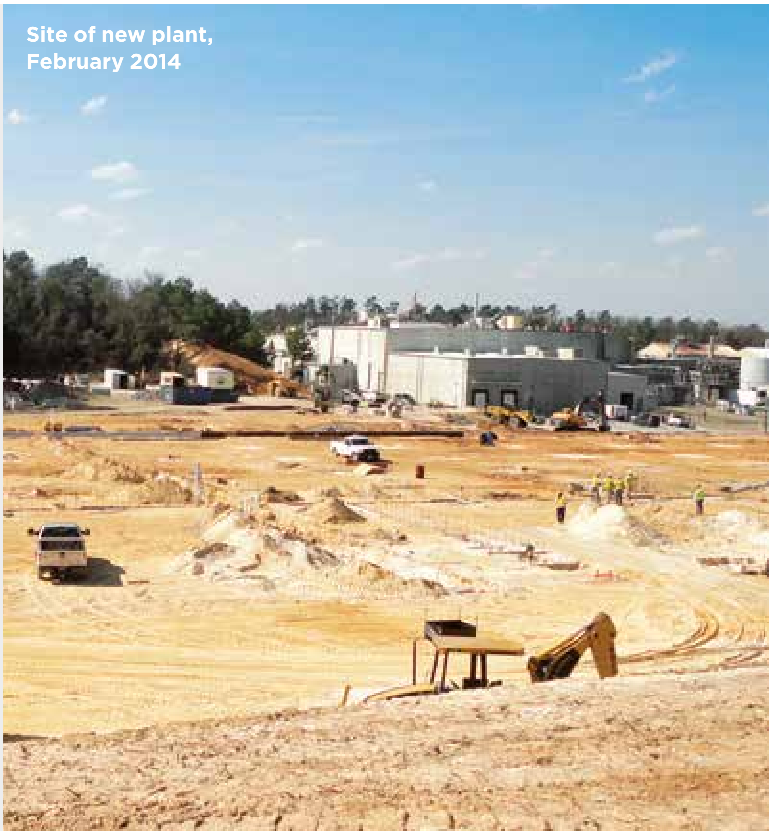
During 2012 and 2013 a strong team covering sales, finance and human resources has been recruited in China, to lead the development of Devro's presence there.

Peter Page
Chief Executive

The investment opportunity

In 2014 a new manufacturing hall will be constructed adjacent to the existing facility and new lines will be commissioned during 2015, based on the well-proven and dependable manufacturing technology used at our plants in Europe. This £40 million investment will improve manufacturing efficiency and is expected to give cost savings of c.£8 million per annum, which will start to come through from mid 2016.

Over the next five years, Devro plans to increase its share of the North American market through a combination of differentiated products and strong customer partnerships. There will be scope to expand the new plant if justified by market demand.



Site of new plant, February 2014

CHIEF EXECUTIVE'S REVIEW
(continued)

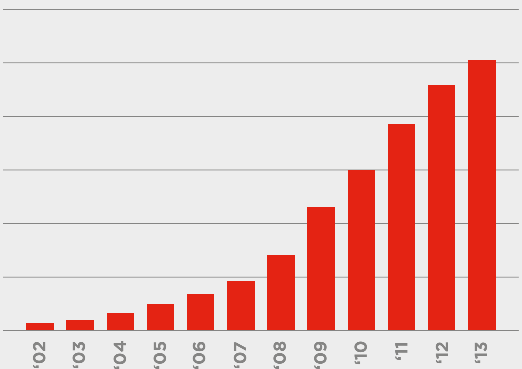
EMERGING MARKETS
INVESTMENT IN CHINA

Background

China's economy has grown strongly over the past decade, with increasing demand for many types of protein: beef, dairy, poultry, fish and pork. As urbanisation has progressed and disposable incomes have increased, the per capita consumption of sausage has grown significantly and it is estimated that half of the global demand for edible collagen casings will be in China from 2015. This growth in protein consumption has led to the development of many major food manufacturing businesses in China.

Devro has been active in China since the early 1990s, selling imported product through a Hong Kong sales office. In 2011 a Devro sales company was established in Beijing, with a local team that has developed strong customer relationships and increased sales in China. In December 2013, Devro registered a new manufacturing company in China and land has now been secured in an industrial development park, in Nantong, near Shanghai, for the construction of a new collagen casings plant.

Edible collagen demand in China
Growth of more than 40% pa on average since 2002



The investment opportunity

The collagen casings market in China is estimated to have a value in excess of £200 million and has grown by more than 40% per annum on average since 2002. Following substantial market research and ongoing discussions with current and potential customers, it is clear that there are attractive opportunities for Devro to gain a greater share of this growth. We expect to achieve this through sales of differentiated casings to food manufacturers, as the various market categories, including premium products, are developed.

We now have plans to construct a manufacturing plant in China in 2014 and expect lines to be commissioned during 2015 for production in 2016. The priorities will be to ensure that local raw materials can be successfully converted into quality casings, and to establish a local management team capable of expanding the business in the future.

This initial investment provides the necessary infrastructure for the future and is expected to provide an internal rate of return of 13% as the business attains sufficient scale to operate efficiently, and the ability to supply larger volumes enables us to develop valuable customer partnerships. We would expect substantial growth in earnings from this market in the long term.

Additional debt funding will be sought in the first half of 2014 to fund this investment in China.

FINANCIAL REVIEW
Simon Webb

WHILE OVERALL VOLUMES FOR EDIBLE COLLAGEN CASING WERE MARGINALLY BEHIND 2012, MANY OF THE EMERGING MARKETS WERE STRONG, PARTICULARLY LATIN AMERICA, SOUTH EAST ASIA AND CHINA.

Revenue

	2013 £'m	2012 £'m	Growth
Revenue	**242.7**	241.1	+0.7%

Developed markets were weaker, partly due to the challenging market conditions, with the notable exceptions of Japan and Germany which continued to progress.

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

	2013 vs 2012	2012 vs 2011	2011 vs 2010
Volume	**-0.8%**	+5.3%	+3.0%
Price/mix	**+2.1%**	+2.8%	+2.2%
Exchange	**-0.6%**	-2.2%	+1.4%
Total	**+0.7%**	**+5.9%**	**+6.6%**

Price rises were implemented in 2013 and successfully recovered the significant increases in input costs, although this may have held back volume growth. These price increases were particularly focused on low margin business.

Exchange rate movements were adverse to last year following the weakening of the yen and Australian dollar against sterling. This was largely hedged in 2013, the benefit of which is reflected in other operating income.

FINANCIAL REVIEW
(continued)

Operating profit

	2013 £'m	Restated 2012 £'m	Growth
Operating profit before exceptional items	**42.1**	42.4	-0.7%

The movement in operating profit before exceptional items between 2012 and 2013 can be analysed as follows:

	£'m
Operating profit 2012 (restated)	42.4
Volumes	-0.5
Price/mix	+5.5
Manufacturing efficiencies	+4.7
US manufacturing issues	-2.0
Foreign exchange	+0.7
Input costs	-4.0
Depreciation	-2.0
Other costs	-2.7
Operating profit before exceptional items 2013	**42.1**

Price/mix
The price rises implemented in 2013 have more than recovered the input cost increases this year, which has helped to recover part of the shortfall in 2012. This was partially offset by the adverse mix effect as a result of a higher proportion of the group's sales volumes now being sold into emerging markets such as Latin America and China.

Manufacturing efficiencies
Devro has expanded output by 11% during the year following the completion of the upgrade programme in the Czech Republic, as well as the full year effect of investments in Scotland and Australia in 2012.

The manufacturing efficiencies reflect the lower unit cost of production as the group's fixed overheads are absorbed over higher production volumes. Given the broadly flat sales volume growth, the increased production volumes resulted in higher inventory levels at the end of the year.

Within the USA, there continue to be some challenges in manufacturing, which negatively impacted the results but will be addressed by the new US investment programme already initiated.

Foreign exchange
Devro has operations around the world in multiple currencies. The net foreign exchange gain in 2013 can be analysed as follows:

	£'m
Exchange rate movements	(3.3)
Hedging gains	4.0
Net foreign exchange gain	**0.7**

Sterling has generally strengthened over the course of the year which has resulted in exchange losses of £3.3 million. This has been mitigated in 2013 through gains on forward contracts used to hedge this exposure, but will adversely impact 2014.

Input and other costs
Input costs rose by £4.0 million reflecting the second year of significant increases in hide and energy costs. However these have been more than recovered through higher selling prices.

Further depreciation of £2.0 million was incurred following the capital investment programme undertaken in the last three years, including the capacity expansion in the Czech Republic which was completed in the second half of 2013. Other costs increased by £2.7 million mainly due to wage and salary inflation.

Operating margin

	2013	Restated 2012
Operating margin before exceptional items	**17.3%**	17.6%

Operating margins before exceptional items showed a small decline on last year which reflects the fact that overall sales volumes remained relatively flat at a time when Devro continues to invest in the business.

Exceptional items

Exceptional items amounted to £1.3 million and reflect the incremental costs of establishing new manufacturing plants in USA and China. Given the significance of these projects, these costs have been shown separately to avoid distorting the underlying results and include accelerated depreciation, project management, product development, reorganisation costs, legal and professional fees. The projects are part of a two year development plan of the group's global manufacturing footprint and further exceptional costs will be incurred in 2014 and 2015.

Capital investment

	2013 £'m	2012 £'m
Capital investment	**35.1**	33.1

The largest single project during the year was the completion of the upgrade of one of the manufacturing halls in the Czech Republic which helped deliver the additional capacity. This was completed on time and on budget.

Capital expenditure in 2014 and 2015 will be significant, including £40 million related to the USA investment and £50 million in respect of China. This is in addition to approximately £15 million of ongoing replacement and improvement capital expenditure per year.

Working capital and cash flow

	2013		2012	
	£'m	**Number of days**	£'m	Number of days
Inventories	**38**	**65**	28	41
Trade and other receivables	**34**	**49**	36	53
Trade and other payables	**(29)**	**23**	(32)	26
Working capital	**43**		32	

Inventory levels have grown significantly during the year and reflect the 11% increase in production levels compared to the relatively flat sales volumes.

At the start of 2013, inventory levels were particularly low for certain regions and this has now been addressed. The higher stock will allow the business to better service its customers and was increased in anticipation of further sales growth in 2014, particularly in emerging markets such as China.

Cash outflow from exceptional items amounted to £1.1 million for 2013 (2012: £nil).

Financing and net debt

Other financial measures (all shown before exceptional items) are as follows:

	2013	Restated 2012
Net debt	**£35.8m**	£26.1m
Net debt/EBITDA	**0.6**	0.4
Gearing	**22.7%**	17.8%
Return on capital employed (ROCE)	**17.6%**	19.1%

Net debt increased during the year principally reflecting the capital investments made, but also funding the short term increase in inventory levels.

The bank revolving facility was increased by £10 million in June 2013 to £61 million and levels of debt were well within these limits throughout the year.

In order to fund the planned investment in China, additional debt funding will be sought in the first half of 2014. The intention is for the business to maintain a prudent level of gearing and any additional debt assumed is not expected to impact future dividends.

Return on capital employed (ROCE) reduced from 19.1% to 17.6% which reflects the significant capital investments made in the business, the full benefits of which have yet to be realised.

FINANCIAL REVIEW
(continued)

Interest

	2013 £'m	Restated 2012 £'m	Growth
Net interest cost	**1.1**	1.0	+10.0%
Net finance cost on pensions	**2.2**	2.1	+4.7%
Total net interest cost	**3.3**	**3.1**	**+6.5%**

The net finance cost on pensions has been calculated for both 2013 and 2012 under the new pensions accounting rules of IAS 19R. The small increase over 2012 reflects the increase in the opening net pension liability.

Change in pensions accounting

The restatement under the new pensions accounting rules (IAS 19R) involved the reclassification of administration costs of the defined benefit pension schemes from finance expense to operating profit and a change in the calculation of the interest income on plan assets, which is now calculated using the same rate used to calculate the interest expense on the pension liability, being the discount rate. Previously interest income on plan assets was calculated using a rate based on the expected returns on the various asset types held within the investment portfolio. Details of the restatement are disclosed in Note 2 to the financial statements.

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:

	2013 £'m	2012 £'m
Fair value of scheme assets	**203.0**	203.1
Present value of scheme liabilities	**(249.1)**	(262.4)
Net pension liabilities	**(46.1)**	**(59.3)**

The decrease in the net pension liability reflects the increase in discount rates. The group has also made additional contributions of £4.6 million during the year to fund the deficit.

Earnings per share

	2013	Restated 2012	Growth
Basic earnings per share	**20.1p**	19.4p	+3.6%
Basic earnings per share before exceptional items	**20.8p**	19.4p	+7.2%

We have presented an adjusted earnings per share (EPS) to exclude exceptional items to provide a better indication of our underlying performance. The growth in EPS reflects the lower effective tax rate during the year.

Tax

	2013 £'m	Restated 2012 £'m
Tax charge in income statement	3.9	7.3

Our effective tax rate reduced from 18.5% in 2012 to 10.5% during 2013. The group operates around the world and earns profits which are subject to tax at varying rates. The overall rate has reduced partly as a result of an increasing proportion of our profits being generated in the Czech Republic where there is a benefit from an investment incentive scheme that is due to continue until 2016/2017, whilst the proportion of profits earned in locations with higher tax rates has declined. Additionally the group benefitted from certain one-off tax credits during 2013 that contributed 5% to the overall reduction in the effective tax rate.

Dividend

	2013	2012	Growth
Interim per share	**2.70p**	2.65p	+1.9%
Final per share	**6.10p**	5.85p	+4.3%
Total per share	**8.80p**	**8.50p**	**+3.5%**

The Board is proposing a final dividend of 6.1 pence per share, reflecting its confidence in the group's strategy and future prospects.

Risks and uncertainties

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

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

Most of these risks were detailed in the 2012 Annual Report.

Going concern

As at 31 December 2013 the group was operating comfortably within the £61 million revolving bank facilities negotiated in June 2013 and due to expire in September 2016.

In order to fund the planned investment in China, additional debt funding will be sought in the first half of 2014.

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

The Board has established a committee specifically to address the risks to which the business is exposed. This committee, which consists of the executive management of the group, met four times in 2013. The responsibilities of the committee are to identify the most significant risks facing the business, and to develop policies and actions to mitigate such risks.

Particular attention is paid to those risks which may have an impact on the achievement of group strategy. Senior managers throughout the group are consulted to identify likely risks.

Details of the most significant risks faced by the group are set out on pages 28 to 31. This year we indicate where the Board has "appetite" for risk. At its simplest, risk appetite can be defined as the amount of risk on a broad level, that a company is prepared to take on in the pursuit of value.

RISK	LEVEL OF APPETITE	IMPACT	MITIGATION	TREND
Loss of market share/ profit margins due to increased competitive pressures The group operates in competitive markets throughout the world.	High	A major change in the production capacities, pricing policies or behaviour of our competitors, or consolidation between either competitors or major customers, could have a significant adverse effect on sales revenues and profitability.	In addition to substantial capital investment, the group invests over £7 million in research and development activities each year to extend and differentiate the product range and improve the quality of our products. We also expand the total collagen casings market by developing products which convert gut casing applications to collagen. Devro provides a high level of technical support to key customers.	Increased
Delays or cost overruns on major projects The group is embarking on two major projects in South Carolina, USA and Nantong, China. Unexpected delays or cost overruns would reduce returns.	High	The project costs are estimated at £40 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. A new Technical & Operations Director, with previous experience of building a factory in China, was recruited in 2013. Experienced external engineers and contractors have been engaged.	New

RISK	LEVEL OF APPETITE	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.	Low	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.	Low	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
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.	Medium	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 fifteen months using forward contracts. The group does not hedge the risk arising from changes in the rates at which oversees earnings are translated into sterling.	Unchanged
People Shortage of people with relevant technical expertise.	Medium	There is considerable competition for highly trained staff in certain areas. Devro's strategy of significant investment in the company's manufacturing base requires the recruitment and retention of highly-skilled technical managers and employees.	Following the recruitment of the Group Human Resources Director in 2012, a number of internal programmes have been introduced to train and develop key employees. In addition, recruitment initiatives are underway in order to ensure that major capital projects will be managed effectively.	Unchanged

PRINCIPAL RISKS AND UNCERTAINTIES
(continued)

RISK	LEVEL OF APPETITE	IMPACT	MITIGATION	TREND
Customer credit risks The group is exposed to financial risks arising from its trading with customers and distributors in a large number of countries where prevailing payment terms are diverse. This includes not only customer risk, but also the risk of failures in the banking system and may increase in times of economic uncertainty.	Medium	Customer credit default may adversely affect the group's business, results or financial condition, particularly during periods of difficult global economic conditions.	The group has established internal procedures and controls to mitigate the risk of non-payment wherever we do business. For example, we require either payment in advance or confirmed letters of credit before releasing product to customers or distributors in parts of the world considered to be at risk.	Unchanged
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.	Medium	Changes to food safety regulations could result in restrictions on the movement of the group's products, or its raw materials, between territories, or necessitate changes to the production processes at one or more of the group's manufacturing facilities.	The Global Quality and Regulatory Affairs Director actively monitors planned and actual changes to regulations in all relevant jurisdictions in order to minimise disruption to its business. The group is a founder member of the Collagen Casings Trade Association, which represents the industry and promotes its excellent record in regulatory and health issues. Supplier approval and traceability are under constant review.	Increased
Increases in energy costs Energy represents a major element of the group's manufacturing costs, but may be subject to significant price volatility.	Medium	There is a risk that significant additional costs may be incurred in future as a result of increased energy prices. Energy costs currently represent approximately 9% of the group's total operating costs.	There is a strong focus on measures aimed at reducing usage and cost per unit of output. An example is the investment in the co-generation plant at our Australian factory. In addition, costs are actively managed by entering into fixed-price contracts where these are considered appropriate. As the group replaces old fixed assets, energy consumption tends to reduce, as new machines are generally more energy efficient.	Unchanged

RISK	LEVEL OF APPETITE	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.	Low	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.	Unchanged
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.	High	If there were to be a significant conversion to co-extrusion, there could be an adverse effect on the sales of casings and profits of the group's operations.	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 A referendum is planned on Scottish Independence in 2014. One 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. Either could result in significant constitutional change.	Low	The Scottish referendum could result in an independent Scotland outside of the European Union. The proposed 2017 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.	New

CORPORATE SOCIAL RESPONSIBILITY REPORT

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

Being a responsible business

As a global manufacturing business, we inevitably have an impact on the wider world. We take our responsibilities to society seriously and make sure they are reflected in all our group policies and statements. Health and Safety, the Environment, Food Safety, Quality and People – policies on all these topics are reviewed annually and the latest versions were fully updated and endorsed by the Board at the end of 2013. They are available to read on our website (www.devro.com).

Safety

We believe that all accidents are preventable. Health and safety are fundamental to our operations as a manufacturing business. Our aim is to do everything safely and we have a goal of zero injuries. Safety is a regular agenda item at Board meetings, and the Board Health and Safety Committee met 7 times in 2013 to review progress and hear from Regional Safety Committees.

We focus on three main aspects of safety:

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

We ensure process safety by means of regular risk assessments in existing operations and whenever we make any changes to our processes. In 2013 we instigated a Management of Change Global Standard to be followed by all of our sites.

Since 2010, local safety procedures have been guided by the Devro Golden Rules for Safety, which cover 17 common practices and procedures of potential risk. During 2013 we began auditing each plant to ensure compliance with the Golden Rules. This will be completed in 2014.

During 2012 we introduced the 'Safety Family', a description of the behaviours which support and enable safe working. In 2013 the Safety Survey was issued to all colleagues to measure support for our Safety Family principles.

Our aim is to do everything safely and we have a goal of zero injuries.

How we did in 2013

Safety performance at Devro continues to improve. We measure our performance by looking at the number of recordable injuries, those which need more attention than basic first aid and require the attention of a health professional. There was a marked improvement in our recordable injury rate in 2013.

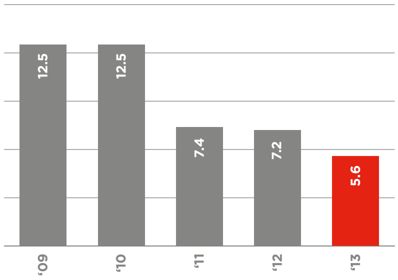
The reported rate of lost working day injuries (LWDIs) increased in the past year, but the severity of incidents continues to decline. Following every LWDI a full report is drafted with all remedial actions put in place as soon as is practical, with the circumstances shared at all sites to ensure the chance of recurrence elsewhere in the group is minimised. The Chief Executive meets personally with every colleague who has been involved in a LWDI.

The number of working days lost due to injury in 2013 was at the lowest level since 2000, when Devro started keeping records of safety statistics.

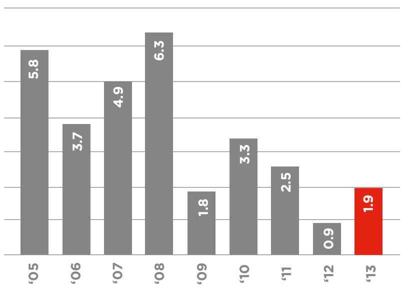
Whilst there has been considerable progress in safety over the past 9 years, there is still scope for further improvement. Managers and all colleagues remain committed to making Devro a safe place to work.

The rate of injuries requiring treatment by a health professional (recordable injuries) reduced in 2013:

Recordable injury rate
(injuries per million hours worked)

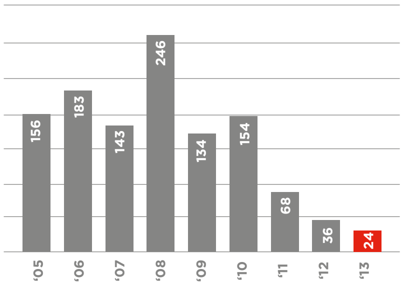


Lost working day injury rate
(injuries per million hours worked)



The number of working days lost during the year declined again:

Number of lost working days per million hours worked



CORPORATE SOCIAL RESPONSIBILITY REPORT
(continued)

Environment

Protecting the environment is one of the cornerstones of responsible and successful business practice. We take pride in what we do and we are committed to complying with the regulations, permits and consent limits that apply to our various activities, just as we are committed to avoiding pollution and reducing our environmental impact in the countries and communities in which we operate.

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

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

We monitor three measures at group level:

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

Our major concern is climate change and the twin issues of fuel consumption and electricity-related CO_2 emissions.

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

Protecting the environment is one of the cornerstones of responsible and successful business practice.

Targets

Our 2013 performance compared with our 2015 targets are shown below:

	2013 performance	2015 target
Carbon dioxide	65	76
Water use	80	78
Solid waste	78	78

(per million metres equivalent casing, 2005 = 100)

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 while the other is currently evaluating the accreditation process.

Site specific issues

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

Discharges to water

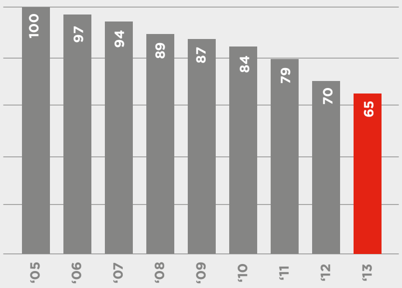
Of the four main manufacturing locations, only two discharge to a waterway. Our Czech factory in Jilemnice sends liquid effluent to the Jizerka River, and our US factory in South Carolina discharges to the Congaree River.

The effluent from both has to meet a range of limits; and across both sites there were only three minor incidents where consented levels were exceeded but all were quickly remedied.

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

Carbon dioxide

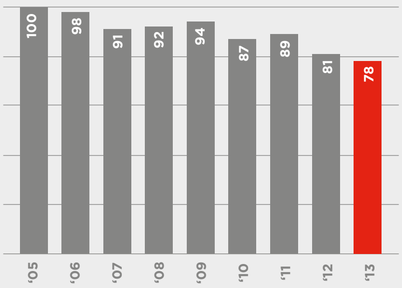
During 2013 our absolute emissions of carbon dioxide reduced by 7% due to the continued shift to burning gas in the United States, as the wood fired boilers were decommissioned. The tonnes CO_2/million metres equivalent casing sold is now well below our 2015 target.



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

Solid waste to landfill or incineration

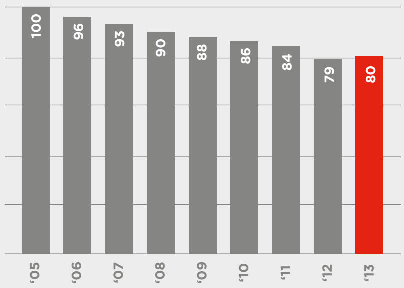
Our performance measure has now reached our 2015 target following reductions in waste produced.



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

Water

Overall water use is slightly higher than 2012, although still 20% below the 2005 level used per million metres equivalent sold.



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

CORPORATE SOCIAL RESPONSIBILITY REPORT (continued)

Discharges to atmosphere

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

In South Carolina these relate to the waste treatment operation for ammonia and volatile organic carbon; and in the Czech Republic they relate to carbon monoxide and nitrogen oxides.

For both sites the consented levels were not exceeded during the year.

Greenhouse gas ("GHG") 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 below 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:

GHG emissions data (tonnes of CO_2e)

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

Scope 1 emissions are direct GHG emissions from sources owned by the group. Scope 2 emissions result from the generation of electricity, heating, and cooling or steam operated off site, but purchased by the group.

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 statements. We do not have responsibility for any emission sources that are not included in our consolidated statements.

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

Notes:

1. 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%.
2. Emissions of methane and nitrous oxide from our US based wood boiler are based on SCDHEC numbers as DEFRA do not provide this information.

People and human rights

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

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 to that of other employees.

We employed 2,269 people, on average, around the world during 2013. As at 31 December 2013 the group employed 2,290 people.

As of 31 December 2013 the gender breakdown was as set out in the table on the next page.

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

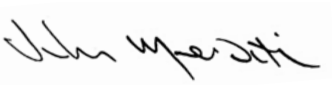
We run our business responsibly and ensure that all our employees, customers, suppliers and other stakeholders are treated fairly and with respect.

roles elsewhere. As at 31 December 2013 we were training 20 apprentices across the world. During the course of the year 5 apprenticeships were completed. As at 31 December 2013, 21 people who have successfully completed apprenticeships with us were still employed by the group.

The group has supported 29 of its employees through a programme with the Open University Business School. In 2013, 11 employees achieved a Professional Certificate in Management through this programme.

Devro does not have a specific human rights policy. However, the principles underlying a number of our key policies, ranging from business conduct to health and safety, reflect our commitment to 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.

The Strategic Report comprising pages 1 to 37 inclusive, was approved by the Board of Directors of the Company on 18 March 2014.



John Meredith
Company Secretary
18 March 2014

Employees – Gender breakdown

	Male	Female	Total
Board of Directors	6 86%	1 14%	**7**
Executive Board (excluding directors)	6 86%	1 14%	**7**
Other senior managers	36 68%	17 32%	**53**
Other employees	1,459 66%	764 34%	**2,223**
Total	**1,507** **66%**	**783** **34%**	**2,290**

DIRECTORS AND SENIOR MANAGEMENT

Board of Directors

	Steve Hannam Chairman	Peter Page Chief Executive	Simon Webb Group Finance Director
			
Date of appointment	Steve was appointed Chairman of Devro in May 2009.	Peter joined Devro as Chief Executive in June 2007.	Simon joined Devro at the start of 2011.
Committee chairmanship	Chairman of the Nomination Committee.	Chairman of the Non-Executive Directors' Remuneration Committee.	
Expertise and key external appointments	Until 2000, Steve was Chief Executive of the global speciality chemical company BTP plc. Since that time Steve has held a number of Non-Executive Director or Chairman positions with both public and private companies, mainly in the food and chemical sectors. These have included Clariant AG, ABF plc, Aviagen International Inc. and AZ Electronic Materials Ltd. He is currently Senior Independent Director at Low & Bonar plc and McBride plc.	Peter has worked for 27 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.	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

Moir Donelson Business Director	Gordon Frame Business Director	Dorothy Lowry Group Human Resources Director
		
Moir joined Devro in January 2013 as Business Director with responsibility for all the group's activities in the Americas region. He brings with him over 20 years' experience in manufacturing, consulting and general management, with several well-known organisations including Motorola, Alcoa, Bain, Olin and most recently Kraft Foods, where he has held both corporate and operational responsibilities.	Gordon joined Devro in 1986. Over the past 27 years, Gordon has worked for Devro in the USA, 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.	Dorothy joined the company in January 2012. She has held a number of senior level HR management positions across a number of sectors and brings with her a thorough understanding of how to develop a strong leadership team through development, succession planning, coaching and resourcing. She is a Member of the Chartered Institute of Personnel and Development.

Gerard Hoetmer
Non-Executive Director

Gerard joined Devro on 30 July 2013.

Gerard is Chief Executive of Corbion, an international bio-based products company. Gerard, a Dutch national, started his career with Unilever in 1980, and 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.

Jane Lodge
Non-Executive Director

Jane joined Devro in March 2012.

Chairman of the Audit Committee.

A Chartered Accountant, Jane was formerly 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. She is a Non-Executive Director of Costain Group PLC and DCC plc.

Paul Neep
Non-Executive Director
Senior Independent Director

Paul joined Devro in February 2005.

Chairman of the Executive Directors' Remuneration Committee.

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

Paul Withers
Non-Executive Director

Paul joined Devro in April 2011.

Chairman of the Health and Safety Committee.

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 Hyder Consulting PLC, Premier Farnell plc and Senior Independent Director at Keller Group plc, and is therefore able to bring experience of current thinking to Devro's Board.

Michal Stocek
Business Director

Michal has worked in product development and, more recently, general management, for 29 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 will in addition assume responsibility for Devro's Research and Development effort.

Graeme Walford
Group Technical & Operations Director

Graeme joined Devro in November 2013. A Chartered Mechanical Engineer, he has held a number of senior positions in the automotive industry, most recently with GKN plc. Over the past 30 years, Graeme has lived and worked in the UK, Germany, Japan, China and the USA for companies including Ford and Rolls Royce.

CORPORATE GOVERNANCE REPORT
An Introduction by Steve Hannam, Chairman

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 2013, AND EXPLAINS THE STEPS WE HAVE TAKEN TO INCREASE EXPERIENCE AND DIVERSITY AT BOARD LEVEL AS WE SEEK TO IMPROVE THE WAY WE RUN THE BUSINESS.

From 1 January 2013 until 31 December 2013, the company applied the 2012 edition of the UK Corporate Governance Code (the "Code").

1. Board composition

Mr S J Hannam, 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 2013. Mr G J Hoetmer joined the Board as a Non-Executive Director on 30 July 2013.

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 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.

Mr G J Hoetmer was appointed to the Board on 30 July 2013. A Dutch national, he started his career with Unilever in 1980, holding a number of positions there until 2005, latterly as Senior Vice President Supply Chain Unilever Foods and he was a member of the Unilever Foods Executive. He is currently Chief Executive of Corbion, a Dutch-listed bio-based company.

All directors will stand for election or re-election at the 2014 AGM. As in previous years, brief biographies of Board members, giving details of their experience and other main commitments, can be found on pages 38 and 39, allowing shareholders to make an informed decision on the question of election or re-election. All the directors have had their performance reviewed recently, as described on page 43 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 has been agreed by the Board.

Directors of the company and its subsidiaries have the benefit of a directors' and officers' liability insurance policy.

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

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

In 2013, the Board broadly divided its time as follows:

Division of Board time

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 44 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 effectively on the Board and committees of the Board.

In addition, the Board arranges for its non-executive directors to visit the group's principal locations to discuss operations with local management. The Board plans to visit at least one of the group's principal locations each year, where they receive a presentation and tour of the facility. During the course of 2013, the Board visited the group's US operations.

The directors can 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 service of the Company Secretary, who is also responsible for ensuring that Board procedures are observed and for advising the Board on Corporate Governance matters.

CORPORATE GOVERNANCE REPORT (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 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 2013, the Board held 8 meetings. Full details of the Board and committee attendance are shown in the table below:

	S J Hannam	P W B Page	G J Hoetmer [1]	J A Lodge	P A J Neep	S C Webb	P N Withers [2]
Board – 8 meetings	8	8	3	8	8	8	8
Audit Committee – 7 meetings	–	–	–	7	7	–	7
Executive Directors' Remuneration Committee – 3 meetings	3	–	1	3	3	–	3
Non-Executive Directors' Remuneration Committee – 3 meetings	–	3	–	–	–	3	–
Nomination Committee – 1 meeting	1	–	–	1	1	–	1
Health and Safety Committee – 7 meetings	5	7	–	–	–	–	7
Risk Committee – 4 meetings	–	4	–	–	–	4	–

1 Mr G J Hoetmer joined the Board on 30 July 2013 and the Audit and Executive Directors' Remuneration Committees on 11 December 2013.
2 Mr P N Withers joined the Nomination Committee on 11 December 2013

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

The Audit, Remuneration, Nomination, Health and Safety and Risk Committees, all appropriately resourced, met a total of 25 times during the year.

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

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

A number of options for developing the strength of the Board were considered, and the Nomination Committee were asked to consider the recruitment of an additional Non-Executive Director. As a result, Mr G J Hoetmer joined the Board in July 2013, after an external search.

In 2013, the Board reverted to its previous evaluation process based on a detailed questionnaire which is distributed to the directors for their consideration. Results are 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 2013 process were discussed by the Board and, where areas of improvement were identified, actions were agreed.

A number of actions resulted including the appointment of Mr P N Withers to the Nomination Committee and the appointment of Mr G J Hoetmer to the Audit Committee and the Executive Directors' Remuneration Committee.

A 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. The notice is sent to shareholders at least twenty working days before the meeting.

3. Directors' remuneration

Details of the level of remuneration received by the directors in 2013 are set out in the Remuneration Report on pages 50 to 63. 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 50 to 63. The provisions of Schedule A to the Code are applied when incentive schemes are discussed.

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

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

Mr P A J Neep chaired the Executive Directors' Remuneration Committee throughout 2013. The other members of the Committee were Mr S J Hannam, Mr P N Withers and Ms J A Lodge for the full year. Mr G J Hoetmer joined on 11 December 2013. This Committee met three times in 2013.

Throughout 2013, 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 three times in 2013.

The Remuneration Report contains a detailed statement of the remuneration of each director for 2013, 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.

CORPORATE GOVERNANCE REPORT
(continued)

4. Report from the Nomination Committee

The members of the Committee during the year were Mr S J Hannam, Ms J A Lodge, and Mr P A J Neep, with Mr P N Withers joining on 11 December 2013. The Company Secretary acts as Secretary to the Committee.

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

During 2013, the Committee met formally on one occasion.

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

In the course of the year under review, one Board appointment was made. Mr G J Hoetmer was identified after a formal process using the Zygos Partnership as independent consultants. His extensive background in the international food industry made him an ideal candidate for the role. The Zygos Partnership also assisted in the Board review process in 2012 as mentioned above.

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 long list put forward should be women. Short lists will also 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 S J Hannam, Mr P W B Page and Dr M H Cooke, the company's Strategic Development Director.

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

The Committee convened seven times in 2013 and on four 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. In October 2013, the Committee members visited the facility at Sandy Run, South Carolina, and conducted a plant tour with members of the local Safety Committee.

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.

Dr M H Cooke retired from the company in December 2013, with the thanks of the Committee for his excellent contribution to the safety effort over the years.

6. 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 37. 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.

7. Internal control and risk

An ongoing process is in place to identify, evaluate and manage the significant risks the group faces, which accords with the Turnbull Guidance. A Risk Committee was formed in 2010, comprising the Executive Directors and other members of the Executive Board, as listed on pages 38 and 39. This Committee meets four times a year and is charged with reviewing risk throughout the group. As part of the process, the Group Risk and Control Manager has responsibility for the application of risk assessment procedures, including an assessment of non-financial risks across the group. Each group operating company prepares a risk assessment for its business. This involves each company preparing a report identifying the relevant risks to both current operations and future strategy, the process for managing and mitigating these risks and the means by which management might be assured that the processes are effective. A similar exercise is also conducted at group level, taking account of any significant risks identified by each of the individual operating companies. The risk assessment reports are collated and considered by the Risk Committee, and then the Audit Committee, before being reviewed and finalised by the Board. The Board also chooses a number of key risks for in-depth review by the Risk Committee in the course of the following year. The system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives. The principal risks and uncertainties identified as part of the group risk assessment process, and how they are managed or mitigated, are summarised on pages 28 to 31.

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

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

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

Operating controls
Financial and operational policies and procedures are set out in formal procedures manuals. Business directors and senior financial staff are responsible for ensuring that all relevant staff are familiar with their content and application. All Board members, Business directors and senior finance staff have been issued with Internal Control Guidelines.

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

Internal Audit
The company has an internal audit function, which has a reporting line to the Chairman of the Audit Committee and also direct access to the Chairman of the Board. The Group Risk and Control Manager, who is responsible for internal audit, normally attends Audit Committee meetings and makes a formal report to the Committee annually.

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

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

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.

CORPORATE GOVERNANCE REPORT
(continued)

8. 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 37, 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. Thus 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 2013 the group was operating comfortably within the £61 million revolving bank facilities negotiated in June 2013 and due to expire in September 2016.
- In order to fund the planned investment in China, additional debt funding will be sought in the first half of 2014.

9. 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 64 to 67 of this report.

10. Statement on compliance
This statement, together with the Remuneration Report set out on pages 50 to 63, describes how, in respect of the year ended 31 December 2013, the company has applied the provisions and principles of corporate governance as set out in the Code. The company has complied with all the Code's provisions throughout the period in question, with one exception. The company's Remuneration Committee structure does not fully comply with Provision D.2.2, as the remuneration of the Chairman is set by the Non-Executive Directors' Remuneration Committee comprising the Executive Directors' instead of by a committee of Non-Executive Directors, as proposed by the Code. The company's two-committee approach, which is more fully described and explained in the Remuneration Report, is designed to ensure that no director is involved in setting his or her own remuneration, thus avoiding any potential conflict of interest, while ensuring that the experience of the Chairman is available to the Executive Directors' Remuneration Committee. The Board believes that this arrangement is an appropriate and effective use of the available resources and is fully aligned with the spirit of the Code.

Steve Hannam
Chairman
18 March 2014

AUDIT COMMITTEE REPORT
An Introduction

DEAR SHAREHOLDER,
AS CHAIRMAN OF THE AUDIT COMMITTEE, I AM PLEASED TO PRESENT THE REPORT IN RESPECT OF 2013.

Jane Lodge

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 in 2013 were Mr P A J Neep and Mr P N Withers, throughout the year, and Mr G J Hoetmer who joined on 11 December 2013. 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 seven meetings. all of which were attended by the Group Finance Director, management, and the Group Risk and Control manager, as invitees. Representatives of the auditors also attend as required.

The Committee and the external auditors operate procedures to ensure that the auditors remain objective and independent. These procedures include the pre-approval of the scope of the audit by the Committee.

AUDIT COMMITTEE REPORT
(continued)

External audit

There are a number of processes used to judge the effectiveness of the external auditors of the group:

- A survey is coordinated by Internal Audit of all businesses within the group to assess the effectiveness of the group and local external audit teams. A summary of the results of this survey is reported to the Committee for its consideration.
- The Committee receives a detailed audit plan from the external auditors at the beginning of the annual audit process which includes an outline of the proposed scope of the audit, identification of key audit risks and areas of focus. This is discussed and agreed with the Committee.
- The Committee challenges the work done by the external auditors to test management's assumptions and estimates in relation to the significant issues.
- At the completion of the external audit the Committee receives feedback from the Group Finance Director on how effectively issues were addressed at the external audit clearance meetings.
- Each member of the Committee completes an external auditor effectiveness questionnaire, the results of which are collated by Internal Audit and reported to the Committee for its consideration.

Based on the above processes and feedback, and its own on-going assessment of the external auditors' performance (for example through consideration of the external auditors' reports and interaction with the group audit partner) the Committee remains satisfied with the effectiveness of the external auditors.

PricewaterhouseCoopers LLP have acted as the group's external auditors since its formation in 1991. The current group audit partner is due to rotate off the audit following the 2016 reporting cycle. In accordance with the Financial Reporting Council's Guidance to Audit Committees issued in September 2012 and the findings of the Competition Commission issued in October 2013, the company intends to put the audit out to tender at least once in each ten year period and intends the next tender process to occur no later than the date of the next group audit partner rotation.

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

As part of the formal annual review of the independence of the external auditors, the Committee also looks carefully at the level of non-audit work conducted by the auditors and the detailed safeguards which they have in place. In 2013 the policy covering the pre-approval of non-audit work was reviewed and clarified. The Committee is satisfied that there is no risk to the objectivity and independence of the external auditors arising from the level of non-audit fees. The fees paid to external auditors in 2013 are set out in Note 9 to the financial statements on page 86. Almost all of the non-audit fees relate to tax and pension advice. The Committee appreciates the sensitivity of the non-audit fees being higher than the audit fee, but believes that there are sound commercial and practical reasons for the tax and pension work being conducted by the relevant departments of the firm which conducts the audit. This will be kept under careful review.

The company's "whistleblowing" procedures are also reviewed annually. In 2013, the Committee requested that consideration be given to an external whistleblowing system, and in the course of the year a new, confidential, multi-language system, entitled "Speak Up", 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.

The Committee and the external auditors operate procedures to ensure that the auditors remain objective and independent.

Significant issues

The significant issues considered by the Committee during 2013, and how these were addressed, are as follows:

Carrying value of inventory

The group has invested significantly in manufacturing capacity in recent years which has increased production volumes, with the expectation of significant sales growth. This has resulted in short term increases in inventory levels. 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 stock ageing and future sales projections. Additionally the Committee has discussed with management the continued appropriateness of the group's accounting policy with respect to provisioning for stock obsolescence, as well as reviewing the application of the policy during the year. This was also an area of focus identified by the external auditors, and accordingly they provided detailed reporting on this area to the Committee.

Development programme

The group has embarked on a two-year development programme and as part of this has approved significant capital expenditure to construct new manufacturing plants in the USA and China. This gives rise to a number of areas of judgement including whether related amounts should be expensed as incurred or capitalised, and whether any existing assets should be impaired or useful lives should be amended. Where amounts have been 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. The Committee has addressed these matters through reviewing and discussing reports from management outlining the nature and amount of the relevant costs and the proposed accounting treatment. Additionally, the Committee has been provided with information in relation to the existing assets that will be replaced as a result of the investment, including the proposed revised useful economic lives, to enable it to assess and challenge management's judgement related to accelerated depreciation or potential impairment. The external auditors have also focused on this area and have reported their assessment to the Committee.

Valuation of net pension obligations

The group operates a number of defined benefit pension schemes across the world. Valuation of these schemes is dependent on certain key assumptions and complex calculations. External actuaries are engaged to assist in advising on key assumptions and determining the value of the pension obligations. In addition there have been changes to pensions accounting (IAS 19, "Employee benefits") which have been adopted by the group during the year. These areas have been addressed by the Committee through receiving reports from management outlining the key assumptions, the resulting valuations from actuaries and the accounting changes made following the adoption of the revised pension accounting requirements. 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 actuaries. The external auditors have also focused attention on this area and provided reporting to the Committee on this matter, following consultation with their own actuarial experts.

Fair, balanced and understandable

The Committee acknowledges that, taken as a whole, the annual report and accounts need to be fair, balanced and understandable in order to provide the information necessary for shareholders to assess the company's performance, business model and strategy. 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 external auditors on the findings of their annual audit. Formal review processes are in place to ensure the annual report and accounts are factually accurate.

The responsibility statement of the directors in respect of the annual report and accounts is on page 67.

REMUNERATION REPORT
An Introduction

DEAR SHAREHOLDER,
ON BEHALF OF THE BOARD,
I AM PLEASED TO PRESENT THE DIRECTORS' REMUNERATION REPORT FOR 2013.

Paul Neep
Chairman, Executive Directors' Remuneration Committee

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.

Overview
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 management and employees with achievement of the group's objectives.

Base salary
Our longstanding policy is for base salaries of Executive Directors to be around mid-market levels. Salary increases for Executive Directors in 2013 were limited to 2.7%. This was consistent with the average of other pay rises elsewhere in 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 2013, our business plan sought profit growth in a challenging economic environment. The Committee decided on two performance measurements: (i) Operating Profit; and (ii) Operating Cash Flow.

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

The company encountered difficult trading conditions, particularly in the first half of 2013, and performance for the full year did not meet the targets set. As a result, no annual bonus was paid. Full details are set out on page 59.

We continue to monitor our approach to remuneration to ensure it remains relevant and consistent with our strategy and performance.

Long-term incentive scheme

The Chief Executive and Group Finance Director received conditional awards under the 2003 Performance Share Plan in 2011. The performance targets for these awards were partly based on EPS growth and partly on relative Total Shareholder Return ("TSR"), measured across a three-year performance period ending on 31 December 2013. The Committee reviewed the performance of the company against these conditions in February 2014, and concluded that, while the TSR threshold had not been met, the EPS growth target was partially satisfied, and as a result limited vesting was approved. A full explanation of the performance metric is shown on page 59.

The existing 2003 Performance Share Plan expired in 2013, and was replaced with a new scheme in substantially the same form but taking into account minor changes to bring it in line with current best practice. The Committee consulted with the company's major shareholders and investor representative bodies regarding the new plan, and its introduction was well supported at the 2013 Annual General Meeting. Details of the new plan in terms of award limits and performance targets are set out in the policy table on page 53.

Summary

We continue to monitor our approach to remuneration to ensure it remains relevant and consistent with our strategy and performance. The Committee believes the current policy, as set out above and as more fully explained in the attached report, remains appropriate.

The Board will be submitting this report, and our policy for executive pay, for approval by shareholders at our Annual General Meeting on 30 April 2014.

REMUNERATION REPORT
(continued)

Policy Report
This part of the Directors' Remuneration Report sets out the remuneration policy for the company directors and has been prepared in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. The Policy Report will be put to a binding shareholder vote at the 2014 AGM and the policy will take formal effect from 30 April 2014.

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 2013 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 3 years subject to continued employment but no further performance conditions. Clawback may be applied to all of the bonus (cash and share deferred amounts).	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. 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 2 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 Chairman and Non-Executive 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.

REMUNERATION REPORT
(continued)

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, in approving this Policy Report, authority is given to the company to honour any commitments entered into with current or former directors that have been disclosed to shareholders in previous remuneration reports including those share plan awards set out on pages 61 and 63. 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.

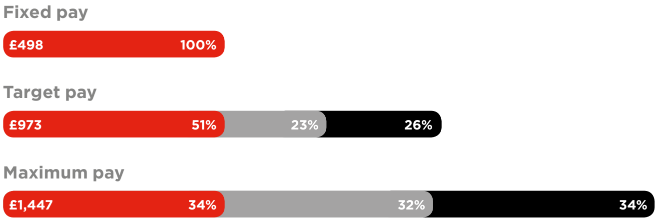
All historic awards that were granted under any current or previous share schemes operated by the company but remain outstanding (detailed on page 61, remain eligible to vest based on their original award terms.

Payment under different scenarios

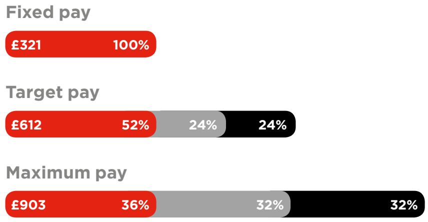
Under the new regulations, we are obliged to show a bar-chart indicating the level of remuneration which would be received by the Executive Directors in 2014 under different scenarios. Three scenarios are shown below:

- "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 2014
2) Salaries are based on salaries as at 1 April 2014. Taxable benefits are based on those disclosed for 2013
3) Pension is 2014 policy applied to 1 April 2014 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 Performance Share Plan 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.

REMUNERATION REPORT
(continued)

Details of the service contracts of the Executive Directors are shown in the table below:

Director	Date of initial contract	Date term due to expire	Notice period from company (months)	Notice period from the director (months)	Termination payment	Remuneration entitlement on termination of contract by company	Termination on change of control
P W B Page	25 April 2007	N/A	12	12	No contractual termination payments 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 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 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
S J Hannam	6 April 2009	AGM 2015
P A J Neep	5 February 2005	AGM 2015
P N Withers	12 April 2011	AGM 2017
J A Lodge	27 February 2012	28 February 2015
G J Hoetmer	30 July 2013	29 July 2016

Annual Report on Remuneration

How the policy will be implemented in 2014

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

Chief Executive: £451,880
Group Finance Director: £285,609

The Group Finance Directors' salary will be raised by 2% with effect from 1 April 2014, to £291,321.

The Chief Executive declined an increase, and his salary for 2014 will remain at £451,880.

Non-Executive Directors' fees

The fees for Non-Executive Directors in 2014 are as follows:

Name	Base	Additional for Committee Chairmanships	Total
S J Hannam	£110,000	–	£110,000
P A J Neep	£40,000	£5,000	£45,000
P N Withers	£40,000	£5,000	£45,000
J A Lodge	£40,000	£5,000	£45,000
G J Hoetmer	£40,000	–	£40,000

These fees are unchanged from 2013. The Chairman's remuneration is below that paid to those in similar roles with comparable companies. He has declined an increase.

Annual bonus

For 2014 80% of the annual bonus for Executive Directors will be determined by growth in group Operating Profit and 20% by Operating Cash Flow. The Board considers that the targets for the 2014 bonus are commercially sensitive and full details will not therefore be fully disclosed until the 2014 report.

Long Term Incentive Plan

Awards will be made in 2014 for 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 (relative TSR, and EPS growth) will be the same as those which applied to grants made in 2013, as set out on page 60.

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 the Executive Director may retain the fees for such appointments.

The Remuneration Committee

The members of the Executive Directors' Remuneration Committee (the "Committee") throughout 2013 were Mr P A J Neep (Committee Chairman), Mr S J Hannam, Ms J A Lodge and Mr P N Withers. Mr G J Hoetmer joined on 11 December 2013. All are independent Non-Executive Directors.

The Committee received advice from:

- The Company Secretary (as Secretary to the Committee) and the Chief Executive.
- New Bridge Street (a trading name of Aon Hewitt Limited being a group company of Aon plc) as independent adviser to the Committee. New Bridge Street were appointed 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 2013 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 £69,726. This included advice and guidance on the introduction of the new Performance Share Plan, and advice on compliance with the Large and Medium-Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. 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

In the year under review the Committee continued to engage with major investors in connection with the introduction of the new Performance Share Plan which was approved at the 2013 Annual General Meeting. The Committee found the feedback received from investors useful and constructive. As a result of the feedback the Committee made certain changes to the original proposals, including capping the exceptional award limit in the plan rules.

REMUNERATION REPORT
(continued)

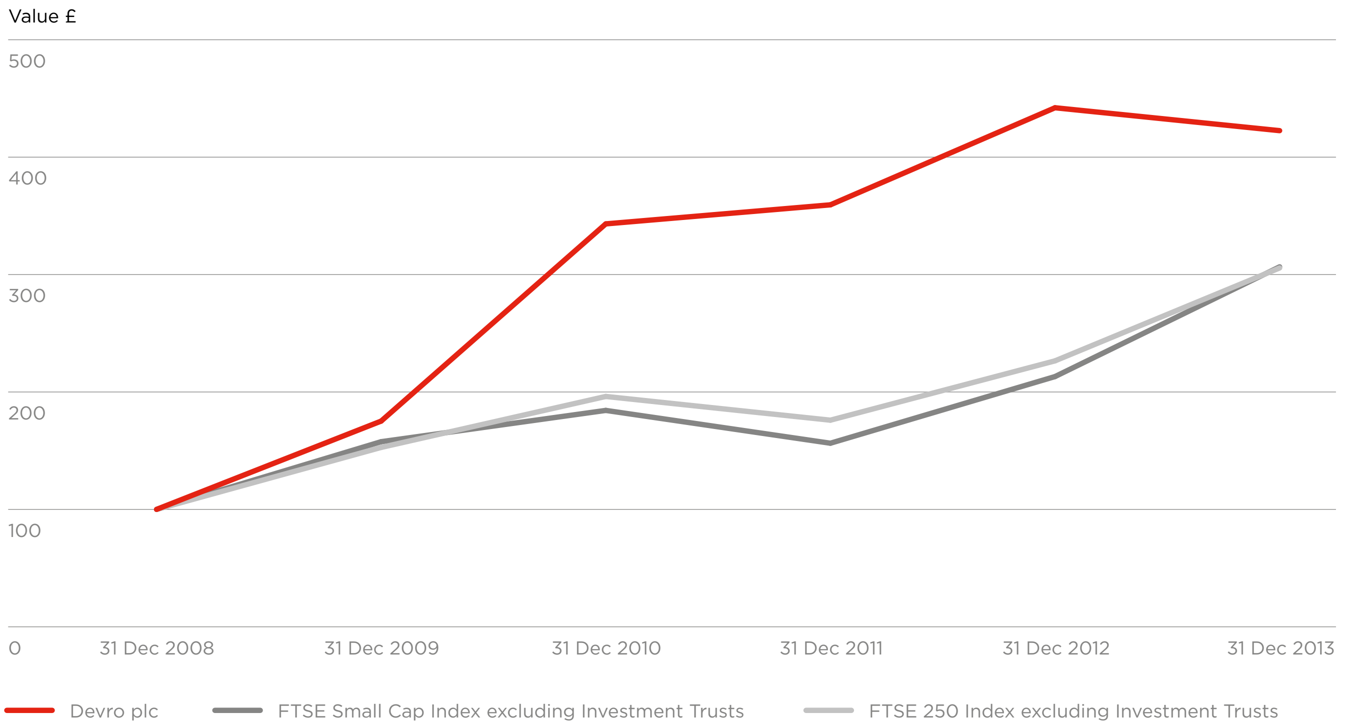
Statement of shareholder voting at AGM

At the Annual General Meeting held on 18 April 2013, 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	117,668,793	97.12%	3,483,641	2.88%	121,152,434	131,444
Adoption of the Devro plc Performance Share Plan	120,236,882	99.17%	1,001,260	0.83%	121,238,142	46,616

Performance graph

Total Shareholder Return



This graph shows the value, by 31 December 2013, of £100 invested in Devro plc on 31 December 2008 compared with the value of £100 invested in the FTSE Small Cap 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 five 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 five 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 %
2013	**565**	**0%**	**18.25%**
2012	1,154	0%	100%
2011	1,670	40%	100%
2010	1,767	100%	100%
2009	862	100%	100%

Director	Base salaries/fees in payment at 31 December 2013 £'000	2012 £'000	Base salaries/fees 2013 £'000	2012 £'000	Bonuses 2013 £'000	2012 £'000	Other payments 2013 £'000	2012 £'000	Benefits in kind 2013 £'000	2012 £'000	Pension contributions or payments in lieu of pension contributions 2013 £'000	2012 £'000	Long term incentives with performance period ending during the year 2013 £'000	2012 £'000	Single figure of total remuneration 2013 £'000	2012 £'000
S J Hannam	**110**	110	**110**	110	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**110**	110
P W B Page[1]	**452**	440	**449**	425	**–**	–	**–**	–	**1**	1	**45**	42	**70**	686	**565**	1,154
G J Hoetmer[2]	**40**	–	**17**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**17**	–
J A Lodge	**45**	45	**45**	37	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**45**	37
P A J Neep	**45**	45	**45**	44	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**45**	44
S R Paterson[3]	**–**	–	**–**	13	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	13
S C Webb[1]	**286**	278	**284**	276	**–**	–	**–**	17	**1**	1	**28**	28	**61**	–	**374**	322
P N Withers	**45**	45	**45**	43	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**45**	43
Total	**1,023**	963	**995**	948	**–**	–	**–**	17	**2**	2	**73**	70	**131**	686	**1,201**	1,723

1 Benefits in kind for Mr P W B Page and Mr S C Webb relate to medical insurance. "Other payments" to Mr S C Webb related to travel and accommodation expenses in 2012.
2 Mr G J Hoetmer joined the Board on 30 July 2013.
3 Mr S R Paterson stepped down from the Board on 19 April 2012.

Details of variable pay earned in the year

Annual bonus

Set out below are the performance conditions which applied to the 2013 Annual Bonus Plan:

Performance condition	Proportion of total bonus available: % of maximum	% of salary	Actual performance achieved	Performance target for threshold vesting	Performance target for maximum vesting	Resulting bonus out-turn
Group Operating Profit[1]	80%	80%	£42.1m	£46.0m	£50.0m	0%
Operating Cash Flow[2]	20%	20%	£47.3m	£59.0m	£65.5m	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 made to Mr P W B Page on 29 March 2011, and one of the awards made to Mr S C Webb on 24 February 2011 under the Performance Share Plan ended on 31 December 2013. The performance conditions which applied, and performance achieved against them, are set out below.

Total Shareholder Return ("TSR") relative to comparator group consisting of the FTSE small cap index (excluding Investment Trusts) (50%)		Earnings Per Share ("EPS") growth (50%)				
Performance required	**Performance achieved**	**Performance required**	**Performance achieved**	**Vesting %**	**Number of shares vesting in 2013**	**Value of shares vesting in 2013**
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.	+22.4%	18.25%	P W B Page 21,900 S C Webb 18,952	£70,080[1] £60,643[1]

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

1 Based on the average share price for the three month period to 31 December 2013.

REMUNERATION REPORT
(continued)

Relative importance of spend on pay

	Total remuneration of all employees of the Devro group £'000	Dividends paid £'000
2013	**78,049 (+7.3%)**	**14,151 (+5.4%)**
2012	72,780	13,423

Percentage change in Chief Executive's remuneration

	2013 £'000	2012 £'000	% change
Salary	**449**	425	5.6%
Benefits	**1**	1	0%
Bonus	**0**	0	0%

The Chief Executive's salary was increased from £380,000 to £440,000 on 1 April 2012. It was increased by 2.7% to £451,880 with effect from 1 April 2013.

Percentage change in average remuneration of all the company's employees

	2013 £'000	2012 £'000	% change
Salary	**29**	28	+3.6%
Benefits	**1**	1	–
Bonus	**1**	1	–

Performance Share Plan awards granted on 11 September 2013

	Scheme	Basis of award granted	Face value of award[1]	Maximum vesting (% of face value)	Percentage vesting for threshold performance	Vesting and performance period
P W B Page	The Devro plc Performance Share Plan	110% of salary 150,800 shares	£496,886	100%	25% under TSR & EPS element together (12.5% for each part of the award)	Performance period 3 financial years from 1 January 2013. Vesting period 3 years from date of grant
S C Webb	The Devro plc Performance Share Plan	100% of salary 86,670 shares	£285,578	100%		

Further details regarding the Performance Share Plan, together with the performance conditions applying to the above awards are set out on pages 61 and 63.

1 Based on share price of 329.5p on 10 September 2013, being the 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 59 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 £28,373 (2012: £27,608) 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 2013 is shown in the table on page 61.

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 2003 Performance Share Plan and the 2013 Devro plc 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 2013	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 2013	Earliest normal vesting date
P W B Page	28 March 2008	80.5p	283.0p	375,000[2]	–	375,000	–	–	n/a
	19 March 2009	86.75p	324.3p	342,000[2]	–	342,000	–	–	n/a
	24 March 2010	164.5p	363.2p	187,000[2]	–	187,000	–	–	n/a
	29 March 2011	287.8p	n/a	120,000	–	–	98,100[3]	21,900[4]	29 March 2014
	2 April 2012	315.9p	n/a	118,000	–	–	–	118,000	2 April 2015
	11 Sep 2013	336.2p	n/a	–	150,800	–	–	150,800	11 Sep 2016
S C Webb[1]	24 February 2011	256.6p	n/a	103,846	–	–	84,894[3]	18,952[4]	24 February 2014
	24 February 2011	256.6p	n/a	103,846	–	–	–	103,846	24 February 2015
	11 Sep 2013	336.2p	n/a	–	86,670	–	–	86,670	11 Sep 2016

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 3-year performance period, and the other for a 4-year period, with the targets extended pro rata. No awards were made to him in 2012.
2 These awards were exercised on 23 April 2013.
3 These shares lapsed following a review of the relevant performance conditions by the Committee in February 2014.
4 These shares are vested but unexercised at the date of this report.

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. For awards made to Executive Directors in the year under review and the two prior years, vesting of 50% of shares awarded is based upon the group's earnings per share before exceptional items ("EPS") growth over the relevant performance period, with the other 50% being dependent upon the group's total shareholder return ("TSR") performance measured over the same period against the one hundred listed companies (excluding Investment Trusts) closest to the company in terms of market capitalisation (i.e. fifty higher and fifty lower).

The awards made in 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 2014:

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%

REMUNERATION REPORT
(continued)

Previous outstanding awards to Executive Directors were granted either as nil-priced options or in the form of conditional entitlements, subject to the performance conditions below:

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

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

All awards made between 2008 and 2010 shown in the table on page 61 were subject to a three year performance period, and the targets were as above. The comparator group consisted of the companies in the FTSE Small Cap Index, excluding Investment Trusts.

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

The Devro 2009 Deferred Share Bonus Plan

The Executive Directors' awards under the Devro 2009 Deferred Share Bonus Plan are as follows:

Director	Date awarded	Market value at date of award (pence per share)	Market value at date of vesting of shares (pence per share)	Number of shares held at 1 January 2013	Number of shares exercised during year	Number of shares lapsed during year	Number of shares held at 31 December 2013	Earliest normal vesting date
P W B Page	4 March 2010	173p	352.8p	89,415[1]	89,415[1]	–	–	n/a
	9 March 2011	287.0p	–	58,025	–	–	58,025	9 March 2014

1 This award was exercised on 23 April 2013.

The above awards were granted as nil-priced options. No performance conditions apply to these awards, which were made in respect of past performance.

The market price of the company's shares at the end of the financial year was 288p. The range of market prices during the year was between 282.2p and 380p.

Directors' interests

The interests, all of which are beneficial, of the directors (and their immediate families) in the share capital of the company (ordinary shares of 10 pence each), and details of awards held under the Devro 2003 Performance Share Plan (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 2013	Total number of ordinary shares 31 December 2013	Performance Share Plan 1 January 2013	Performance Share Plan 31 December 2013	Deferred Share Bonus Plan 1 January 2013	Deferred Share Bonus Plan 31 December 2013
S J Hannam	223,622	223,622	–		–	–
P W B Page	396,831	600,080	1,142,000	290,700[2]	147,440	58,025
G J Hoetmer[1]	–	10,000	–	–	–	–
J A Lodge	–	17,500	–	–	–	–
P A J Neep	220,893	220,893	–	–	–	–
S C Webb	10,000	24,000	207,692	209,467[3]	–	–
P N Withers	70,000	70,000	–		–	–

1 Mr G J Hoetmer joined the Board on 30 July 2013.
2 21,900 of these shares are vested but unexercised as at the date of this report.
3 18,952 of these shares are vested but unexercised as at the date of this report.

Shareholding guidelines

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

Director	Number of shares held including family interests as at 31 December 2013	Shares held as[1] a % of salary	Number of shares vested in 2013	Number of shares vested under share schemes, but unexercised
P W B Page	600,080	401%	21,900	21,900
S C Webb	24,000	25%	18,952	18,952

1 Calculated on basis of three month average share price to 31 December 2013.

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 2013, amounted to 211,445 ordinary shares.

On behalf of the Board

Paul Neep
Chairman, Executive Directors' Remuneration Committee
18 March 2014

DIRECTORS' REPORT

Introduction
The directors present their Report and the audited consolidated financial statements of the entire Devro group of companies (including the company) (the 'group') for the year ended 31 December 2013.

The Corporate Governance Report, which can be found on pages 40 to 46 also forms part of this Directors' Report as do other disclosures elsewhere in the Annual Report and Accounts and these are cross-referenced in this Directors' Report where appropriate.

A review of the performance of the group's business during the year, the principal risks and uncertainties facing the group and its future prospects are included in the discrete Strategic Report set out on pages 1 to 37 which should be read in conjunction with this Directors' Report.

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

The company's principal subsidiary undertakings and branches, including those located outside the UK, are listed in Note 16 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 Companies Act 2006 (the 'Act') by way of special resolution.

Directors
The names and brief biographical details of the directors of the company at the date of this report and at any time during the year ended 31 December 2013 are set out on pages 38 and 39.

Directors shall be no less than two and no more than eleven 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. The Board may from time to time appoint one or more directors to hold employment or executive office for such period (subject to the Act) and on such terms as they may determine and may revoke or terminate any such appointment.

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; (iv) he or she becomes bankrupt or compounds with his or her creditors generally or he or she applies to the court for an interim order under section 253 of the Insolvency Act 1986 in connection with a voluntary arrangement; (v) he or she has been suffering from mental ill health or becomes a patient for the purposes of any statute relating to mental health or any court claiming jurisdiction on the ground of mental disorder makes an order for his or her detention or for the appointment of a guardian, receiver or other person to exercise powers with respect to his or her property or affairs, and in any such case the Board resolves that his or her office be vacated; (vi) 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 (vii) he or she is removed from office by notice addressed to him or her at his or her last-known address and signed by all his or her co-directors.

The company maintains directors' and officers' liability insurance for the benefit of personnel throughout its 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 report.

None of the directors had during the year ended 31 December 2013 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 2013 are shown on page 63. As at 18 March 2014, no changes in the directors' interests have been reported to the company.

Share capital
The share capital of the company consists entirely of ordinary shares of 10 pence each. The company had 166,779,230 shares in issue at 31 December 2013 (2012: 165,633,564) as shown in Note 26 to the financial statements.

Dividends
The Board is recommending a final dividend in respect of 2013 of 6.1 pence per share (2012: 5.85 pence), making a total dividend for the year of 8.8 pence per share (2012: 8.5 pence) an increase of 3.5%. If approved, the final dividend will be payable to shareholders on the register as at 28 March 2014. Based on the recommendation for the full year, dividend cover will be 2.3 times (2012: 2.3 times).

Shareholders' rights
Subject to applicable laws and the Articles, holders of ordinary shares are entitled to receive all shareholder documents, including the Annual Report and notice of any general meeting; 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.

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 1,145,666 shares were issued under the rules of the Devro 2003 Performance Share Plan (2012: 625,000) and nil shares were issued under the rules of the Devro plc Performance Share Plan (2012: 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 18 April 2013, 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 16,500,000 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.

Employees
As of 31 December 2013, the group employed 2,290 people at locations across the world. The group places considerable value on the involvement of its employees, recognising that it depends on their skills and commitment in order to achieve its objectives. Employees are kept informed on matters affecting them as employees and on the various factors affecting the performance of the group. This is achieved through regular communications, the group's means for which were enhanced during 2013 with the launch of a group wide intranet. Financial results are circulated throughout the organisation on the day of their announcement. Employees' representatives are consulted regularly on a wide range of matters affecting their current and future interests.

Applications for employment by disabled persons are always given full and fair consideration, bearing in mind the aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the group continues and that appropriate training is arranged. It is the policy of the group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

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

Greenhouse gas emissions
All disclosures concerning the group's greenhouse gas emissions (as required to be disclosed under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013) are contained in the Corporate Social Responsibility Report forming part of the Strategic Report on pages 32 to 37.

Political contributions
The company and its subsidiary undertakings made no contributions for political purposes in 2013 (2012: £nil).

DIRECTORS' REPORT

Post balance sheet events
There have been no material events from 31 December 2013 to the date of this report.

Future developments
Future developments are described in the Strategic Report on pages 1 to 37.

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 to market risk, credit risk, liquidity risk and capital risk of the company, 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
During the period up to 7 March 2014, the company had been notified of the following material interests in the issued ordinary share capital of the company under DTR 5 of the Disclosure and Transparency Rules:

	Notified number of ordinary shares	Notified percentage (%) of issued share capital
Schroder Investment Management	13,611,611	8.2
Marathon Asset Management	11,492,268	7.1
ING Groep N.V.	10,268,491	6.2

Annual General Meeting ("AGM")
The AGM of the company will be held on 30 April 2014 at 11.00am at Glasgow City Halls, Candleriggs, Glasgow G1 1NQ. The Notice of Meeting is set out on pages 126 to 127. Shareholders will be asked for their approval of the items of business which are explained in the notes on pages 128 to 131. These notes form part of this Directors' Report and are incorporated into it by cross-reference.

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.

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

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the 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.

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 Regulations. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Directors' statement pursuant to the Disclosure and Transparency Rule 4.1

Each of the directors, whose names and functions are listed on pages 38 and 39, 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 (contained in the Strategic Report and the 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
18 March 2014

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Financial Statements

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2013

	Note	2013 Before exceptional items £'m	2013 Exceptional items £'m	2013 Total £'m	Restated 2012 Total £'m
Revenue	3	**242.7**	**–**	**242.7**	241.1
Operating profit	4,5	**42.1**	**(1.3)**	**40.8**	42.4
Finance income	8	**–**	**–**	**–**	0.1
Finance cost	8	**(1.1)**	**–**	**(1.1)**	(1.1)
Net finance cost on pensions	8	**(2.2)**	**–**	**(2.2)**	(2.1)
Profit before tax	9	**38.8**	**(1.3)**	**37.5**	39.3
Tax	10	**(4.1)**	**0.2**	**(3.9)**	(7.3)
Profit for the year attributable to owners of the parent		**34.7**	**(1.1)**	**33.6**	32.0
Earnings per share					
Basic	13			**20.1p**	19.4p
Diluted	13			**20.0p**	19.2p

All results relate to continuing operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2013

	Note	2013 £'m	Restated 2012 £'m
Profit for the year		**33.6**	32.0
Other comprehensive income/(expense) for the year			
Items that will not be reclassified to profit or loss			
Pension obligations:			
– re-measurements	25	**11.3**	(16.3)
– movement in deferred tax	24	**(4.9)**	2.9
Total items that will not be reclassified to profit or loss		**6.4**	(13.4)
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges:			
– net fair value (losses)/gains	29	**(1.2)**	4.4
– reclassified and reported in operating profit	29	**(1.5)**	(1.4)
– movement in deferred tax	29	**0.6**	(0.7)
Net investment hedges:			
– fair value gains	29	**0.9**	–
– movement in deferred tax	29	**(0.2)**	–
Net exchange adjustments	29	**(13.5)**	(1.6)
Total items that may be reclassified subsequently to profit or loss		**(14.9)**	0.7
Other comprehensive expense for the year, net of tax		**(8.5)**	(12.7)
Total comprehensive income for the year attributable to owners of the parent		**25.1**	19.3

BALANCE SHEETS
at 31 December 2013

		Group		Company	
	Note	**2013 £'m**	2012 £'m	**2013 £'m**	2012 £'m
ASSETS					
Non-current assets					
Intangible assets	14	**3.2**	3.3	**1.5**	2.3
Property, plant and equipment	15	**199.1**	195.9	**0.9**	0.6
Investments	16	**–**	–	**138.7**	138.5
Deferred tax assets	24	**14.8**	19.7	**–**	–
Trade and other receivables	18	**–**	–	**26.3**	13.9
		217.1	218.9	**167.4**	155.3
Current assets					
Inventories	17	**38.1**	28.1	**–**	–
Current tax assets		**0.5**	0.4	**6.7**	4.7
Trade and other receivables	18	**33.6**	36.3	**2.8**	1.3
Derivative financial instruments	23	**2.1**	3.2	**0.9**	–
Cash and cash equivalents	19	**6.0**	5.6	**–**	2.1
		80.3	73.6	**10.4**	8.1
Total assets		**297.4**	292.5	**177.8**	163.4
LIABILITIES					
Current liabilities					
Borrowings	22	**2.4**	1.9	**2.7**	0.5
Derivative financial instruments	23	**1.4**	0.4	**–**	–
Trade and other payables	20	**26.7**	30.2	**1.6**	3.0
Current tax liabilities		**4.2**	3.5	**–**	–
		34.7	36.0	**4.3**	3.5
Non-current liabilities					
Borrowings	22	**39.4**	29.8	**28.4**	18.6
Deferred tax liabilities	24	**17.3**	18.7	**–**	0.1
Pension obligations	25	**46.1**	59.3	**–**	–
Other payables	21	**1.9**	1.8	**12.2**	10.0
		104.7	109.6	**40.6**	28.7
Total liabilities		**139.4**	145.6	**44.9**	32.2
Net assets		**158.0**	146.9	**132.9**	131.2
EQUITY					
Capital and reserves attributable to owners of the parent					
Ordinary shares	26	**16.7**	16.6	**16.7**	16.6
Share premium	28	**9.0**	8.0	**9.0**	8.0
Other reserves	29	**64.9**	80.7	**45.2**	45.9
Retained earnings	30	**67.4**	41.6	**62.0**	60.7
Total equity		**158.0**	146.9	**132.9**	131.2

The financial statements on pages 69 to 118 were approved by the Board of Directors and signed on its behalf by:

S C Webb, Group Finance Director
18 March 2014

STATEMENTS OF CHANGES IN EQUITY
for the year ended 31 December 2013

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 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 (expense)/income		–	–	(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	12	–	–	–	(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**
Balance at 1 January 2012		16.5	7.6	80.0	36.4	140.5
Comprehensive income						
Profit for the year (restated)		–	–	–	32.0	32.0
Other comprehensive income/(expense)						
Cash flow hedges, net of tax	29	–	–	2.3	–	2.3
Pension obligations, net of tax (restated)	25,24	–	–	–	(13.4)	(13.4)
Exchange adjustments	29	–	–	(1.6)	–	(1.6)
Total other comprehensive income/(expense) – restated		–	–	0.7	(13.4)	(12.7)
Total comprehensive income		–	–	0.7	18.6	19.3
Transactions with owners						
Performance Share Plan charge	29	–	–	0.5	–	0.5
Performance Share Plan credit in respect of shares vested	29	–	–	(0.5)	–	(0.5)
Issue of share capital		0.1	0.4	–	–	0.5
Dividends paid	12	–	–	–	(13.4)	(13.4)
Total transactions with owners		0.1	0.4	–	(13.4)	(12.9)
Balance at 31 December 2012		16.6	8.0	80.7	41.6	146.9

STATEMENTS OF CHANGES IN EQUITY
for the year ended 31 December 2013 (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 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	12	–	–	–	(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**
Balance at 1 January 2012		16.5	7.6	46.1	67.9	138.1
Comprehensive income						
Profit for the year		–	–	–	6.2	6.2
Transactions with owners						
Performance Share Plan charge	29	–	–	0.2	–	0.2
Performance Share Plan credit in respect of shares vested	29	–	–	(0.4)	–	(0.4)
Issue of share capital		0.1	0.4	–	–	0.5
Dividends paid	12	–	–	–	(13.4)	(13.4)
Total transactions with owners		0.1	0.4	(0.2)	(13.4)	(13.1)
Balance at 31 December 2012		16.6	8.0	45.9	60.7	131.2

CASH FLOW STATEMENTS
for the year ended 31 December 2013

	Note	Group 2013 £'m	Group 2012 £'m	Company 2013 £'m	Company 2012 £'m
Cash flows from operating activities					
– Cash generated from/(used in) operations	31	**42.7**	48.1	**(15.2)**	1.0
– Interest received		**–**	0.1	**0.3**	0.3
– Interest paid		**(1.2)**	(1.0)	**(0.7)**	(0.7)
– Tax (paid)/received		**(3.8)**	(4.4)	**(0.1)**	1.2
Net cash generated from/(used in) operating activities		**37.7**	42.8	**(15.7)**	1.8
Cash flows from investing activities					
– Purchase of property, plant and equipment		**(35.8)**	(33.7)	**(0.4)**	(0.5)
– Proceeds from sale of property, plant and equipment		**–**	0.1	**–**	–
– Purchase of intangible assets		**(1.0)**	(0.8)	**–**	(0.5)
– Capital grants received		**0.4**	0.5	**–**	–
– Dividends received from subsidiary undertakings		**–**	–	**14.6**	14.2
Net cash (used in)/generated from investing activities		**(36.4)**	(33.9)	**14.2**	13.2
Cash flows from financing activities					
– Proceeds from the issue of ordinary shares		**1.1**	0.5	**1.1**	0.5
– Net borrowing/(repayment) under the loan facilities		**12.0**	1.9	**10.3**	(2.4)
– Dividends paid	12	**(14.2)**	(13.4)	**(14.2)**	(13.4)
Net cash used in financing activities		**(1.1)**	(11.0)	**(2.8)**	(15.3)
Net increase/(decrease) in cash and cash equivalents		**0.2**	(2.1)	**(4.3)**	(0.3)
Net cash and cash equivalents at 1 January		**3.7**	5.4	**1.6**	1.9
Exchange (loss)/gain on cash and cash equivalents		**(0.3)**	0.4	**–**	–
Cash and cash equivalents	19	**6.0**	5.6	**–**	2.1
Bank overdrafts	22	**(2.4)**	(1.9)	**(2.7)**	(0.5)
Net cash and cash equivalents at 31 December		**3.6**	3.7	**(2.7)**	1.6

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2013

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 1 to 37, 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 exposure 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. Thus 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 2013 the group was operating comfortably within the £61m revolving bank facilities negotiated in June 2013 and due to expire in September 2016.
- In order to fund the planned investment in China, additional debt funding will be sought in the first half of 2014.

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 carrying value of inventory, accounting for the group's development programme, measurement of pension obligations and tax.

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 stock 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.

Development programme

The two year development programme announced in 2013, to construct new manufacturing plants in the USA and China, requires 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. 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 4 and 5.

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 obligation to changes in key assumptions is provided based on movements in key variables that could reasonably occur. Further details are provided in Note 25.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2013 (continued)

1. Accounting policies (continued)

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 10 and 24.

Changes in accounting policies and disclosures

(a) New standards, amendments to standards and interpretations effective in 2013

The following new standards, amendments to standards and interpretations became mandatory for the first time during the financial year beginning 1 January 2013. With the exception of IAS 19 (revised) and IAS 1 (amendment) they either were not relevant for the group or had no material impact on the financial statements of the group:

	Effective date
IFRS 11 – Joint arrangements	1 January 2013
IFRS 13 – Fair value measurement	1 January 2013
IAS 1 (amendment) – Financial statement presentation regarding other comprehensive income	1 January 2013
IAS 12 (amendment) – Income taxes regarding deferred tax	1 January 2013
IAS 19 (revised 2011) – Employee benefits	1 January 2013
IAS 27 (revised 2011) – Separate financial statements	1 January 2013
IAS 28 (revised 2011) – Associates and joint ventures	1 January 2013

IAS 19 (revised) "Employee benefits" has been adopted in the year and the comparatives for the year ended 31 December 2012 have been restated accordingly. Further details are provided in Note 2. IAS 1 (amendment) has been adopted and the presentation of the consolidated statement of comprehensive income updated accordingly.

The introduction of IFRS 13 has not resulted in any change to the basis of valuation for assets and liabilities measured at fair value.

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

At the date of approval of these financial statements, the following 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 2015
IFRS 10 – Consolidated financial statements	1 January 2014
IFRS 12 – Disclosure of interests in other entities	1 January 2014

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.

Basis of consolidation

The consolidated financial statements include the financial statements of the company and all its subsidiary undertakings made up to 31 December 2013. 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.

Intangible assets

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

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

1. Accounting policies (continued)

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 and development

In general, research and 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 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.

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.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2013 (continued)

1. Accounting policies (continued)

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

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and short-term deposits with maturity dates of less than three months which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. 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.

Taxation
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 taxation rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related asset is realised or the liability is settled. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with within equity.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, except for deferred tax liability where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

1. Accounting policies (continued)

Pension

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

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

Borrowing costs are recognised as an expense in the 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.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2013 (continued)

1. Accounting policies (continued)

Derivative financial instruments

Derivative financial instruments used to hedge risks associated with interest rate and foreign currency fluctuations are initially and subsequently re-measured at fair value.

The fair values of forward exchange contracts are calculated by reference to market forward rates at the balance sheet date. The fair values of interest rate swap contracts are calculated on a discounted cash flow basis using market forward rates.

Gains or losses arising from the movement to fair value are taken to the income statement except where the derivative is designated as a cash flow hedge.

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

Cash flow hedges

The group has designated forward foreign exchange contracts as cash flow hedges.

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

Any movements in fair value occurring after the time when hedging contracts cease to be cash flow hedges are taken directly to the income statement.

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.

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. Restatement

The group has implemented IAS19 (revised) "Employee benefits" during the year ended 31 December 2013. This has impacted the consolidated income statement and consolidated statement of comprehensive income as outlined below:

- Administration costs of the defined benefit pension schemes of £0.8m for the year ended 31 December 2012 have been reclassified from interest cost to operating profit;
- Net interest income on plan assets is now calculated using the same rate used to calculate the interest cost on the pension liability, being the discount rate. Previously income on plan assets was calculated using a rate based on the expected return on the various asset types held within the investment portfolio. This has resulted in an increase in net finance cost on pensions of £1.5m for the year ended 31 December 2012.

There is no change to the net pension liability or net assets as a result of the adoption of IAS 19 (revised), and therefore no restatement of the balance sheet is required.

The effect of adopting IAS 19 (revised) on the group's results for the year ended 31 December 2012 is to reduce profit after tax by £1.1m, and to increase other comprehensive income by the same amount.

2. Restatement (continued)

The impact on the consolidated income statement is set out below:

	Reported 2012 £'m	Restatement adjustments £'m	Restated 2012 £'m
Operating profit	43.2	(0.8)	42.4
Finance income	0.1	–	0.1
Finance cost	(1.1)	–	(1.1)
Net finance cost on pension assets and liabilities	(1.4)	(0.7)	(2.1)
Profit before tax	40.8	(1.5)	39.3
Tax	(7.7)	0.4	(7.3)
Profit for the year attributable to owners of the parent	33.1	(1.1)	32.0

The impact on the consolidated statement of comprehensive income is set out below:

	Reported 2012 £'m	Restatement adjustments £'m	Restated 2012 £'m
Profit for the year	33.1	(1.1)	32.0
Other comprehensive expense for the year			
Items that will not be reclassified to profit or loss			
Pension obligations:			
– re-measurements	(17.8)	1.5	(16.3)
– movement in deferred tax	3.3	(0.4)	2.9
Total items that will not be reclassified to profit or loss	(14.5)	1.1	(13.4)
Total items that may be reclassified subsequently to profit or loss	0.7	–	0.7
Other comprehensive expense for the year, net of tax	(13.8)	1.1	(12.7)
Total comprehensive income for the year attributable to owners of the parent	19.3	–	19.3

3. 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.

Sales between segments are carried out at arm's length.

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.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2013 (continued)

3. Segment information (continued)

	Americas		Asia-Pacific		Europe		Total group	
	2013 £'m	Restated 2012 £'m	**2013 £'m**	Restated 2012 £'m	**2013 £'m**	Restated 2012 £'m	**2013 £'m**	Restated 2012 £'m
Revenue Sales to external customers	**62.4**	57.3	**68.9**	71.0	**111.4**	112.8	**242.7**	241.1
Operating profit before corporate overheads and exceptional items	**2.4**	5.1	**4.7**	7.1	**36.6**	35.3	**43.7**	47.5
Corporate overheads							**(1.6)**	(5.1)
Operating profit before exceptional items							**42.1**	42.4
Exceptional items	**(0.3)**	–	**(1.0)**	–	**–**	–	**(1.3)**	–
Operating profit after exceptional items							**40.8**	42.4
Finance income							**–**	0.1
Finance cost							**(1.1)**	(1.1)
Net finance cost on pensions							**(2.2)**	(2.1)
Profit before tax							**37.5**	39.3

The reduction in operating profit in the Americas primarily relates to US manufacturing issues, and in Asia-Pacific results from changes in sales mix towards emerging markets such as China, and adverse foreign exchange movements.

The lower corporate overheads are the result of increased levels of support for the operations by central teams, meaning a larger element of costs are directly attributable to the businesses, and lower Performance Share Plan costs in 2013.

Other segment information

	Americas 2013	Americas 2012	Asia-Pacific 2013	Asia-Pacific 2012	Europe 2013	Europe 2012	Total group 2013	Total group 2012
Additions to property, plant and equipment: – Segment	**7.1**	2.8	**6.6**	10.4	**20.0**	18.7	**33.7**	31.9
– Corporate							**0.4**	0.5
Total							**34.1**	32.4
Additions to intangible assets: – Segment	**0.8**	0.1	**–**	–	**0.2**	0.1	**1.0**	0.2
– Corporate							**–**	0.5
Total							**1.0**	0.7
Depreciation of property, plant and equipment: – Segment	**2.3**	2.0	**3.4**	2.9	**11.1**	10.0	**16.8**	14.9
– Corporate							**0.1**	0.1
Total							**16.9**	15.0
Amortisation of intangible assets: – Segment	**0.1**	–	**–**	–	**0.2**	0.2	**0.3**	0.2
– Corporate							**0.8**	0.8
Total							**1.1**	1.0

3. Segment information (continued)

Segment assets and liabilities can be analysed as follows:

	2013 £'m	2012 £'m
Assets		
Americas	**41.8**	35.2
Asia-Pacific	**62.3**	64.1
Europe	**173.8**	167.8
Total segment assets	**277.9**	267.1
Corporate assets	**4.2**	5.3
Tax	**15.3**	20.1
Total assets	**297.4**	292.5
Liabilities		
Americas	**17.5**	26.2
Asia-Pacific	**10.0**	12.1
Europe	**46.7**	50.8
Total segment liabilities	**74.2**	89.1
Corporate liabilities	**4.3**	4.5
Borrowings	**39.4**	29.8
Tax	**21.5**	22.2
Total liabilities	**139.4**	145.6

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:

	2013 £'m	2012 £'m
United Kingdom	**27.9**	28.6
Other Europe	**84.6**	84.9
Total Europe	**112.5**	113.5
United States	**40.1**	39.4
Other Americas	**22.6**	18.5
Total Americas	**62.7**	57.9
Australia	**23.3**	28.3
Other Asia-Pacific	**44.2**	41.4
Total Asia-Pacific	**67.5**	69.7
Total	**242.7**	241.1

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2013 (continued)

3. Segment information (continued)

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

	2013 £'m	2012 £'m
Americas	26.4	22.1
Asia-Pacific	36.2	39.3
Europe	137.3	134.9
Corporate	2.4	2.9
Total	202.3	199.2

4. Operating profit

	2013			Restated 2012
	Before exceptional items £'m	Exceptional items £'m	Total £'m	Total £'m
Revenue	242.7	–	242.7	241.1
Cost of sales	(157.3)	(0.2)	(157.5)	(154.9)
Gross profit	85.4	(0.2)	85.2	86.2
Selling and distribution costs	(18.4)	–	(18.4)	(17.3)
Administrative expenses	(18.7)	(1.0)	(19.7)	(16.6)
Research and development expenditure	(6.6)	(0.1)	(6.7)	(7.2)
Other expenses	(2.2)	–	(2.2)	(3.6)
Total operating expenses	(45.9)	(1.1)	(47.0)	(44.7)
Other operating income	2.6	–	2.6	0.9
Net operating expenses	(43.3)	(1.1)	(44.4)	(43.8)
Operating profit/(expense)	42.1	(1.3)	40.8	42.4

An additional £0.7m (2012: £nil) of development expenditure has been capitalised within intangible assets (Note 14).

5. Exceptional items

The following exceptional items are included in the operating profit of £40.8m (2012: £42.4m restated).

	2013 £'m	2012 £'m
Accelerated depreciation included within cost of sales (i)	0.2	–
Costs related to the new manufacturing plants in USA/China included within operating expenses (ii)	1.1	–
	1.3	–

(i) An accelerated depreciation charge has been incurred on assets that will be replaced earlier than their previously estimated useful economic life due to the group's planned investment in the new USA plant.

(ii) Incremental costs related to a two year development programme to establish new manufacturing plants in USA and China, including project management, product development, reorganisation costs, 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.

6. Directors' emoluments

A detailed analysis of directors' emoluments, shareholdings, long-term incentive schemes and pension arrangements is provided in the Remuneration report on pages 50 to 63.

Total emoluments are summarised as follows:

	2013 £'m	2012 £'m
Aggregate emoluments (including long term incentives with performance period ending during the year)	**1.1**	1.6
Payments in lieu of pension contributions	**0.1**	0.1

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

	2013 £'m	2012 £'m
Aggregate emoluments (including long term incentives with performance period ending during the year)	**0.5**	1.1
Payments in lieu of pension contributions	**0.1**	0.1

7. Employee information

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

	2013	2012
By employee category		
Operations and engineering	**1,883**	1,854
Sales and marketing	**100**	95
Distribution	**37**	27
Administration	**142**	133
Research and development	**107**	111
	2,269	2,220

Staff costs for the group were:

	2013 £'m	Restated 2012 £'m
Wages and salaries (including bonus and other benefits)	**70.1**	66.2
Social security costs	**8.9**	8.7
Pension obligation costs (Note 25)	**7.7**	6.1
Performance Share Plan charge	**0.2**	0.5
	86.9	81.5

The above staff costs include £0.2m (2012: £nil) of exceptional items.

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

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2013 (continued)

8. Finance income and cost

	2013 £'m	Restated 2012 £'m
Finance income		
Interest receivable and similar income:		
– On bank balances	–	0.1
Finance cost		
Interest payable and similar charges:		
– On bank loans and overdrafts	(1.1)	(1.1)
Net finance cost on pensions	(2.2)	(2.1)

9. Profit before tax

	2013 £'m	2012 £'m
Profit before tax is stated after charging/(crediting):		
Depreciation of property, plant and equipment	16.9	15.0
Amortisation of intangible assets	1.1	1.0
Loss on disposal of property, plant and equipment	0.7	–
Inventory recognised as an expense	121.1	122.3
Inventory written down or written off	3.5	1.8
Repairs and maintenance expenditure	16.8	16.5
Research and development expenditure	6.7	7.2
Hire of assets – operating leases	1.7	1.1
Net foreign exchange gains	(2.4)	(0.4)
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 4). 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	2013 £'m	2012 £'m
Fees payable to the company's auditors 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 and for any other services 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 and non-audit services to the pension schemes during the year were £18,000 (2012: £10,000).

10. Tax

2013	Before exceptional items £'m	Exceptional items £'m	Total £'m
Current tax charged to the income statement			
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 charged to the income statement	4.5	(0.2)	4.3
Deferred tax charged to the income statement			
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 charged to the income statement (Note 24)	(0.4)	–	(0.4)
Total tax charged to the income statement 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 for the year ended 31 December 2013	**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**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2013 (continued)

10. Tax (continued)

2012	Restated Total £'m
Current tax charged to the income statement	
United Kingdom corporation tax at 24.5%	–
Foreign tax	5.4
Adjustment in respect of prior years	(0.9)
Total current tax charged to the income statement	4.5
Deferred tax charged to the income statement	
Origination and reversal of temporary differences representing:	
– United Kingdom corporation tax	1.5
– United Kingdom corporation tax rate change	(0.2)
– Foreign tax	0.7
	2.0
Adjustments in respect of prior years	0.8
Total deferred tax charged to the income statement (Note 24)	2.8
Total tax charged to the income statement for the year ended 31 December 2012	7.3
Tax on items charged to equity	
Deferred tax credit on pension obligations	(2.9)
Deferred tax charge on net fair value gains on cash flow hedges	0.7
Total deferred tax on items charged to equity for the year ended 31 December 2012	(2.2)
Total current tax charge for the year ended 31 December 2012	4.5
Total deferred tax charge for the year ended 31 December 2012	0.6

10. Tax (continued)

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

2013	Before exceptional items £'m	Exceptional items £'m	Total £'m
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 for the year ended 31 December 2013	**4.1**	**(0.2)**	**3.9**
2012			
Profit before tax (restated)	39.3	–	39.3
Profit before tax multiplied by the blended rate of corporation tax in the UK of 24.5% (restated)	9.6	–	9.6
Effects of:			
– Adjustments in respect of prior years	(0.4)	–	(0.4)
– Adjustments in respect of foreign tax rates	(0.7)	–	(0.7)
– Permanent differences	(1.2)	–	(1.2)
Tax for the year ended 31 December 2012 (restated)	7.3	–	7.3

During the year, a change in the UK corporation tax rate from 24% to 23%, effective from 1 April 2013, was substantively enacted. A further reduction of 21% effective from 1 April 2014 and of 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.

11. Profit for the year

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

The parent company profit for the year is £15.5m (2012: £6.2m).

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2013 (continued)

12. Dividends

Group and company	2013 £'m	2012 £'m
Final paid of 5.85 pence per share (2012: 5.50 pence)	**9.7**	9.1
Interim paid of 2.70 pence per share (2012: 2.65 pence)	**4.5**	4.4
Unclaimed dividends from previous years	**–**	(0.1)
	14.2	13.4

During the year, dividends totalling £0.1m (2012: £0.1m) 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 2013 which will absorb an estimated £10.2m of shareholders' funds. It will be paid on 16 May 2014 to shareholders who are on the register at close of business on 28 March 2014.

13. Earnings per share

	2013 £'m	Restated 2012 £'m
Profit attributable to equity holders	**33.6**	32.0
Profit attributable to equity holders excluding exceptional items	**34.7**	32.0

Earnings per share

– Basic	**20.1p**	19.4p
– Basic before exceptional items	**20.8p**	19.4p
– Diluted	**20.0p**	19.2p
– Diluted before exceptional items	**20.7p**	19.2p

Shares in issue	2013	2012
Weighted average number of shares	166,405,899	165,479,397
Adjustments for:		
– Performance Share Plan	843,314	1,536,468
Weighted average number of shares – diluted earnings per share	167,249,213	167,015,865

Basic earnings per share is calculated by dividing the profit for the year attributable to owners of the parent of £33.6m (2012: £32.0m) by 166,405,899 (2012: 165,479,397) 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 £33.6m (2012: £32.0m) by the average number of shares, including the effect of all dilutive potential shares, of 167,249,213 (2012: 167,015,865).

Earnings per share before exceptional items is calculated in order to eliminate the effect of exceptional items after tax in 2013 of £1.1m (2012: £nil) 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 £34.7m (2012: £32.0m) by 166,405,899 (2012: 165,479,397) shares, being the weighted average number of shares in issue throughout the year.

14. Intangible assets

Group	Computer software £'m	Development Costs £'m	Total £'m
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 2012	7.4	1.2	8.6
Exchange differences	(0.1)	–	(0.1)
Additions	0.6	0.1	0.7
At 31 December 2012	7.9	1.3	9.2
Accumulated amortisation			
At 1 January 2012	4.4	0.5	4.9
Charge for year	0.9	0.1	1.0
At 31 December 2012	5.3	0.6	5.9
Net book value at 31 December 2012	2.6	0.7	3.3
Cost at 1 January 2012	7.4	1.2	8.6
Accumulated amortisation at 1 January 2012	(4.4)	(0.5)	(4.9)
Net book value at 1 January 2012	3.0	0.7	3.7

Included in the net book value of intangible assets is £0.9m (2012: £0.6m) relating to internally generated development costs. In the income statement, amortisation of £0.2m (2012: £0.1m) is included in cost of sales and £0.9m (2012: £0.9m) in administrative expenses.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2013 (continued)

14. Intangible assets (continued)

Company	Computer software £'m
Cost	
At 1 January and 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 2012	3.0
Additions	0.5
At 31 December 2012	3.5
Accumulated amortisation	
At 1 January 2012	0.4
Charge for year	0.8
At 31 December 2012	1.2
Net book value at 31 December 2012	2.3
Cost at 1 January 2012	3.0
Accumulated amortisation at 1 January 2012	(0.4)
Net book value at 1 January 2012	2.6

15. 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 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 2012	81.8	218.2	3.7	32.8	336.5
Exchange differences	(0.4)	(2.0)	(0.6)	(0.3)	(3.3)
Additions	2.1	17.3	0.3	12.7	32.4
Disposals	–	(2.6)	–	–	(2.6)
Reclassification	3.8	23.9	0.6	(28.3)	–
At 31 December 2012	87.3	254.8	4.0	16.9	363.0
Accumulated depreciation					
At 1 January 2012	26.4	127.0	2.9	–	156.3
Exchange differences	(0.2)	(1.6)	(0.1)	–	(1.9)
Charge for year	2.0	11.9	1.1	–	15.0
Disposals	–	(2.3)	–	–	(2.3)
At 31 December 2012	28.2	135.0	3.9	–	167.1
Net book value at 31 December 2012	59.1	119.8	0.1	16.9	195.9
Cost at 1 January 2012	81.8	218.2	3.7	32.8	336.5
Accumulated depreciation at 1 January 2012	(26.4)	(127.0)	(2.9)	–	(156.3)
Net book value at 1 January 2012	55.4	91.2	0.8	32.8	180.2

In the income statement, depreciation of £15.7m (2012: £14.2m) has been charged in cost of sales; £0.1m (2012: £0.1m) in selling and distribution costs; £0.7m (2012: £0.5m) in administrative expenses; £0.2m (2012: £0.2m) in research and development expenditure and £0.2m (2012: £nil) in exceptional items.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2013 (continued)

15. 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 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 2012	0.3	–	0.3
Additions	0.3	0.2	0.5
At 31 December 2012	0.6	0.2	0.8
Accumulated depreciation			
At 1 January 2012	0.1	–	0.1
Charge for year	0.1	–	0.1
At 31 December 2012	0.2	–	0.2
Net book value at 31 December 2012	0.4	0.2	0.6
Cost at 1 January 2012	0.3	–	0.3
Accumulated depreciation at 1 January 2012	0.1	–	0.1
Net book value at 1 January 2012	0.2	–	0.2

16. Investments

Company	2013 £'m	2012 £'m
Interest in group undertakings		
Cost and net book value at 1 January	**138.5**	138.5
Additions	**0.2**	–
Cost and net book value at 31 December	**138.7**	138.5

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

The company's subsidiary undertakings at 31 December 2013 are shown below:

				Proportion of nominal value of issued shares held by:		Proportion of voting rights represented by shares held:	
Name of undertaking	**Country of incorporation or registration**	**Nature of business**	**Class of shares held**	**Group**	**Company**	**Group**	**Company**
Devro (Scotland) Limited	Scotland	Casings	Ordinary		100%		100%
Devro New Holdings Limited	Scotland	Holding	Ordinary		100%		100%
Devro Medical Limited	Scotland	Dormant	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.

17. Inventories

Details of inventories relating to the group are as follows:

	2013 £'m	2012 £'m
Raw materials and consumables	**6.0**	6.6
Work in progress	**4.2**	4.3
Finished goods and goods for resale	**27.9**	17.2
	38.1	28.1

At 31 December 2013, inventories amounting to £3.1m (2012: £1.0m) were held at net realisable value.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2013 (continued)

18. Trade and other receivables

	Group		Company	
	2013 £'m	2012 £'m	**2013 £'m**	2012 £'m
Amounts falling due after more than one year				
Amounts owed by subsidiary undertakings	**–**	–	**26.3**	13.9
Amounts falling due within one year				
Trade receivables	**28.8**	32.1	**–**	–
Less: provision for doubtful debts	**(0.2)**	(0.2)	**–**	–
Trade receivables – net	**28.6**	31.9	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**1.9**	0.4
Other receivables	**3.2**	2.6	**–**	0.1
Prepayments and accrued income	**1.8**	1.8	**0.9**	0.8
	33.6	36.3	**2.8**	1.3

Group
At 31 December 2013, trade receivables of £0.2m (2012: £0.2m) 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:

	2013 £'m	2012 £'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:

	2013 £'m	2012 £'m
At 1 January	**0.2**	0.3
Receivables impaired	**0.1**	–
Receivables written off as uncollectible	**(0.1)**	(0.1)
At 31 December	**0.2**	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.

18. Trade and other receivables (continued)

At 31 December 2013, trade receivables of £3.9m (2012: £3.8m) 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:

	2013 £'m	2012 £'m
Less than 30 days past due	**3.7**	3.8
30 to 90 days past due	**0.2**	–
	3.9	3.8

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:

	2013 £'m	2012 £'m
US dollar	**9.3**	8.6
Euro	**6.8**	8.1
Japanese yen	**4.2**	6.1
Sterling	**5.7**	4.8
Australian dollar	**3.1**	4.4
Czech koruna	**1.8**	2.1
Other currencies	**2.7**	2.2
	33.6	36.3

Company

At 31 December 2013, trade receivables were £nil (2012: £nil).

At 31 December 2013, receivables due from subsidiary undertakings were £28.2m (2012: £14.3m) and were neither past due nor impaired.

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

	2013 £'m	2012 £'m
Sterling	**11.9**	8.4
Japanese yen	**4.8**	3.3
US dollar	**12.0**	3.1
Other currencies	**0.4**	0.4
	29.1	15.2

19. Cash and cash equivalents

	Group		Company	
	2013 £'m	2012 £'m	2013 £'m	2012 £'m
Cash at bank and in hand	**4.6**	5.2	**–**	2.1
Short-term bank deposits	**1.4**	0.4	**–**	–
	6.0	5.6	**–**	2.1

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2013 (continued)

20. Trade and other payables – current

	Group		Company	
	2013 £'m	2012 £'m	**2013 £'m**	2012 £'m
Trade payables	**8.7**	12.5	**0.4**	0.5
Taxation and social security payable	**2.6**	2.6	**0.1**	0.2
Accruals and deferred income	**15.4**	15.1	**1.1**	2.3
	26.7	30.2	**1.6**	3.0

Accruals and deferred income include £0.1m (2012: £0.1m) in respect of government grants payable within one year.

21. Other payables – non-current

	Group		Company	
	2013 £'m	2012 £'m	**2013 £'m**	2012 £'m
Amounts owed to subsidiary undertakings	**–**	–	**12.2**	10.0
Accruals and deferred income	**1.9**	1.8	**–**	–
	1.9	1.8	**12.2**	10.0

Accruals and deferred income include £1.6m (2012: £1.3m) in respect of government grants payable after more than one year. Government grants are primarily used for the purpose of funding capital expenditure.

22. Financial liabilities – borrowings

	Group		Company	
	2013 £'m	2012 £'m	**2013 £'m**	2012 £'m
Current				
Bank overdrafts due within one year or on demand	**2.4**	1.9	**2.7**	0.5
Non-current				
Unsecured bank loans	**39.4**	29.8	**28.4**	18.6

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

22. Financial liabilities – borrowings (continued)

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

	Currency/Country	Rate	2013	2012
Bank overdrafts:				
	Sterling* (UK)	Bank of England base rate plus 250 basis points	**3.00%**	3.00%
	US dollar (UK)	US Federal funds target rate plus 250 basis points	**2.75%**	2.75%
	Euro (UK)	European Central Bank marginal lending facility rate plus 250 basis points	**3.25%**	4.00%
	Australian dollar (UK)	Reserve Bank of Australia cash rate plus 250 basis points	**5.00%**	5.50%
	New Zealand dollar (UK)	New Zealand official cash rate plus 250 basis points	**5.00%**	5.00%
	Japanese yen (UK)	Japanese basic loan rate plus 250 basis points	**2.80%**	2.80%
	Swiss franc (UK)	Swiss National Bank target rate plus 250 basis points	**2.50%**	2.50%
	US dollar (USA)	US 1 month LIBOR plus 200 basis points	**2.17%**	2.21%
	Australian dollar (Australia)	National Australia Bank business overdraft prime rate minus 100 basis points	**6.97%**	7.47%
	Czech koruna (Czech Republic)	PRIBOR plus 90 basis points	**1.15%**	1.09%
	Euro (Czech Republic)	EUR LIBOR plus 90 basis points	**1.22%**	0.92%
	US dollar (Czech Republic)	US LIBOR plus 90 basis points	**0.98%**	1.07%
Bank borrowings:				
Floating rate	Sterling	LIBOR plus 100 basis points (2012: plus 100 basis points)	**1.49%**	1.50%
Floating rate	US dollar	US LIBOR plus 100 basis points (2012: plus 100 basis points)	**1.17%**	1.21%
Floating rate	Australian dollar	BBSW (Bank Bill Swap Rate) plus 100 basis points (2012: AUD LIBOR plus 100 basis points)	**3.62%**	4.15%
Floating rate	Japanese yen	JPY LIBOR plus 100 basis points (2012: plus 100 basis points)	**1.11%**	1.13%
Average bank borrowings rate			**1.95%**	2.46%

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

Borrowings were denominated in the following currencies:

	Group		Company	
	2013 £'m	2012 £'m	**2013 £'m**	2012 £'m
Sterling	**13.0**	15.8	**15.6**	15.8
Australian dollar	**11.0**	11.3	**–**	0.1
Japanese yen	**5.2**	3.2	**5.2**	3.2
Czech koruna	**2.3**	1.0	**–**	–
US dollar	**10.3**	–	**10.3**	–
Euro	**–**	0.4	**–**	–
	41.8	31.7	**31.1**	19.1

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2013 (continued)

23. Financial risk management and financial instruments

Financial risk management

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

Market risk

a) Interest rate risk

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

The group borrows in the desired currencies at floating rates of interest and may use forward rate agreements or interest rate swaps to generate the desired interest rate profile and manage the group's exposure to interest rate fluctuations. Although group policy permits the hedging of up to 50% of interest rate exposures on borrowings for a period not exceeding five years, no interest rate hedging was in place at 31 December 2013 or 31 December 2012.

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

A variation of, for example, 100 basis points in interest rates, applied to the group's borrowings, cash and short-term deposits at 31 December 2013, would result in a movement in finance costs of £0.4m (2012: £0.3m) and finance income of £0.1m (2012: £0.1m). This would result in a post-tax impact on the group's income statement of £0.3m (2012: £0.2m) and a post-tax impact on the group's equity of £0.3m (2012: £0.2m).

b) Foreign exchange risk

The group has several significant overseas subsidiary undertakings whose revenues and expenses are denominated in a variety of currencies. Group policy dictates that foreign currency exposures arising from future commercial transactions are reviewed by Group Treasury and hedging activities are undertaken as appropriate in order to manage the net foreign exchange risks arising. Group policy permits the hedging of up to a maximum of 80% of the net external currency transaction exposures for periods of up to a maximum of fifteen months forward. It is not group policy to routinely hedge translation exposures apart from those created by inter-company loans 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.

23. Financial risk management and financial instruments (continued)

The table below details the impact of changes in foreign exchange rates on the group's post-tax profit for the years ended 31 December 2013 and 31 December 2012 and equity at 31 December 2013 and 31 December 2012 due to the translation of receivables, payables, cash and derecognised currency hedges which are denominated in currencies other than each group company's reporting currency. The movements in equity arise from the translation of cash flow currency hedges.

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

	Impact on group post-tax profits – gains/(losses)		Impact on equity – increase/(decrease)	
Foreign currency movement	Strengthening £'m	Weakening £'m	Strengthening £'m	Weakening £'m
2013				
Australian dollar: 25%	**–**	**–**	**2.4**	**(2.4)**
Czech koruna: 20%	**(0.9)**	**0.9**	**4.9**	**(4.9)**
Euro: 15%	**0.4**	**(0.4)**	**(3.4)**	**3.4**
Japanese yen: 25%	**–**	**–**	**(1.9)**	**1.9**
Sterling: 15%	**(0.1)**	**0.1**	**1.9**	**(1.9)**
US dollar: 15%	**0.3**	**(0.3)**	**(2.1)**	**2.1**
2012				
Australian dollar: 25%	(0.2)	0.2	4.7	(4.7)
Czech koruna: 20%	(0.2)	0.2	3.8	(3.8)
Euro: 15%	0.2	(0.2)	(4.3)	4.3
Japanese yen: 25%	0.1	(0.1)	(3.9)	3.9
Sterling: 15%	(0.4)	0.4	3.3	(3.3)
US dollar: 15%	0.3	(0.3)	(1.8)	1.8

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2013 (continued)

23. Financial risk management and financial instruments (continued)

Credit risk

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

The group monitors its credit exposure using credit ratings, where applicable, and through its policy of requiring appropriate credit checks on potential customers before sales commence. These procedures limit the group's exposure to any one party to approved levels. Exposure to banking counterparties is only permitted with approved banks which have one minimum short term rating of A1/P1/F1 with rating agencies S&P, Moody's or Fitch. At the reporting date no single banking exposure was greater than £1.1m (2012: £2.5m). The group does not hold any collateral as security.

Liquidity risk

The group has medium-term loan facilities which are regularly reviewed to ensure that they provide adequate liquidity for the group. The facilities are managed on a centralised basis with appropriate local availability. Details of the undrawn committed borrowing facilities available at 31 December 2013 and 31 December 2012 are shown below:

	2013 £'m	2012 £'m
Expiring in more than two years	**21.6**	21.2

At 31 December 2013, the group had in place unsecured floating rate committed loan facilities totalling £61.0m (2012: £51.0m). These facilities are co-ordinated bilateral facilities which were renegotiated with four banks in September 2011. In June 2013, the committed facilities were increased by £10.0m. No other significant amendments were made to the committed facilities and they remain due to expire on 30 September 2016.

The covenants related to the group's loan facilities determine a minimum interest cover ratio, and a maximum gearing ratio. The group had significant headroom within both covenants throughout the years ending 31 December 2013 and 31 December 2012.

In addition to the committed facilities, local uncommitted working capital facilities of £7.5m (2012: £7.5m), US dollars 2.0m (2012: US dollars 2.0m), Czech koruna 120.0m (2012: Czech koruna 120.0m) and Australian dollars 0.5m (2012: Australian dollars 0.5m) were also in place at 31 December 2013. These facilities are renewable within one year.

Capital risk

When managing capital, the group's objectives are to safeguard the business as a going concern, provide returns to shareholders and benefits for other stakeholders, and maintain an optimal capital structure. In order to maintain the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The principal measure used to monitor the strength of the group's balance sheet is the gearing ratio, which expresses the group's net debt as a percentage of its net assets. Net debt is total borrowings less cash and cash equivalents. Net assets are as shown in the consolidated balance sheet. The gearing ratios at 31 December 2013 and 31 December 2012 were as follows:

	2013 £'m	2012 £'m
Total borrowings (Note 22)	**41.8**	31.7
Less: cash and cash equivalents (Note 19)	**(6.0)**	(5.6)
Net debt (Note 32)	**35.8**	26.1
Net assets	**158.0**	146.9
Gearing ratio	**22.7%**	17.8%

23. Financial risk management and financial instruments (continued)

Financial instruments

Disclosures regarding financial instruments are set out below:

Fair value of derivative financial instruments

The fair values of derivative financial instruments were as follows:

	Group		Company	
	Assets £'m	Liabilities £'m	Assets £'m	Liabilities £'m
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**	**–**
At 31 December 2012				
Forward foreign exchange contracts				
– cash flow hedge	2.9	0.3	–	–
– other	0.3	0.1	–	–
	3.2	0.4	–	–

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 2013 (2012: 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 2013, 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 £0.1m (2012: gain of £2.6m). These will be transferred to the income statement and recognised in other operating income or expense when the forecast sales and purchases occur during 2014.

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

	2013 £'m	2012 £'m
Forward foreign exchange contracts	**64.6**	81.4
Currency swaps	**27.2**	13.2

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2013 (continued)

23. Financial risk management and financial instruments (continued)

Fair values of non-derivative financial assets and liabilities

Primary financial instruments held or issued to finance the group's activities:

Group	2013 Book value £'m	2013 Fair value £'m	2012 Book value £'m	2012 Fair value £'m
Fair value of non-current borrowings				
Other financial liabilities at amortised cost				
Long-term borrowings (Note 22)	**(39.4)**	**(39.4)**	(29.8)	(29.8)
Fair value of other financial assets and liabilities				
Loans and receivables				
Trade and other receivables (Note 18)	**31.8**	**31.8**	34.5	34.5
Short-term bank deposits (Note 19)	**1.4**	**1.4**	0.4	0.4
Cash at bank and in hand (Note 19)	**4.6**	**4.6**	5.2	5.2
Other financial liabilities at amortised cost				
Trade and other payables (Note 20)	**(24.1)**	**(24.1)**	(27.6)	(27.6)
Short-term borrowings (Note 22)	**(2.4)**	**(2.4)**	(1.9)	(1.9)

The fair values of the group's borrowings are equivalent to the carrying values reported in the balance sheets as they are floating rate borrowings where interest rates are re-set to market rates at intervals of up to six months.

The fair values of trade and other receivables, short-term deposits and trade and other payables are equivalent to the carrying values because of the short-term nature of these instruments.

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 2013 and 31 December 2012. 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 2013				
Borrowings	**3.2**	**0.8**	**40.0**	**–**
Derivative financial instruments	**1.4**	**–**	**–**	**–**
Trade and other payables	**24.1**	**0.3**	**0.5**	**1.1**
At 31 December 2012				
Borrowings	2.6	0.7	31.1	–
Derivative financial instruments	0.4	–	–	–
Trade and other payables	27.6	0.4	0.5	0.9

23. Financial risk management and financial instruments (continued)

Maturity of financial liabilities (continued)

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 2013				
Borrowings	**0.5**	**0.4**	**28.7**	**–**
Trade and other payables	**2.2**	**–**	**–**	**–**
At 31 December 2012				
Borrowings	0.7	0.2	19.0	–
Trade and other payables	2.8	–	–	–

The amounts shown as borrowings in the above tables include the capital outstanding at each balance sheet date, together with the estimated interest thereon calculated at the effective interest rates at these dates for the periods until the contractual maturity of the relevant borrowing facilities. There is no certainty that these amounts will be outstanding for all of the period involved or that these interest rates will be applicable during these periods.

The amounts showing as trade and other payables in the above tables exclude taxation and social security payable.

Maturity of derivative financial instruments

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

	At 31 December 2013		At 31 December 2012	
	Less than 1 year £'m	**Between 1 and 2 years £'m**	Less than 1 year £'m	Between 1 and 2 years £'m
Group				
Forward foreign exchange contracts – cash flow hedges				
Outflow	**55.4**	**–**	66.2	1.3
Inflow	**54.8**	**–**	68.6	1.4
Forward foreign exchange contracts – net investment hedges				
Outflow	**13.8**	**–**	–	–
Inflow	**14.7**	**–**	–	–
Forward foreign exchange contracts – other				
Outflow	**22.2**	**–**	24.4	–
Inflow	**22.1**	**–**	24.6	–
Company				
Forward foreign exchange contracts – net investment hedges				
Outflow	**13.8**	**–**	–	–
Inflow	**14.7**	**–**	–	–
Forward foreign exchange contracts – other				
Outflow	**12.3**	**–**	13.2	–
Inflow	**12.3**	**–**	13.2	–

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.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2013 (continued)

24. Deferred tax

	Group		Company	
	2013 £'m	Restated 2012 £'m	**2013 £'m**	2012 £'m
Net asset/(liability) at 1 January	**1.0**	1.8	**(0.1)**	(0.2)
Exchange differences	**0.6**	(0.1)	**–**	–
(Charge)/credit for the year to profit	**–**	(3.0)	**0.1**	0.1
(Charge)/credit to equity	**(4.5)**	2.2	**–**	–
United Kingdom corporation tax rate change	**0.4**	0.2	**–**	–
Net (liability)/asset at 31 December	**(2.5)**	1.0	**–**	(0.1)

Group

Deferred tax assets can be analysed as follows:

	Pension obligations £'m	Short term timing differences £'m	Total £'m
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**
At 1 January 2012	13.8	4.6	18.4
Exchange differences	(0.4)	0.1	(0.3)
Credit/(charge) for the year to profit (restated)	0.1	(1.3)	(1.2)
Credit/(charge) to equity (restated)	2.9	(0.1)	2.8
At 31 December 2012	16.4	3.3	19.7

Deferred tax liabilities can be analysed as follows:

	Accelerated capital allowances £'m	Short term timing differences £'m	Total £'m
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)**
At 1 January 2012	(13.7)	(2.9)	(16.6)
Exchange differences	0.1	–	0.1
Charge for the year to profit (restated)	(1.0)	(0.6)	(1.6)
Charge to equity (restated)	–	(0.6)	(0.6)
At 31 December 2012	(14.6)	(4.1)	(18.7)

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24. Deferred tax (continued)

Group (continued)

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

	Asset 2013 £'m	Asset 2012 £'m	Liability 2013 £'m	Liability 2012 £'m	Total 2013 £'m	Total 2012 £'m
Due within one year	**3.0**	2.8	**–**	(0.1)	**3.0**	2.7
Due after more than one year	**11.8**	16.9	**(17.3)**	(18.6)	**(5.5)**	(1.7)
	14.8	19.7	**(17.3)**	(18.7)	**(2.5)**	1.0

Company

	Accelerated capital allowances £'m	Short term timing differences £'m	Total £'m
Liability at 1 January 2013	(0.1)	–	(0.1)
Credit for the year to profit	0.1	–	0.1
Liability at 31 December 2013	**–**	**–**	**–**
Liability at 1 January 2012	(0.2)	–	(0.2)
Credit for the year to profit	0.1	–	0.1
Liability at 31 December 2012	(0.1)	–	(0.1)

The deferred tax liability can be analysed as follows:

	2013 £'m	2012 £'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 2013, unrecognised deferred tax is £nil (2012: £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 (2012: £nil).

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2013 (continued)

25. Pension obligations

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

	2013 £'m	Restated 2012 £'m
Defined benefit schemes:		
– Current service cost	**2.2**	1.5
– Scheme administrative expenses	**0.8**	0.8
Defined benefit scheme costs included within operating profit	**3.0**	2.3
Net finance cost	**2.2**	2.1
Total defined benefit scheme costs	**5.2**	4.4
Defined contribution schemes	**2.5**	1.7
Total pension obligation costs	**7.7**	6.1

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

	2013 £'m	2012 £'m
Fair value of scheme assets	**203.0**	203.1
Present value of scheme liabilities	**(249.1)**	(262.4)
Pension obligations	**(46.1)**	(59.3)

The group operates a number of pension schemes throughout the world. The major schemes are of the defined benefit type and, with the exception of Germany where book reserves are supported by insurance policies, the assets of the schemes are held in separate trustee-administered funds. The defined benefit schemes are closed to new entrants. The total net pension cost for the group was £7.7m (2012: £6.1m), of which £3.5m (2012: £3.4m) related to the overseas schemes. On the advice of the actuaries, cash contributions to the group's defined benefit schemes are expected to be £6.0m for the year ending 31 December 2014 (2013: £6.3m).

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

Actuarial assumptions appropriate for each country have been used.

The last formal actuarial valuations of the group's material defined benefit schemes have been updated to 31 December 2013 by qualified independent actuaries. The major assumptions used by the actuaries in the following principal countries were:

	Australia		United Kingdom		United States	
	2013 %	2012 %	2013 %	2012 %	2013 %	2012 %
Discount rate	**4.30**	3.40	**4.50**	4.30	**4.60**	3.65
Rate of increase in salaries*	**3.50**	3.50	**1.00**	1.00	**–**	–
General inflation	**2.50**	2.50	**3.30**	2.90	**–**	–

* As part of the changes to the United Kingdom plan agreed in 2010, future pensionable salary increases are capped at 1% per annum. No rate of increase in salaries has been assumed in respect of the United States plan as the plan is now frozen.

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 2013 are based on the following tables:

Years of life expectancy for current pensioners aged 65:

	2013		2012	
	Male	**Female**	Male	Female
SAPS 'Normal' (YOB)* United Kingdom – PA92 mc (YOB) +1% underpin + 2	**22.4**	**24.6**	22.3	24.5
IRS Reg. 1.430(h)(3)-1 updated to 2012 United States – RP-2000 healthy projected to 2011	**18.6**	**20.5**	18.6	20.4

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

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

In addition to the above schemes, the group operates a defined benefit pension plan in Germany which, in common with typical practice in that country, is supported by insurance policies. At 31 December 2013, the value of the insurance asset was £2.4m (2012: £2.4m) and the value of the liability was £3.0m (2012: £3.0m). 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 United States for which the group has made adequate provisions on the advice of the actuaries. There is also an individual pension arrangement in Japan in respect of which appropriate contributions are made annually. The plan in Germany and these additional arrangements in the United States and Japan are included under the "other" heading in this note.

The aggregate fair values of assets in the group's defined benefit schemes at 31 December 2013 were estimated to be:

	Australia		United Kingdom		United States		Other		Total	
	2013 £'m	2012 £'m	**2013 £'m**	2012 £'m	**2013 £'m**	2012 £'m	**2013 £'m**	2012 £'m	**2013 £'m**	2012 £'m
Assets with quoted market prices										
Equities	**6.0**	6.1	**48.9**	24.3	**16.1**	14.7	**–**	–	**71.0**	45.1
Bonds	**1.6**	2.0	**83.7**	98.5	**25.7**	23.9	**–**	–	**111.0**	124.4
Other	**1.5**	4.3	**15.7**	24.4	**0.3**	2.5	**2.8**	2.4	**20.3**	33.6
Assets without quoted market prices										
Other	**0.7**	–	**–**	–	**–**	–	**–**	–	**0.7**	–
	9.8	12.4	**148.3**	147.2	**42.1**	41.1	**2.8**	2.4	**203.0**	203.1

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. For the US scheme a defensive approach is taken given the shorter maturity of the scheme liabilities with around 60% 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.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2013 (continued)

25. Pension obligations (continued)

Net pension assets and liabilities at 31 December 2013 were as follows:

	Australia		United Kingdom		United States		Other		Total	
	2013 £'m	2012 £'m	**2013 £'m**	2012 £'m	**2013 £'m**	2012 £'m	**2013 £'m**	2012 £'m	**2013 £'m**	2012 £'m
Total fair value of scheme assets	**9.8**	12.4	148.3	147.2	**42.1**	41.1	**2.8**	2.4	**203.0**	203.1
Present value of scheme liabilities	**(9.7)**	(14.5)	(180.4)	(180.5)	**(55.3)**	(64.0)	**(3.7)**	(3.4)	**(249.1)**	(262.4)
Surplus/(deficit)	**0.1**	(2.1)	(32.1)	(33.3)	**(13.2)**	(22.9)	**(0.9)**	(1.0)	**(46.1)**	(59.3)
Related deferred tax assets	**–**	0.6	6.4	7.6	**4.5**	7.8	**0.3**	0.4	**11.2**	16.4
Net pension assets/(liabilities)	**0.1**	(1.5)	(25.7)	(25.7)	**(8.7)**	(15.1)	**(0.6)**	(0.6)	**(34.9)**	(42.9)

The net deficit position has decreased during the year. The value of the scheme assets was relatively stable in the year. However, the present value of the pension liabilities decreased predominantly as a result of the rise in discount rates. The UK scheme is the largest of the schemes and the discount rate increased from 4.3% to 4.5% in 2013, reducing net liabilities by £6.5m. Additional contributions will be made to the schemes in 2014 to reduce the deficit as part of a contribution profile agreed with Trustees following the results of the last 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 actuaries continually review the funding position of the schemes.

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

	2013 £'m	Restated 2012 £'m
At 1 January	**203.1**	196.6
Interest income	**8.2**	8.9
Scheme administrative expenses	**(0.8)**	(0.8)
Employer contributions	**6.8**	6.5
Member contributions	**0.4**	0.4
Benefits paid	**(13.0)**	(11.6)
Re-measurements – return on plan assets (excluding interest income)	**1.3**	5.0
Exchange losses	**(3.0)**	(1.9)
At 31 December	**203.0**	203.1

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

	2013 £'m	Restated 2012 £'m
At 1 January	**262.4**	242.8
Service cost	**2.2**	1.5
Interest cost	**10.4**	11.0
Member contributions	**0.4**	0.4
Benefits paid	**(13.0)**	(11.6)
Re-measurements – changes in financial assumptions	**(10.4)**	16.3
Re-measurements – changes in demographic assumptions	**0.1**	3.8
Re-measurements – experience adjustments	**0.3**	1.2
Exchange gains	**(3.3)**	(3.0)
At 31 December	**249.1**	262.4

25. Pension obligations (continued)

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

	Australia		United Kingdom		United States		Other		Total	
	2013 £'m	Restated 2012 £'m	**2013 £'m**	Restated 2012 £'m	**2013 £'m**	Restated 2012 £'m	**2013 £'m**	Restated 2012 £'m	**2013 £'m**	Restated 2012 £'m
Amounts charged to the income statement										
Current service cost	**0.6**	0.6	**1.3**	0.9	**–**	–	**0.3**	–	**2.2**	1.5
Scheme administrative expenses	**0.2**	0.2	**0.4**	0.4	**0.2**	0.2	**–**	–	**0.8**	0.8
Net charge to operating profit	**0.8**	0.8	**1.7**	1.3	**0.2**	0.2	**0.3**	–	**3.0**	2.3
Interest income on pension scheme assets	**(0.4)**	(0.5)	**(6.3)**	(6.7)	**(1.5)**	(1.7)	**–**	–	**(8.2)**	(8.9)
Interest on pension scheme liabilities	**0.4**	0.6	**7.6**	7.6	**2.3**	2.6	**0.1**	0.2	**10.4**	11.0
Net interest cost	**–**	0.1	**1.3**	0.9	**0.8**	0.9	**0.1**	0.2	**2.2**	2.1
Net charge to profit	**0.8**	0.9	**3.0**	2.2	**1.0**	1.1	**0.4**	0.2	**5.2**	4.4
Amounts recognised in statement of comprehensive income										
Return on plan assets less interest income	**1.1**	1.0	**(1.7)**	1.1	**1.9**	2.9	**–**	–	**1.3**	5.0
Experience gains/(losses) on liabilities	**0.1**	(0.1)	**(0.1)**	(0.4)	**(0.3)**	(0.8)	**–**	0.1	**(0.3)**	(1.2)
Changes in financial assumptions	**0.8**	0.9	**3.1**	(10.6)	**6.5**	(6.2)	**–**	(0.4)	**10.4**	(16.3)
Changes in demographic assumptions	**–**	–	**–**	(3.7)	**(0.1)**	(0.1)	**–**	–	**(0.1)**	(3.8)
Re-measurements	**2.0**	1.8	**1.3**	(13.6)	**8.0**	(4.2)	**–**	(0.3)	**11.3**	(16.3)

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2013 (continued)

25. Pension obligations (continued)

Movements in the deficit during the year were as follows:

	Australia		United Kingdom		United States		Other		Total	
	2013 £'m	Restated 2012 £'m	**2013 £'m**	Restated 2012 £'m	**2013 £'m**	Restated 2012 £'m	**2013 £'m**	Restated 2012 £'m	**2013 £'m**	Restated 2012 £'m
Deficit in scheme at beginning of year	**(2.1)**	(4.1)	**(33.3)**	(20.0)	**(22.9)**	(21.5)	**(1.0)**	(0.6)	**(59.3)**	(46.2)
Movements in year:										
Pension charge	**(0.8)**	(0.9)	**(3.0)**	(2.2)	**(1.0)**	(1.1)	**(0.4)**	(0.2)	**(5.2)**	(4.4)
Employer contributions	**0.9**	1.0	**2.9**	2.5	**2.6**	3.0	**0.4**	–	**6.8**	6.5
Re-measurements	**2.0**	1.8	**1.3**	(13.6)	**8.0**	(4.2)	**–**	(0.3)	**11.3**	(16.3)
Exchange gains	**0.1**	0.1	**–**	–	**0.1**	0.9	**0.1**	0.1	**0.3**	1.1
Surplus/(deficit) in scheme at end of year	**0.1**	(2.1)	**(32.1)**	(33.3)	**(13.2)**	(22.9)	**(0.9)**	(1.0)	**(46.1)**	(59.3)

The actual return on plan assets in 2013 was £8.7m (2012: £13.1m).

The cumulative re-measurements in other comprehensive income are £61.0m loss (2012: £72.3m 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:

	£'m
In the next year	11.2
In years 2-5	45.1
In years 6-10	63.0
	119.3

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 scheme obligations:

Assumption	**Change in assumption**	**Indicative impact on defined benefit obligation (before deferred tax)**
Discount rate	Increase by 0.25%	Decrease by £9.2m
	Decrease by 0.25%	Increase by £9.8m
Rate of salary increase	Increase by 0.25%	Increase by £0.2m
	Decrease by 0.25%	Decrease by £0.1m
General inflation	Increase by 0.25%	Increase by £2.1m
	Decrease by 0.25%	Decrease by £1.8m
Life expectancy	Increase by 1 year	Increase by £6.8m

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

26. Ordinary shares

Group and company	2013 £'m	2012 £'m
Issued and fully paid		
166,779,230 (2012: 165,633,564) ordinary shares of 10 pence each	**16.7**	16.6

1,145,666 ordinary shares of 10 pence each were issued during the year in connection with the Devro 2003 Performance Share Plan (2012: 625,000).

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2013 (continued)

27. Share-based payments

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

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 £2.07 (2012: £2.87) with the significant inputs to the model being the share price at the grant date, an expected volatility in the share price of 23.9% (based on historic trends), the term of three years, risk free interest rate of 0.77% 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 1,145,666 shares vested under the plan (2012: 625,000).

At 31 December 2013, the maximum number of shares which may vest under the plan is as follows:

Grant date	Fair value per share	Normal vesting date	Number of shares at 1 January 2013	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 2013	Weighted average share price at exercise
28 March 2008	£0.679	28 March 2011	375,000	–	(375,000)	–	–	£3.17
26 September 2008	£0.693	26 September 2011	35,000	–	(15,000)	–	20,000	£3.58
19 March 2009	£0.733	19 March 2012	342,000	–	(342,000)	–	–	£3.17
24 March 2010	£1.475	24 March 2013	467,000	–	(413,666)	(13,334)	40,000	£3.21
24 February 2011	£2.329	24 February 2014	103,846	–	–	(84,894)	18,952	–
24 February 2011	£2.242	24 February 2015	103,846	–	–	–	103,846	–
29 March 2011	£2.640	29 March 2014	300,000	–	–	(209,160)	90,840	–
2 April 2012	£2.900	2 April 2015	358,000	–	–	–	358,000	–
1 August 2012	£2.620	1 August 2015	40,000	–	–	–	40,000	–
12 September 2013	£2.080	12 September 2016	–	677,470	–	–	677,470	–
20 December 2013	£1.840	20 December 2016	–	40,000	–	–	40,000	–
			2,124,692	717,470	(1,145,666)	(307,388)	1,389,108	£3.19

A more detailed summary of the performance conditions of the Performance Share Plan is included in the Remuneration report on pages 61 and 62.

28. Share premium

Group and company	2013 £'m	2012 £'m
At 1 January	**8.0**	7.6
Premium on shares issued under the Devro 2003 Performance Share Plan	**1.0**	0.4
At 31 December	**9.0**	8.0

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 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**
At 1 January 2012	35.6	8.9	1.6	(0.3)	34.2	80.0
Exchange adjustments	–	–	–	–	(1.6)	(1.6)
Cash flow hedges, net of tax	–	–	–	2.3	–	2.3
Performance Share Plan charge	–	–	0.5	–	–	0.5
Performance Share Plan credit in respect of shares vested	–	–	(0.5)	–	–	(0.5)
At 31 December 2012	35.6	8.9	1.6	2.0	32.6	80.7

Company	Capital redemption reserve £'m	Special reserve £'m	Performance Share Plan £'m	Total £'m
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**
At 1 January 2012	35.6	8.9	1.6	46.1
Performance Share Plan charge	–	–	0.2	0.2
Performance Share Plan credit in respect of shares vested	–	–	(0.4)	(0.4)
At 31 December 2012	35.6	8.9	1.4	45.9

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.

NOTES TO THE FINANCIAL STATEMENTS
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30. Retained earnings

	Group		Company	
	2013 £'m	Restated 2012 £'m	2013 £'m	2012 £'m
At 1 January	**41.6**	36.4	**60.7**	67.9
Profit for the year	**33.6**	32.0	**15.5**	6.2
Dividends paid	**(14.2)**	(13.4)	**(14.2)**	(13.4)
Re-measurements of pension obligations, net of tax	**6.4**	(13.4)	**–**	–
At 31 December	**67.4**	41.6	**62.0**	60.7

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

	Group		Company	
	2013 £'m	Restated 2012 £'m	2013 £'m	2012 £'m
Profit before tax	**37.5**	39.3	**13.4**	5.0
Adjustments for:				
Finance income	**–**	(0.1)	**(0.3)**	(0.3)
Finance cost	**1.1**	1.1	**0.7**	0.7
Dividends from subsidiaries			**(14.6)**	(14.2)
Net finance cost on pensions	**2.2**	2.1	**–**	–
Pension costs adjustment for normal contributions	**0.8**	0.8	**–**	–
Loss on disposal of property, plant and equipment	**0.7**	–	**–**	–
Depreciation of property, plant and equipment	**16.9**	15.0	**0.1**	0.1
Amortisation of intangible assets	**1.1**	1.0	**0.8**	0.8
Release from capital grants balance	**(0.1)**	(0.1)	**–**	–
Additional cash contributions to pension schemes	**(4.6)**	(5.0)	**–**	–
Performance Share Plan	**0.2**	–	**0.2**	–
Changes in working capital:				
Increase in inventories	**(13.0)**	(1.3)	**–**	–
(Increase)/decrease in trade and other receivables	**(0.2)**	(2.9)	**(15.4)**	11.1
Increase/(decrease) in trade and other payables	**0.1**	(1.8)	**(0.1)**	(2.2)
Cash generated from/(used in) operations	**42.7**	48.1	**(15.2)**	1.0
Of which:				
Cash generated from/(used in) underlying operations	**43.8**	48.1	**(14.5)**	1.0
Exceptional items cash outflow	**(1.1)**	–	**(0.7)**	–
	42.7	**48.1**	**(15.2)**	**1.0**

32. Analysis of net debt

	Group		Company	
	2013 £'m	2012 £'m	**2013 £'m**	2012 £'m
Cash and cash equivalents	**6.0**	5.6	**–**	2.1
Bank overdrafts	**(2.4)**	(1.9)	**(2.7)**	(0.5)
	3.6	3.7	**(2.7)**	1.6
Borrowings less bank overdrafts	**(39.4)**	(29.8)	**(28.4)**	(18.6)
Net debt	**(35.8)**	(26.1)	**(31.1)**	(17.0)

33. Capital commitments

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

	Group		Company	
	2013 £'m	2012 £'m	**2013 £'m**	2012 £'m
Property, plant and equipment	**4.5**	8.2	**–**	–

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

34. Contingent liabilities

In the opinion of the directors, the group has no material contingent liabilities (2012: £nil).

35. Financial commitments

Operating leases

At 31 December 2013, the future aggregate minimum lease payments were as follows:

	Group		Company	
	2013 £'m	2012 £'m	**2013 £'m**	2012 £'m
No later than one year	**0.7**	0.9	**0.1**	0.2
Later than one year and no later than five years	**0.9**	2.0	**0.4**	1.1
	1.6	2.9	**0.5**	1.3

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2013 (continued)

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 other members of 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:

	2013 £'m	2012 £'m
Emoluments payable to Executive and Non-Executive Directors:		
Short-term employee benefits	**1.0**	0.9
Post-employment benefits	**0.1**	0.1
Share based payments	**0.1**	0.7
	1.2	1.7
Emoluments payable to the remaining members of the Executive Board:		
Short-term employee benefits	**1.6**	1.1
Post-employment benefits	**0.1**	–
Share based payments	**0.1**	0.5
	1.8	1.6
Total emoluments payable to key management	**3.0**	3.3

Related party transactions carried out by the company during the year were as follows:

	2013 £'m	2012 £'m
Sale of services to subsidiary undertakings	**4.9**	4.0
Purchase of services from subsidiary undertakings	**0.1**	0.2
Royalty income received from subsidiary undertaking	**1.2**	1.4
Interest received from subsidiary undertakings	**0.3**	0.3
Interest paid to subsidiary undertakings	**0.1**	0.1

Balances at 31 December arising from transactions with subsidiary undertakings:

	2013 £'m	2012 £'m
Receivables:		
– current	**1.9**	0.4
– non-current	**26.3**	13.9
Payables:		
– non-current	**12.2**	10.0

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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DEVRO PLC

Report on the financial statements

Our opinion

In our opinion:

- The financial statements, defined below, give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2013 and of the group's profit and group's and parent company's cash flows for the year then ended;
- The group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- The parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The group financial statements and parent company financial statements (the "financial statements"), which are prepared by Devro plc, comprise:

- the consolidated and parent company balance sheets as at 31 December 2013;
- the consolidated income statement and statement of comprehensive income for the year then ended;
- the consolidated and parent company statements of changes in equity and cash flow statements 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 their preparation comprises applicable law and IFRSs as adopted by the European Union and, as regards the parent company, as applied in accordance with the provisions of the Companies Act 2006.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's and parent company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DEVRO PLC (continued)

Overview of our audit approach

Materiality

We set certain thresholds for materiality. These helped us to determine 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 group financial statements as a whole to be £1.9 million. This represents approximately 5% of profit before tax and exceptional items. We used profit before tax and exceptional items as we considered this to be an appropriate measure of recurring performance.

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

Overview of the scope of our audit

The group has manufacturing facilities in Australia, Czech Republic, Scotland and 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 two 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 three further reporting units which we considered necessary to achieve sufficient audit evidence over the group's activities. This provided coverage of 85% of revenue and 99% of profit before tax. Specific audit procedures on certain balances and transactions were performed at a further reporting unit where the significance of inventory 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.

Areas of particular audit focus

In preparing the financial statements, the directors made a number of subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We primarily focused 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.

In our audit, we tested and examined information, using sampling and other auditing techniques, to the extent we considered necessary to provide a reasonable basis for us to draw conclusions. We obtained audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

We considered the following areas to be those that required particular focus in the current year. This is not a complete list of all risks or areas of focus identified by our audit. We discussed these areas of focus with the Audit Committee. Their report on those matters that they considered to be significant issues in relation to the financial statements is set out on page 49.

Area of focus	How the scope of our audit addressed the area of focus
Carrying value of inventory We focused on this area because of the higher levels of inventory in the group due to increased manufacturing output of product which had not yet been sold.	We tested the group's compliance with its accounting policy in relation to inventory ageing and provisioning and assessed whether the policy is appropriate when considering the obsolescence of inventory. We compared the cost of the different lines of inventory against expected net realisable value, focussing on the higher value lines, to determine if the carrying value of inventory was overstated.
Development programme We focused on this area because of the significant expenditure on development projects being undertaken by the group, namely in the USA and China, and the impact this can have on the carrying value of existing plant and equipment in the USA. Certain expenditure has also been classified as exceptional and disclosed separately on the face of the income statement.	We tested the group's assessment of the impact of the development expenditure project in the USA on the carrying value of existing plant and equipment to determine whether the carrying values are impaired and useful lives are appropriate. We obtained management's list of identified assets and assessment of useful lives against the capital project plan and re-calculated the accelerated depreciation charge. We also tested the identification and disclosure of exceptional costs in relation to the USA and China capital projects by agreeing amounts to evidence that supported management's assessment of the incremental and non-recurring nature of the costs.
Valuation of pension obligations We focused on this area because of the materiality of the obligation to the financial statements and the key judgements involved in determining the net pension obligation including discount rates, inflation rates and mortality rates.	We evaluated the group's key judgements, taking into account the specific characteristics of the group's pension schemes. We challenged assumptions with respect to discount rates, inflation rates and mortality rates used by the directors by comparing them to our own, independently formed expectations.
Fraud in revenue recognition ISAs (UK& Ireland) presume there is a risk of fraud in revenue recognition because of the pressure management may feel to achieve the planned results.	We tested revenue through confirming the settlement of sales transactions to accounts receivable and cash. We tested customer rebates by agreeing them to customer specific terms. We tested transactions around the year end date to check revenue was recognised in the correct period. We also identified material journals being posted to revenue by understanding the rationale for the adjustments and obtaining appropriate evidence.
Risk of management override of internal controls ISAs (UK & Ireland) require that we consider this.	We tested key reconciliations over material financial statement line items and manual journal entries. We considered whether there was evidence of bias by the directors in the significant accounting estimates and judgments relevant to the financial statements that may represent a risk of material misstatement due to fraud. We also assessed the overall control environment of the group, including the arrangements for staff to "whistle-blow" inappropriate actions, and held discussions with the group's internal audit function.

Going Concern

Under the Listing Rules we are required to review the directors' statement, set out on page 46, 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 group's and parent company's financial statements using the going concern basis of accounting. The going concern basis presumes that the group and parent 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 the parent company's ability to continue as a going concern.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DEVRO PLC (continued)

Opinions on other matters prescribed by the Companies Act 2006

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;
- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Corporate Governance Statement set out on pages 45 and 46 in the Annual Report with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

Other matters on which we are required to report by exception

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law have not been made, and under the Listing Rules we are required to review certain elements of the report to shareholders by the Board on directors' remuneration. We have no exceptions to report arising from these responsibilities.

Corporate Governance Statement

Under the Companies Act 2006 we are required to report to you if, in our opinion a corporate governance statement has not been prepared by the parent company. We have no exceptions to report arising from this responsibility.

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

On page 67 of the Annual Report, as required by the Code Provision C.1.1, the directors state 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 performance, business model and strategy. On page 49, as required by C.3.8 of the Code, the Audit Committee has set out the significant issues that it considered in relation to the financial statements, and how they were addressed. Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- the statement given by the directors is materially inconsistent with our knowledge of the group acquired in the course of performing our audit; or
- the section of the Annual Report 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.

Other information in the Annual Report

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 parent company acquired in the course of performing our audit; or
- is otherwise misleading.

We have no exceptions to report arising from this responsibility.

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 page 67, the directors are responsible for the preparation of the group and parent company 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 group and parent company 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.

Caroline Roxburgh (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors Edinburgh
18 March 2014

FINANCIAL SUMMARY
for the years ended 31 December

	2013 £'m	Restated 2012 £'m	Restated 2011 £'m	Restated 2010 £'m	Restated 2009 £'m
Revenue*	**242.7**	241.1	227.7	213.6	197.4
Operating profit before exceptional items*	**42.1**	42.4	42.5	36.2	26.2
Exceptional items*	**(1.3)**	–	–	18.8	1.8
Operating profit*	**40.8**	42.4	42.5	55.0	28.0
Profit before tax*	**37.5**	39.3	41.2	53.0	26.0
Profit after tax*	**33.6**	32.0	32.7	40.8	19.7
Net assets	**158.0**	146.9	140.5	153.0	114.1
Earnings per share:					
– Basic*	**20.1p**	19.4p	19.9p	25.0p	12.1p
– Basic before exceptional items*	**20.8p**	19.4p	19.9p	16.6p	11.4p
– Diluted*	**20.0p**	19.2p	19.6p	24.5p	11.9p
Dividends per share	**8.8p**	8.5p	8.0p	7.0p	5.0p
Net assets per share	**94.9p**	88.7p	85.1p	93.5p	70.0p

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

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NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the twenty-third Annual General Meeting ("AGM") of Devro plc (the "Company") will be held at Glasgow City Halls, Candleriggs, Glasgow, G1 1NQ on 30 April 2014 at 11:00am.

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 14 will be proposed as ordinary resolutions and resolutions 15, 16 and 17 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 2013, 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 share for the year ended 31 December 2013.

3. To re-elect as a Director Mr Steve Hannam.

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

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

10. To re-appoint PricewaterhouseCoopers LLP as the Company's Auditors to hold office until the conclusion of the next AGM of the Company.

11. To authorise the Directors to determine the remuneration of the Company's Auditors.

12. THAT the Remuneration Report contained within the Company's Annual Report and Accounts for the year ended 31 December 2013, excluding the Directors' Remuneration Policy set out on pages 52 to 56 of the Remuneration Report, be and is hereby approved.

13. THAT the Directors' Remuneration Policy, set out on pages 52 to 56 of the Remuneration Report, be and is hereby approved to take effect immediately after the end of the AGM.

14. THAT, in substitution for all existing authorities, the Directors be generally and unconditionally authorised in accordance with article 4 of the Company's articles of association and with section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the Company to:
    a. allot shares (as defined in section 540 of the Act) in the Company or grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £5,500,000; and
    b. allot equity securities (as defined in section 560 of the Act) up to an aggregate nominal amount of £11,000,000 (such amount to be reduced by the aggregate nominal amount of shares allotted or rights to subscribe for or to convert any security into shares in the Company granted under paragraph a of this resolution 14) in connection with an offer by way of a rights issue:
        i. to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and
        ii. to holders of other equity securities (as defined in section 560(1) of the Act) as required by the rights of those securities or, subject to such rights, as the Directors otherwise consider necessary,

    and so that the Directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter, such authorities to apply (unless previously renewed, varied or revoked by the Company in general meeting) until the end of the Company's next AGM after this resolution is passed (or, if earlier, until the close of business on 30 June 2015) but, in each case, so that the Company may make offers and enter into agreements before the authority expires which would, or might, require shares to be allotted or rights to subscribe for or to convert any security into shares to be granted after the authority expires and the Directors may allot shares or grant such rights under any such offer or agreement as if the authority had not expired.

Special resolutions

15. THAT, in substitution for all existing powers and subject to the passing of resolution 14, the Directors be generally empowered pursuant to section 570 of the Act to allot equity securities (as defined in section 560 of the Act) for cash pursuant to the authority granted by resolution 14 and/or where the allotment constitutes an allotment of equity securities by virtue of section 560(3) of the Act, in each case free of the restriction in section 561 of the Act, such power to be limited:

    a. to the allotment of equity securities in connection with an offer of equity securities (but in the case of an allotment pursuant to the authority granted by paragraph b of resolution 14, such power shall be limited to the allotment of equity securities in connection with an offer by way of a rights issue only):
       i. to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and
       ii. to holders of other equity securities (as defined in section 560(1) of the Act), as required by the rights of those securities or, subject to such rights, as the Directors otherwise consider necessary,

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

    b. to the allotment of equity securities pursuant to the authority granted by paragraph a of resolution 14 and/or an allotment which constitutes an allotment of equity securities by virtue of section 560(3) of the Act (in each case otherwise than in the circumstances set out in paragraph a of this resolution 15 up to a nominal amount of £833,000,

    such power to apply (unless previously renewed, varied or revoked by the Company in general meeting) until the end of the Company's next AGM after this resolution is passed (or, if earlier, until the close of business on 30 June 2015) but so that the Company may make offers and enter into agreements before the power expires which would, or might, require equity securities to be allotted after the power expires and the Directors may allot equity securities under any such offer or agreement as if the power had not expired.

16. THAT the Company be and is hereby generally and unconditionally authorised for the purposes of section 701 of the Act to make one or more market purchases (within the meaning of section 693(4) of the Act) on the London Stock Exchange of ordinary shares of 10 pence each in the capital of the Company ("Ordinary Shares") provided that:
    - the maximum aggregate number of Ordinary Shares hereby authorised to be purchased is 16,600,000 (representing less than 10% of the issued ordinary share capital of the Company as at 7 March 2014 which is the latest practicable date before publication of this notice);
    - the minimum price (exclusive of expenses) which may be paid for an Ordinary Share is 10 pence, being the 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;
    - unless previously renewed, varied or revoked by the Company in general meeting, the authority hereby conferred shall expire at the end of the Company's next AGM after this resolution is passed (or, if earlier, at the close of business on 30 June 2015); and
    - the Company may make a contract or contracts to purchase Ordinary Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority, and may make a purchase of Ordinary Shares in pursuance of any such contract or contracts.

17. 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
18 March 2014
Registered Office:
Moodiesburn, Chryston, G69 0JE

EXPLANATORY NOTES TO THE AGM NOTICE

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 11:00am on 28 April 2014. 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.eproxyappointment.com/ 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 11:00am on 28 April 2014 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, to procure that his CREST sponsor or voting service provider take) 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 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 6:00 pm on 28 April 2014 (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 10.45 am until the close of the meeting.

9. Issued share capital and total voting rights
At 7 March 2014 (being the latest practicable date prior to the publication of this notice) the issued share capital of the Company consists of 166,779,230 Ordinary Shares, carrying one vote each. Therefore, the total voting rights in the Company as at 7 March 2014 are 166,779,230.

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 of the Auditors
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 119 to 123 of this Annual Report.

Resolution 2: Final dividend
The Directors recommend that a final dividend of 6.1 pence per share be paid on 16 May 2014 to shareholders whose names appear on the register of members at the close of business on 28 March 2014. Payment of the final dividend will bring the total dividend for the year ended 31 December 2013 to 8.8 pence per share.

Resolutions 3 to 9: Election and 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. Gerard Hoetmer has been appointed a Non-Executive Director of the Company since last year's AGM and will, therefore, stand for election to the Board for the first time at this AGM. All of the other current Directors are standing for re-election to the Board. All of their biographies are set out on pages 38 and 39 of this Annual Report.

Resolutions 10 and 11: Reappointment and remuneration of the Company's Auditors
These are standard resolutions proposing the reappointment of PricewaterhouseCoopers LLP as the Company's Auditors and authorising the Directors to determine their remuneration.

EXPLANATORY NOTES TO THE AGM NOTICE
(continued)

Resolution 12: Remuneration Report
Shareholders will be invited to approve the Remuneration Report set out on pages 50 to 63 (other than the part containing the Directors' Remuneration Policy) for the year ended 31 December 2013. In line with legislation, this vote will be advisory in nature and it will not be specific to individual levels of remuneration.

Resolution 13: Remuneration Policy
Shareholders will be invited to approve the Directors' Remuneration Policy which is set out in full on pages 52 to 56. This reflects a new statutory requirement to seek shareholders' approval at least every three years (or sooner, in the event of a change in the Policy). On the approval of this resolution, the Directors' Remuneration Policy will take effect immediately. The Company will not be able to make a remuneration payment to a current or prospective Director or a payment for loss of office to a current or past Director, unless that payment is consistent with the Policy or has been approved by a resolution of the members of the Company.

Resolution 14: Allotment of new shares
This resolution is to renew, for a further year, the general authority to allot shares given to the Directors at the Company's last AGM, held on 18 April 2013. Paragraph a of the resolution will give the Directors a general authority to allot up to 55,000,000 Ordinary Shares, representing approximately one-third of the Company's issued ordinary share capital (excluding any shares held in treasury) as at 7 March 2014, which is the latest practicable date before publication of this notice. The Company did not hold any of its own shares as treasury shares as at 7 March 2014.

Paragraph b of the resolution proposes that a further authority be conferred on the Directors to allot unissued shares or rights to subscribe for shares in favour of holders of equity securities (which would include ordinary shareholders) as required by the rights of those securities or as the Directors may otherwise consider necessary, up to a maximum aggregate nominal amount of £11,000,000 (such amount to be reduced by the nominal amount of any shares or rights to subscribe for shares issued under the authority conferred by paragraph a of this resolution). This, the 'section 551 amount', represents an amount which is approximately two thirds of the aggregate nominal value of the issued and unconditionally allotted ordinary share capital of the Company as at 7 March 2014.

This resolution complies with the current guidelines, first issued by the Association of British Insurers ("ABI") in November 2009, and, if the Directors do exercise the authority conferred by paragraph b of this resolution, they intend to follow best practice as regards its use. The Company's practice of requiring each Director of the Company wishing to remain a Director to stand for election or re-election by shareholders at each AGM would already satisfy the ABI's recommendation that Directors stand for re-election at the next AGM following any decision to exercise the authorities sought under this resolution. Other than in relation to the Company's employee share plans, the Directors have no present intention to use these authorities, which will expire at the earlier of the conclusion of the next AGM of the Company and 30 June 2015. As is normal practice, the Directors intend to seek renewal of these authorities at subsequent AGMs.

Resolution 15: Pre-emption rights
This resolution, which will be proposed as a special resolution, seeks to renew the authority conferred on the Directors at the last AGM to issue equity securities of the Company for cash without application of the pre-emption rights as provided by section 561 of the Act. The authorities being sought provide for non-pre-emptive allotments of equity securities (a) to ordinary shareholders in proportion to their existing shareholdings; (b) to holders of other equity securities as required by, or subject to (as the Directors consider necessary), the rights of those securities, and to deal with treasury shares, fractional entitlements and legal and practical problems in any territory, for example on a rights issue or other similar share issue; and (c) for cash up to an aggregate nominal value of £833,000 which represents slightly less than 5% of the issued ordinary share capital of the Company as at 7 March 2014, which is the latest practicable date before publication of this notice. This authority will expire at the earlier of the conclusion of the next AGM of the Company and 30 June 2015.

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

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

Resolution 16: 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 authority limits the number of shares that could be purchased to a maximum of 16,600,000 (representing less than 10% of the issued ordinary share capital of the Company as at 7 March 2014, which is the latest practicable date before publication of this notice) and sets minimum and maximum prices. This authority will expire at the earlier of the conclusion of the next AGM of the Company and 30 June 2015.

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 7 March 2014, there were share scheme award options over 1,189,108 Ordinary Shares in the capital of the Company, which represents 0.7% 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 0.8% of the Company's issued ordinary share capital. As at 7 March 2014, 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 17: 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

30 April 2014	Annual General Meeting
16 May 2014	Final Dividend Paid
30 July 2014	Half Year Results and Interim Dividend Announced
October 2014	Interim Dividend Paid
31 December 2014	Financial Year End
February 2015	2014 Results and Proposed Final Dividend Announced

Dividends

The final dividend will be paid on 16 May 2014 to shareholders on the register at close of business on 28 March 2014.

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 2014 should contact the Company Secretary.

Shareholder enquiries

For all share registration and dividend mandate enquiries contact:

The Registrar
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol
BS99 6ZZ
Telephone – 0870 889 4050
Website – www.investorcentre.co.uk

For other shareholder enquiries contact:

Company Secretary
Devro plc
Moodiesburn
Chryston
G69 0JE

Telephone – 01236 879191

Investor Centre is a free, secure share management website provided by Computershare. This service allows you to view your share portfolio and see the latest market price of your shares, check your dividend payment and tax information, change your address, update payment instructions and receive your shareholder communications online. To take advantage of this service, please register at www.investorcentre.co.uk.

To register you will be required to enter Devro as the name of the company in which you hold shares, your Shareholder Reference Number (SRN) which can be found on your share certificate or on your dividend tax voucher, your Postcode or Country if outside of the UK or Channel Islands and security code (provided on screen). For security purposes, Computershare will send a unique activation code to your registered address to complete registration.

Website

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

DIRECTORS AND ADVISERS

Executive Directors
P W B Page
S C Webb

Non-Executive Directors
S J Hannam
G J Hoetmer (appointed 30 July 2013)
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
Erskine House
68-73 Queen Street
EDINBURGH
EH2 4NN

Solicitors
Clifford Chance LLP
10 Upper Bank Street
Canary Wharf
LONDON
E14 5JJ

Financial advisers
Lazard & Co., Limited
50 Stratton Street
LONDON
W1J 8LL

Principal bankers
Barclays Bank plc
1st Floor, Aurora Building
120 Bothwell Street
GLASGOW
G2 7JT

Clydesdale Bank PLC
Clydesdale Bank Exchange
30 St Vincent Place
GLASGOW
G1 2HL

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

Rabobank International
Thames Court
One Queenhithe
LONDON
EC4V 3RL

Stockbrokers
Investec Securities
2 Gresham Street
LONDON
EC2V 7QP

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Computershare Investor
Services PLC
The Pavilions
Bridgwater Road
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Paper from responsible sources
FSC® C023105

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