



# Extracting more from our assets

World leader in manufactured casings



Annual Report &  
Accounts 1997

**Devro is a world leader in the production of manufactured casings for the food industry.**

**The Group has product offerings in each of the key market segments of cellulose, fibrous, plastics and collagen.**

**Key applications include edible and non-edible casings for sausage, salamis, hams and other processed meats.**

|                                                           |    |                                                |    |
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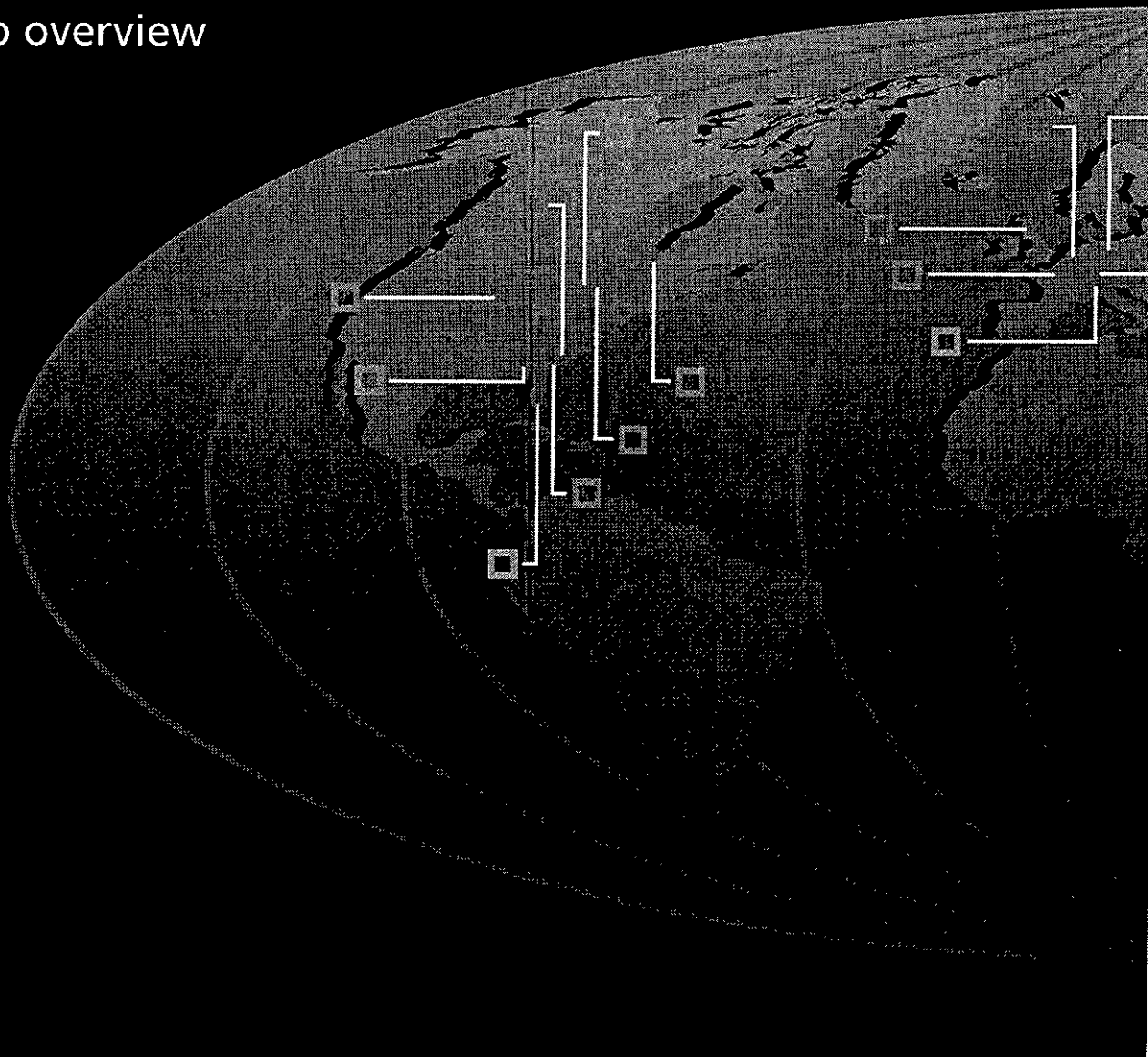
# Financial highlights

|                              | <b>1997</b>  | <b>1996*</b> |
|------------------------------|--------------|--------------|
| Earnings per share           | <b>23.6p</b> | 19.7p        |
| Dividends per ordinary share | <b>9.5p</b>  | 8.5p         |

|                                    |                |         |
|------------------------------------|----------------|---------|
| Turnover                           | <b>£284.5m</b> | £302.2m |
| Gross profit                       | <b>£112.4m</b> | £113.0m |
| – margin                           | <b>39.5%</b>   | 37.4%   |
| Operating profit                   | <b>£60.7m</b>  | £56.0m  |
| – margin                           | <b>21.4%</b>   | 18.5%   |
| Profit before taxation             | <b>£58.0m</b>  | £51.9m  |
| Tax rate                           | <b>31.0%</b>   | 31.5%   |
| Net cash from operating activities | <b>£64.0m</b>  | £61.4m  |
| Capital expenditure                | <b>£16.6m</b>  | £14.9m  |
| Net debt                           | <b>£29.4m</b>  | £40.7m  |
| Net gearing                        | <b>24.8%</b>   | 36.5%   |
| Net interest cover                 | <b>22</b>      | 13      |

\*Before exceptional items

# Group overview



## ACTIVITY HIGHLIGHTS

- Significant improvement in regional profitability
- Outstanding Cutisin performance
- Record sales in the UK & Ireland

### EUROPE

TURNOVER £132.4 MILLION

1 2 3 4

- Strong growth in US fibrous sales
- Higher quality, lower cost Coria product
- Further US price discounting in small diameter cellulose

### AMERICAS

TURNOVER £119.4 MILLION

1 2 3 4

- Impressive collagen growth in Australia
- Significant increase in cellulose sales throughout region
- New collagen product introduced to Japan

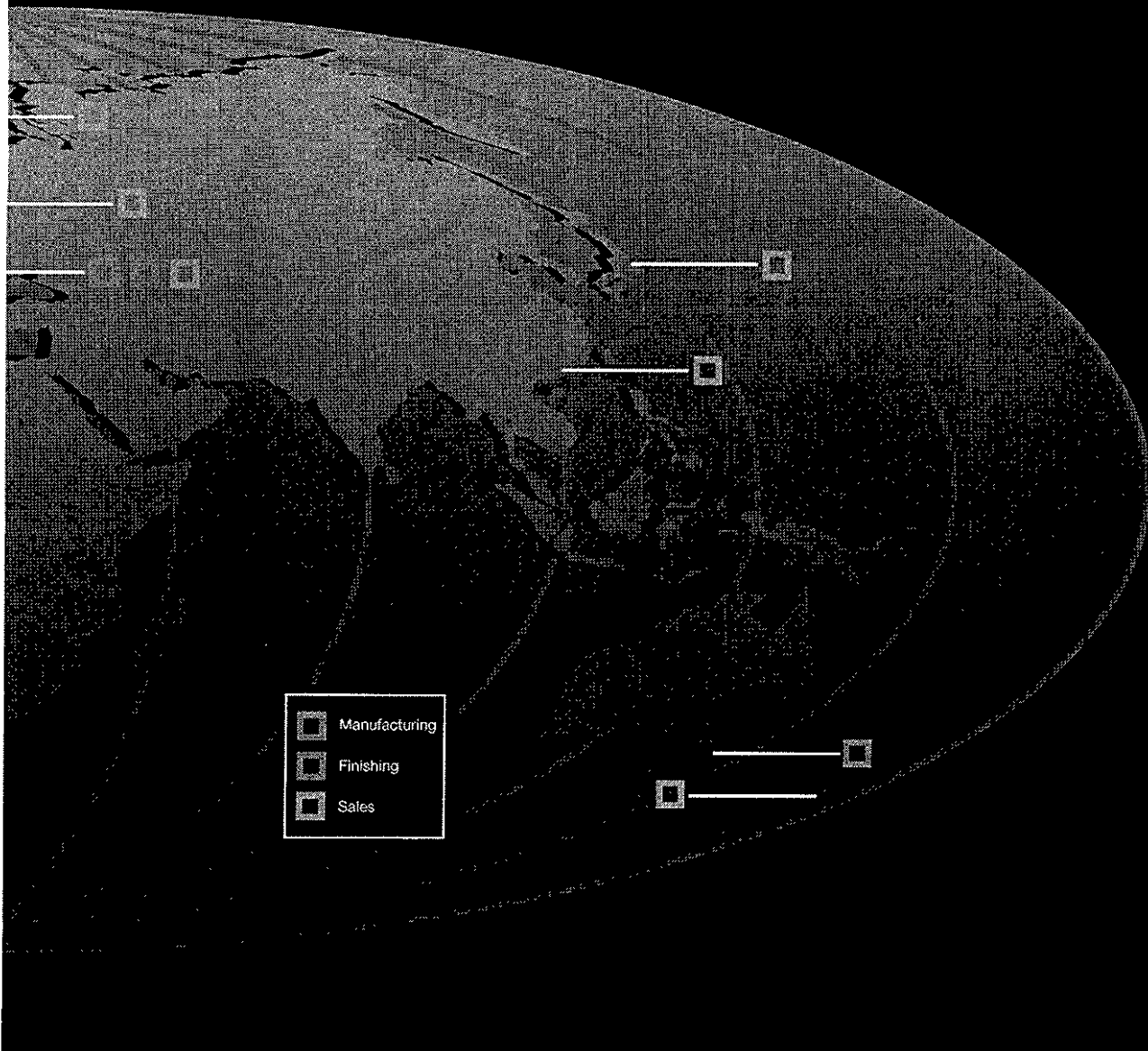
### ASIA/PACIFIC

TURNOVER £32.7 MILLION

1 2 4

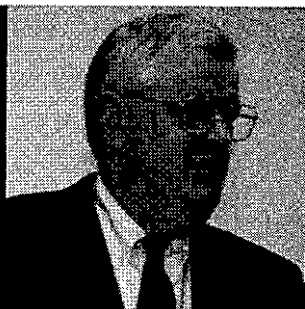
1 CELLULOSE/FIBROUS  
2 COLLAGEN

3 PLASTICS  
4 OTHER



| MANUFACTURING                                                                                                                                                                                                                                                        | FINISHING                                                                                                                                                                    | SALES                                                                                                                                                           | NUMBER OF EMPLOYEES | SALES £M | OPERATING PROFIT £M |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|----------|---------------------|
| <ul style="list-style-type: none"> <li>• Moodiesburn, Scotland (Collagen)</li> <li>• Bellshill, Scotland (Collagen)</li> <li>• Lommel, Belgium (Cellulose, fibrous)</li> <li>• Jilemnice, Czech Rep. (Collagen)</li> <li>• Korenov, Czech Rep. (Collagen)</li> </ul> | <ul style="list-style-type: none"> <li>• Delfzijl, Netherlands</li> <li>• Slavkov, Czech Republic</li> </ul>                                                                 | <ul style="list-style-type: none"> <li>• Hamburg, Germany</li> <li>• Zurich, Switzerland</li> <li>• Moscow, Russia</li> <li>• Prague, Czech Republic</li> </ul> | 2,123               | £132.4   | £38.0               |
| <ul style="list-style-type: none"> <li>• Danville, Illinois (Cellulose, fibrous, plastics)</li> <li>• Sandy Run, South Carolina (Collagen)</li> </ul>                                                                                                                | <ul style="list-style-type: none"> <li>• Kansas City, Missouri</li> <li>• Summerville, South Carolina</li> <li>• Atlanta, Georgia</li> <li>• Scarborough, Ontario</li> </ul> | <ul style="list-style-type: none"> <li>• Westchester, Illinois</li> <li>• Miami, Florida</li> </ul>                                                             | 1,421               | £119.4   | £16.5               |
| <ul style="list-style-type: none"> <li>• Bathurst, Australia (Collagen)</li> </ul>                                                                                                                                                                                   |                                                                                                                                                                              | <ul style="list-style-type: none"> <li>• Auckland, New Zealand</li> <li>• Tokyo, Japan</li> <li>• Hong Kong</li> </ul>                                          | 196                 | £32.7    | £6.2                |
| TOTAL                                                                                                                                                                                                                                                                |                                                                                                                                                                              |                                                                                                                                                                 | 3,740               | £284.5   | £60.7               |

# Chairman's Statement



OUR RESULTS IN 1997 DISPLAY FURTHER EVIDENCE OF THE STRENGTH OF OUR POSITION IN THE MANUFACTURED CASINGS INDUSTRY.

Devro has achieved another year of significant growth, capitalising on the fundamental strengths of our business and the increased opportunities presented by the acquisition of Teepak in early 1996. The breadth of product range and enhanced global coverage has contributed significantly to improved businesses worldwide.

Sales volumes were up in all major product categories. In local currency, turnover was 3% ahead of prior year. However, reported sales in sterling at £284.5 million were £17.7 million lower than prior year due to an adverse translational exchange impact of £26.1 million.

Operating profit of £60.7 million represented a margin of 21.4% compared with the margin of 18.5% achieved in 1996.

Pre-tax profit in 1997 was £58.0 million, which is a 12% uplift on 1996 profit before exceptional items, despite the adverse exchange impact.

Earnings per share of 23.6p is up 27.6% on unadjusted earnings per share of 18.5p and up 19.8% on earnings before exceptional items.

Throughout the group, trading was very positive. Within collagen, we have been successful in further stimulating market demand. Our broad product offering, comprising the three distinct brands of Coria, Cutisin and Devro, has contributed to a volume growth in excess of 6%. We have initiated an important investment

programme to provide further capacity to meet this growth in demand. In small diameter cellulose, worldwide volumes improved by over 7%, with continuing strong growth in developing Eastern European markets being a major contributory factor. The benefits derived from volume growth compensated for the further price discounting which occurred in the US market during 1997. Sales volumes of our large diameter fibrous products for use in such applications as salami and pepperoni also showed a healthy increase. Further details of our performance are contained in the operating and financial review at pages 6 to 10.

Devro's strong cash flow enabled us to continue to reduce the borrowing of the group and we ended the year with net debt of £29.4 million compared with £40.7 million at 31 December 1996. This represents a reduction in gearing from 36.5% to 24.8%.

The Board is proposing a final dividend of 6.4 pence per share, to be paid on 22 May 1998 to shareholders on the register as of 14 April 1998. An interim dividend of 3.1 pence was paid in October and the increase in full year dividend over 1996 is 11.8%. Our dividend policy continues to be to provide progressive dividend growth reflecting the progress of the group.

Devro today is a highly successful company and a world leader in its industry. I have now been a

Non-Executive Director for six years, five of which have been as Chairman. When I joined Devro, it was a private company with a turnover of £77 million and profit before tax of £10 million. With strong organic growth and following the highly successful acquisition of Teepak, Devro's profits have increased almost six-fold, and market value has grown substantially. All of us at Devro can be proud of that achievement.

Having accomplished what I set out to do when I joined the company, I believe that the time is now appropriate for me to move on and focus my time and attention on new opportunities ahead. I therefore intend to retire as Chairman and Non-Executive Director.

I am delighted to announce that Dr Bruce Farmer, who joined the Company as a Non-Executive Director and Chairman Designate on 18 March, will assume the responsibilities of Chairman immediately following our Annual General Meeting in May. Dr Farmer brings to Devro a wide range of international and industrial experience and has considerable expertise in the area of strategic business development. He is Chairman of The Morgan Crucible Company plc and Chairman Designate of Southern Electric plc.

I am also delighted to inform you that Mr Trevor Morgan has been appointed as an Executive Director with effect from 18 March. He will have responsibility for all Technical and Manufacturing operations. Mr Morgan joined the Technical Department in Devro in 1981 and has since held a number of key management positions of increasing responsibility within the business, including directing and managing our very successful European business.

I would like to acknowledge the extent to which our continuing progress is due to the dedication and skill of the group's employees. With the successful integration of Teepak and Cutisin now behind us, we can all take satisfaction from the

professional manner in which that was achieved and view the future with enhanced knowledge and experience.

Our results in 1997 display further evidence of the strength of our position in the manufactured casings industry. Extracting more value from the group's assets has been the cornerstone of Devro's success for a number of years and remains as attractive an objective as ever. Our leading role within the industry provides us with many opportunities to realise market potential and we remain confident in Devro's ability to continue to enhance shareholder value.



**Leon Allen** Chairman

## Extracting more from our assets

1997 was a year of considerable progress for Devro as we achieved record profits and took advantage of the opportunities presented by the enlarged group.

Led by some very positive market trends, growth in casing volume was excellent. An overall uplift in volume of over 6% was achieved when compared with 1996. This growth was spread over all major products.

Unit sales volume in small diameter cellulose casings finished the year over 7% ahead of 1996. Although the US market was slower than in 1996, sales volumes to all other major world markets increased by over 20%. These non-US markets now represent approximately half of the global cellulose business. The slowness in the US casing market resulted mainly from a reduction in the volume of the US export business to Russia for finished sausage products. A significant part of this business, however, was gained by European exporters which contributed to a particularly good result in our European casing sales.

Further price discounting occurred in the US market with prices coming down by around 12% compared with prior year.

In the collagen range, unit sales volumes were over 6% ahead of prior year with each of the brands, Coria, Cutisin and Devro, performing well.

Coria collagen volumes finished the year well ahead of 1996. Although there was some softness in the US market, this was more than offset by very strong sales into Latin America, Australia and Germany, as we increased our market development activity in these regions.

Sales volumes of Cutisin edible collagen were significantly ahead of 1996, which itself was well ahead of 1995. This growth has been broadly based, with Cutisin products being introduced into many markets which it had not traditionally served. This development has been particularly successful in the US and South-East Asia. Substantial growth of 20% was also achieved in the Cutisin non-edible range. Again, this growth was generated across a number of markets, particularly in Cutisin's traditional Eastern Europe territories.

The Devro collagen brand also achieved a healthy sales increase on prior year with growth spread around many of the

important global markets. Latin America, Europe and Africa all showed very positive sales increases with the UK and Ireland, in particular, again producing record results.

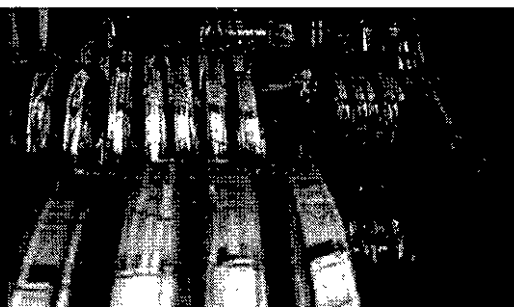
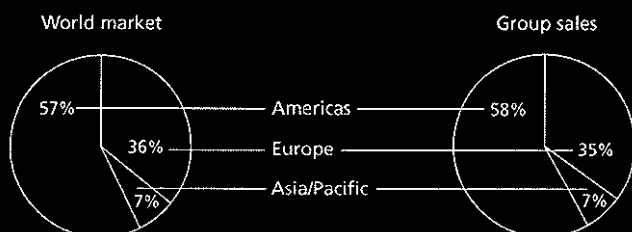
The fibrous business sector continues to be a solid performer. Although the growth in this sector has been more modest than in the other casing sectors, there are nevertheless some very encouraging signs for the future. Many of the key markets are showing healthy increases, although this worldwide growth is currently being offset to a certain extent by a downturn in the Russian market as plastic casings continue to develop in this particular area. Latin America and Eastern Europe have shown positive increases and the US, in particular, turned in a strong performance.

In our manufacturing operations, significant improvements have been achieved. In our collagen business, excellent progress has been made in both the Coria and Cutisin operations in improving the quality of the product, plant productivity and reductions in the cost of manufacture.

### Small diameter cellulose

Devro is represented in each region of the world in direct proportion to global demand for small diameter cellulose products. It is therefore well positioned to exploit market opportunities wherever they arise.

We have met increased demand for small diameter cellulose casing by improving factory throughput by approximately 5%.



**CELLULOSE** SMALL DIAMETER CELLULOSE CASINGS ARE USED IN THE PROCESS OF MANUFACTURING HOT DOG SAUSAGES. DEMAND FOR THESE IS GROWING IN DEVELOPING MARKETS SUCH AS EASTERN EUROPE AS WELL AS THE MORE ESTABLISHED MARKETS OF THE WORLD.



In the Devro plants, technical development continues to yield significant benefits, with this part of the operation again producing a record output. This technical focus on improving our manufacturing performance has also generated substantial benefits in the cellulose operations. These improvements helped considerably to offset the pricing pressures experienced in the US cellulose market. While significant progress was made during 1997, there still remains substantial scope for continuing the improvement process.

The group's manufacturing assets form a very solid base for the further development of our business and 1997 has seen significant success in extracting increased value.

#### GROUP RESULTS

Total sterling sales for 1997 were £284.5 million, against a prior year figure of £302.2 million. Currency had a significant impact on the year's results. The translation of local currencies into sterling has resulted in an adverse foreign exchange impact of almost 9%.

The group's operating profit was £60.7 million, an increase of 8.4% over the comparable 1996 figure of £56.0 million. Operating margins improved to 21.4% in 1997 from 18.5% in 1996. This margin increase was driven by strong volume growth and improvements in manufacturing productivity. In addition, there were continued benefits from the 1996 rationalisation programme as well as savings in raw materials. Cutisin's performance, in particular, has improved significantly with operating margins more than doubling over prior year.

Net operating expenses of £51.6 million, 18.1% of sales, are lower than the 1996 level of £57.0 m, 18.9% of sales. While significant benefit was derived from the impact of currency translation, the reduction nevertheless reflects underlying cost savings. Considerable investment, however, continues to be committed to process and product development. This resulted in a research and development spend in 1997 of £10.6 million, 3.7% of sales.

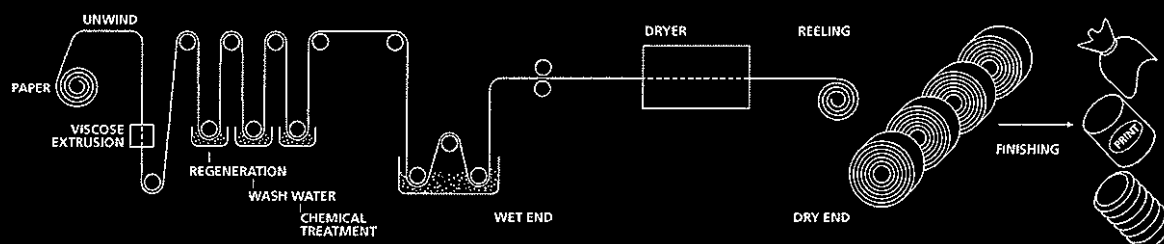
Net interest expense totalled £2.7 million in 1997. The average cost of debt during the year was 6.6% while the

average rate of interest earned on our cash balances was 6.2%. In April 1996, we entered into three interest rate swaps, totalling £41.4 million (US\$70 million), in order to provide protection against potential increases in US\$ interest rates. These swaps were for two, three and four years for nominal amounts of US\$20 million, US\$25 million and US\$25 million respectively. At the year end, these swaps represented 69% of our gross debt. Net interest cover was 22 times.

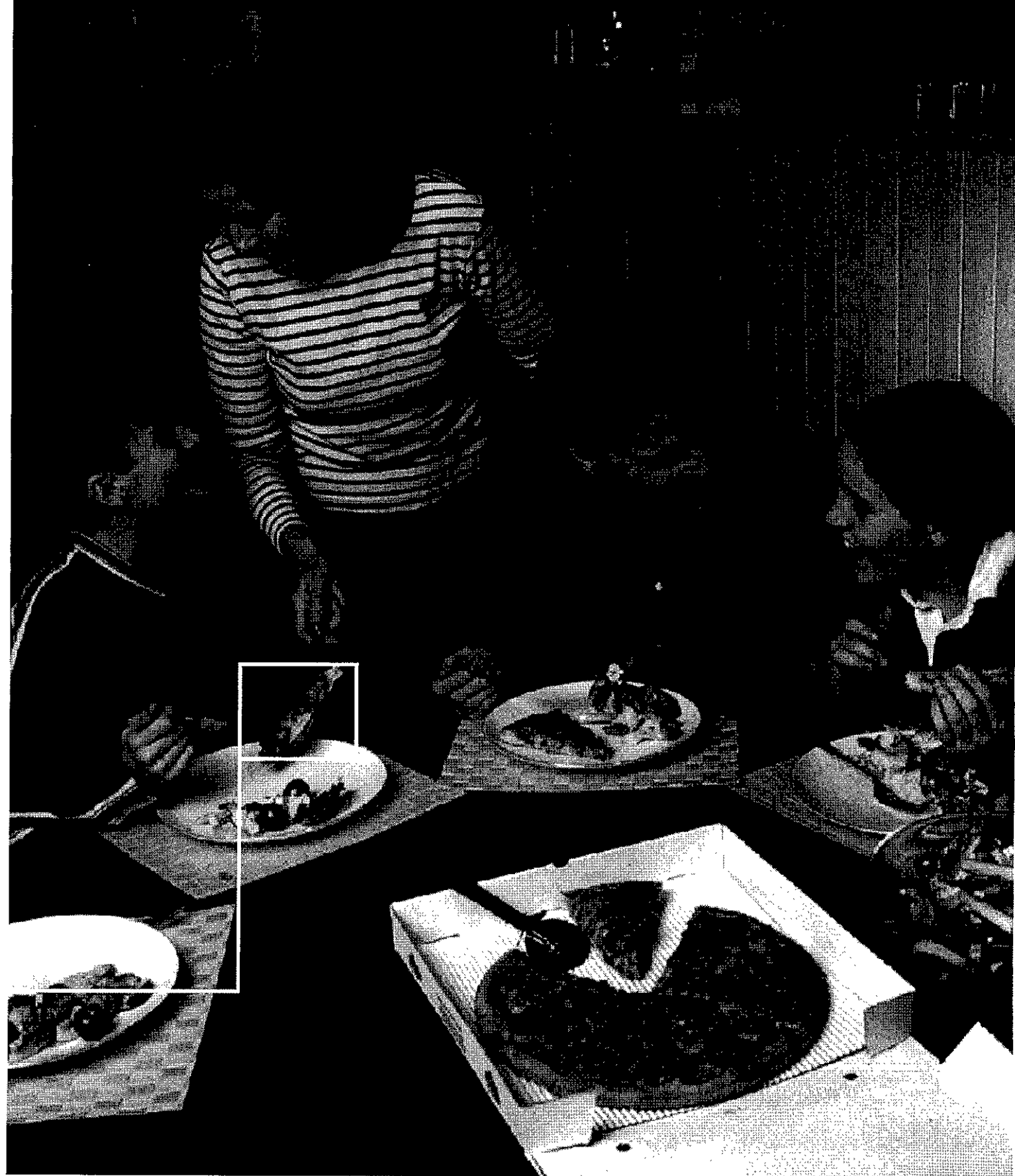
In 1997, approximately 64% of the group's operating profit and approximately 75% of the group's net assets were denominated in currencies other than sterling. The financial impact of exchange rate fluctuations is minimised by a policy of hedging foreign exchange risk. All hedging is undertaken centrally by the Corporate Treasury function, based in Moodiesburn, in accordance with Board approved policies and authorities. Specifically, policies permit forward transaction hedging to a maximum level of 70% of anticipated currency flows for up to one year ahead. They also permit the hedging of up to 100% of

#### Large diameter fibrous process

Coating fibrous paper with viscose results in a strong product for applications such as salami.



**FIBROUS** GROWTH IN DEMAND FOR LARGE DIAMETER FIBROUS PRODUCTS COMES FROM A RANGE OF APPLICATIONS, SUCH AS PEPPERONI, WHICH IS IN TURN DRIVEN BY INCREASED CONSUMPTION OF PIZZA.



interest rate exposures for a period not exceeding five years. As a matter of policy, the group does not undertake any speculative transactions which would increase its foreign exchange or interest rate risks.

Net debt at year end amounted to £29.4 million which comprised gross debt of £61.4 million in US\$ and cash of £32.0 million in a variety of currencies held on deposit by various subsidiaries for local commercial reasons. Gearing has been reduced to 24.8% (1996: 36.5%).

The group's effective tax rate for 1997 was 31% compared with the 1996 effective rate of 31.5%. The major factor in this reduction was the lowering of the UK corporation tax rate from 33% to 31% in April 1997.

Net cash inflow from operating activities for the year to December 1997 totalled £64.0 million.

Dividends of £16.1 million were paid in 1997. The total tax payment was £11.9 million of which a substantial proportion was in respect of UK taxation. This UK component was lower in 1997 than 1996 due to the effect of the 1996 stock write-off related to BSE.

Capital expenditure of £16.6 million was focused mainly on improvements to the manufacturing effectiveness of the group.

Earnings attributable to ordinary shareholders have increased to £37.6 million from £29.4 million in 1996. Unadjusted earnings per share, therefore, was 23.6p, an increase of 27.6% on 18.5p for 1996.

An interim dividend per share of 3.1p was paid in October which, together with the proposed final dividend of 6.4p, will bring the total for the year to 9.5p, an increase of 11.8% over 1996. This level of dividend is covered in excess of two times by earnings.

#### YEAR 2000

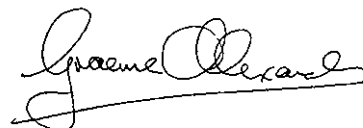
Planning to cope with the impact of the Year 2000 on the group's key financial and other systems is at an advanced stage. Specific actions are already being implemented in both information systems and technical control areas. Progress on these projects is satisfactory.

#### CONCLUSION

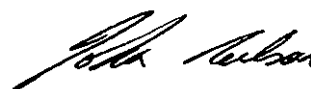
The outlook for the group continues to be good. Growth in collagen remains

healthy and there are encouraging signs that we will again further strengthen our market position in cellulose.

While many benefits have already been obtained from the integration of Devro and Teepak, we believe considerable scope still exists to extract significant additional value from the business. We, therefore, remain confident that these opportunities for further improvement should result in 1998 being another positive year for Devro.



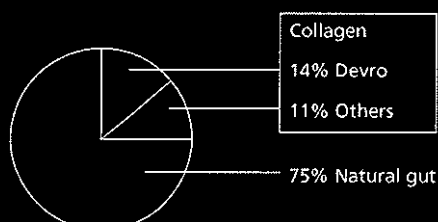
**Dr Graeme Alexander** Chief Executive



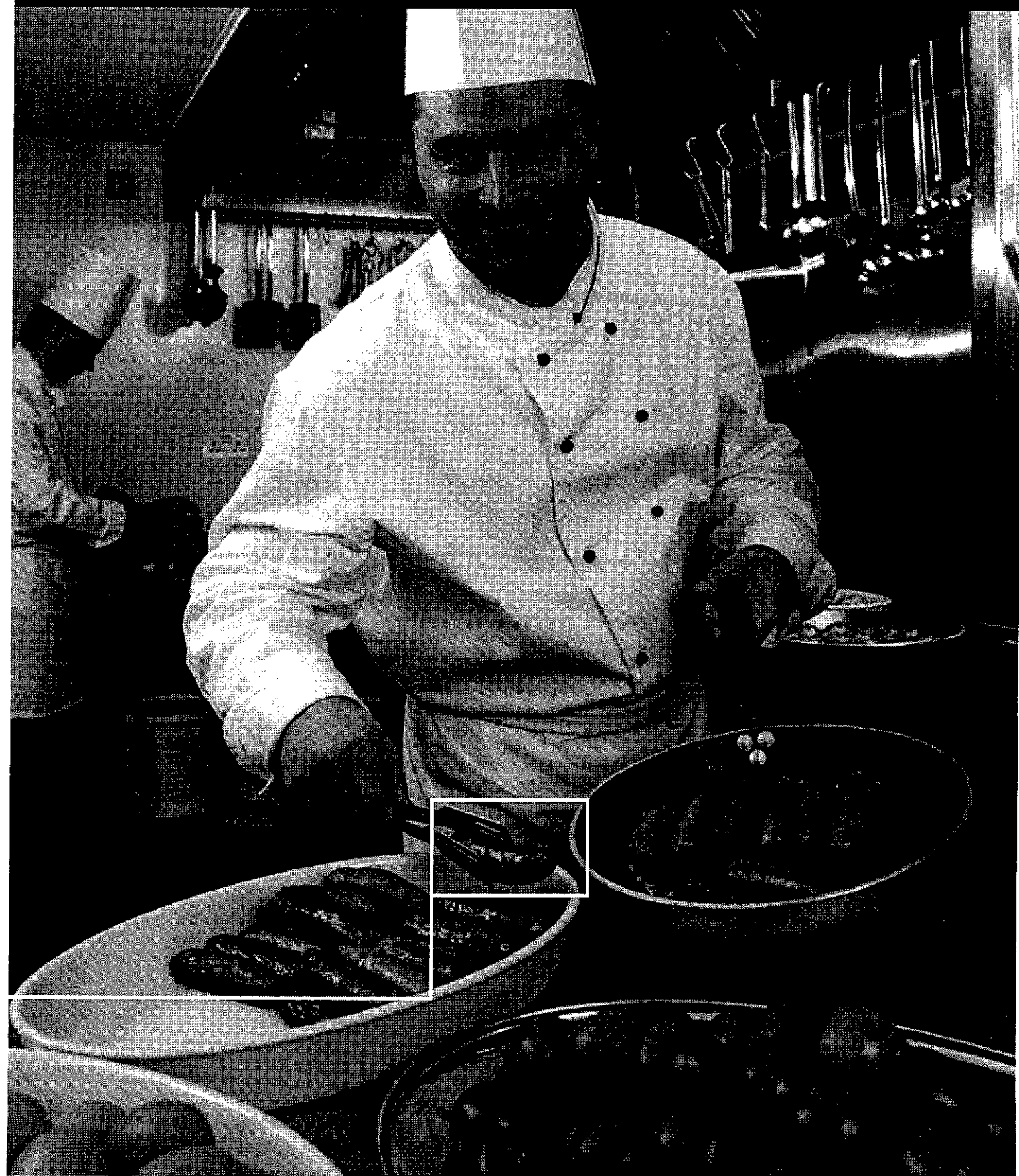
**John Neilson** Finance Director

#### Global edible casings market

Devro has a very strong position in the collagen market yet there still remain sizeable opportunities both to expand that share and to encourage the ongoing conversion of customers from natural gut casings to collagen.



**COLLAGEN** THE THREE COLLAGEN BRANDS MANUFACTURED AND SOLD BY DEVRO ARE CORIA, CUTISIN AND DEVRO. EACH IS PARTICULARLY APPROPRIATE TO SPECIFIC MARKET SEGMENTS, SUCH AS DEVRO'S SUITABILITY FOR THE FRESH SAUSAGE SECTOR.



# Directors



**1 Leon Allen 58 Chairman**

Joined Devro in February 1992 as a Non-Executive Director and was elected Chairman in February 1993. He is Chairman of the Nomination Committee. He is Chairman and Chief Executive of The Tetley Group and a trustee of RADAR.

**2 Dr Graeme Alexander OBE 48 Chief Executive**  
Joined Devro in 1977 and was elected as a Director of the company controlling Devro's European operations in 1989, becoming Chief Executive following the company's flotation in 1993. He is Chairman of the Non-Executive Directors' Remuneration Committee.

**3 Trevor Morgan 41 Director**

Joined Devro in 1982 and has held a number of key positions at a senior executive level within the group. He was appointed a Director in March 1998.

**4 John Neilson 44 Finance Director**

Joined Devro in 1976 and was elected Director of the company controlling Devro's European Operations 1989, becoming Finance Director in 1991.

**5 Stephen Alexander 42 Director**

Joined Devro in August 1993 as a Non-Executive Director. He is Chairman of the Executive Directors' Remuneration Committee. He is Chief Executive of Allied Domecq Retailing and a Director of Allied Domecq plc.

**6 Dr Bruce Farmer CBE 61 Director**

Joined Devro in March 1998 as a Non-Executive Director and Chairman Designate. He is Chairman of The Morgan Crucible Company plc, having been its Chief Executive from 1983 until 1997. He is Chairman Designate of Southern Electric plc and a Non-Executive Director of Scapa plc.

**7 Patrick Mocatta 48 Director**

Joined Devro in June 1996 as a Non-Executive Director. He is a Managing Director of UBS Limited.

**8 Richard Morgan 68 Director**

Joined Devro in 1991 shortly after the management buy-out and was formerly Finance Director of BICC plc. He is Chairman of the Audit Committee.

# Directors' report

For the year ended 31 December 1997

The directors present their report and the audited financial statements for the year ended 31 December 1997.

## Principal activity

The principal activity of the group is the production and marketing of manufactured casings for the food industry.

## Review of business

The report of the directors should be read in conjunction with the Chairman's Statement and the Operating and Financial Review which contain details of the group's trading during the year and an indication of future developments.

The consolidated profit and loss account for the year is set out on page 22.

## Dividends and transfers to reserves

The directors recommend a final dividend of 6.4 pence net of tax per ordinary share. If the final dividend is approved by shareholders, ordinary dividends for the year will total 9.5 pence. (1996: 8.5 pence).

A dividend of £1,041,000 on the 6.65% convertible cumulative redeemable preference shares was paid on 1 July 1997 and a further dividend of £1,048,000 was paid on 2 January 1998.

After providing for the dividends detailed above, £22,425,000 (1996: £15,876,000) of the profit for the financial year will be transferred to the group's reserves.

## Share capital

During the year 179,934 ordinary shares of 10 pence each were issued under the rules of the company's share option schemes, bringing the total shares in issue at 31 December 1997 to 159,262,793.

## Share options

Options were granted on 10 October 1997 at an exercise price of 395 pence per share in respect of 690,000 ordinary shares of 10 pence each and on 21 October 1997 at an exercise price of 392.5 pence per share in respect of 10,000 ordinary shares of 10 pence each under the Devro 1993 (No 2) Executive Share Option Scheme to 59 and 1 eligible executives respectively.

An option was granted on 18 June 1997 at an exercise price of 340.5 pence per share in respect of 203,272

ordinary shares of 10 pence each to the Trustee of the Devro Employee Share Ownership Plan Trust, which was created in relation to the company's Long Term Incentive Plan.

Details of all options granted but not lapsed or exercised at 31 December 1997 are shown in note 21 to the financial statements.

## Research and development

The group is committed to research and development activities 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 7 to the financial statements.

## Directors

The names and brief biographical details of the directors of the company at the date of this report are set out on page 12.

Dr E B Farmer and Mr T F Morgan, who were appointed directors on 18 March 1998, stand to be re-elected at the forthcoming Annual General Meeting. Dr Farmer is subject to a service agreement with the company for an initial fixed period ending 14 May 2001. Mr Morgan is subject to a service agreement with the company which is terminable, by either party, on two years' notice.

On 18 March 1998, Mr L R Allen announced his intention to retire as Chairman and Non-Executive Director at the company's forthcoming Annual General Meeting. Dr Farmer will, subject to shareholder approval, assume the responsibilities of Chairman immediately following the Annual General Meeting.

In accordance with the Articles of Association, Mr S H Alexander and Mr R F Morgan retire by rotation and being eligible offer themselves for re-election at the Annual General Meeting. Subject to re-election, Mr S H Alexander, who became a director on 1 August 1993, and Mr R F Morgan, who became a director on 30 July 1991, are engaged as directors of the company for fixed periods ending 2 February 2000 and 2 February 1999 respectively.

The company maintains insurance for its directors in respect of their duties as directors.

None of the directors had or has an interest in any material contract relating to the business of the company or of any of its subsidiary undertakings.

The interests of the directors in the share capital of the company are shown on page 20.

### Substantial shareholdings

At 18 March 1998 the company had been notified of the following material interests, other than those of the directors, in 3% or more of the issued ordinary share capital of the company:

|                                                               | Number of<br>ordinary<br>shares | Percentage<br>of issued<br>capital at date<br>of notification |
|---------------------------------------------------------------|---------------------------------|---------------------------------------------------------------|
| Prudential Corporation plc and<br>its subsidiary undertakings | 17,289,456                      | 10.85                                                         |
| The Standard Life Assurance<br>Company                        | 10,222,460                      | 6.42                                                          |
| Norwich Union plc                                             | 6,602,598                       | 4.15                                                          |
| The Capital Group<br>Companies Inc.                           | 6,256,000                       | 3.93                                                          |

Hillside Capital Inc. holds 522,975 6.65% convertible cumulative redeemable preference shares of the company of \$100 each.

### Charitable and political contributions

The contributions made by the group during the year for charitable purposes amounted to £118,000. There were no contributions for political purposes.

### Employees

Devro's aim is to attract, retain and motivate employees of the highest calibre in order to sustain improvements in the group's performance.

The group provides equal opportunity for employment, training, career development and promotion regardless of age, sex, colour, race, ethnic origin or other minority criteria.

The group positively encourages the employment of disabled people whenever suitable vacancies are available. Arrangements are made, wherever possible, for retraining employees who become disabled, to enable them to perform work identified as appropriate to their aptitudes and abilities.

The employee involvement programme operated throughout the year with each business unit responsible for setting up the necessary processes. Examples of this include:

- Financial information was disclosed by means of employee briefings and the distribution of the Interim and Annual Report and Accounts;
- Joint management and employee committees on Health and Safety; and
- Meetings were undertaken with employees and union representatives to discuss the issues affecting them.

### Policy on payment of suppliers

The group agrees terms and conditions with suppliers before business takes place. The group's policy is to pay agreed invoices in accordance with the terms of payment. At 31 December 1997, the amount owed to trade creditors by the group was equivalent to 26 days of purchases from suppliers.

### Notice of Annual General Meeting

The general authority of the directors to allot the unissued share capital of the company conferred at the Annual General Meeting on 15 May 1997 will expire at the date of the forthcoming Annual General Meeting. The directors wish to renew this authority, including the limited disapplication of shareholders' pre-emption rights. An ordinary resolution which is set out in full in the Notice of Meeting on page 43 will be proposed as special business at the Annual General Meeting to grant allotment authority in respect of 52,000,000 ordinary shares of 10 pence, forming £5,200,000 of share capital, being less than 33 per cent of the issued ordinary share capital.

A special resolution which is also set out in full in the Notice of Meeting will be proposed to empower disapplication of the pre-emption rights of ordinary shareholders in respect of 7,950,000 ordinary shares of 10 pence, forming £795,000 of share capital, being less than 5 per cent of the issued ordinary share capital.

The directors consider that it is in the best interests of the company to have available these authorisations, in case of need, even though there is no immediate intention to use them.

The directors believe that share ownership should be encouraged more widely among the group's employees outside the UK and therefore seek the approval of shareholders for a new employee share incentive scheme, the Devro 1998 International Sharesave Scheme ("the International Scheme"). The International Scheme broadly mirrors the provisions of the Devro 1993 UK Sharesave Scheme for UK employees in that employees who wish to be granted an option under the International Scheme must agree to make regular savings with an appropriate savings body for a period prescribed by the Board. If they agree to make such savings, then they can be granted an option with an exercise price at a discount of 20 per cent to the market value of shares at the time the option is granted.

Subject to compliance with local laws and similar regulations, it is intended that participation in the International Scheme will be progressively extended throughout those jurisdictions outside the UK where the company has employees.

A summary of the International Scheme is set out as an Appendix to the Notice of Annual General Meeting on pages 45 and 46 and shareholders are therefore referred to that summary for further details of the International Scheme. Resolution 8, which is an ordinary resolution, seeks the approval of shareholders for the adoption of the International Scheme.

#### **Auditors**

A resolution to reappoint the auditors, Coopers & Lybrand, will be proposed at the Annual General Meeting.

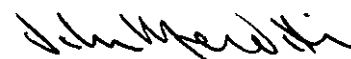
#### **Statement of directors' responsibilities**

The directors are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and the group as at the end of the financial year and of the profit or loss of the group for that period.

The directors confirm that suitable accounting policies have been used and applied consistently and that reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 1997. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records. In addition, they are responsible for taking reasonable steps to safeguard the assets of the company and the group and to prevent and detect fraud and other irregularities.

By order of the board.



**J Meredith** Secretary

Chryston 31 March 1998

# Corporate governance

The company has complied throughout the year with all aspects of the Code of Best Practice published by the Cadbury Committee on Financial Aspects of Corporate Governance except in respect of Mr P J E Mocatta whose terms of appointment are described below. The auditors' report concerning such compliance appears on page 17.

## Board of Directors

The Board of Directors, currently comprising three Executive Directors and five Non-Executive Directors, meets regularly throughout the year. The Board operates within a structure in which the roles and responsibilities of the Chairman, the Chief Executive and the Executive and Non-Executive Directors are clearly established. The Board is ultimately responsible for the direction and management of the group. The Chief Executive is charged with the responsibility for running the group within a defined framework set by the Board in which certain matters are reserved for the Board's approval.

Under the terms of the acquisition of Teepak International, Inc., which were approved by shareholders on 4 January 1996, the vendor, Hillside Capital Inc. was entitled, subject to certain conditions, to nominate one director to the Board of the company. Their nominee, Mr P J E Mocatta, became a Non-Executive Director during 1996. Mr Mocatta has not been appointed for a specific term and is subject to the provisions in the articles of association of the company which provide that one third of the directors shall retire by rotation at each annual general meeting.

## Board Committees

The Board has established Remuneration, Nomination and Audit Committees to provide independent and objective advice on important aspects of the group's affairs.

The Executive Directors' Remuneration Committee is chaired by Mr S H Alexander and comprises Mr L R Allen and Mr R F Morgan, all of whom are Non-Executive Directors. The Committee ensures the company's executive directors are appropriately rewarded for their individual contributions to the group's overall performance.

The Non-Executive Directors' Remuneration Committee comprises the Chief Executive, who chairs the Committee, and the Finance Director. The remit of the Committee is to consider and settle all aspects of the remuneration of the Non-Executive Directors of the company.

The Nomination Committee is chaired by Mr L R Allen and comprises Mr S H Alexander and Mr R F Morgan, both Non-Executive Directors, and the Chief Executive. This Committee is responsible for monitoring and reviewing the composition of the Board.

The Audit Committee is chaired by Mr R F Morgan and comprises Mr L R Allen and Mr S H Alexander, all of whom are Non-Executive Directors. The Finance Director, the internal auditor and senior representatives of the external auditors are normally invited to attend meetings. The purpose of the Committee is to ensure the preservation of good financial practices throughout the group; to monitor that controls are in force to ensure the integrity of the financial information; to review the interim and annual financial statements before their submission to the Board; and to provide, by way of regular meetings, a line of communication between the Board and the external and internal auditors.

## Internal control

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

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

### • Financial reporting

There is a budgeting system in place which includes an annual budget approved by the Board. Monthly actual results are reported against budget and revised forecasts for the year are prepared regularly. The company reports to shareholders twice a year.

- Operating controls

Financial policies and procedures are set out in formal procedures manuals which are held by all Regional Directors and finance staff. The latter are responsible for ensuring that all relevant staff are familiar with their content and application. All Board members, Regional 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 internal auditor attends all 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 Audit Committee has reviewed the effectiveness of the system of internal financial control and considers that the group has an established system of internal control which the directors believe to be appropriate to the business.

### Going concern

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

### Report by the auditors to Devro plc on corporate governance matters

In addition to our audit of the financial statements, we have reviewed the directors' statement on pages 16 and 17 concerning the company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v).

### Basis of opinion

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the group's system of internal financial control or its corporate governance procedures, nor on the ability of the group or company to continue in operational existence.

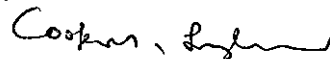
### Opinion

With respect to the directors' statements on internal control on pages 16 and 17 and going concern on page 17, in our opinion the directors have provided the disclosures required by the Listing Rules referred to above and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain directors and officers of the company, and examination of relevant documents, in our opinion the directors' statement on pages 16 and 17 appropriately reflects the company's compliance with the other aspects of the Code specified for our review by Listing Rule 12.43(j).

Coopers & Lybrand

Chartered Accountants



31 March 1998

# Report of the executive directors' remuneration committee

## Composition of the Executive Directors' Remuneration Committee

The members of the Committee are Mr S H Alexander (Committee Chairman), Mr L R Allen and Mr R F Morgan, all of whom are Non-Executive Directors.

The Committee members have no personal interest in the matters to be decided other than as shareholders, no potential conflicts of interest arising from cross-directorships and no day-to-day involvement in running the business.

## Compliance

The constitution and operation of the Committee is in compliance with the principles of the Code of Best Practice issued by the Greenbury Committee which are now incorporated in Section A of the Best Practice Provisions derived from the Code, as amended by the Stock Exchange Listing Rules.

When setting its remuneration policy, the Committee gives full consideration to Section B of the Best Practice Provisions.

## Policy on Remuneration of Executive Directors

### Total level of remuneration

The Committee aims to ensure that remuneration packages offered are competitive and designed to attract, retain and motivate executive directors of high quality.

The Committee believes that such packages should contain measurable performance related elements, aligned with the interests of shareholders.

### The main components

A full remuneration review was carried out in 1996 using a firm of independent remuneration consultants.

Following this review, the main components of the policy are as follows:

#### i) Basic salary

The basic salary for Executive Directors is reviewed annually by the Committee in light of the remuneration review, taking into account the performance of the individual and information from independent sources on the rates of salary for similar jobs in comparable companies.

#### ii) Annual bonus

A new Annual Bonus Scheme was introduced in 1996 whereby a bonus will be calculated each year by the Committee taking into account the financial performance of the company by reference to growth in earnings per share and the contribution of the individual. Superior performance is encouraged by providing challenging and specific performance goals, and the level of bonus is graduated against these targets. No bonus is normally payable unless the earnings per share of the company increases over prior year.

#### iii) Share options

In 1996 the Committee decided that no grants of Executive Share Options would be made to any Directors in any year in which they receive a provisional allocation under the Long Term Incentive Plan. However, existing Options which have been granted will remain in place.

#### iv) Long Term Incentive Plan ("the LTIP")

The LTIP was introduced in 1997 following shareholder approval at the A.G.M. and is designed to provide challenging performance criteria for executives with the aim of rewarding them for sustained performance directly aligned with the interests of shareholders.

Under the LTIP, Executive Directors and senior executives who participate can receive a provisional allocation of shares up to maximum of 95% of annual salary. Those shares will crystallise to the extent that 3-year performance criteria set by the Committee have been met and provided that the Committee is satisfied with the level of underlying financial performance during that period.

However, shares which have crystallised will not normally be transferred to a participant unless he or she remains employed by the group for a further year. The shares in question will be transferred by the trustee of the Employee Share Ownership Plan Trust ("ESOP"), established in 1997. The ESOP will be funded by the company to acquire such shares either by subscription or by purchase in the market.

When making a provisional allocation under the LTIP, the Committee will set an appropriate performance

condition for each allocation and for the first set of allocations made in 1997, this was based on total shareholder return ("TSR"). This performance condition provides that no shares will crystallise unless the company's TSR places it at least at the median position among the companies in the FT-SE Mid-250 Index (excluding investment trusts), with shares crystallising in full if the company's TSR is in the top 10% of such companies. A sliding scale will apply between these points. The Committee takes the view that this performance condition is a challenging target for the first tranche of provisional allocations under the LTIP.

Any benefits received under the LTIP will not be pensionable.

The conditional awards made to directors under the LTIP during the year were as follows:-

|               |                        |
|---------------|------------------------|
| G Y Alexander | 56,430 Ordinary Shares |
| J A Neilson   | 32,122 Ordinary Shares |

Given current performance, it is possible that shares will vest in the directors in 2001 after the scheme has reached its maturity. Consequently, in accordance with UITF 17, the fair value of the shares at the date the conditional award was granted is charged to the profit and loss account over the performance period. A provision of £55,000 in respect of these awards has been made as at 31 December 1997. Any transfers will be made, at nil consideration, from the company's ESOP.

#### Directors' emoluments

Details of directors' emoluments for the year ended 31 December 1997 are as follows:

|               | Basic salary  |               | Fees          |               | Benefits      |               | Bonus         |               | Total         |               |
|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|               | 1997<br>£'000 | 1996<br>£'000 | 1997<br>£'000 | 1996<br>£'000 | 1997<br>£'000 | 1996<br>£'000 | 1997<br>£'000 | 1996<br>£'000 | 1997<br>£'000 | 1996<br>£'000 |
| L R Allen     | -             | -             | 64            | 61            | -             | -             | -             | -             | 64            | 61            |
| G Y Alexander | 200           | 171           | -             | -             | 13            | 13            | 120           | 47            | 333           | 231           |
| S H Alexander | -             | -             | 20            | 19            | -             | -             | -             | -             | 20            | 19            |
| P J E Mocatta | -             | -             | 19            | 11            | -             | -             | -             | -             | 19            | 11            |
| R F Morgan    | -             | -             | 20            | 19            | -             | -             | -             | -             | 20            | 19            |
| J A Neilson   | 114           | 105           | -             | -             | 12            | 11            | 68            | 25            | 194           | 141           |
| Total         | 314           | 276           | 123           | 110           | 25            | 24            | 188           | 72            | 650           | 482           |

#### Company Policy on Contracts of Service

In 1995, the Executive Directors agreed, with no compensation, to reduce the notice period for termination of Executive Directors' service contracts from three years to two years.

Due to the technical nature of the business the service contracts contain restrictive covenants which will be rigorously applied and, taking this into account, the Committee believes that notice periods of two years are reasonable and in the best interest of the company, having regard to prevailing market conditions and current practice among public companies.

Details of the Contracts of Service of the directors who are standing for re-election at the Annual Meeting are given in the Directors' Report on page 13.

#### Company Pensions Policy regarding Executive Directors

The current Executive Directors are UK-based and members of the Devro Limited (UK) Pension Plan which is a funded, contributory, defined benefit pension plan, incorporating a "money purchase" benefit guarantee. This plan provides a pension for members of 2% of final pensionable salary (as defined for the purposes of the UK Plan) for each year of pensionable service (as so defined) completed up to normal retirement age of 65.

## Pension benefits earned by the directors

|               | Age<br>at year end | Directors'<br>contributions<br>in the year<br>£ | Increase in<br>accrued<br>pension<br>over year<br>£ | Accumulated<br>pension<br>at year end<br>£ |
|---------------|--------------------|-------------------------------------------------|-----------------------------------------------------|--------------------------------------------|
| G Y Alexander | 48                 | 8,855                                           | 12,775                                              | 58,598                                     |
| J A Neilson   | 44                 | 4,979                                           | 1,512                                               | 35,062                                     |

The accumulated pension at year end shown is that which would be paid annually on retirement based on service to the end of the year.

The increase in accrued pension during the year excludes any increase for inflation.

Members contribute at 4.5% of pensionable salary which is gross earnings (excluding benefits in kind and discretionary payments) less the Lower Earnings Limit.

The following additional information is applicable:

- Normal retirement age is 65. Directors may retire at age 60 without actuarial reduction to the accrued pension.
- A spouse's pension of one-half of the member's pension is payable on death after retirement.
- Pensions in payment escalate at 5% per annum.

## 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 options to acquire ordinary shares, at the beginning and end of the financial year, are as follows:

|               | Ordinary<br>shares<br>31 Dec 97 | Ordinary<br>shares<br>31 Dec 96 | Share<br>options at<br>31 Dec 97 | Granted<br>during<br>the year | Share<br>options at<br>31 Dec 96 | Exercise<br>price<br>(pence) | Earliest<br>date for<br>exercise | Latest<br>date for<br>exercise |
|---------------|---------------------------------|---------------------------------|----------------------------------|-------------------------------|----------------------------------|------------------------------|----------------------------------|--------------------------------|
| L R Allen     | 175,277                         | 175,277                         |                                  | –                             | –                                | –                            | –                                | –                              |
| G Y Alexander | 686,642                         | 778,642                         | 60,000                           | –                             | 60,000                           | 248                          | 14.04.1997                       | 13.04.2004                     |
|               |                                 |                                 | 60,000                           | –                             | 60,000                           | 251                          | 11.12.1998                       | 10.12.2005                     |
|               |                                 |                                 | 100,000                          | –                             | 100,000                          | 244                          | 19.09.1999                       | 18.09.2003                     |
| S H Alexander | 1,375                           | 605                             | –                                | –                             | –                                | –                            | –                                | –                              |
| P J E Mocatta | 20,000                          | 20,000                          | –                                | –                             | –                                | –                            | –                                | –                              |
| R F Morgan    | 40,210                          | 40,210                          | –                                | –                             | –                                | –                            | –                                | –                              |
| J A Neilson   | 673,485                         | 880,985                         | 45,000                           | –                             | 45,000                           | 248                          | 14.04.1997                       | 13.04.2004                     |
|               |                                 |                                 | 45,000                           | –                             | 45,000                           | 251                          | 11.12.1998                       | 10.12.2005                     |
|               |                                 |                                 | 70,000                           | –                             | 70,000                           | 244                          | 19.09.1999                       | 18.09.2003                     |

No options lapsed unexercised or were exercised by directors during the year or up to the date of this report. On 23 March 1998, the interests of G Y Alexander and J A Neilson each reduced by 250,000 as a result of the sale of ordinary shares. There were no further changes in directors' interests set out above between 31 December 1997 and the date of this report.

The market price of the company's shares at 31 December 1997 was 378 pence and the range of market prices during the year was 265 pence to 407.5 pence.

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# Consolidated profit and loss account

For the year ended 31 December 1997

|                                                      | Notes | 1997<br>£'000  | 1996<br>£'000 |
|------------------------------------------------------|-------|----------------|---------------|
| <b>Turnover – continuing operations</b>              | 2     | <b>284,492</b> | 302,214       |
| Cost of sales                                        |       | <b>172,134</b> | 189,205       |
| Exceptional cost of sales                            |       | –              | 4,500         |
| <b>Total cost of sales</b>                           |       | <b>172,134</b> | 193,705       |
| <b>Gross profit</b>                                  |       | <b>112,358</b> | 108,509       |
| <b>Operating profit – continuing operations</b>      | 3     | <b>60,744</b>  | 51,480        |
| Profit on sale of subsidiary undertakings            | 11    | –              | 7,459         |
| Reorganisation costs                                 | 11    | –              | (10,495)      |
| <b>Profit on ordinary activities before interest</b> |       | <b>60,744</b>  | 48,444        |
| Interest receivable and similar income               |       | <b>2,123</b>   | 1,476         |
|                                                      |       | <b>62,867</b>  | 49,920        |
| Interest payable and similar charges                 | 6     | <b>4,856</b>   | 5,550         |
| <b>Profit on ordinary activities before taxation</b> | 2,7   | <b>58,011</b>  | 44,370        |
| Tax on profit on ordinary activities                 | 8     | <b>17,983</b>  | 11,627        |
| <b>Profit on ordinary activities after taxation</b>  |       | <b>40,028</b>  | 32,743        |
| Minority interests                                   |       | <b>386</b>     | 1,225         |
| <b>Profit for the financial year</b>                 | 9     | <b>39,642</b>  | 31,518        |
| Dividends – ordinary                                 | 10    | <b>15,128</b>  | 13,529        |
| – preference                                         | 10    | <b>2,089</b>   | 2,113         |
| <b>Retained profit for the year</b>                  |       | <b>22,425</b>  | 15,876        |
| <b>Earnings per ordinary share</b>                   |       |                |               |
| – Unadjusted                                         | 11    | <b>23.6p</b>   | 18.5p         |
| – Fully diluted                                      | 11    | <b>22.7p</b>   | 18.1p         |
| – Before exceptional items                           | 11    | <b>23.6p</b>   | 19.7p         |
| – IIMR basis                                         | 11    | <b>23.5p</b>   | 13.8p         |

There is no difference between the retained profit for the year stated above and its historical cost equivalent.

## Statement of total recognised gains and losses

|                                                                       | 1997<br>£'000   | 1996<br>£'000 |
|-----------------------------------------------------------------------|-----------------|---------------|
| Profit for the financial year                                         | <b>39,642</b>   | 31,518        |
| Exchange differences (note 23)                                        | <b>(16,335)</b> | (10,028)      |
| <b>Total gains and losses recognised since the last annual report</b> | <b>23,307</b>   | 21,490        |

# Balance sheets

At 31 December 1997

|                                                                | Notes | Group           |               | Company        |               |
|----------------------------------------------------------------|-------|-----------------|---------------|----------------|---------------|
|                                                                |       | 1997<br>£'000   | 1996<br>£'000 | 1997<br>£'000  | 1996<br>£'000 |
| <b>Fixed assets</b>                                            |       |                 |               |                |               |
| Tangible assets                                                | 12    | <b>152,779</b>  | 159,566       | <b>427</b>     | 214           |
| Investments                                                    | 13    | –               | –             | <b>124,729</b> | 124,729       |
|                                                                |       | <b>152,779</b>  | 159,566       | <b>125,156</b> | 124,943       |
| <b>Current assets</b>                                          |       |                 |               |                |               |
| Stocks                                                         | 14    | <b>38,838</b>   | 37,271        | –              | –             |
| Debtors: amounts falling due after more than one year          | 15    | <b>1,117</b>    | 2,886         | <b>106,003</b> | 111,086       |
| Debtors: amounts falling due within one year                   | 15    | <b>38,486</b>   | 41,323        | <b>20,924</b>  | 22,170        |
| Cash at bank and in hand                                       |       | <b>32,197</b>   | 29,302        | <b>492</b>     | 2,282         |
|                                                                |       | <b>110,638</b>  | 110,782       | <b>127,419</b> | 135,538       |
| <b>Creditors: amounts falling due within one year</b>          | 16    | <b>55,919</b>   | 59,317        | <b>21,367</b>  | 18,953        |
| <b>Net current assets</b>                                      |       | <b>54,719</b>   | 51,465        | <b>106,052</b> | 116,585       |
| <b>Total assets less current liabilities</b>                   |       | <b>207,498</b>  | 211,031       | <b>231,208</b> | 241,528       |
| <b>Creditors: amounts falling due after more than one year</b> | 17    | <b>63,137</b>   | 72,923        | <b>61,446</b>  | 69,823        |
| <b>Provisions for liabilities and charges</b>                  | 18    | <b>24,011</b>   | 23,192        | –              | –             |
|                                                                |       | <b>87,148</b>   | 96,115        | <b>61,446</b>  | 69,823        |
| <b>Net assets</b>                                              | 2     | <b>120,350</b>  | 114,916       | <b>169,762</b> | 171,705       |
| <b>Capital and reserves</b>                                    |       |                 |               |                |               |
| Called up share capital                                        | 20    | <b>47,431</b>   | 46,853        | <b>47,431</b>  | 46,853        |
| Share premium account                                          | 22    | <b>40,702</b>   | 40,326        | <b>40,702</b>  | 40,326        |
| Merger reserve                                                 | 22    | <b>(38,801)</b> | (38,801)      | <b>21,163</b>  | 21,163        |
| Special reserve                                                | 22    | <b>9,339</b>    | 7,969         | <b>55,009</b>  | 55,009        |
| Profit and loss account                                        | 22    | <b>60,003</b>   | 55,115        | <b>5,457</b>   | 8,354         |
| Equity shareholders' funds                                     |       | <b>87,169</b>   | 80,517        | <b>138,257</b> | 140,760       |
| Non-equity shareholders' funds                                 |       | <b>31,505</b>   | 30,945        | <b>31,505</b>  | 30,945        |
| <b>Total shareholders' funds</b>                               | 23    | <b>118,674</b>  | 111,462       | <b>169,762</b> | 171,705       |
| <b>Minority interests – equity</b>                             | 24    | <b>1,676</b>    | 3,454         | –              | –             |
|                                                                |       | <b>120,350</b>  | 114,916       | <b>169,762</b> | 171,705       |

The financial statements on pages 22 to 41 were approved by the board of directors and signed on its behalf by:

**J A Neilson** Finance Director  
31 March 1998



# Consolidated cash flow statement

For the year ended 31 December 1997

|                                                                        | Notes | 1997<br>£'000   | 1996<br>£'000 |
|------------------------------------------------------------------------|-------|-----------------|---------------|
| <b>Net cash inflow from operating activities – continuing</b>          | 25    | <b>64,028</b>   | 61,429        |
| Returns on investments and servicing of finance                        | 26    | (5,175)         | (4,393)       |
| Taxation                                                               |       | (11,935)        | (12,479)      |
| Capital expenditure and financial investment                           | 26    | (15,968)        | (14,730)      |
| Acquisitions and disposals                                             | 26    | (854)           | (10,185)      |
| Equity dividends paid                                                  |       | (14,008)        | (12,565)      |
| <b>Cash inflow before management of liquid resources and financing</b> |       | <b>16,088</b>   | 7,077         |
| Management of liquid resources                                         | 26    | (7,046)         | (2,020)       |
| Financing                                                              | 26    | (9,262)         | (1,263)       |
| <b>(Decrease)/increase in cash in the year</b>                         |       | <b>(220)</b>    | 3,794         |
| <b>Reconciliation of net cash flow to movement in net debt</b>         |       |                 |               |
| (Decrease)/increase in cash in the year                                |       | (220)           | 3,794         |
| Cash outflow from decrease in debt                                     | 27    | 9,656           | 32,703        |
| Cash outflow from increase in liquid resources                         | 27    | 7,046           | 2,020         |
| <b>Change in net debt resulting from cash flows</b>                    |       | <b>16,482</b>   | 38,517        |
| Debt acquired with subsidiary undertaking                              |       | –               | (108,709)     |
| Liquid resources acquired with subsidiary undertaking                  |       | –               | 1,682         |
| Translation difference                                                 | 27    | (5,183)         | 2,993         |
| <b>Movement in net debt in the year</b>                                |       | <b>11,299</b>   | (65,517)      |
| Net debt at 1 January 1997                                             |       | (40,720)        | 24,797        |
| <b>Net debt at 31 December 1997</b>                                    |       | <b>(29,421)</b> | (40,720)      |

# Notes to the financial statements

For the year ended 31 December 1997

## 1 Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important group accounting policies, which have been applied consistently, is set out as follows:

### **Basis of accounting**

The financial statements are prepared in accordance with the historical cost convention.

### **Basis of consolidation**

The consolidated financial statements include the financial statements of the company and all its subsidiary undertakings up to 31 December 1997. Intra-group sales and profits are eliminated fully on consolidation.

### **Intangible fixed assets**

Intangible assets which represented patents, trademarks, trade names, know-how and payments for non-compete agreements were reclassified as goodwill at the time of the company's flotation in June 1993. This goodwill is set off against an unrealised reserve which is being transferred to realised reserves on a straight line basis over 40 years.

### **Acquisition goodwill**

Goodwill arising on acquisitions represents the difference between the fair value of the consideration given and the aggregate of the fair values of the identifiable net assets acquired. The group has eliminated goodwill arising on consolidation from the consolidated financial statements by immediate transfer to reserves.

### **Tangible fixed assets**

The cost of fixed assets is their purchase cost, together with any incidental costs of acquisition. Provision for depreciation is made so as to write off the cost of these assets on a straight line basis over their expected useful economic lives.

The principal lives are:

|                       |            |
|-----------------------|------------|
| Freehold properties   | 50 years   |
| Plant and machinery   | 8-15 years |
| Computer equipment    | 5 years    |
| Motor vehicles        | 4 years    |
| Fixtures and fittings | 10 years   |

No depreciation is provided on freehold land and on assets under construction.

### **Leases**

Costs in respect of operating leases are charged in arriving at the operating profit. There are no assets held under finance leases.

### **Research and development**

All research and development expenditure is written off as incurred.

### **Stocks and work in progress**

Stocks and work in progress are stated at the lower of cost and net realisable value. In general, 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 stocks 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 stocks.

### Foreign currencies

Assets and liabilities of subsidiary undertakings in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year and the results of foreign subsidiary undertakings are translated at the average rates of exchange for the year. Differences on exchange arising from the translation of the opening net assets of overseas subsidiary undertakings and from the translation of the results of those companies at average rates are taken to reserves. All other foreign exchange differences are taken to the profit and loss account in the year in which they arise.

### Turnover

Turnover, which excludes value added tax, sales between group companies and trade discounts, represents the net invoiced value of goods and services supplied.

### Deferred taxation

Provision is made for deferred taxation at current corporation tax rates, using the liability method, on all material timing differences, including those relating to pensions and other post retirement benefits, to the extent that it is probable that a liability or asset will crystallise.

### Pension and other post retirement benefits

Pensions are arranged through defined benefit pension schemes. With the exception of Germany, where book reserves are supported by insurance policies, the assets of the schemes are completely separate from the group's assets. The schemes are valued at least once every three years by professionally qualified independent actuaries. The cost of providing future benefits is spread as a substantially level percentage of total pensionable salaries over the expected service lives of current employees. Variations in pension costs are spread over the expected average remaining service lives of current employees.

The group provides health care benefits for retired employees mainly in the United States. The majority of the group's employees in the United States may become eligible for these benefits if they reach retirement age while still working for the group. These benefits are earned over the active service lives of the employees. The accrued portion of this liability was recognised in full following the acquisition of Teepak International, Inc. A further proportion is recognised each year and any variations in costs are spread over the expected average remaining service lives of the current employees.

## 2 Segmental information

The group has one principal activity, the production and marketing of manufactured casings for the food industry. The analysis by geographical area of the group's turnover, profit before taxation and net assets is set out below:

The group's turnover is stated net of intra-group sales and is as follows:

|                 | 1997<br>Sales by<br>destination<br>£'000 | 1997<br>Sales by<br>origin*<br>£'000 | 1996<br>Sales by<br>destination<br>£'000 | 1996<br>Sales by<br>origin*<br>£'000 |
|-----------------|------------------------------------------|--------------------------------------|------------------------------------------|--------------------------------------|
| <b>Turnover</b> |                                          |                                      |                                          |                                      |
| Europe          | 132,385                                  | 132,669                              | 134,951                                  | 138,025                              |
| Americas        | 119,381                                  | 119,161                              | 133,115                                  | 133,789                              |
| Asia/Pacific    | 32,726                                   | 32,662                               | 34,148                                   | 30,400                               |
|                 | <b>284,492</b>                           | <b>284,492</b>                       | <b>302,214</b>                           | <b>302,214</b>                       |

\*On a legal entity basis

|                                                      | 1997<br>Profit by<br>destination<br>£'000 | 1997<br>Profit by<br>origin*<br>£'000 | 1996<br>Profit by<br>destination<br>£'000 | 1996<br>Profit by<br>origin*<br>£'000 |
|------------------------------------------------------|-------------------------------------------|---------------------------------------|-------------------------------------------|---------------------------------------|
| <b>Profit on ordinary activities before taxation</b> |                                           |                                       |                                           |                                       |
| Europe                                               | 38,075                                    | 40,822                                | 26,294                                    | 29,598                                |
| Americas                                             | 16,489                                    | 15,861                                | 17,163                                    | 15,976                                |
| Asia/Pacific                                         | 6,180                                     | 4,061                                 | 8,023                                     | 5,906                                 |
| <b>Operating profit</b>                              | <b>60,744</b>                             | <b>60,744</b>                         | 51,480                                    | 51,480                                |
| Profit on sale of subsidiary undertakings            | –                                         | –                                     | 7,459                                     | 7,459                                 |
| Reorganisation costs                                 | –                                         | –                                     | (10,495)                                  | (10,495)                              |
| Net interest payable                                 | (2,733)                                   | (2,733)                               | (4,074)                                   | (4,074)                               |
|                                                      | <b>58,011</b>                             | <b>58,011</b>                         | 44,370                                    | 44,370                                |

\*On a legal entity basis

|                                | 1997<br>£'000  | 1996<br>£'000 |
|--------------------------------|----------------|---------------|
| <b>Legal entity net assets</b> |                |               |
| Europe                         | 105,734        | 112,119       |
| Americas                       | 61,377         | 56,755        |
| Asia/Pacific                   | 14,685         | 15,865        |
|                                | <b>181,796</b> | 184,739       |
| Debt due by Devro plc          | (61,446)       | (69,823)      |
|                                | <b>120,350</b> | 114,916       |

### 3 Cost of sales and other operating income and expenses

|                                      | 1997<br>£'000  | 1996<br>£'000 |
|--------------------------------------|----------------|---------------|
| Turnover                             | 284,492        | 302,214       |
| Cost of sales                        | 172,134        | 193,705       |
| <b>Gross profit</b>                  | <b>112,358</b> | 108,509       |
| Selling and distribution costs       | 25,081         | 27,785        |
| Administration expenses              | 16,063         | 19,456        |
| Research and development expenditure | 10,604         | 8,114         |
| Royalty payments                     | –              | (337)         |
| Other expenses                       | 1,045          | 2,519         |
|                                      | <b>52,793</b>  | 57,537        |
| Less: other operating income         | 1,179          | 508           |
| <b>Net operating expenses</b>        | <b>51,614</b>  | 57,029        |
| <b>Operating profit</b>              | <b>60,744</b>  | 51,480        |

## 4 Directors' emoluments

A detailed analysis of directors' remuneration, including salaries, performance-related bonuses and long-term incentives, is provided in the Executive Directors' Remuneration Committee Report on pages 18 to 20.

## 5 Employee information

The average weekly number of persons (including executive directors) employed by the group during the year was:

|                                             | 1997<br>Number | 1996<br>Number |
|---------------------------------------------|----------------|----------------|
| <b>By employee category</b>                 |                |                |
| Operations and engineering                  | 3,081          | 3,138          |
| Marketing                                   | 192            | 209            |
| Distribution                                | 75             | 75             |
| Administration                              | 212            | 233            |
| Research and development                    | 180            | 148            |
|                                             | <b>3,740</b>   | <b>3,803</b>   |
|                                             | 1997<br>£'000  | 1996<br>£'000  |
| <b>Staff costs (for the above persons):</b> |                |                |
| Wages and salaries                          | 73,252         | 79,663         |
| Social security costs                       | 9,793          | 10,659         |
| Other pension costs (note 19)               | 2,733          | 3,025          |
|                                             | <b>85,778</b>  | <b>93,347</b>  |

## 6 Interest payable and similar charges

|                                                                               | 1997<br>£'000 | 1996<br>£'000 |
|-------------------------------------------------------------------------------|---------------|---------------|
| On bank loans and other loans, repayable within 5 years                       | 4,856         | 5,373         |
| On amount advanced by former subsidiary undertaking, repayable within 5 years | —             | 177           |
|                                                                               | <b>4,856</b>  | <b>5,550</b>  |

## 7 Profit on ordinary activities before taxation

|                                                                                            | 1997<br>£'000 | 1996<br>£'000 |
|--------------------------------------------------------------------------------------------|---------------|---------------|
| <b>Profit on ordinary activities before taxation is stated after charging/(crediting):</b> |               |               |
| Depreciation of tangible fixed assets                                                      | 14,599        | 14,803        |
| Research and development expenditure                                                       | 10,604        | 8,114         |
| Auditors' remuneration (company: £46,000; 1996: £46,000)                                   | 283           | 298           |
| Hire of plant and machinery – operating leases                                             | 281           | 777           |
| Hire of other assets – operating leases                                                    | 292           | 322           |
| Gain on disposal of tangible fixed assets                                                  | (154)         | (11)          |

Remuneration of the company's auditors for the year ended 31 December 1997 for provision of non-audit services to the company and its UK subsidiary undertakings was £230,000 (1996: £611,000).

## 8 Tax on profit on ordinary activities

|                                                             | 1997<br>£'000 | 1996<br>£'000 |
|-------------------------------------------------------------|---------------|---------------|
| <b>United Kingdom corporation tax at 31.5% (1996: 33%):</b> |               |               |
| Current                                                     | 6,849         | 5,156         |
| Deferred                                                    | 91            | 209           |
| <b>Overseas taxation</b>                                    | <b>11,788</b> | <b>6,499</b>  |
| <b>(Over)/under provision in respect of prior years:</b>    |               |               |
| Current                                                     | (1,144)       | (120)         |
| Deferred                                                    | 399           | (117)         |
|                                                             | <b>17,983</b> | <b>11,627</b> |

## 9 Profit for the financial year

As permitted by Section 230 of the Companies Act 1985, the holding company's profit and loss account has not been presented in these financial statements. The profit for the financial year is made up as follows:

|                                                               | 1997<br>£'000 | 1996<br>£'000 |
|---------------------------------------------------------------|---------------|---------------|
| Dealt with in the financial statements of the holding company | 14,880        | 13,748        |
| Retained by subsidiary undertakings                           | 24,762        | 17,770        |
|                                                               | <b>39,642</b> | <b>31,518</b> |

## 10 Dividends

|                                                                    | 1997<br>£'000 | 1996<br>£'000 |
|--------------------------------------------------------------------|---------------|---------------|
| <b>Dividends on equity shares:</b>                                 |               |               |
| Ordinary – Interim paid of 3.1 pence per share (1996: 2.8 pence)   | 4,933         | 4,454         |
| Ordinary – Final proposed of 6.4 pence per share (1996: 5.7 pence) | 10,195        | 9,075         |
|                                                                    | <b>15,128</b> | <b>13,529</b> |
| <b>Dividends on non-equity shares:</b>                             |               |               |
| Preference 6.65% – paid                                            | 1,041         | 1,084         |
| Preference 6.65% – payable                                         | 1,048         | 1,029         |
|                                                                    | <b>2,089</b>  | <b>2,113</b>  |
|                                                                    | <b>17,217</b> | <b>15,642</b> |

## 11 Earnings per ordinary share

|                                            | 1997 | 1996 |
|--------------------------------------------|------|------|
| <b>Earnings per ordinary share (pence)</b> |      |      |
| – Unadjusted                               | 23.6 | 18.5 |
| – Fully diluted                            | 22.7 | 18.1 |
| – Before exceptional items                 | 23.6 | 19.7 |
| – IIMR basis                               | 23.5 | 13.8 |

The calculation of unadjusted earnings per share for 1997 is based on the profit for the year, after preference dividend, of £37,553,000 (1996: £29,405,000) and on 159,204,404 (1996: 159,026,607) ordinary shares, being the weighted average number of shares in issue during the year.

The calculation of fully diluted earnings per share is based on the profit, including notional interest on the proceeds of options had they been exercised, of £40,046,000 (1996: £31,749,000) and on 176,480,920 (1996: 175,651,939) ordinary shares, being the number of ordinary shares which would have been in issue at 31 December 1997 if all preference shares had been converted and options exercised.

Earnings per share before exceptional items amounted to 23.6p (1996: 19.7p) as set out below:

|                                             | 1997<br>pence<br>per share | 1996<br>pence<br>per share |
|---------------------------------------------|----------------------------|----------------------------|
| Unadjusted earnings per share               | 23.6                       | 18.5                       |
| Exceptional items (net of tax effect):      |                            |                            |
| – Stock write-off                           | –                          | 1.9                        |
| – Profit on sale of subsidiary undertakings | –                          | (4.7)                      |
| – Reorganisation costs                      | –                          | 4.0                        |
| Earnings per share before exceptional items | <b>23.6</b>                | <b>19.7</b>                |

The exceptional items in 1996 comprised a £4.5 million write off of stock embargoed as a result of a European Union export ban related to the BSE issue, a £7,459,000 gain on the sale of Devro America and reorganisation costs incurred of £10,495,000 in respect of a fundamental restructuring of the group.

A further measure of earnings per ordinary share has been recommended by the Institute of Investment Management and Research ("IIMR") for adoption by financial analysts. This measure, known as headline earnings, adjusts standard earnings per share to eliminate capital items only, rather than all exceptional items. IIMR headline earnings per share amounted to 23.5p (1996: 13.8p) as set out below:

|                                               | 1997<br>pence<br>per share | 1996<br>pence<br>per share |
|-----------------------------------------------|----------------------------|----------------------------|
| Unadjusted earnings per share                 | 23.6                       | 18.5                       |
| IIMR adjustments:                             |                            |                            |
| - Gain on sale of tangible fixed assets       | (0.1)                      | -                          |
| - Profit on sale of subsidiary undertakings   | -                          | (4.7)                      |
| Headline earnings per share (defined by IIMR) | 23.5                       | 13.8                       |

## 12 Tangible fixed assets

| Group                      | Freehold<br>land and<br>buildings<br>£'000 | Plant and<br>machinery,<br>and motor<br>vehicles<br>£'000 | Fixtures<br>and<br>fittings<br>£'000 | Construction<br>in progress<br>£'000 | Total<br>£'000 |
|----------------------------|--------------------------------------------|-----------------------------------------------------------|--------------------------------------|--------------------------------------|----------------|
| <b>Cost</b>                |                                            |                                                           |                                      |                                      |                |
| At 1 January 1997          | 59,390                                     | 117,810                                                   | 1,987                                | 8,055                                | 187,242        |
| Exchange differences       | (5,265)                                    | (3,935)                                                   | (119)                                | (167)                                | (9,486)        |
| Additions                  | 2,189                                      | 9,203                                                     | 448                                  | 4,771                                | 16,611         |
| Disposals                  | (286)                                      | (837)                                                     | (8)                                  | (97)                                 | (1,228)        |
| Reclassification           | 1,230                                      | 5,632                                                     | 34                                   | (6,896)                              | -              |
| <b>At 31 December 1997</b> | <b>57,258</b>                              | <b>127,873</b>                                            | <b>2,342</b>                         | <b>5,666</b>                         | <b>193,139</b> |
| <b>Depreciation</b>        |                                            |                                                           |                                      |                                      |                |
| At 1 January 1997          | 3,934                                      | 23,194                                                    | 548                                  | -                                    | 27,676         |
| Exchange differences       | (344)                                      | (796)                                                     | (36)                                 | -                                    | (1,176)        |
| Charge for year            | 1,109                                      | 13,080                                                    | 410                                  | -                                    | 14,599         |
| Disposals                  | -                                          | (734)                                                     | (5)                                  | -                                    | (739)          |
| Reclassification           | -                                          | (22)                                                      | 22                                   | -                                    | -              |
| <b>At 31 December 1997</b> | <b>4,699</b>                               | <b>34,722</b>                                             | <b>939</b>                           | <b>-</b>                             | <b>40,360</b>  |
| <b>Net book value</b>      |                                            |                                                           |                                      |                                      |                |
| <b>At 31 December 1997</b> | <b>52,559</b>                              | <b>93,151</b>                                             | <b>1,403</b>                         | <b>5,666</b>                         | <b>152,779</b> |
| Net book value             |                                            |                                                           |                                      |                                      |                |
| At 31 December 1996        | 55,456                                     | 94,616                                                    | 1,439                                | 8,055                                | 159,566        |

Depreciation has not been charged on freehold land which is stated at historical cost of £4,817,000 (1996: £5,191,000).

| Company                                   | Plant and machinery, and motor vehicles<br>£'000 | Fixtures and fittings<br>£'000 | Total<br>£'000 |
|-------------------------------------------|--------------------------------------------------|--------------------------------|----------------|
| <b>Cost</b>                               |                                                  |                                |                |
| At 1 January 1997                         | 258                                              | 22                             | 280            |
| Additions                                 | 308                                              | –                              | 308            |
| Disposals                                 | (10)                                             | –                              | (10)           |
| <b>At 31 December 1997</b>                | <b>556</b>                                       | <b>22</b>                      | <b>578</b>     |
| <b>Depreciation</b>                       |                                                  |                                |                |
| At 1 January 1997                         | 63                                               | 3                              | 66             |
| Charge for year                           | 86                                               | 2                              | 88             |
| Disposals                                 | (3)                                              | –                              | (3)            |
| <b>At 31 December 1997</b>                | <b>146</b>                                       | <b>5</b>                       | <b>151</b>     |
| <b>Net book value at 31 December 1997</b> | <b>410</b>                                       | <b>17</b>                      | <b>427</b>     |
| Net book value at 31 December 1996        | 195                                              | 19                             | 214            |

### 13 Fixed asset investments

| Company                                       | Interests in group undertakings<br>£'000 |
|-----------------------------------------------|------------------------------------------|
| <b>Cost or valuation</b>                      |                                          |
| <b>At 1 January 1997 and 31 December 1997</b> | <b>124,729</b>                           |

The company's principal subsidiary undertakings at 31 December 1997 were:

| Name of undertaking         | Country of incorporation or registration | Description of shares held | Proportion of nominal value of issued shares held by:<br>Group      Company |
|-----------------------------|------------------------------------------|----------------------------|-----------------------------------------------------------------------------|
| Devro-Teepak Limited        | Scotland                                 | Ordinary                   | 100%                                                                        |
| Devro Holdings Limited      | Scotland                                 | Ordinary                   | 100%                                                                        |
| Devro Acquisition Corp      | USA                                      | Common                     | 100%                                                                        |
| Devro BV                    | Netherlands                              | Ordinary                   | 100%                                                                        |
| Devro-Teepak Asia Limited   | Hong Kong                                | Ordinary                   | 100%                                                                        |
| Devro-Teepak Pty Limited    | Australia                                | Ordinary                   | 100%                                                                        |
| Devro GmbH                  | Germany                                  | Ordinary                   | 100%                                                                        |
| Devro-Teepak KK             | Japan                                    | Ordinary                   | 100%                                                                        |
| Devro-Teepak Inc            | USA                                      | Ordinary                   | 100%                                                                        |
| Cutisin a.s.                | Czech Republic                           | Ordinary                   | 95%                                                                         |
| Teepak Investments Inc      | USA                                      | Ordinary                   | 100%                                                                        |
| Devro-Teepak Industries Inc | Canada                                   | Ordinary                   | 100%                                                                        |
| Devro-Teepak Nederland BV   | Netherlands                              | Ordinary                   | 100%                                                                        |
| Devro-Teepak Belgium NV     | Belgium                                  | Ordinary                   | 100%                                                                        |

## 14 Stocks

The company had no stocks at 31 December 1997. Details of stocks relating to the group are as follows:

| Group                               | 1997<br>£'000 | 1996<br>£'000 |
|-------------------------------------|---------------|---------------|
| Raw materials and consumables       | 6,584         | 6,376         |
| Work in progress                    | 8,145         | 8,484         |
| Finished goods and goods for resale | 24,109        | 22,411        |
|                                     | <b>38,838</b> | <b>37,271</b> |

In the opinion of the directors the current replacement cost of stocks does not vary materially from historical cost.

## 15 Debtors

|                                                     | Group         |               | Company        |                |
|-----------------------------------------------------|---------------|---------------|----------------|----------------|
|                                                     | 1997<br>£'000 | 1996<br>£'000 | 1997<br>£'000  | 1996<br>£'000  |
| <b>Amounts falling due after more than one year</b> |               |               |                |                |
| Amounts owed by subsidiary undertakings             | –             | –             | 106,003        | 111,086        |
| Deferred tax asset (note 18)                        | –             | 2,456         | –              | –              |
| Other debtors                                       | 232           | 72            | –              | –              |
| Prepayments and accrued income                      | 885           | 358           | –              | –              |
|                                                     | <b>1,117</b>  | <b>2,886</b>  | <b>106,003</b> | <b>111,086</b> |
| <b>Amounts falling due within one year</b>          |               |               |                |                |
| Trade debtors                                       | 33,593        | 32,594        | –              | –              |
| Amounts owed by subsidiary undertakings             | –             | –             | 20,545         | 21,694         |
| Other debtors                                       | 2,109         | 5,902         | 316            | 415            |
| Other prepayments and accrued income                | 2,784         | 2,827         | 63             | 61             |
|                                                     | <b>38,486</b> | <b>41,323</b> | <b>20,924</b>  | <b>22,170</b>  |

Prepayments and accrued income include a pension cost prepayment of £653,000 (1996: £72,000) due to the application of SSAP 24.

## 16 Creditors: amounts falling due within one year

|                                            | Group         |               | Company       |               |
|--------------------------------------------|---------------|---------------|---------------|---------------|
|                                            | 1997<br>£'000 | 1996<br>£'000 | 1997<br>£'000 | 1996<br>£'000 |
| Bank loans and overdrafts                  | 172           | 199           | –             | –             |
| Trade creditors                            | 12,933        | 10,158        | –             | –             |
| Amounts owed to subsidiary undertakings    | –             | –             | 7,393         | 4,009         |
| Corporation tax payable                    | 8,941         | 6,605         | 278           | 870           |
| Other taxation and social security payable | 1,315         | 2,109         | –             | –             |
| Other accruals and deferred income         | 21,315        | 30,142        | 2,453         | 3,970         |
| Dividends payable                          | 11,243        | 10,104        | 11,243        | 10,104        |
|                                            | <b>55,919</b> | <b>59,317</b> | <b>21,367</b> | <b>18,953</b> |

## 17 Creditors: amounts falling due after more than one year

|                                                   | Group         |               | Company       |               |
|---------------------------------------------------|---------------|---------------|---------------|---------------|
|                                                   | 1997<br>£'000 | 1996<br>£'000 | 1997<br>£'000 | 1996<br>£'000 |
| Bank loans (repayable between two and five years) | 61,446        | 69,823        | 61,446        | 69,823        |
| Other accruals                                    | 1,691         | 3,100         | –             | –             |
|                                                   | <b>63,137</b> | <b>72,923</b> | <b>61,446</b> | <b>69,823</b> |

The group has in place a £120 million unsecured multi-currency revolving facility agreement. Interest is charged at 0.5% above LIBOR and the agreement matures on 8 December 2000.

## 18 Provisions for liabilities and charges

The company had no provision for liabilities and charges at 31 December 1997. Details of liabilities and charges relating to the group are as follows:

| Group                              | Post retirement<br>employee<br>benefits<br>£'000 | Deferred<br>tax<br>(see over)<br>£'000 | Other<br>£'000 | Total<br>£'000 |
|------------------------------------|--------------------------------------------------|----------------------------------------|----------------|----------------|
| At 1 January 1997                  | 21,793                                           | –                                      | 1,399          | 23,192         |
| Transferred from debtors (note 15) | –                                                | (2,456)                                | –              | (2,456)        |
| Profit and loss account            | 523                                              | 2,996                                  | (477)          | 3,042          |
| Exchange differences               | 383                                              | (167)                                  | 17             | 233            |
| <b>At 31 December 1997</b>         | <b>22,699</b>                                    | <b>373</b>                             | <b>939</b>     | <b>24,011</b>  |

### Deferred taxation

Deferred taxation provided in the financial statements, and the total potential liability including the amounts for which provision has been made, are as follows:

|                                | Amount provided |               | Total potential liability |               |
|--------------------------------|-----------------|---------------|---------------------------|---------------|
|                                | 1997<br>£'000   | 1996<br>£'000 | 1997<br>£'000             | 1996<br>£'000 |
| Accelerated capital allowances | 10,235          | 9,829         | 26,245                    | 25,843        |
| Other timing differences       | (9,862)         | (12,285)      | (9,862)                   | (12,301)      |
|                                | 373             | (2,456)       | 16,383                    | 13,542        |

The policy adopted by the group is to provide for deferred taxation to the extent that it is probable that a liability or asset will crystallise (note 1).

## 19 Pension and similar obligations

The group operates a number of defined benefit pension schemes for its employees in the United Kingdom and overseas. 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 total pension cost for the group was £2,733,000 (1996: £3,025,000) of which £1,712,000 (1996: £1,690,000) related to the overseas schemes.

The pension cost relating to the United Kingdom scheme is assessed in accordance with the advice of an independent qualified actuary using the Projected Unit Method. The latest actuarial valuation of the scheme was at 1 April 1996. The assumptions that have the most significant effect on the valuation are those relating to the rate of return on investments and the rate of increase in salaries and pensions. It was assumed that the investment return would be 9.5 per cent per annum, that salary increases would average 7.5 per cent per annum and that present and future pensions would increase at the rate of 5 per cent per annum.

At the date of the latest actuarial valuation, the market value of the assets of the United Kingdom scheme was £63.5 million and the actuarial value of the assets was sufficient to cover 122 per cent of the benefits which had accrued to members, after allowing for expected future increases in earnings. The surplus is being amortised over 15 years being the expected average remaining service lives of current employees.

Pension costs for the overseas schemes have been assessed using the Projected Unit Method and actuarial assumptions appropriate for each country. Interest rates in the range of 5 to 8 per cent per annum together with salary increases in the range of 3 to 4.5 per cent per annum have been used. These figures have been based on the latest actuarial assessments.

The group also provides post-retirement health care benefits under plans mainly in the United States to certain groups of its retired employees. The group conforms with generally accepted accounting practice and in particular the provisions of the Urgent Issues Task Force Abstract 6 "Accounting for Post-Retirement Benefits other than Pensions", which requires accrual of these costs over the period during which employees become eligible for such benefits.

The amount of expense recognised in the current year is £1,209,000 (1996: £1,981,000) and the accrued liability of £22,699,000 (1996: £21,793,000) is included in provisions for liabilities and charges (note 18).

The actuarial assumptions used to estimate the obligations vary according to the claims experience and economic conditions relevant to each plan. It has been assumed that the annual per capita cost of benefits will increase by 8.5 to 9 per cent depending on claims experience and economic conditions relevant to each plan. This rate is assumed to decrease 0.5% a year to 5.0%. The weighted average discount rate used in determining the accumulated post-retirement benefit obligation was 7.75% at 31 December 1997.

## 20 Called up share capital

|                                                                                   | 1997<br>£'000 | 1996<br>£'000 |
|-----------------------------------------------------------------------------------|---------------|---------------|
| <b>Authorised</b>                                                                 |               |               |
| 225,000,000 ordinary shares of 10 pence each                                      | 22,500        | 22,500        |
| 522,975 6.65% convertible cumulative redeemable preference shares of US\$100 each | 31,505        | 30,945        |
|                                                                                   | <b>54,005</b> | <b>53,445</b> |
| <b>Allotted, called up and fully paid</b>                                         |               |               |
| 159,262,793 (1996: 159,082,859) ordinary shares of 10 pence each                  | 15,926        | 15,908        |
| 522,975 6.65% convertible cumulative redeemable preference shares of US\$100 each | 31,505        | 30,945        |
|                                                                                   | <b>47,431</b> | <b>46,853</b> |

The convertible cumulative redeemable preference ("CCRP") shares will be convertible commencing after 24 December 1998 into ordinary shares at a rate of approximately 25.225 ordinary shares per US\$100 of CCRP shares. For as long as the CCRP shares are held by Hillside Capital Inc., they will carry full voting rights at the rate of one vote for every ordinary share that would arise on conversion.

Shares issued during the year in connection with options exercised were:

|                                                     | Ordinary<br>shares of<br>10 pence each |
|-----------------------------------------------------|----------------------------------------|
| The Devro 1993 UK Sharesave Scheme                  | 32,434                                 |
| The Devro 1993 (No 1) Executive Share Option Scheme | 21,000                                 |
| The Devro 1993 (No 2) Executive Share Option Scheme | 126,500                                |
|                                                     | <b>179,934</b>                         |

## 21 Options in shares of Devro plc

Options have been granted but not yet exercised or lapsed for ordinary shares at 31 December 1997 as follows:

| Scheme                                                    | Price<br>per share                                  | Earliest date<br>for exercise                                                    | Latest date<br>for exercise                                                      | Number of<br>share options                                  |
|-----------------------------------------------------------|-----------------------------------------------------|----------------------------------------------------------------------------------|----------------------------------------------------------------------------------|-------------------------------------------------------------|
| The Devro 1993 UK<br>Sharesave Scheme                     | £1.36                                               | 01.09.1998                                                                       | 01.03.2003                                                                       | 1,194,049                                                   |
| The Devro 1993 (No 1)<br>Executive Share<br>Option Scheme | £2.37<br>£2.48<br>£2.51<br>£2.44                    | 27.10.1996<br>14.04.1997<br>11.12.1998<br>19.09.1999                             | 26.10.2003<br>13.04.2004<br>10.12.2005<br>18.09.2006                             | 124,000<br>167,000<br>465,500<br>67,500                     |
| The Devro 1993 (No 2)<br>Executive Share<br>Option Scheme | £2.37<br>£2.48<br>£2.51<br>£2.44<br>£3.95<br>£3.925 | 27.10.1996<br>14.04.1997<br>11.12.1998<br>19.09.1999<br>10.10.2000<br>21.10.2000 | 26.10.2000<br>13.04.2001<br>10.12.2002<br>18.09.2003<br>09.10.2007<br>20.10.2007 | 71,500<br>52,500<br>161,000<br>819,500<br>690,000<br>10,000 |
| The Devro Employee Share<br>Ownership Plan Trust          | £3.405                                              | 18.06.2001                                                                       | 18.06.2001                                                                       | 203,272                                                     |

There were no options granted to directors during the year. Details of options held by directors at 31 December 1997 are shown on page 20.

## 22 Reserves

|                                                                       | Share<br>premium<br>account<br>£'000 | Merger<br>reserve<br>£'000 | Special<br>reserve<br>£'000 | Profit<br>and loss<br>account<br>£'000 |
|-----------------------------------------------------------------------|--------------------------------------|----------------------------|-----------------------------|----------------------------------------|
| <b>Group</b>                                                          |                                      |                            |                             |                                        |
| At 1 January 1997                                                     | 40,326                               | (38,801)                   | 7,969                       | 55,115                                 |
| Exchange differences                                                  | -                                    | -                          | -                           | (16,895)                               |
| Transfer from profit and loss account -<br>goodwill amortisation      | -                                    | -                          | 1,370                       | (1,370)                                |
| Exercise of share options                                             | 376                                  | -                          | -                           | -                                      |
| Negative goodwill arising on<br>acquisition of shares in Cutisin a.s. | -                                    | -                          | -                           | 728                                    |
| Retained profit for the year                                          | -                                    | -                          | -                           | 22,425                                 |
| <b>At 31 December 1997</b>                                            | <b>40,702</b>                        | <b>(38,801)</b>            | <b>9,339</b>                | <b>60,003</b>                          |

The cumulative amount of goodwill written off to reserves as at 31 December 1997 is £107,646,000. This consists of three elements, namely intangible assets reclassified as goodwill at the time of the management buyout together with the acquisition goodwill arising on the acquisition of Teepak International, Inc. and shares in Cutisin a.s.

|                            | Share<br>premium<br>account<br>£'000 | Merger<br>reserve<br>£'000 | Special<br>reserve<br>£'000 | Profit<br>and loss<br>account<br>£'000 |
|----------------------------|--------------------------------------|----------------------------|-----------------------------|----------------------------------------|
| <b>Company</b>             |                                      |                            |                             |                                        |
| At 1 January 1997          | 40,326                               | 21,163                     | 55,009                      | 8,354                                  |
| Exchange differences       | -                                    | -                          | -                           | (560)                                  |
| Exercise of share options  | 376                                  | -                          | -                           | -                                      |
| Loss for the year          | -                                    | -                          | -                           | (2,337)                                |
| <b>At 31 December 1997</b> | <b>40,702</b>                        | <b>21,163</b>              | <b>55,009</b>               | <b>5,457</b>                           |

## 23 Reconciliation of movements in shareholders' funds

|                                                                    | 1997<br>£'000  | 1996<br>£'000 |
|--------------------------------------------------------------------|----------------|---------------|
| Profit for the financial year                                      | 39,642         | 31,518        |
| Dividends                                                          | (17,217)       | (15,642)      |
|                                                                    | <b>22,425</b>  | 15,876        |
| Exchange differences                                               | (16,335)       | (10,028)      |
| New share capital issued                                           | 394            | 87,379        |
| Goodwill arising on acquisition of Teepak International, Inc.      | -              | (59,964)      |
| Negative goodwill arising on acquisition of shares in Cutisin a.s. | 728            | 6,394         |
| Net addition to shareholders' funds                                | <b>7,212</b>   | 39,657        |
| Opening shareholders' funds                                        | <b>111,462</b> | 71,805        |
| <b>Closing shareholders' funds</b>                                 | <b>118,674</b> | 111,462       |

## 24 Minority interests

|                                          | 1997<br>£'000 | 1996<br>£'000 |
|------------------------------------------|---------------|---------------|
| At 1 January 1997                        | 3,454         | –             |
| In respect of new subsidiary undertaking | –             | 19,330        |
| Profit and loss account                  | 386           | 1,225         |
| Acquired during the year                 | (1,582)       | (15,899)      |
| Exchange differences                     | (582)         | (1,202)       |
| <b>At 31 December 1997</b>               | <b>1,676</b>  | <b>3,454</b>  |

## 25 Reconciliation of operating profit to operating cash flows

|                                                                               | 1997<br>£'000 | 1996<br>£'000 |
|-------------------------------------------------------------------------------|---------------|---------------|
| <b>Continuing activities</b>                                                  |               |               |
| Operating profit                                                              | 60,744        | 51,480        |
| Depreciation of tangible fixed assets                                         | 14,599        | 14,803        |
| Gain on sale of tangible fixed assets                                         | (154)         | (11)          |
| Effects of movements in foreign exchange rates                                | (4,035)       | (495)         |
| Increase in provision for post retirement benefits                            | 523           | 1,502         |
| (Increase)/decrease in stocks                                                 | (1,567)       | 4,299         |
| Decrease in trade debtors, prepayments and other debtors                      | 2,125         | 636           |
| Decrease in trade creditors, accruals and other creditors                     | (3,719)       | (7,778)       |
| Net cash inflow from continuing operating activities before exceptional items | 68,516        | 64,436        |
| Cash outflow related to exceptional reorganisation costs                      | (4,488)       | (3,007)       |
| <b>Net cash inflow from continuing operating activities</b>                   | <b>64,028</b> | <b>61,429</b> |

## 26 Analysis of cash flows for headings netted in the cash flow statement

|                                                                            | 1997<br>£'000   | 1996<br>£'000   |
|----------------------------------------------------------------------------|-----------------|-----------------|
| <b>Returns on investments and servicing of finance</b>                     |                 |                 |
| Interest received                                                          | 2,148           | 1,376           |
| Interest paid                                                              | (5,253)         | (4,685)         |
| Preference dividends paid                                                  | (2,070)         | (1,084)         |
| <b>Net cash outflow for returns on investment and servicing of finance</b> | <b>(5,175)</b>  | <b>(4,393)</b>  |
| <b>Capital expenditure and financial investment</b>                        |                 |                 |
| Purchase of tangible fixed assets                                          | (16,611)        | (14,929)        |
| Sale of tangible fixed assets                                              | 643             | 199             |
| <b>Net cash outflow for capital expenditure and financial investment</b>   | <b>(15,968)</b> | <b>(14,730)</b> |
| <b>Acquisitions and disposals</b>                                          |                 |                 |
| Acquisition of subsidiary undertaking                                      | –               | (28,972)        |
| Expenses associated with acquisition of subsidiary undertaking             | –               | (5,592)         |
| Net cash acquired with subsidiary undertaking                              | –               | 10,741          |
| Acquisition of shares in Cutisin a.s.                                      | (854)           | (9,505)         |
| Sale of subsidiary undertakings                                            | –               | 16,517          |
| Cash remitted by former subsidiary undertakings sold during the year       | –               | 6,626           |
| <b>Net cash outflow for acquisitions and disposals</b>                     | <b>(854)</b>    | <b>(10,185)</b> |
| <b>Management of liquid resources*</b>                                     |                 |                 |
| Net cash placed on deposit                                                 | (7,046)         | (2,020)         |
| <b>Net cash outflow from management of liquid resources</b>                | <b>(7,046)</b>  | <b>(2,020)</b>  |
| <b>Financing</b>                                                           |                 |                 |
| Issue of ordinary share capital                                            | 394             | 31,440          |
| Debt due in more than one year:                                            |                 |                 |
| Net (repayment)/borrowing under revolving facility                         | (9,656)         | 76,006          |
| Repayment of debt of acquired subsidiary undertaking                       | –               | (108,709)       |
| <b>Net cash outflow from financing</b>                                     | <b>(9,262)</b>  | <b>(1,263)</b>  |

\*Term deposits and government securities with less than one year to maturity are included as liquid resources.

## 27 Analysis of net debt

|                                               | At<br>1 January<br>1997<br>£'000 | Cash<br>flow<br>£'000 | Exchange<br>movement<br>£'000 | At<br>31 December<br>1997<br>£'000 |
|-----------------------------------------------|----------------------------------|-----------------------|-------------------------------|------------------------------------|
| <b>Net cash</b>                               |                                  |                       |                               |                                    |
| Cash at bank and in hand                      | 29,302                           |                       |                               | 32,197                             |
| Less: deposits treated<br>as liquid resources | (19,484)                         |                       |                               | (23,300)                           |
|                                               | 9,818                            | (225)                 | (696)                         | 8,897                              |
| Overdrafts                                    | (199)                            | 5                     | 22                            | (172)                              |
|                                               | 9,619                            | (220)                 | (674)                         | 8,725                              |
| <b>Liquid resources</b>                       |                                  |                       |                               |                                    |
| Deposits included in cash                     | 19,484                           | 7,046                 | (3,230)                       | 23,300                             |
| <b>Debt</b>                                   |                                  |                       |                               |                                    |
| Revolving facility:<br>Due after one year     | (69,823)                         | 9,656                 | (1,279)                       | (61,446)                           |
| <b>Net debt</b>                               | (40,720)                         | 16,482                | (5,183)                       | (29,421)                           |

## 28 Capital commitments

|                                                                                 | 1997<br>£'000 | 1996<br>£'000 |
|---------------------------------------------------------------------------------|---------------|---------------|
| Capital expenditure contracted for but not provided in the financial statements | 1,769         | 2,706         |

The company had no capital commitments at 31 December 1997.

## 29 United States regulatory issues

As was reported at last year's Annual General Meeting, Devro-Teepak Inc has been asked to provide documents to the United States Department of Justice as part of an initial investigation relating to the competitive situation in the United States sausage casing industry. This is an industry wide enquiry which apparently includes all sectors of the industry and is understood to involve all significant producers of sausage casings. The company is co-operating fully with requests for information but it is unclear at this stage how long the enquiry will last and its likely outcome. Based on the available facts and legal advice, the directors consider that no provision is required at 31 December 1997.

## 30 Contingent liabilities

In the opinion of the directors the group has no material contingent liabilities.

## 31 Financial commitments

### Operating leases

At 31 December 1997 the group had annual commitments under non-cancellable operating leases as follows:

|                                               | 1997                           |                | 1996                           |                |
|-----------------------------------------------|--------------------------------|----------------|--------------------------------|----------------|
|                                               | Land and<br>buildings<br>£'000 | Other<br>£'000 | Land and<br>buildings<br>£'000 | Other<br>£'000 |
| Expiring within one year                      | 393                            | 155            | 317                            | 497            |
| Expiring between two and five years inclusive | 1,270                          | 232            | 1,207                          | 639            |
| Expiring after more than five years           | 81                             | –              | 114                            | –              |
|                                               | <b>1,744</b>                   | <b>387</b>     | 1,638                          | 1,136          |

The company had no lease commitments at 31 December 1997.

# Report of the auditors to the members of Devro plc

We have audited the financial statements on pages 22 to 41. We have also examined the amounts disclosed relating to the emoluments, share options, long term incentive scheme interests and pension benefits of the directors which form part of the report to the shareholders by the executive directors' remuneration committee on pages 18 to 20.

## **Respective responsibilities of directors and auditors**

As described on page 15, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

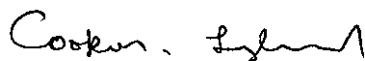
## **Basis of opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## **Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at 31 December 1997 and of the profit, total recognised gains and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**Coopers & Lybrand**

Chartered Accountants and Registered Auditors  
Glasgow 31 March 1998

# Notice of Meeting

Notice is hereby given that the seventh Annual General Meeting ('AGM') of Devro plc will be held on 14 May 1998 at The Glasgow Royal Concert Hall, 2 Sauchiehall Street, Glasgow, at 11 am for the following purposes:

## Ordinary Business

1. To receive the Directors' Report and Accounts for the year ended 31 December 1997.
2. To declare a final dividend.
3. To re-elect as a Director Mr Stephen Alexander who retires by rotation under the provisions of the Articles of Association.
4. To re-elect as a Director Mr Richard Morgan who retires by rotation under the provisions of the Articles of Association.
5. To re-elect as a Director Dr Bruce Farmer who, having been appointed by the Board since the last AGM, retires in accordance with the Articles of Association.
6. To re-elect as a Director Mr Trevor Morgan who, having been appointed by the Board since the last AGM, retires in accordance with the Articles of Association.
7. To re-appoint Coopers & Lybrand as the auditors and to authorise the Directors to fix their remuneration.

## Special Business

To consider and, if thought fit, pass the following resolutions:

### Ordinary Resolutions

8. THAT the Devro 1998 International Sharesave Scheme, the principal features of which are summarised in the Appendix to this Notice of AGM on pages 45 and 46, be and it is hereby approved and adopted, and the Board be and it is hereby authorised to do all acts and things which it may consider necessary or desirable to carry the same into effect and to make such changes as it may consider appropriate for that purpose.
9. THAT the Directors be generally and unconditionally authorised pursuant to Section 80 of the Companies Act 1985 (the 'Act') to exercise all the powers of the Company to allot relevant securities (within the meaning of that Section) up to an aggregate nominal amount of £5,200,000 (being less than 33 per cent of the issued ordinary share capital of the Company at the date of this resolution) for a period expiring (unless previously renewed, varied or revoked by the Company in general meeting) 5 years after the date of the passing of this resolution but the Company may make an offer or agreement which would or might require relevant securities to be allotted after expiry of this authority and the Directors may allot relevant securities in pursuance of that offer or agreement.

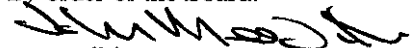
### Special Resolution

10. THAT, subject to the passing of Resolution No 9, the Directors be generally empowered pursuant to Section 95 of the Companies Act 1985 (the 'Act') to allot equity securities (within the meaning of Section 94(2) of the Act) pursuant to the authority conferred by Resolution No 9 as if Section 89(1) of the Act did not apply to such allotment. This power:
  - a) expires 5 years after the date of the passing of this resolution but the Company may make an offer or agreement which would or might require equity securities to be allotted after expiry of this authority and the Directors may allot equity securities in pursuance of that offer or agreement; and
  - b) is limited to:
    - i. allotments of equity securities where such securities have been offered (whether by way of a rights issue, open offer or otherwise) to holders of ordinary shares in the capital of the Company and, if in accordance with their rights the Directors so determine, holders of other equity securities of any class in proportion (as nearly as may be) to their existing holdings of ordinary shares or (as the case may be) other equity securities of the class concerned (so that any offer to holders of other equity securities of any class is on the basis of their rights to receive such offer or, failing which, is on the basis that their holdings have been converted into or that they have subscribed for ordinary shares on the basis then applicable) but subject

to the Directors having a right to make such exclusions or other arrangements in conjunction with the offer as they deem necessary or expedient:

- a. to deal with equity securities representing fractional entitlements; and
- b. to deal with legal or practical problems under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in any territory; and
- ii. allotments of equity securities for cash otherwise than pursuant to paragraph (i) up to an aggregate nominal amount equal to £795,000 (representing less than five per cent of the nominal value of the issued ordinary share capital of the Company as shown in the Report and Accounts for the year ended 31 December 1997 as received at this AGM).

By order of the Board.

  
**J Meredith**, Secretary  
Chryston 31 March 1998

**Registered Office:**  
Moodiesburn, Chryston, G69 0JE

**Notes**

- 1. A shareholder entitled to attend and vote at the meeting is also entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a shareholder of the Company.
- 2. To be valid, the instrument appointing a proxy, together with the power of attorney or other authority, if any, under which it is signed (or a notarially certified copy of such power or authority) must be deposited at the Company's Registrars, Computershare Services PLC, PO Box 457, Owen House, 8 Bankhead Crossway North, Edinburgh, EH11 0XG, not later than 48 hours before the time fixed for the meeting. A form of proxy is enclosed with this Notice. Completion and return of the form of proxy will not preclude shareholders from attending or voting at the meeting, if they wish.
- 3. There will be available at the Company's Registered Office during usual business hours from the date of this Notice until the meeting, and at the meeting from 10.45 am:
  - a) copies of all Service Contracts of Directors;
  - b) the Register of Directors' Share Interests; and
  - c) the draft Rules of the Devro 1998 International Sharesave Scheme.

## Appendix to Notice of Annual General Meeting

### Summary of the Devro 1998 International Sharesave Scheme ("the International Scheme")

(i) **Eligibility**

The Board can determine which subsidiaries should participate in the International Scheme and in which territories the International Scheme should be operated. Following that determination, all employees and full-time directors of the relevant subsidiaries and branches who are employed by the Group on the date on which invitations to apply for options are issued (or on such earlier date during the period of five years ending with the grant of options as the Board may determine) are eligible to participate in the International Scheme, as are any further employees or directors nominated by the Board for this purpose ("eligible employees").

(ii) **Grant of Options**

Eligible employees may be invited by the Board to apply for options under the International Scheme to acquire ordinary shares in the Company. Employees applying for options must agree to make regular monthly savings between (in local currency) £5 and a maximum figure approved by the Board, being no more than £250, under a savings contract approved by the Board. It is envisaged that, unless local laws or regulations require a shorter savings period or there are particular tax advantages available for the Group or employees in having a shorter period, the Board will not usually approve a savings contract for a shorter period than the minimum period allowed under the Devro 1993 Sharesave Scheme ("the UK SAYE Scheme") from time to time. The funds saved (plus interest) are used by employees to exercise the options. The number of shares comprised in an option will be calculated according to the savings made and an assumed rate of interest set by the Board (which will usually equate to the interest rate or, as appropriate, the number of bonus contributions payable under the UK SAYE Scheme). Options may only be granted during the period of six weeks following

(1) the date of the Annual General Meeting; or

(2) the announcement by the Company of its results for any period, or at any other time when the circumstances are considered by the Board to be sufficiently exceptional to justify such grant. No options may be granted more than 10 years after the date of adoption of the International Scheme. Options are not transferable.

(iii) **Exercise Price**

The exercise price under the options will be determined by the Board before the grant of the options. The price, which shall be quoted in local currency, shall not be less than 80 per cent of the middle-market quotation of an ordinary share (as derived from the London Stock Exchange Daily Official List) on the dealing day last preceding the period of five business days ending with the date on which invitations to apply for options are given or, if greater, the nominal value of an ordinary share.

(iv) **Exercise of Options**

An option granted under the International Scheme may not normally be exercised before the maturity date under the relevant savings contract. Special provisions, permitting the early exercise of options in certain circumstances, apply in respect of participants who cease employment with the Group before completing their savings contracts in the event of death, disability, redundancy or retirement at contractual retirement age. The early exercise of options is also permitted in the exceptional circumstances of a take-over, reconstruction or winding-up of the Company.

Where an option is exercised at the maturity date, it is exercised using the savings made and the actual amount of interest earned on those savings, whether that is more or less than interest at the assumed rate of interest when the option was granted.

(v) **Rights Attaching to Shares**

All ordinary shares allotted on the exercise of options under the International Scheme will rank equally with all other ordinary shares of the Company for the time being in issue (except for any rights attaching to such shares by reference to a record date prior to the date of allotment) and application will be made to the London Stock Exchange for such shares to be admitted to the Official List.

(vi) **Limits of the International Scheme**

The number of options which may be granted under the International Scheme is subject to the following limits:

- (a) in any period of 5 years not more than 5 per cent of the issued ordinary share capital of the Company may be placed under option or issued under the International Scheme and any other employees' share scheme of the Company;
- (b) in any period of 10 years not more than 10 per cent of the issued ordinary share capital of the Company may be placed under option or issued under the International Scheme and any other employees' share scheme of the Company;
- (c) the Board may impose a lower limit on the number of options which may be granted under the International Scheme on any occasion.

(vii) **Variation of Share Capital**

In the event of any variation in the issued ordinary share capital of the Company, the Board may make such adjustments as it considers appropriate to the total number of ordinary shares subject to any option and/or the exercise price under any option.

(viii) **Alteration of the International Scheme**

The Board may at any time alter or add to the International Scheme. However, the prior approval of the Company in general meeting must be obtained in the case of any alteration or addition to the advantage of participants which is made to the provisions relating to eligibility, individual or overall limits or variations of capital, except for any minor alteration or addition to benefit the administration of the International Scheme, to take account of any change in legislation, or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or the Group.

(ix) **Special Schedules**

The Board may adopt one or more special schedules to the International Scheme in order to vary the provisions set out above, but only so far as is necessary to take account of local tax, exchange control or securities laws.

(x) **Cash Equivalent**

Following the exercise of an option, the Board may decide that, in lieu of a right to receive ordinary shares, a participant shall be paid a cash sum equivalent to the difference in sterling between the market value of the ordinary shares at that time and the option price. The Board may also grant options ("phantom options") on such "cash equivalent" terms where this is considered necessary or desirable in order to comply with local laws. In exceptional circumstances, or where on administrative grounds it would not be feasible to require employees to take out savings contracts, the Board may grant phantom options without the need for savings to be made by employees. The Company may issue ordinary shares to the existing Employee Share Ownership Plan Trust in order to fund the cash sums due on the exercise of such options.

**Note**

This Appendix summarises the principal features of the International Scheme, but does not form part of it and should not be taken as affecting the interpretation of its detailed terms and conditions. Copies of the draft Rules of the International Scheme are available for inspection at the offices of the Company's solicitors, Clifford Chance, at 200 Aldersgate Street, London, EC1A 4JJ during normal business hours on weekdays (Saturdays and public holidays excepted) up to the end of the Annual General Meeting and will also be available at the place of the Annual General Meeting from 15 minutes prior to the meeting until the end of the meeting. The Directors reserve the right up to the time of the Annual General Meeting to make such amendments and additions to the International Scheme as they may consider necessary or desirable, provided that such amendments and additions do not conflict in any material respects with the summary of the International Scheme as set out in this Appendix.

# Financial summary

| For the year ended on 31 December | 1997<br>£'million | 1996<br>£'million | 1995<br>£'million | 1994<br>£'million | 1993<br>£'million |
|-----------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Turnover                          | <b>284.5</b>      | 302.2             | 97.8              | 98.4              | 94.4              |
| Operating profit                  | <b>60.7</b>       | 51.5              | 29.8              | 28.7              | 22.0              |
| Profit before tax                 | <b>58.0</b>       | 44.4              | 31.1              | 29.1              | 18.0              |
| Profit after tax                  | <b>40.0</b>       | 32.7              | 23.5              | 21.8              | 14.9              |
| Net assets                        | <b>120.3</b>      | 114.9             | 71.8              | 59.9              | 47.9              |

## Advisers

### Secretary and registered office

J Meredith, Moodiesburn,  
Chryston G69 0JE

**Registered number:** 129785

### Registered auditors

Coopers & Lybrand, Glasgow

### Solicitors

Clifford Chance, London

### Bankers

Clydesdale Bank PLC, Edinburgh

### Merchant Bankers

Deutsche Morgan Grenfell,  
London

### Stockbrokers

NatWest Securities Limited,  
London

### Registrars

Computershare Services PLC,  
Edinburgh

# Shareholder Information

## Financial Calendar

|                  |                                                      |
|------------------|------------------------------------------------------|
| 14 May 1998      | - Annual General Meeting                             |
| 22 May 1998      | - Final Dividend Paid                                |
| September 1998   | - Half Year Results and Interim Dividend Announced   |
| October 1998     | - Interim Dividend Paid                              |
| 31 December 1998 | - Financial Year End                                 |
| March 1999       | - 1998 Results and Proposed Final Dividend Announced |

## Personal Equity Plans (PEPs)

The Devro Corporate and Single Company PEPs provide UK resident tax payers with a tax efficient method by which to hold ordinary shares in Devro plc. Further information concerning the Devro PEPs is available from the plan manager, Halifax Investment Services Limited, Halifax Building Society, Trinity Road, Halifax, HX1 2EG (Telephone: 0800 371769).

## Dividend Mandates

Shareholders wishing dividends to be paid directly into a bank or building society account should 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).

## Shareholder Enquiries

For all share registration and dividend mandate enquiries contact:

The Registrar  
Computershare Services PLC  
PO Box 435  
Owen House  
8 Bankhead Crossway North  
Edinburgh EH11 4BR  
Tel: 0131 523 6666

For other shareholder enquiries contact:

Company Secretary  
Devro plc  
Gartferry Road  
Moodiesburn  
Chryston  
G69 OJE  
Tel: 01236 879191

2004

Devro plc  
Moodiesburn Chryston G69 0JE  
Telephone 01236 879191