



Annual Report & Accounts
2008

A world leader in
edible collagen

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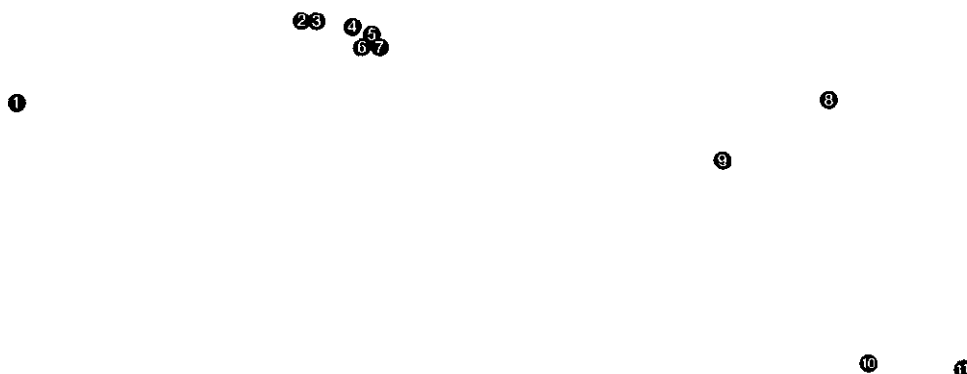
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COMPANIES HOUSE

Devro is one of the world's leading producers of manufactured casings for the food industry, supplying a wide range of products and technical support to manufacturers of sausages, salami, hams and other cooked meats.

The group's main focus is edible collagen-based products. These are a key component of our customers' product offerings and have been steadily replacing gut casings in markets around the world.

Devro manufactures a broad range of collagen casings at production plants in Scotland, Australia, the Czech Republic and the US, supported by technical development facilities in each country. In addition, it services world markets from strategically located commercial offices and through an extensive network of distributors and agents.



Global Sales Territories

AMERICAS

£33.6m revenue

377 employees

- ① Sandy Run,
South Carolina, US
Manufacturing
Technical development
Sales
377 employees

EUROPE

£107.3m revenue

1,558 employees

- ② Moodiesburn ③ Bellshill
Scotland, UK
Head office
Manufacturing
Technical development
Sales
476 employees
- ④ Hamburg, Germany
Sales
28 employees
- ⑤ Jilemnice ⑥ Korenov ⑦ Slavkov
Czech Republic
Manufacturing
Technical development
Sales
1,054 employees

ASIA/PACIFIC

£42.2m revenue

263 employees

- ⑧ Tokyo, Japan
Sales
6 employees
- ⑨ Hong Kong, China
Sales
5 employees
- ⑩ Bathurst, New South Wales,
Australia
Manufacturing
Technical development
Sales
246 employees
- ⑪ Auckland, New Zealand
Sales
6 employees

Financial Highlights

01

OVERVIEW

Earnings per share (p) before exceptional items*

8.7	8.1	6.4	8.2
2005	2006	2007	2008

Group revenue* (£m)

152.5	152.8	156.3	183.1
2005	2006	2007	2008

Operating profit (£m) before exceptional items*

21.6	19.7	17.7	20.6
2005	2006	2007	2008

Operating profit margin (%) before exceptional items*

14.6	12.9	11.3	11.2
2005	2006	2007	2008

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	2008	2007*
Dividends per share	4.45p	4.45p
Operating profit before exceptional items	£20.6m	£17.7m
- margin	11.2%	11.3%
Exceptional items	£(3.5)m	£0.7m
Profit before tax	£15.3m	£16.2m
Cash generated from operations	£31.3m	£23.4m
Capital expenditure	£12.7m	£11.1m
Net debt	£24.0m	£27.3m
Gearing	21.5%	28.7%

*on a continuing operations basis

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Providing what our customers want

02

Collagen is one of the most common forms of animal protein. It is transformed into edible casings by highly sophisticated biochemical processing technologies which are constantly being developed and improved. The Devro group is one of the most advanced exponents of these technologies.

RAW MATERIAL

Natural material must be broken down and reconstituted as a gel with consistent and predictable traits. Devro is a leader in this complex biotechnology.

EXTRUSION

In a sophisticated process the gel is extruded to form a tubular casing which must be strong enough for the sausage manufacturer – but tender enough for the final consumer.

PRODUCT

Sausages can be cooked in many ways, from steaming to deep fat frying – and the casing must be able to handle stress and temperature changes without bursting.

CUSTOMERS

Devro customers range from large food processors requiring casings for ultra high-speed machines to local specialists making handcrafted products. Versatility is key.

CONSUMER

We all demand that our food looks as good as it tastes. Even at this stage in the cycle, the casing remains critical to the sausage's appearance, taste and 'bite'.

Our Main Brands

We have four key brands – Coria, Cutisin, Devro and Edicol. Coria is particularly suited to the beefstick and retail sausage markets in North America, but also has a significant use in Bratwurst in Germany and butcher-style sausages in Australia and the UK. Cutisin casings are mainly for processed sausage applications, which are most commonly found in Central and Eastern Europe. The Devro brand is particularly suited for fresh sausage applications, making it ideal for the British and Australian markets. Devro also offers porcine collagen casings for both fresh and processed sausage applications. Sales of edible collagen film, which is used to wrap larger meat products, are made under the Edicol brand.

Broad product range

03

OVERVIEW

Product	Description	Key Markets	Market Factors	Key Product Features
Fresh Sausage	Typically breakfast or dinner sausage	Australia, Canada, New Zealand, UK, US	Customer productivity, sausage manufacturing sophistication, retail outlet concentration	Production speed capability, size control, cooking performance, tender bite
Small Calibre Smoked Sausage	Wiener, frankfurter	Continental Europe, Japan, China	Tradition, colour, appearance, kiosk outlets	Processing consistency, finished sausage appearance, bite
Bratwurst	Processed sausage eaten in summer	Central Europe, particularly Germany	White colour, customer productivity, barbecue season	High processing temperatures, range of sizes and lengths, grilling capability
Beefstick	Snack product	US, Japan, Australia	Snack product growth, price, geographic expansion	High strength, consistent narrow calibre, precolouring, 'snap' bite
Dried Sausage	A wide category, including Mini-Salami, Landjaeger, Chorizo and Lap Cheong	Continental Europe, Asia, US	Tradition, taste, texture, appearance	Colour development, wide range of sizes and lengths, controlled drying rate
Larger Diameter Smoked Sausage	A wide category of principally pork sausage	Central and Eastern Europe, US	Price, productivity, tradition	Appearance, bite, colour

Chairman's statement

04

The progress reported in my statement a year ago has continued throughout 2008. Results have improved across the group, with operating profit before exceptional items increasing by 16% compared to 2007. Operationally, 2008 finished well, which, together with significant movements in certain key currencies, meant that operating results were ahead of our expectations.

Despite a full programme of capital expenditure in the year, strong cash flows enabled us to reduce net debt from £27.3 million last year to £24.0 million. The balance sheet is strong and our existing financial resources give us the capacity to continue to grow the business.

Financial highlights

Reported revenue for 2008 was £183.1 million (2007: £156.3 million), representing an increase of 17% over 2007. On a constant currency basis, sales revenue would have been up 6% to £165.9 million.

Operating profit before exceptional items was £20.6 million compared with £17.7 million in 2007. 2007 operating profit has been re-stated to reflect a change in the accounting treatment of net pension finance income. This has been moved to financing, resulting in a reduction of £0.6 million in operating profit in both 2007 and 2008.

Profit before tax and exceptional items rose 21% to £18.8 million (2007: £15.6 million). Pre-tax profit after exceptional items was £15.3 million in 2008 against £16.2 million in 2007.

Basic earnings per share before exceptional items rose from 6.4p for continuing operations in 2007 to 8.2p in 2008.

In the interim report, we indicated a re-organisation of our manufacturing facilities in the Czech Republic, and reported an exceptional non-cash impairment charge related to that of £3.1 million. We also noted that, during the second half, a further £0.6 million would be provided to cover the cost of redundancy and transfer of assets, bringing the total exceptional cost for the closure of Korenov to £3.7 million.

These actions will benefit the company and, along with additional investment in replacement lines this year, will generate annual savings of around £2.0 million from 2010.

There was also exceptional income of £0.2 million, being further revenue from the 2005 sale of land at Moodiesburn. Operating profit after exceptional items was £17.1 million (2007: £18.3 million).

The net impact of currency movements was favourable to the group, largely due to the relative weakness of sterling during the second half of 2008. The net benefit to the group's operating profit of these currency movements during the year was £2.4 million.

Net debt reduced to £24.0 million (2007: £27.3 million).

Operational highlights

Sales volumes of collagen casings rose by 2.4% overall, with particularly good growth in edible collagen volumes, offset by some reductions in non-edible collagen volumes.

Distributed product revenues grew by 19% to £21.5 million, much of this as a result of the relative strength of the euro, the currency in which most distributed products are sold. Revenue from the sale of other products, including collagen film, collagen gel, biomedical collagen and plastics, increased by 29% in 2008, with growth in each of these product groups.

In our operational review in January 2008, we stressed that pricing was to be given precedence over volume and market share, and we are now able to report that we achieved average price increases of 3.2% overall during the year on a constant currency basis, whilst also increasing sales volumes.

Europe and Africa

Sales volume growth in edible collagen casing was most evident in the developing markets of Eastern Europe, where volumes rose by 15%, but was also significant in South Africa and Kenya. UK sales continued to recover well, ending the year more than 2% ahead of 2007 levels, due in part to new and improved products developed in our Scottish operation. There were reduced sales volumes into the more mature markets of Western Europe and Scandinavia.

We are currently investing approximately £5.0 million in new lines in Jilemnice in the Czech Republic, which will become operational in the third quarter of 2009. As reported in our interim statement, the Board took the decision to reorganise Cutisin manufacturing facilities, by adding new lines and closing the old manufacturing facility at Korenov with effect from the summer of 2009. This plant has been kept running for several years to provide additional capacity for the business, but has become increasingly expensive in terms of manufacturing costs, energy efficiency and maintenance. These changes will generate full-year savings of £2.0 million from 2010 for the same output, with enhanced product quality and significantly reduced carbon dioxide emissions and water usage.

There was a write-down of £0.6 million of a test facility in Jilemnice (purchased in 1999) which is no longer operational, saving an on-going depreciation cost of £0.1 million per year. This was not treated as an exceptional item.

The manufacturing performance at our Scottish operation improved as 2008 progressed, with higher profitability relative to 2007 despite substantially increased energy costs. Overall, however, there is still much work to do in Scotland, particularly as regards sales pricing, before adequate levels of profitability are achieved.

Americas

Excluding the impact of the switch of a major customer from our casings to our collagen gel in late 2007, sales volumes in the US were 7% ahead of 2007, while sales to the emerging Latin American markets showed excellent growth, up by 24% year-on-year. The impact of conversion from gut to collagen casings has had a particularly favourable impact on Latin American sales. Devro continued to consolidate its position as the leading supplier of collagen gel for co-extrusion, with increased sales year-on-year. The rate of growth of gel sales slowed during the second half of 2008 and demand is expected to be flat in 2009.

In US dollar terms, sales revenues in the Americas as a whole were almost 6% ahead of 2007 (17% in sterling terms).

Asia/Pacific

Sales growth in Asia/Pacific remained strong in 2008. While this was most evident in China, we also achieved growth in the established Japanese market, the Philippines and other South East Asian countries. The growth in the Chinese market is attributable to the increasing popularity of Western-style sausage. Selling prices in China remain below average, but these are being increased at a faster rate than elsewhere. More modest gains in sales volumes were also achieved in the mature markets of Australia and New Zealand.

Sales revenues in the Asia/Pacific region as a whole rose by 21% as compared to 2007.

The additional manufacturing capacity in Australia, installed in late 2007, is performing at higher levels of efficiency than we had anticipated in our original plans, giving better manufacturing costs.

Input prices

The overall cost of raw materials in 2008 was broadly similar to that of 2007, although there is an expectation that hide prices will increase in 2009. The current downturn in the automobile, furniture and aerospace industries is having a significant impact on the availability of cattle hides, our prime source of raw collagen. Management is actively involved in identifying new sources of hides, to ensure a sustainable supply of this vital raw material.

Energy costs increased significantly in 2008, having an adverse effect on operating profit of £1.5 million as compared to 2007.

Although global energy costs have fallen in recent months, utility costs in 2009 will remain at higher levels for approximately the first half of the year, because of the timing of some fixed-price supply contracts.

Dividend

The Board is proposing a final dividend of 3.025 pence (2007: 3.025 pence) bringing the total for the year to 4.45 pence (2007: 4.45 pence). The final dividend will be paid on 15 May 2009 to shareholders on the register as of 17 April 2009.

Pat Barrett OBE

We previously indicated our intention to increase the level of dividend cover by growing earnings while maintaining dividend levels.

Board changes

As previously announced, John Neilson, our Finance Director since 1993, retired on 1 May 2008, and was succeeded on the same date by Peter Williams. The company therefore enters 2009 with a substantially reconstituted Board, with the two executive directors having been appointed in the past two years, and two non-executives having joined the Board since the start of 2005.

Last year, I announced my intention to step down as Chairman at the forthcoming Annual General Meeting, once a successor had been identified. I am pleased to say that the recruitment process is well advanced.

Outlook

These are interesting times. The broader economic environment is setting unprecedented challenges for all businesses.

However, with over 80% of revenues coming from overseas, Devro's global base and market-leading position give it a solid platform for further progress. There is also scope to continue the improvement recently seen in the Scottish business. Our ongoing commitment to increased capital investment underlines management confidence in the prospects for the business in 2009 and beyond.

The thanks of the entire Board of Directors go to everyone employed in the organisation worldwide for their efforts over the past successful year for Devro.

Business review

This review comprises:

- Description of the business
- Group business objectives and long-term strategy
- Key performance indicators
- Operating and financial review
- Principal risks and uncertainties
- Resources
- Relationships

06 Description of the business

Devro plc ("Devro"), a public limited company registered in Scotland, is the world's leading provider of collagen products for the food industry. Collagen is one of the most common forms of protein, which is transformed into strong but flexible edible casings and other related products by highly sophisticated biochemical processing technologies.

Devro has manufacturing facilities in Scotland, the Czech Republic, the US and Australia and has a broad range of collagen technologies with the Devro, Coria and Cutisin brands. This global

coverage and comprehensive technical know-how means the business is well placed to meet the demands of markets and customers around the world and to supply edible collagen casings for any sausage application worldwide.

In addition to our manufacturing facilities, Devro also has strategically based commercial offices in five other countries and an extensive network of distributors and agents. Our management structure has established Regional Business Directors, who have responsibility for day-to-day sales and operations at their

businesses and local profit accountability. Strategy, financial policy and business development are directed centrally.

Details of our manufacturing and commercial operations are shown on the inside front cover of this report.

Devro also manufactures and markets collagen film, collagen gel, plastic casings and purified collagen raw materials for medical use and, in addition, the group distributes a number of products, principally cellulose, fibrous and plastic casings.

Group business objectives and long-term strategy

Using proprietary technology, Devro designs, develops, manufactures and markets films and gels for use as meat casings and wrappings by meat processors worldwide.

The key objective for the company is to maintain our position as the supplier of choice for collagen casings to the international food industry.

The principal strategies contributing to the achievement of these objectives are:

- Building on our industry-leading position through proactive development of market opportunities, provision of high quality customer service and supply of high performance products.
- Maintaining steady sales growth by focusing on new product development, the conversion of gut applications to collagen, and geographic expansion, particularly in emerging markets.
- Continuing to invest in our technology to enable us to provide customers with superior products as efficiently as possible.

Key Performance Indicators

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

Profitability			Commercial			Return on Capital Employed (ROCE)										
	2008	2007*		2008	2007*		2008	2007*								
Adjusted earnings per share	8.2p	6.4p	Revenue growth	17.2%	2.3%	Operating profit before exceptional items/ Average net assets	20.0%	21.0%								
The group seeks to increase long-term value for its shareholders. The key measure of short-term financial performance is earnings per share before exceptional items ("Adjusted EPS"). Adjusted EPS is calculated based on the profit attributable to equity shareholders (adjusted to exclude exceptional items) divided by the weighted average number of ordinary shares in issue during the relevant period.			A key element underpinning the group's strategy is to deliver growth in sales revenue. Devro sells to markets around the world from strategically located commercial operations and through an extensive network of distributors and agents. Revenue is monitored on the basis of both business and geographical segments as follows: <table><tr><td>Business</td><td>Geographical</td></tr><tr><td>• Collagen casings</td><td>• Europe</td></tr><tr><td>• Distributed products</td><td>• Americas</td></tr><tr><td>• Other products</td><td>• Asia/Pacific</td></tr></table>			Business	Geographical	• Collagen casings	• Europe	• Distributed products	• Americas	• Other products	• Asia/Pacific	Return on capital is calculated by dividing operating profit before exceptional items by the average value of net assets employed. It is a key indicator of how the company is making use of its available capital, and is a good reflection of the performance of the company in terms of both earnings and cash flow.		
Business	Geographical															
• Collagen casings	• Europe															
• Distributed products	• Americas															
• Other products	• Asia/Pacific															
Margin			Debt			Health and safety										
	2008	2007*		2008	2007*		2008	2007*								
Operating profit before exceptional items	11.2%	11.3%	Gearing ratio	21.5%	28.7%	Number of injuries per million hours worked	6.3	4.9								
While the group aims to take a long-term perspective on shareholder value, it also monitors the financial performance of each of its businesses in the shorter term. The KPI used in this monitoring process is the operating margin percentage. This is calculated for the group as a whole by dividing operating profit before exceptional items by total revenue. This measure is used to evaluate the performance of each business, including sales price, manufacturing efficiency and overhead and operating cost control.			The principal measure used to monitor the strength of the group's balance sheet is the gearing ratio, which expresses the group's net debt as a percentage of its net assets, as disclosed in note 23 to the financial statements.			Health and Safety matters are discussed further on pages 14 and 15 of this Annual Report. Safety performance is measured in various ways at a local level. At group level, it is measured by the lost working day injury rate, which is calculated as the number of injuries per million hours worked.										
*The data above for 2007 relates to the																

*The data above for 2007 relates to the continuing business only.

Operating and Financial Review

2008 has been a very positive year for Devro, with a 16.4% improvement in adjusted operating profit (operating profit for continuing operations before exceptional items) to £20.6 million (2007: £17.7 million), and a 21.4% improvement including the discontinued BioFilm operation in the 2007 results. Net debt has been reduced by 12.0%, to just under £24.0 million.

Sales

For 2008, we projected that sales volume growth would be in line with the market, and this is exactly what was achieved, with a 2.4% increase in the volume of collagen casings sold, with stronger growth in edible collagen. The increased sales volumes were achieved from a combination of improved inventory management and enhanced productivity from existing facilities, as we continue to effectively manage our operating capital.

Reported sales increased by 17.2% to £183.1 million (2007: £156.3 million) on a like for like basis. Of this, 11.0% related to foreign currency movements, and in particular the fall of the pound against most other currencies in the second half of the year had a positive impact on reported revenues. Currency also had a significant impact on group earnings, with an overall positive impact of £2.4 million in the year, most of this arising in the last quarter. At the half year, the impact was £0.3 million negative. The fall in sterling gave rise to gains on the translation of overseas profits, and there were transactional gains related to sales into Asia denominated in US dollars and Yen, along with gains on sales in Europe denominated in euros. Gains on transactions would have been higher but for operational hedges in place. The group does not hedge translation exposure.

Pricing

In the Operational Review in January 2008, we committed to achieving better sales prices, and indicated that this would take precedence over both volume and market share. For the full year, we increased volumes and maintained market share, while comparable prices in all product groups increased by 3.2%. On a constant currency basis, price increases accounted for a £5.0 million increase in revenues year-on-year.

Sales territories

UK & Eire: 2008 saw a recovery in the volumes and value of collagen-cased sausages sold by retailers. Devro's sales volumes increased in the UK & Eire and overall prices held constant, with increases later in the year offsetting the effects of further consolidation among key customers in the first half of the year. This strong performance in the market was helped by Devro's patent-protected porcine casing, which is gaining increasing approval among retail buyers.

Eastern Europe, Russia and Ukraine continued to generate growth during 2008, with volumes of our Cutisin Fine casings increasing across all these markets, and sales prices rising. Volumes in Scandinavia and Western Europe have declined, partly due to product specification and performance issues.

Latin American volumes and prices increased significantly, and in the USA, trade in both casings and gel was maintained or increased with all Devro's key accounts.

There was encouraging volume growth in Japan, where at the same time we achieved our first price increases for over 15 years.

Asia as a whole grew strongly, with volumes in China rising, whilst prices were raised by more than in other regions in order to reduce a historic disparity. Across other Asian markets, such as Korea, Thailand and the Philippines, a strong volume increase reflected keen interest in both the Devro and Cutisin brands, particularly as prices also strengthened.

Australia and New Zealand are mature and well-established markets, so it was encouraging to see steady growth in both countries, encouraged by the comprehensive and knowledgeable technical support that Devro has developed there over many years.

Target markets

Two markets had been identified for particular attention in 2008. In Russia, Devro has established its own representative office managed by a direct employee of the group. This strengthened local presence has led to much closer relations with Devro's key distributors, which is proving to be

particularly valuable as the economic climate in Russia becomes more challenging. In China, Devro has successfully developed much closer relations with key customers, reflected in regular technical support visits and more shared forward planning of product requirements and availability.

Gut conversion

An important feature of the sales growth in most markets in 2008 was the rate of conversion by customers using gut casing to Devro's collagen casing. It is estimated that new business equivalent to 4.0% of Devro's 2008 sales volumes was transferred from gut, in markets ranging from leading UK retail outlets to cost-conscious manufacturers in Latin America and new capacity in Asia.

Margins

Operating margin held firm at 11.2% for the year, compared to 11.3% for 2007. A write-down of fixed assets in a Cutisin plant of £0.6 million, relating to a test line which is no longer operational, had an adverse impact of 0.3% on margins in 2008, while currency movements were approximately 0.3% favourable.

Manufacturing

Manufacturing operations, through consistency, productivity and efficiency, made a substantial contribution to the improved profitability of the business. Close attention to managing the quality of raw materials at all sites ensured that there were fewer interruptions in production and lower levels of inventory destructions and wastage.

As an indication of the progress in our operations, the volume of product manufactured from the same facilities increased by 2.5% compared to 2007, due to yield and productivity improvements. Physical stock levels have been reduced by 6.2%, whilst the number of active product lines has been cut back by 4.1%, both without adverse impact on customers or sales.

Costs

Input costs proved a real challenge in 2008. The commodities boom saw us starting the year with genuine concerns about the cost and availability of glycerine. The price of glycerine peaked in the first quarter, but has since returned to more normal levels, only to

be followed by the widely-publicised increases in gas, diesel and electricity prices. Due to the nature of utility supply contracts, these costs will continue at late 2008 levels during the first half of 2009, even though reported prices have fallen steeply. The current economic downturn has brought the automobile, furniture and aerospace industries almost to a standstill. This has significantly reduced the demand for leather and therefore split hides, and curtailed the availability of raw collagen to unprecedented low levels. Managing the supply of hides is a major challenge for Devro and the collagen industry, and we anticipate cost increases in this prime raw material.

Underlying labour costs have risen during the year in line with inflation. There was an increase in profit-related remuneration as a result of the strong performance of the group.

Exceptional items

In our interim report we reported exceptional items amounting to £2.9 million, being the impairment of an asset in our Czech operations, less an amount received in the UK for sale of land. We also noted that a further £0.6 million would be taken as an exceptional charge in the second half, being the redundancy and transfer costs associated with the closure of the Korenov plant for which the half year impairment was taken. Total exceptional items for the year therefore amounted to a charge of £3.5 million before tax.

Capital investment

Capital expenditure in the year was £12.7 million. Capital expenditure projects included:

- investments for enhanced product quality in the UK;
- compliance with EU Food Hygiene regulations and increased waste water treatment capacity in the Czech Republic;
- some very innovative manufacturing developments in Australia; and
- general facility improvements in the US.

Health and safety

Our Health and Safety performance during the year was not as good as we have come to expect. We were disappointed that in 2008 we had an increased incidence of Lost Working Day Injuries. This increase is despite the efforts all around the group to

make Devro a world leader in providing a safe working environment for all our employees.

Financing

Net debt has been reduced from £27.3 million at the start of the year to just under £24.0 million at 31 December 2008, reflecting the positive cash flow in the year. This gives a gearing ratio of 21.5% (2007: 28.7%), while net debt to EBITDA, a widely used solvency measure, is below 1. We believe that Devro is well financed, and has sufficient liquidity to fund the capital additions required to continue to grow the business. Management has a policy of distributing debt between the various currencies in which it operates; therefore the net debt figure may fluctuate based on exchange rate movements.

Net interest cost for the year was £2.4 million (2007: £2.7 million). All of this reduction occurred in the second half as a result of lower debt and the significant fall in interest rates towards the year-end. If interest rates continue at their current level, net interest cost will be significantly lower in 2009.

Devro has committed borrowing facilities of £51.0 million that fall due for renewal in January 2012. At 31 December 2008, the group was operating comfortably within the covenants relating to these facilities.

The group places importance on Return on Capital Employed (ROCE) as a Key Performance Indicator (KPI). ROCE is calculated as operating profit over average net assets, and is a measure of how much profit is generated for a given amount of capital used. We believe that optimising ROCE is an important factor in achieving above average shareholder returns. ROCE for 2008 was 20.0% compared to 21.0% for 2007. This reduction reflects the fact that currency movements caused a larger increase in net assets than in operating profit.

Tax

The group had an effective tax rate, before exceptional items, of 29.4% for 2008, (2007: 33.7%, for the continuing business).

2008 benefited from a release of prior year provisions, amounting to £2.0 million, which has been treated as an exceptional tax credit.

Pensions

The group operates a number of defined benefit pension schemes around the world. All of these are closed to new participants, but the liabilities related to existing schemes are considerable. During the year, the value of the assets in these schemes fell significantly along with worldwide equity and bond markets. Offsetting this, the value of liabilities has decreased because discount rates have risen. The net impact of this is an increase in the accounting deficit of the schemes, which at 31 December 2008 amounted to £25.8 million (2007: £7.4 million). It is likely that further additional contributions will be made to these schemes during 2009 to reduce this deficit. At the same time, management will continue to seek ways of controlling the liabilities involved.

In previous years, the financing charge on pension plan liabilities and anticipated return on pension plan assets were treated as part of operating income. We no longer believe that this treatment gives the reader of our accounts the most relevant information. Therefore we have changed the disclosure of these items to include them with financing costs. The impact of this is to reduce operating profit by £0.6 million in both 2008 and 2007, with a similar reduction in net finance costs.

For 2009, it is anticipated that there will be a finance charge of approximately £1.4 million, rather than a credit as in 2008. This change is largely related to a reduction in the anticipated return on plan assets. The translation of US dollar liabilities into sterling will also have an adverse impact.

Operating and Financial Review continued

On 30 January 2009, Devro Inc closed its post-retirement health care benefit scheme. This will give rise to an exceptional credit of approximately £1.8 million in the first half of 2009, and a reduction in on-going contributions of £0.15 million per annum.

Outlook

The global economic outlook for 2009 and its impact on Devro is difficult to predict. However, Devro is well positioned to improve operational performance and shareholder value in the future.

Our expectations are that global volume demand growth for edible collagen in 2009 will continue the circa 4% increase of recent years, but this growth is expected to vary significantly between markets. Devro is a global organisation with manufacturing operations in three continents and strategically situated sales teams, so we will be able to take advantage of market growth wherever it occurs.

The benefits of 2008's pricing work are clear to see. Our approach has been to achieve sustainable price increases that are real but also respect the challenges our customers face. Some markets, particularly those supplied from the UK, require further progress in pricing to generate the appropriate level of return on our assets. All our management teams will be working on this throughout 2009.

The Technical Marketing team, which was established from existing resources at the start of 2008, has made real progress in identifying opportunities and initiating new product development work which is commercially focused on opportunities in our existing markets. The prospects for the longer term are encouraging.

There will continue to be consolidation among the larger food manufacturers, particularly in Europe. Devro is the world's largest and only global collagen casing manufacturer, and is well placed to meet the demands of larger and more sophisticated customers. We continue to invest in research and development (R&D) to ensure product superiority in our core market segments, with a total R&D spend in 2008 of £5.2 million, (2007: £4.4 million).

Movements in foreign currencies have had a significant impact on this year's figures. Given the global spread of Devro's business, the results will always be subject to foreign exchange rate fluctuations. While we hedge transactions within our operating businesses, we do not feel that it is appropriate to hedge translation exposure.

Inputs and costs are unpredictable, with the improving situation in utilities being counteracted by the previously-mentioned shortage of split hides. The latter will certainly cause an increase in raw material costs, and may present real challenges to maintaining manufacturing output, but we are confident that our purchasing and technical teams will manage the situation well.

Developments at Cutisin in the Czech Republic are very exciting. As we announced in August 2008, we will be investing approximately £5.0 million in our Jilemnice plant to add further capacity to our ultra high-speed lines. This will enable us to cease using our 1930's lines at Korenov, and save an estimated £2.0 million per year in operating costs from 2010. Plans are all in place for this investment, with the new equipment now under construction.

The new investment project in the Czech Republic will be in addition to Devro's recurrent levels of capital expenditure, bringing the projected group total for 2009 to £19.0 million. Of this, £6.3 million will be used for replacements and maintenance and £3.0 million will be for the hygiene compliance and expanded waste water treatment projects in the Czech Republic. The balance will be spent on product and process enhancements across our factories.

Whilst we are making advances in the areas raised in the January 2008 Operational Review, senior management are now devoting increasing amounts of time and effort to longer-term strategic opportunities. We are pursuing a number of potential synergies in established markets which would make a worthwhile contribution to profits, and we are excited by a number of real prospects in emerging and developing markets.

Dividend

The Board is proposing a final dividend of 3.025 pence per share (2007: 3.025 pence), bringing the total for the year to 4.45 pence (2007: 4.45 pence) payable to shareholders on the register as at 17 April 2009. Based on the proposal for the full year, dividend cover excluding exceptional items will be 1.8 times.

Principal Risks and Uncertainties

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

Disruption to supply of key raw materials

The group's most important raw material is collagen, a natural substance, which is an edible by-product of the leather industry. Supplies of consistent, good quality hides have been readily available at an acceptable price for a number of years. However, the current economic downturn has had a major impact on the automobile, furniture and aerospace industries, reducing the demand for split hides, and therefore the availability of raw collagen. There is a risk that the effect of these changes on the leather industry will lead to a shortage of available hides, resulting in significant cost increases for the group's business. Changes in climatic conditions or alterations to the feeding methods of livestock could also have an impact on the quality of collagen, in turn affecting the productivity and effectiveness of the group's manufacturing processes. The group manages the collagen sourcing risk by, where possible, entering into long-term arrangements with a number of key suppliers in various parts of the world. Because of the current downturn in demand for fine leather, the group is actively involved in identifying new sources of hides, to ensure a sustainable supply of this key raw material.

Foreign exchange rate movements

As an international business, with costs being incurred and revenues earned in several different currencies, the group is exposed to the risk that changes in the relative strengths of currencies may result in adverse impacts on revenues, costs and the sterling value of reported profits. The financial impact of exchange rate fluctuations within our operating units is mitigated by a policy of hedging a substantial portion of transactional foreign exchange risk for periods of up to one year, but this can provide only a limited degree of protection against a sustained rise or fall in the value of a particular currency over a number of years. The group does not hedge the risk arising from changes in the exchange rates at which overseas earnings are translated into sterling.

Customer credit risks

The group is exposed to financial risks arising from its trading with customers and

distributors in a large number of countries, where prevailing payment terms are diverse. The group has established internal procedures and controls to mitigate the risk of non-payment wherever we do business. For example, we require either payment in advance or confirmed letters of credit before releasing product to customers or distributors in certain parts of the world. Nevertheless, customer credit risk may adversely affect the group's business, results or financial condition, particularly during periods of difficult global economic conditions.

Increased funding of pension schemes

Estimates of the amount and timing of future funding obligations for the group's defined benefit pension schemes are based on various assumptions, including the projected performance of the pension scheme assets, future bond yields, changes to the longevity of the schemes' members, and statutory requirements. Any significant deterioration in the schemes' asset values or unforeseen increases in scheme liabilities might increase the group's funding obligations and could adversely affect the group's profits and financial strength. The position and performance of each of the schemes are continually monitored by the group, in conjunction with trustees.

Significant fall in the demand for processed meat products in key markets

The overwhelming majority of the group's business is the manufacture and sale of casings for the processed meat industry. Within this industry, the sausage sector has operated for very many years with a solid level of demand. However, the concentration of the group's business on one type of product dictates that any significant fall in demand for sausage would have a significant impact on the group's ability to generate sales revenues.

The impact of changes in regulations affecting food production

The group is a food manufacturer and is hence required to comply with food safety regulations. The relevant regulations are not only those of the territories where its products are manufactured (the European Union, the US and Australia), but also the regulations of the many countries in which group products are sold. Regulatory authorities routinely enact changes to food safety legislation, and there is a continuing risk that such changes could result in restrictions on the movement of the group's products, or its raw materials, between territories, or necessitate changes to the production processes at one or more of the group's manufacturing facilities. Changes to

food safety regulations could therefore result in significantly increased production costs or substantial reductions in sales revenues. The group has built relationships with regulators and established procedures for the monitoring of planned and actual applicable changes to food safety regulations in all relevant territories, so that it may respond quickly and effectively to any such changes in order to minimise disruption to its business.

Increases in energy costs

With energy representing a major element of the group's manufacturing costs, there is a strong focus on conservation measures aimed at reducing usage per unit of output. In addition, costs are actively managed by having the capability to use different forms of energy at our manufacturing plants and by entering into fixed-price contracts where these are considered appropriate. However, there is a residual risk, outwith the control of the group, that significant additional costs may be incurred in future as a result of increased energy prices.

Development of non-casing technologies

More than 70% of the group's revenue is derived from the manufacture and sale of edible collagen casings, primarily for sausages. For many years, several manufacturers of machinery used in the food industry have been developing delivery systems for sausages which do not require casings. To date, these co-extrusion technologies have not gained a significant share of the global market for sausages. Where there has been conversion to co-extrusion, the group has been successful in supplying the collagen gel required for such applications. However, if there were to be a significant conversion to co-extrusion, there could be an adverse effect on the sales revenues and profits of the group's operations. To ensure that our collagen casings retain their commercial attractiveness, the group makes substantial investments in modern manufacturing equipment and process development, with a view to continually improving the quality, and reducing the production costs, of our casings.

Loss of market share / profit margins due to increased competitive pressures

The group operates in competitive markets throughout the world. A major change in the production capacities, pricing policies or behaviour of our competitors, or consolidation between either competitors or major customers, could have a significant adverse effect on sales revenues and results of the group's operations.

Resources

Manufacturing facilities

The group has seven manufacturing facilities as shown in the table below.

As previously announced, the Korenov facility will close during 2009.

Group employees

The group had 2,198 employees at 31 December 2008. Of these, 1,877 were involved in manufacturing operations, while 122 worked in selling, marketing and distribution, 101 were in research and development roles and the remaining 98 were employed in administration.

from using gut as a raw material to being produced from collagen is a major driver towards future sales growth. We continue to develop products to accelerate this conversion process, and we are seeing significant progress in this area since establishing a dedicated Technical Marketing team in 2007, with a focus on gut conversion.

In recent years, our research and development activities have given us the development of porcine casing, new dryer technologies and improved shriming methods.

emerging markets of Latin America and China and the more traditional markets for Bratwurst in Germany and butcher-style handlink sausage in Australia and the UK.

Cutisin casings are predominantly made for processed sausage applications, and we believe it is the leading brand of edible casings in Central and Eastern Europe, with clear market leadership in Russia, Romania and the Czech Republic and very strong positions in the important markets of Poland and the Ukraine.

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The group aims to attract and retain employees of high calibre in order to achieve improvements in its performance. The development and motivation of our employees is a high priority.

Research and development

The group has a significant research and development activity attached to each of its major manufacturing plants in Scotland, the Czech Republic, the US and Australia. Research and development is viewed as a critical resource for the group, with 101 staff employed in this area worldwide, and expenditure in 2008 of £5.2 million (2.8% of group revenue).

The investment in research and development is designed to improve the range and quality of our product offerings and the efficiency of our manufacturing processes. The conversion of food casings

Market position and strength of brands

The Devro group is the world's leading supplier of edible collagen casings, with its three brands, Devro, Cutisin and Coria.

The Devro brand is particularly suited to the fresh sausage segment, making it the market leader in edible casings in a number of territories, including the important UK/Eire and Australian markets. Specialist coloured and small-calibre snack sausage casings are also a key part of the overall Devro range. In addition to bovine collagen casings, Devro is in the unique position of being able to offer porcine collagen casings for both fresh and processed sausage applications.

More than half of all Coria sales are to customers in North America, targeting mainly the retail sausage segment. The Coria brand also has significant sales in other important markets, including the

Manufacturing Facilities

Name	Location	Products manufactured
Bellshill	Scotland	Collagen casing, collagen film
Moodiesburn	Scotland	Collagen casing
Jilemnice	Czech Republic	Collagen casing, collagen film
Korenov	Czech Republic	Collagen casing
Slavkov	Czech Republic	Plastic casing, collagen casing
Sandy Run	United States	Collagen casing, collagen gel
Bathurst	Australia	Collagen casing, biomedical collagen

Relationships

The group works closely with a diverse range of stakeholders around the world. These include:

Customers and distributors

Within the domestic markets of our various businesses, the overwhelming majority of our sales are made directly to customers who use our products in their own food manufacturing processes. Where we do not operate our own business in a particular territory, our sales to that country are generally made to a distributor, who in turn supplies local food manufacturers with our products.

Our relationships with customers and distributors are critical to our continuing business. We recognise that our customers are under no obligation to continue to purchase our products and that they may choose an alternative supplier if we do not provide high quality products and service at a reasonable price. Similarly, if we are unable to provide our distributors with products which their customers require, at a fair price, we will lose business. However, there are no contracts or arrangements with individual customers which of themselves are considered essential to the continuing operations of the business.

In order to ensure that we satisfy customers and distributors alike, our commercial and technical functions maintain close working relationships with all those who buy our products and, in particular, with our key customers and distributors. This includes

regular visits to customer premises to ensure that we can respond in a timely manner to changes in their specific needs and that they are kept up to date with our product development activities. We also participate actively in a number of food industry conferences and exhibitions attended by our customers.

Employees

Our relationship with our employees is key to our success. Each of our operating companies is responsible for maintaining appropriate consultation and communication with its employees. This includes joint management and employee participation on matters such as Health and Safety and meetings with employees and union representatives to discuss the issues affecting them. In Europe, there is an additional channel for employee involvement in the form of a Works Council. In addition, relevant information on the performance of the business is advised by means of regular employee briefings. We also communicate with our staff through internal publications, newsletters and, at some locations, through an Intranet facility.

Enabling employees to derive the maximum benefit from their employment with Devro is a key principle on which the company operates.

Regulatory authorities

As a food manufacturer, relationships with food safety regulators are extremely important. We need to remain fully informed of proposed changes to regulations which may affect the movement of our raw materials or finished products. Early knowledge of such plans allows us to make necessary alterations to our supply chain or manufacturing processes. Furthermore, it allows us, where appropriate, to make representations or provide relevant information to regulatory authorities which may result in modifications to the proposed regulations that are beneficial to the group's operations.

The group is a member of various international federations which continually advise on food regulatory matters, as well as the equivalent domestic associations in the UK, the Czech Republic, the US and Australia, with designated staff in each of these countries being responsible for

maintaining close contacts on regulatory issues. The group's Regulatory Affairs Manager, based in Moodiesburn, is a member of the Scottish Food & Drink Federation, through which he has regular meetings with various regulatory bodies. In addition, he maintains good links with the Department for the Environment, Food & Rural Affairs on regulatory and trade issues. We are also members of the Collagen Casings Trade Association which meets regularly in Brussels under our chairmanship and actively lobbies the EU on regulatory issues.

With regard to the regulation of trade waste, each of our four manufacturing businesses maintains close contact with the local environmental protection agency in order that we may ensure compliance with relevant regulations.

The financial community

Our investors are also critical to the group's business success. We have regular meetings with shareholders, investors and financial intermediaries and provide updates to the financial community on our performance.

Local communities

All our factories are located in relatively small communities, and we work with them where possible. This includes small but regular donations to support local institutions such as schools and hospitals.

Suppliers

We rely on a diverse range of suppliers to provide goods and services linked to our businesses. The most significant of these in cost terms are leather tanneries, chemical and dye producers, process equipment manufacturers, energy providers, packaging manufacturers and freight operators. Close links are maintained with our key suppliers and, where appropriate, we enter into medium or long-term purchase arrangements which provide stability to our processes and allow our suppliers to plan their own activities more effectively. There are currently no contracts or arrangements with individual suppliers which of themselves are considered essential to the continuing operations of the business. The group's policy is to pay agreed invoices in accordance with the relevant terms of payment.

Corporate Social Responsibility Report

We take our social responsibility obligations very seriously, with our intentions reflected in our group policies. Those on Health and Safety, the Environment, and Quality were reviewed in depth during 2008. To achieve this, the Chief Executive held meetings with managers, safety committees and trade union and employee representatives, and the updated policies were then endorsed by the Board at the end of 2008. They are available on our website (www.devro.plc.uk), together with our Human Resources Policy.

Safety

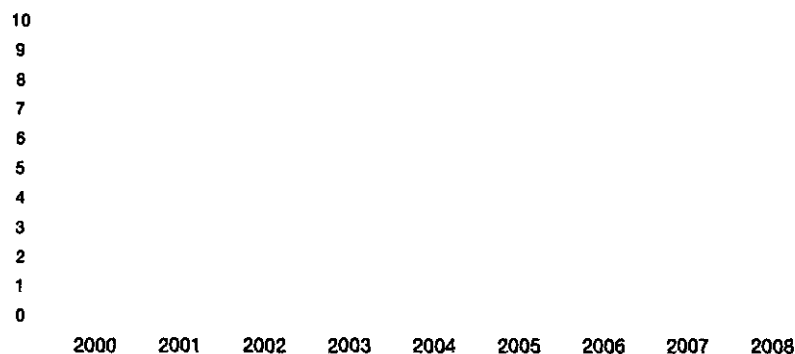
Safety continues to have a very high priority within Devro and is a regular item on every Board Meeting agenda. All group companies conduct regular formal safety reviews at plant level. Managers and employees review policies, processes and procedures in order that risks may be properly assessed and appropriate action taken to protect the safety of employees. All accidents and incidents are fully investigated so that remedial or avoidance action may be initiated and subsequently monitored. Formal reporting procedures are in place at each plant so that we can monitor safety performance at both group and local level.

Despite this attention to safety, our performance during 2008 was worse than that in the previous year. Particularly concerning was a major injury in our Czech operation, when an operator almost lost a hand. This was extremely regrettable, and highlighted the serious risks inherent in what had been thought to be a safe process. We are carrying out an extensive review of the risks throughout the Jilemnice factory, although the Czech authorities have not held the company responsible for the incident.

For the first time, the group carried out internal surveys during 2008; a safety climate survey was used to hear the views of our staff, while an audit by safety managers looked at procedures and processes. Results from both were encouraging and they will be repeated early in 2009.

The key measure of group safety performance is the rate of lost working day injuries, which increased in 2008. Despite that, our performance is still better than that of our UK peers. Worldwide, there were 17 accidents in Devro which would have fallen into the category of UK reportable; the Accident Incident Rate this represents was half that of the average of the UK Food and Drink industry.

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



The number of working days lost as a consequence of injuries showed an increase as well, due to a large extent to serious injuries in the main Czech factory.

	Lost working days per million hours worked
2004	198
2005	156
2006	183
2007	143
2008	246

We are disappointed with this performance, and have engaged DuPont Safety Resources to carry out a review of the group's safety activities during the first half of 2009. This will involve audits of all our factories to compare what we do with best practice in other companies, and will culminate in a workshop for the Executive Committee and a report back to the regional management teams to draw up action plans for improvement.

Key achievements from around the group were:

- The US plant received the following from the South Carolina Occupational Safety Council:
 - The Palmetto Safety Performance Certificate was awarded as the plant had an OSHA recordable accident rate that is below the State average for companies in the same category.
 - The Safety Achievement Plan recognised five Sandy Run departments which had worked 5 or more years and at least 50,000 hours without an OSHA recordable injury or illness.

→ Product services and warehouse manager Susan Rish was awarded the Life Saving Award. As a result of training recently given to her by the company, she was able to perform Cardiopulmonary Resuscitation (CPR) for 15 minutes on a spectator who collapsed at a community football game, before an ambulance arrived.

- The Australian plant continued to focus both on reducing the number of accidents and on an early return to work and rehabilitation following injury. In 2008, there was an increase to eight lost working day injuries, though only three of these resulted in more than two days lost time.
- Safety performance in our Czech factories was disappointing in 2008. Following the major incident referred to earlier, we have made improvements in health and safety training and commenced a major exercise to update risk assessments. An extra safety specialist has been recruited to support this work.
- Safety performance in the Scottish operation was much improved in 2008. Of particular note was our success in winning the Food and Drink Sector Award from RoSPA, beating 80 other companies in the process. The business was also awarded the International Safety Award by the British Safety Council for the seventh consecutive year.

Fire risk

One of the company's aims is to reduce the risk of business interruption due to fire at its major sites, and we have been assisted in this by our insurer, F M Global. During 2008, a further three factories were awarded their HPR (Highly Protected Risk) award for actions to reduce fire risk.

Business continuity planning

The company is developing Business Continuity Plans for its sites. Two are complete and tested and two more are currently being developed. The process will be finished during 2009.

Occupational health

Occupational health issues have been more significant during 2008 than in previous years. Notably, in Scotland, a number of occupational dermatitis cases came to light, and the company worked closely with the Health and Safety Executive (HSE) and the country's leading industrial dermatologist to identify areas of concern and put appropriate control measures in place. Our actions were commended by the HSE as an excellent example of a response to this type of issue.

REACH

The EU REACH regulation on the registration, evaluation, and authorisation of chemicals (1907/2006/EC) required pre-registration of uses of chemicals during the second half of 2008. The European Chemicals Agency became operational during the year and the UK and Czech businesses asked suppliers to pre-register the chemicals that are used throughout the factories. Our products are exempt as they are foodstuffs, which are explicitly excluded from the regulation.

Environmental policy

The group has always recognised that environmental protection is of fundamental importance to a successful and responsible business strategy. We take pride in our business activities and are committed to achieving compliance with regulations, permits and consent limits in our various activities, minimising our environmental impact in the countries in which we operate and the communities we serve.

Group operations around the world are subject to a variety of regulatory regimes and cultures. As a consequence, environmental issues are dealt with through a network of specialists operating within the business units. To ensure consistency of approach, all group companies operate within an agreed corporate framework which promotes exchange of information and best practice.

It is a group objective to minimise the impact on the environment of its products, processes and operations. Recognising that teamwork and co-operation are key to success, training arrangements are in place to raise employee awareness of environmental issues and develop support for future initiatives.

During 2008 we have started to focus on two measures:

- carbon dioxide (CO₂) emissions from the use of fuels and electricity in our factories
- water consumption

We have chosen to focus on fuel and electricity related CO₂ emissions as the impact on our carbon footprint of our use of refrigerant gases and business travel is not significant.

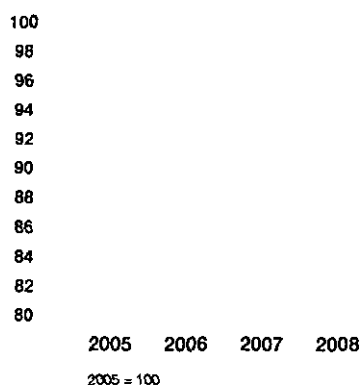
The data is encouraging, as not only have we achieved a reduction in the emissions per kilometre equivalent product, but also absolute emissions of carbon dioxide were reduced in 2008 when compared with 2007.

CO₂ emissions

(tce CO₂/million metres equivalent casing produced)

Water consumption

(m³ water/million metres equivalent casing produced)



Environmental update

The group's operating plants continue to make improvements to their operations with respect to the environment and some of the key projects undertaken this year are outlined below:

Scotland

The programme of energy saving projects continued during 2008. These included an upgrade of the energy monitoring system, heat recovery projects, and some new lighting controls. A new insulation upgrade programme was also initiated. The 2008

climate change levy milestone, a 13.1% reduction in energy use over the base year, 1999, was achieved, though output at one factory was lower than target.

A pilot borehole was drilled to establish whether water could be used direct from a local aquifer.

The Scottish plants recycled 38 tonnes of cardboard, paper and polythene during 2008, a 25% increase on 2007. In addition a further 220 tonnes of cardboard, steel, plastic and wood were processed by a recycling company.

United States

Investments made over the last four years to upgrade the boiler control systems and pollution control equipment, along with continuous in-house improvements in control technology, continued to deliver results. In 2008, emissions from the wood boiler were more than 40% below the regulatory limits.

Work continued with a local treatment facility to economically treat some of the liquid wastes that previously had to be incinerated. This allowed an increase in the use of wood, a renewable fuel, and a reduction in the consumption of natural gas. A programme has been set up with the University of South Carolina to find new ways to recover or reduce this waste stream.

Focused efforts to control and reduce liquid and solid wastes have resulted in a reduction of 7% in the amount of solid waste land-filled per tonne of collagen processed.

The continuing programme with a major fertiliser manufacturer resulted in the recycling of a further 1,300 tonnes of liquid ammonium sulphate for fertiliser feedstock in 2008. In addition, waste reduction efforts allowed a 37% reduction in the amount of excess ammonium sulphate produced.

Australia

A number of energy saving proposals continue to be developed. Stage 1 of a lighting upgrade was implemented in 2008, with stage 2 planned for 2009. It is hoped that a current investigation into compressed air use may lead to further energy savings.

Work on a co-generation plant has continued, with the consultant carrying out further engineering investigations which will enable a proper evaluation of risks and sensitivities. The final report is due soon, and will be sufficiently detailed to support a grant application should funding be available during 2009.

There has been more progress with the effluent improvement plan. Having completed one project in 2007, the second, a new effluent screen at the Vale Road factory, was installed during 2008. The next projects planned involve significant development work, and having completed designs during 2008, trials will begin in 2009, allowing full scale equipment to be installed in 2010.

Czech Republic

The heat recovery projects carried out in 2007 resulted in a 7% reduction in carbon dioxide emissions from the boilers, enabling the main factory to meet its emissions target in 2008.

Water consumption and chloride emissions in liquid effluent were both reduced by approximately 2% during 2008.

Work has continued on upgrading the main effluent treatment plant to bring its performance into line with changes to EU standards which will apply in the future. This is a significant project which will not be completed until 2009.

Regulatory compliance

With its worldwide trading, the group is conscious of the need to ensure compliance with national and international legislation. European food safety legislation is the benchmark for the worldwide group. As previously, we have complied with EU Regulation 2002/178/EC, which lays down the general principles and requirements of food law. In particular, for European markets, we have ensured full compliance with EU Regulation 2004/853/EC including Section XV, which sets out specific hygiene rules and requirements for collagen for human consumption. We also remain in full compliance with EU Regulation 2005/2073/EC (as amended) on microbiological criteria for foodstuffs. Imports of products into the EU from the US continue under an equivalence agreement described in EU Commission Decision 2003/863/EC.

The outbreak of foot and mouth disease in England in August 2007 resulted in some limited disruption to trade with one country outside the EU early in 2008, as it took some time to agree new wording for an export health certificate. These sales were regained later in the year.

The widely reported problem with dioxin-contaminated feed in Ireland had no impact on operations; traceability systems confirmed the absence of porcine hides

from Ireland, and there was no recall of bovine material.

Quality

We aspire to achieve high levels of food quality and food safety, supported by general registration to ISO 9001:2000 by all of our manufacturing facilities and routine audits by appropriate local authorities. Our Scottish plants are further accredited to the 2005 BRC/EFSIS Global Standard for Food Safety.

2008 saw the continuation of rigorous internal quality audits against ISO 9001:2000 supplemented by the ISO 15161 Guidelines on the application of ISO 9001:2000 for the food and drink industry. All four of our manufacturing companies have now been audited twice, and have demonstrated satisfactory improvement. The learning has been shared to provide a platform for improvement. A review of this activity carried out early in 2009 confirmed its value; audits will continue to be carried out every two years.

Work continues in the Czech Republic to bring our factories up to date with the latest EU regulations for food hygiene.

Three of our businesses are certified for the manufacture of Halal casings, while the production of Kosher casings is approved in Australia.

During the year, our Australian medical business received:

- ISO 13485 accreditation from BSI for the Quality Management System for the manufacture of bovine biomedical collagen.
- Certificate of suitability from the European Directorate for the Quality of Medicines and Healthcare (EDQM).
- JPAL (Japan's Pharmaceutical Affairs Law) accreditation, which means that Devro is an approved foreign medical device manufacturer.

Social, environmental and ethical risks

Each year, the Board carries out a broad review of business risks which includes social, environmental and ethical ("SEE") matters. This review is aimed at identifying and assessing significant risks to the group's value, as well as providing the Board with an opportunity to manage such risks by way of an appropriate response.

To ensure the Board receives adequate information to make this assessment, the review is co-ordinated globally by the Head

of Risk Assurance, and requires regional management committee input and Executive Committee participation before the process reaches the Board.

The Board believes that this system is sufficiently comprehensive to effectively manage significant SEE risks, and to date has not felt it necessary to incorporate remuneration incentives into the system.

Suppliers

We recognise that our corporate social responsibility also reflects in the way we behave towards our suppliers. We strive to be open, honest and consistent in all our dealings with 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 2008, the amount owed to trade creditors by the group was equivalent to 33 days of purchases from suppliers.

Trade associations

The Collagen Casings Trade Association, which was created in 2006, met twice in 2008 under our chairmanship. The objectives of the group are:

- To represent the industry in its relations with legislators and administrations.
- To better understand the market as a whole.
- To maintain and increase food safety.
- To encourage market growth and promote collagen casings.

Our individual businesses are also members of local associations. For example, the Scottish business is a member of the Food and Drink Federation, and our Australian operation participates in a Food Industry Focus Group established in New South Wales.

Employees

The group aims to attract and retain employees of high calibre in order to achieve improvements in its performance. The development and motivation of our employees is a high priority.

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

Our Scottish operation has an apprenticeship programme, and continues to offer two engineering apprenticeships each year, working in partnership with the

responsible for achieving and maintaining appropriate consultation and communication with its employees. Examples of the employee involvement programme during 2008 included:-

- Disclosure of financial information by means of employee briefings and the distribution of the Interim and Annual Reports and Accounts.
- Communication with employees via newsletters; in the Scottish operation a new Intranet site has also been established.
- Joint management and employee committee meetings on Health and Safety.
- Meetings with employees and union representatives to discuss the issues affecting them.

Communities

All our factories are situated in relatively small communities, and we work with them where possible. This includes small but regular donations to support local institutions such as schools and hospitals.

The group 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.

Examples of our activities were:

- Our Australian operation continues to be a major supporter of the 'Try a Trade' initiative which attempts to address the skills shortage in the Central Western Region of New South Wales. It is a major sponsor of the Bathurst Junior Sports Awards, and also supports local charities and other independent local events such as school fêtes and fundraising actions.

Disabled people are actively supported by using a local company specifically created to cater for people with disabilities for the laundering of uniforms.

- Despite tightening legislation, the Czech business continues to support the local community by exceeding its legal obligations for the employment of disabled people. In 2008 it had 17 disabled employees and supported a further 32 via its purchasing policy. The total of 49 was 20% higher than the legal requirement.

Donations were also made to support programmes in local schools and other local institutions.

- The Scottish company continued its involvement with schools by offering work experience placements to senior secondary school pupils, including children of employees.

Teams from the Scottish business took part in Ladies' and Men's 10k runs. The sponsorship money raised was donated to The Beatson Institute for Cancer Research in Glasgow. The business also supported local institutions and charities with small donations.

- Nine local community programmes were supported by our US business with small donations. It also received the School and Business Service Award for partnership with the Calhoun County School District.

Corporate ethics

We are committed to working with customers, suppliers, communities and competitors in an ethical manner. All Devro employees are expected to behave ethically in their work and our expectations of them are set out in a detailed Business Conduct Policy, available on our website. Annually, senior management are required to sign a certificate confirming compliance of both themselves and their staff with this policy. This has been completed for 2008.

Verification

This report has been reviewed by the Head of Risk Assurance, whose role involves risk management co-ordination on a global basis and regular contact with all group locations worldwide.

Summary

As a truly global business, we are fully aware of our global responsibilities. These responsibilities are extensive, from protecting the environment throughout the continents in which we work, to safeguarding the health and safety of our employees and to ensuring integrity and honesty in our business dealings. In taking action in these and many other ways, Devro largely achieves its objective of operating worldwide in a safe and responsible manner.

East Kilbride Group Training Association. In addition to the six apprentices currently being trained, a further nine former apprentices are employed by the group.

Our American company continued with its 'steps to a healthier you' programme and incorporated on-site medical screening again, along with launching a tennis ladder to encourage exercise. It also held an employee recognition lunch for employees, where managers cooked and served the food.

The Czech business provided influenza vaccines for employees. It also aims to support staff in need, and has made loans to employees with disabled children and provided support for three retired employees to enable them to find better living accommodation.

A flexible approach is adopted when considering employees' individual family requirements, offering flexible start and finish times where practicable to assist them in managing a successful work/life balance. With the launch of an employee support programme by the Scottish business, this is now a service available to all permanent employees at major sites.

Enabling employees to derive the maximum possible benefit from their employment with Devro is a key principle. In line with this, channels for employee involvement have been established, including a European Works Council.

Given the geographical spread of our operations, it would be inappropriate and impractical to apply uniform procedures group-wide. Each company is therefore

Directors and senior management

Board

Pat Barrett OBE	01	Peter Page	02	Peter Williams	03
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Paul Neep	04	Stuart Paterson	05
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Executive Committee

Mike Cooke	06	Gordon Frame	07	Alan Kilpatrick	08
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Graham McGilchrist	09	Douglas Stewart	10	Michal Stoczek	11
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01 Pat Barrett OBE (72)**Chairman**

Pat joined Devro in June 2001 as a Non-Executive Director and was elected Chairman in July 2001. It is his responsibility to lead the Board and oversee management in its development of strategies to grow Devro's business. He is also Chairman of Sutton and East Surrey Water plc.

04 Paul Neep (55)**Non-Executive Director**

Paul joined Devro in February 2005 as a Non-Executive Director. He was Chief Executive of Glenmorangie plc and holds the same position now that that company is part of LVMH. He has previously held senior positions within the Granada Group and United Distillers. He is the Senior Independent Director and is Chairman of the Executive Directors' Remuneration Committee.

06 Mike Cooke (57)**Director, Group Strategic Development**

Mike joined Devro in September 2001 after 25 years with ICI. He brought with him a wide experience of senior technical, project and manufacturing roles in different businesses both in the UK and overseas. Since that time he has held a number of senior positions, including Regional Director Europe, and he is now responsible for the group's strategic development. He has been Chairman of the Collagen Casings Trade Association since 2006, and is a member of the CBI Innovation Committee. Mike is a Fellow of the Institution of Chemical Engineers and holds degrees from both Cambridge and Oxford Universities.

09 Graham McGilchrist (58)**Business Director Asia/Pacific**

Graham attained a BCom from the University of New South Wales, Australia, and started work as a commercial trainee with a major Australia whitegoods manufacturer. At the time he left to join Devro in Australia in 1981 he was a Group Controller. Graham started work with Devro as Head of Finance for our Australian operation, before taking responsibility for manufacturing in Australia in 1985. He transferred to the US in 1986 as Vice President of Finance, before becoming General Manager of Devro Inc in 1988, and then President of Devro North American Operations in 1991. Graham was in charge of Devro Worldwide Manufacturing after the management buy-out in 1991, returning to Australia in 1995 as Regional Director Asia/Pacific. His current area of responsibility includes Japan and South East Asia as well as the Australian and New Zealand markets.

02 Peter Page (45)**Chief Executive**

Graduating from the University of London with a BSc (Hons) in Agriculture, and later obtaining an MBA from the Open University Business School, Peter's career started in Uganda, where he was Projects Manager in a company specialising in agrifood industry financing and reconstructions. From 1987 to 1995 he was Marketing and then Business Development Manager at Ross Breeders Limited, part of Hilldown Holdings plc. He then worked on various food industry-related projects, including salmon processing, seafood soups and fine food exports to Europe and Asia. For four years he was Divisional General Manager and then Executive Director at Adnams plc, dealing with wines, hotels and retail, before moving to Aviagen Group, a poultry breeding and genetics company, as Group Vice President - Europe, a position which he held until joining Devro as Chief Executive in June 2007. He is Chairman of the Non-Executive Directors' Remuneration Committee.

07 Gordon Frame (49)**Director, Group Technology and Marketing**

After studying chemistry, and following a spell in the whisky industry, Gordon joined Devro in 1986, in the Technical Department, becoming Development Manager in the UK before his first overseas assignment as Vice President of Technical at Devro Inc. in the US. This was followed by his first corporate assignment as Group Head of Development for both the Collagen and former Cellulose businesses. Gordon returned to the US in 2000 as Business Director Americas, and in 2006 was appointed Business Director Western Europe. In January 2008 he was appointed Director, Group Technology and Marketing, and is responsible for leading the group's corporate activities in these areas. Gordon leads a dedicated Technical Marketing group which is responsible for identifying and developing new market and product opportunities.

10 Douglas Stewart (46)**Business Director Americas**

Since joining Devro in 1994, Douglas has worked both domestically and internationally in a number of senior positions covering a wide range of disciplines, including Director of Sales Asia/Pacific based in Australia. In December 2005 he relocated to South Carolina, US to become Business Director Americas, and has responsibility for leading the group's business activities in that region. Prior to joining Devro, Douglas worked for British Steel. Douglas holds a BSc (Hons) degree from Strathclyde University, as well as an MBA.

03 Peter Williams (57)**Finance Director**

From 1997 until he joined Devro as Finance Director on 1 May 2008, Peter was Divisional Finance Director then Chief Financial Officer at Cernaq ASA. A chartered accountant, he started his career with Coopers & Lybrand, working in Edinburgh and Madrid from 1975 to 1983, and subsequently held senior financial positions with BICC Group, Coloroll Group, Courtaulds Textiles, and Pringle of Scotland.

05 Stuart Paterson (51)**Non-Executive Director**

Stuart, a chartered accountant, joined Devro in March 2006 as a Non-Executive Director. He is Chief Financial Officer of Johnston Press plc and a Non-Executive Director of Mirago plc. He was formerly Finance Director of Aggreko plc. He is Chairman of the Audit Committee.

08 Alan Kilpatrick (43)**Business Director Western Europe**

Alan has a BAAcc from the University of Glasgow and is a chartered accountant. His career started with Coopers & Lybrand in Glasgow and Sydney, latterly as a Corporate Finance Senior Manager. His first role at Devro plc was as Group Finance Manager. He held various senior finance roles within Devro plc before being appointed Finance Director of Devro (Scotland) Limited and then, in January 2008, Business Director Western Europe. Alan has led various business and process improvement initiatives within Devro. He was previously a director of the Scottish Council for Development and Industry. Outside Devro, Alan is a director of Friends of the Beatson, a West of Scotland cancer charity which he co-founded in 1995.

11 Michal Stoczek (49)**Business Director Eastern Europe**

Michal joined Cutisin in the process and product development department in 1984 straight from university in Prague, where he studied chemical engineering. Since that time he has played a key role in the development of the Cutisin product range. He was appointed to the Cutisin management team in 1997 and became a member of the Executive Committee of Devro and Business Director Eastern Europe in August 2006.

Directors' report

for the year ended 31 December 2008

The directors present their report and the audited financial statements for the year ended 31 December 2008.

Principal activity

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

The company's principal subsidiary undertakings and branches are listed in note 16 to the financial statements.

Review of business

The consolidated income statement for the year is set out on page 31. The information that fulfils the requirements of the review of business is contained in the Chairman's Statement (operational highlights and outlook sections) and the Business Review (key performance indicators section on page 7 and principal risks and uncertainties section on page 11).

Dividends

An interim dividend of 1.425 pence per share was paid on 17 October 2008. This compares with the interim dividend of 1.425 pence in 2007.

The directors recommend a final dividend of 3.025 pence per ordinary share (2007: 3.025 pence). If the final dividend is approved by shareholders, dividends for the year will total 4.45 pence.

Share capital

No ordinary shares of 10 pence each were issued during the year.

Share options

Details of all options granted but not exercised or lapsed at 31 December 2008 are shown in note 28 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 9 to the financial statements.

Directors

The names and brief biographical details of the directors of the company at the date of this report are set out on page 19. Mr P C Williams was appointed as a director on 1 May 2008.

On 1 May 2008, Mr J A Neilson retired as a director of the company.

In accordance with the Articles of Association, Mr P A Barrett and Mr S R Paterson retire by rotation. On 28 August 2008, Mr P A Barrett announced his intention to retire during 2009. He will not seek re-election at the Annual General Meeting ("AGM"). Mr S R Paterson being eligible offers himself for re-election at the AGM. Mr P C Williams will stand for election at the AGM as he was appointed since the last AGM.

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 30.

Substantial shareholdings

At 20 March 2009, the company had been notified of the following material interests in the issued ordinary share capital of the company:

	Number of ordinary shares	Percentage of issued capital
Artemis Investment Management Ltd	17,075,839	10.5%
Schroder Investment Management Ltd	15,103,943	9.3%
Marathon Asset Management LLP	11,492,268	7.1%
AXA S.A.	8,124,475	5.0%
The Standard Life Assurance Company	7,877,387	4.8%
Investec Asset Management	7,678,823	4.7%
Legal & General Group plc	6,477,638	4.0%
Prudential plc	4,955,392	3.0%

Charitable and political contributions

The contributions made by the group during the year for charitable purposes amounted to £49,000 (2007: £45,000). The contributions were mainly made to charities where the group's operations are based and can be analysed as follows:

	£
Local community groups	34,000
Schools and colleges	12,000
Health care and medical research	3,000
	49,000

There were no contributions for political purposes (2007: £nil).

Employees

Details of the group's employment policies are given under the Employee heading within the Corporate Social Responsibility Report on pages 16 and 17.

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 2008, the company had no trade creditors; the amount owed to trade creditors by the group was equivalent to 33 days of purchases from suppliers (2007: 26 days).

Financial instruments

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

Change of control

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

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

Annual General Meeting

The Annual General Meeting ("AGM") of the company will be held on 7 May 2009 at 10.30 am at the Radisson SAS Hotel, 301 Argyle Street, Glasgow, G2 8DL. The Notice of Meeting is set out on pages 73 and 74. In addition to the ordinary business of the meeting under items 1 to 5, shareholders will be asked for their approval of the following matters:

Item 6: Remuneration Report

Shareholders will be invited to approve the Remuneration Report set out on pages 27 to 30.

Item 7: Increase in authorised share capital

Resolution 7 increases the authorised share capital of the company from £22,500,000 to £27,500,000 by the creation of 50,000,000 ordinary shares of 10 pence each, which represents a 22% increase in the authorised ordinary share capital of the company. The purpose of the increase in authorised share capital is primarily to allow the company to retain sufficient authorised, but unissued, ordinary share capital for general purposes, particularly in view of the authority sought under resolution 8 to allot an amount approximately equal to two-thirds of the company's issued share capital in conformity with the revised Association of British Insurers ("ABI") guidelines (please see the explanatory note to resolution 8 below for further details).

Item 8: Allotment of new shares

The directors obtained authority to allot the authorised but unissued share capital of the company at the AGM on 1 May 2008. The directors now wish to renew and extend this authority, and paragraph (A) of resolution 8 will, if passed, authorise the directors to allot the company's unissued shares up to a maximum nominal amount of £5,400,000 which represents an amount which is slightly less than one-third of the aggregate nominal value of the issued and unconditionally allotted ordinary share capital of the company. As at 20 March 2009, the company did not hold any treasury shares.

In December 2008, the ABI issued new guidance on the approval of authorities to allot shares, in which it stated that, in addition to requests for authorisation to allot new shares in an amount up to one-third of the existing issued share capital of a company, it would regard as routine requests to authorise the allotment of a further one-third in connection with a rights issue. In light of this, paragraph (B) of resolution 8 proposes that a further authority be conferred on the directors to allot unissued shares in connection with a rights issue in favour of holders of equity securities (which would include ordinary shareholders) as required by the rights of those securities or as the directors may otherwise consider necessary, up to a maximum aggregate nominal amount of

£10,800,000 (such amount to be reduced by the nominal amount of any relevant securities issued under the authority conferred by paragraph (A) of resolution 8), which represents an amount which is equal to two-thirds of the aggregate nominal value of the issued and unconditionally allotted ordinary share capital of the company as at 20 March 2009.

In the event that this further authority is exercised, the directors intend to follow emerging best practice as regards its use (including as to the requirement for directors to stand for re-election) as issued by the ABI.

The authorities sought in paragraphs (A) and (B) of resolution 8 will each expire at the earlier of the conclusion of the next annual general meeting of the company and 30 June 2010. Other than in relation to the company's employee share plans, the directors have no present intention of exercising these authorities.

Item 9: Pre-emption rights

Resolution 9, which will be proposed as a special resolution, seeks to renew the authority conferred on the directors at the last annual general meeting to issue equity securities of the company for cash without application of the pre-emption rights as provided by section 89 of the Companies Act 1985. The authorities being sought provide for non-pre-emptive allotments of equity securities (i) to ordinary shareholders in proportion to their existing shareholdings, (ii) to holders of other equity securities as required by, or subject to (as the directors considers necessary), the rights of those securities, and to deal with treasury shares, fractional entitlements and legal and practical problems in any territory, for example on a rights issue or other similar share issue and (iii) for cash up to an aggregate nominal value of £810,000 which represents slightly less than 5% of the issued ordinary share capital of the company as at 20 March 2009. This authority will expire at the earlier of the conclusion of the next annual general meeting of the company and 30 June 2010.

The authorities sought and the limits set by the resolution will also disapply the application of section 89 of the Companies Act 1985 from a sale of treasury shares to the extent also specified in this resolution.

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

Item 10: Share purchase authority

The authority for the company to purchase its own ordinary shares of 10 pence each granted at last year's AGM will expire on the date of the forthcoming AGM. The directors wish to renew this authority and a special resolution, which is set out in full in the Notice on pages 73 and 74, will be proposed as special business at the forthcoming AGM to give the company the authority to purchase its own ordinary shares in the market as permitted by the Companies Act 1985. The authority limits the number of shares that could be purchased to a maximum of 16,000,000 (representing less than 10% of the issued ordinary share capital of the company as at 20 March 2009) and sets minimum and maximum prices. This authority will expire no later than 15 months after the date of the forthcoming AGM.

Directors' report

for the year ended 31 December 2008 continued

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

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

As at 20 March 2009, there were options over 108,000 ordinary shares in the capital of the company, which represents 0.1% of the company's issued ordinary share capital. If the authority to purchase the company's ordinary shares were exercised in full, these options would represent 0.1% of the company's issued ordinary share capital. As at 20 March 2009, the company did not hold any treasury shares in the company and no warrants over ordinary shares in the capital of the company existed.

Item 11: General Meeting Notice

Resolution 11 is required to reflect the proposed implementation in August 2009 of the Shareholder Rights Directive. The regulations implementing this Directive will increase the notice period for general meetings of the company to 21 days. The company is currently able to call general meetings other than an annual general meeting on 14 clear days' notice and would like to preserve this ability. In order to be able to do so after August 2009, shareholders must have approved the calling of meetings on 14 days' notice. Resolution 11, which is proposed as a special resolution, seeks such approval. The approval will be effective until the company's next annual general meeting, when it is intended that a similar resolution will be proposed.

From 3 August 2009, the company will need to ensure that it offers the facility for shareholders to vote by electronic means accessible to all shareholders if it is to call meetings on 14 days' notice. The company already provides the ability to appoint proxies electronically through CREST. However, if something further is needed to fulfil this requirement, shareholders will be informed.

Independent auditors and disclosure of information to auditors

In the case of each person who is a director at the date of approval of this report, each director is satisfied that the auditors are aware of all information relevant to the audit of the group's financial statements for the year ended 31 December 2008 and that they have taken all the steps necessary to make themselves aware of the relevant audit information and to establish that the auditors are aware of that information.

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

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under the law the directors have prepared the group and parent company financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. In preparing these financial statements, the directors have also elected to comply with IFRSs issued by the International Accounting Standards Board ("IASB"). The financial statements are required by law to give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period.

In preparing the financial statements the directors are required to:

- Select suitable accounting policies and then apply them consistently.
- Make judgements and estimates that are reasonable and prudent.
- State that the financial statements comply with IFRSs as adopted by the European Union and IFRSs issued by IASB.
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the group will continue in business.

The directors are also required by the Disclosure and Transparency Rules of the Financial Services Authority to include a management report containing a fair review of the business and a description of the principal risks and uncertainties facing the company and the group.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements and the remuneration report comply with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

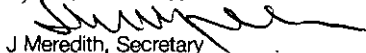
The directors are responsible for the maintenance and integrity of the website (www.devro.plc.uk). Legislation in the UK concerning the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' statement pursuant to the Disclosure and Transparency Rules

Each of the directors confirm that, to the best of each person's knowledge and belief:

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

By order of the Board


J Meredith, Secretary
Moodiesburn
23 March 2009

Corporate governance statement

1. Statement

Devro plc is committed to high standards of corporate governance consistent with the needs of the business and the interests of shareholders. This statement, together with the Remuneration Report set out on pages 27 to 30, describes how, in respect of the year ended 31 December 2008, the company has applied the provisions and principles of corporate governance as set out in the Combined Code ("the Code").

2. Board composition

Mr P A Barrett, Non-Executive Chairman, Mr P W B Page, Chief Executive, Mr P A J Neep, Non-Executive Director, and Mr S R Paterson, Non-Executive Director, served as Directors throughout 2008.

Mr J A Neilson retired as Finance Director on 1 May 2008. Mr P C Williams joined the Board as Finance Director on 1 May 2008.

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

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

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

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

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

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

3. Board and Committee proceedings

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

In order to discharge these responsibilities, the Board and its Committees meet on a regular basis throughout the year. In 2008, the Board held eight meetings. Full details of Board and Committee attendance are shown in the following table.

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

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

A number of specific matters are reserved to the Board for decision and this area was reviewed and updated in 2009. These include the setting of corporate strategy, approval of the annual budget, and major decisions on capital expenditure. The Board

Board and Committee attendance of members during the year ended 31 December 2008

	P A Barrett	P W B Page	J A Neilson*	P A J Neep	S R Paterson	P C Williams**
Board – 8 meetings	8	7	4	8	8	4
Audit Committee – 4 meetings	n/a	n/a	n/a	4	4	n/a
Executive Directors' Remuneration Committee – 8 meetings	7	n/a	n/a	8	8	n/a
Non-Executive Directors' Remuneration Committee – 2 meetings	n/a	2	1	n/a	n/a	1
Nomination Committee – 3 meetings	1	n/a	n/a	3	3	n/a

* retired 1 May 2008

** appointed 1 May 2008

Corporate governance statement

continued

conducts an annual review of the effectiveness of the company's system of internal control, following a group-wide exercise led by the Head of Risk Assurance.

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

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

4. Directors' remuneration

Details of the level of remuneration received by the directors in 2008 are set out in the Remuneration Report on pages 27 to 30. The Board believes that the current levels of remuneration are sufficient to attract and retain the directors needed to run the company successfully, without being excessive. Base salaries for Executive Directors are reviewed annually against those paid for similar positions in comparable companies. Professional advice from independent advisers is sought each year in this regard by the Executive Directors' Remuneration Committee.

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

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

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

Mr P A J Neep chaired the Executive Directors' Remuneration Committee throughout 2008. The other members of the Committee were Mr P A Barrett and Mr S R Paterson. This Committee met eight times in 2008.

The Non-Executive Directors' Remuneration Committee was chaired by Mr P W B Page, with Mr J A Neilson as the other member until 1 May 2008. Following Mr J A Neilson's retirement, Mr P C Williams joined the Committee on 17 October 2008. The Committee met twice in 2008.

The Remuneration Report contains a detailed statement of the remuneration of each director for 2008 including details of the company's pension policy.

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

5. Report from the Audit Committee

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

Mr S R Paterson chaired the Committee throughout the year. The other member of the Committee in 2008 was Mr P A J Neep. The Company Secretary acts as Secretary to the Committee.

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

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

At the beginning of 2008 the Board set objectives for the Committee, including the fulfilling of each aspect of its terms of reference and keeping abreast of developments in accounting best practice. During the year, four Committee meetings were held. In addition to reviewing the company's full year and interim results, the Committee (i) reviewed internal controls across the group; (ii) considered the question of reappointment of the external auditors before making a recommendation to the Board; and (iii) considered the effectiveness of the internal audit activities.

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

6. Auditor independence

The Audit Committee and PricewaterhouseCoopers LLP, the external auditors, operate procedures to ensure that the auditors remain objective and independent. These procedures include the pre-approval of the scope of the audit by the Committee. The Committee conducts a formal annual review of the independence of the auditors, looking carefully at the level of non-audit work conducted by the auditors and the detailed safeguards which they have in place.

The fees paid to the external auditors in 2008 are set out in note 9 to the financial statements on page 43. Almost all of the non-audit fees relate to tax advice. The Committee believes that there are sound commercial and practical reasons for this work being conducted by the auditors.

7. Relationship with shareholders

The company communicates with institutional investors primarily through analysts' briefings and meetings with major shareholders, as well as timely Stock Exchange announcements. The Board, and in particular the Non-Executive Directors, are kept informed of investors' views in the main through distribution of analysts' and brokers' briefings. The Chairman has held a number of meetings with shareholders, large and small, to discuss matters such as strategy and governance and, in addition, the Senior Independent Director is available in the event of shareholder concerns which cannot be addressed through the usual channels.

Broader shareholder communication takes place through the company's website, which contains company announcements and other relevant information, and also through the Annual Report and AGM. All directors attend the AGM, and shareholders have the opportunity to hear presentations on the company's financial and business performance as well as to question any member of the Board on any relevant topic.

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

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

8. Directors' training and development

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

9. Board performance evaluation

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

In 2008, the Board set business-focused objectives for itself and every director, while each of the committees was given objectives centred around its remit. One of the primary objectives of the Executive Directors concerned the delivery of the financial plan for the year. Performance reviews were carried out at the end of the year against those objectives.

The Chairman's performance was assessed against his personal objectives in a process led by the Senior Independent Director and taking account of views expressed by the Executive Directors, all as envisaged by the Code.

10. Report from the Nomination Committee

Mr P A Barrett, the Chairman of the company, is the Chairman of this Committee. For the meeting on 26 September, the Chairmanship of the Committee was assumed by Mr P A J Neep for the purposes of recruiting a new Chairman, conform to provision A.4.1 of the Code. The other members of the Committee during the year were Mr P A J Neep and Mr S R Paterson. The Company Secretary acts as Secretary to the Committee.

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

During 2008, the Committee met on three occasions. It assisted the Board in completing the recruitment of Mr P C Williams as Finance Director in early 2008.

Later in the year, following Mr P A Barrett's decision to retire as Chairman, the Committee considered carefully the skills, knowledge and experience requirements of a successor and prepared a description of the role and the capabilities required.

External independent selection consultants, free of any other ties to the company, were then retained by the Committee in order to finalise the job specification and conduct searches. This process is now well advanced.

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

11. Financial reporting

The Board acknowledges its responsibility to present a balanced and understandable assessment of the company's position and prospects. Each Annual Report contains a Chairman's Statement and a Business Review. The Interim Report also contains a Statement by the Chairman. The Board believes that this additional narrative sets the accounts in context and promotes a better understanding of the current status of the business and its outlook.

12. Internal control

An ongoing process has been established for identifying, evaluating and managing the significant risks the group faces. The process, which accords with the Turnbull guidance, has been in place for the period under review and up to the date of approval of the 2008 Annual Report and Accounts. This includes the appointment of a Head of Risk Assurance whose responsibilities include the application of risk assessment procedures throughout the group and working alongside subsidiary undertakings in establishing the process. Furthermore, the programme of work performed by internal audit includes non-financial risks. The system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives.

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

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

- **Financial reporting**
There is a budgeting system in place which includes an annual budget approved by the Board. Monthly actual results are reported against budget. Revised forecasts for the year are prepared regularly. The company reports formally to shareholders twice a year.
- **Operating controls**
Financial and operational policies and procedures are set out in formal procedures manuals which are held by all Business Directors and finance staff. The latter are responsible for ensuring that all relevant staff are familiar with their content and application. All Board members, Business Directors and senior finance staff have been issued with Internal Control Guidelines.

Corporate governance statement

continued

- **Treasury**

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

- **Internal audit**

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

- **Capital investment appraisal**

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

- **Integrity of personnel**

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

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

13. Going concern

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

14. Compliance with the Code

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

Remuneration report

The Board has established two committees to deal with directors' remuneration. The Executive Directors' Remuneration Committee, consisting entirely of Non-Executive Directors including the Non-Executive Chairman, settles all aspects of the remuneration of the Executive Directors, and monitors and recommends the level and structure of remuneration for senior management. The Non-Executive Directors' Remuneration Committee, whose members are Executive Directors, decides the level of fees paid to the Non-Executive Directors, including the Non-Executive Chairman. This arrangement ensures that no committee member has a personal interest in the matters delegated to his committee other than as a shareholder. There are no potential conflicts of interest arising from cross-directorships.

During the course of 2008, the Executive Directors' Remuneration Committee took advice from Hewitt New Bridge Street Consultants LLP, a firm of independent remuneration consultants appointed by the committees. Hewitt New Bridge Street Consultants has not provided any other services to the company.

Composition of the Non-Executive Directors' Remuneration Committee

The members of the Non-Executive Directors' Remuneration Committee in 2008 were Mr P W B Page, Mr J A Neilson (from 1 January 2008 until 1 May 2008) and Mr P C Williams (from 17 October 2008).

Policy on Non-Executive Directors' remuneration

The company's policy on Non-Executive Directors' remuneration is to pay a fixed fee, which is reviewed from time to time, taking account of the nature of the role of the individual director and considering data from independent sources on the level of fees for similar positions in comparable companies. Non-Executive Directors are not entitled to share options or any other benefits, nor is any element of their remuneration pensionable. Details of their contracts of service are set out on page 28.

Composition of the Executive Directors' Remuneration Committee ("the Committee")

The members of the Committee throughout the year in question were Mr P A J Neep (Committee Chairman), Mr P A Barrett and Mr S R Paterson.

Compliance

The constitution and operation of the Committee in 2008 were in compliance with the provisions of the Combined Code on Corporate Governance ("the Code"). When setting its remuneration policy, the Committee gives due consideration to the provisions and principles of the Code.

Policy on Executive Directors' remuneration

Total level of remuneration

The Committee aims to ensure that remuneration packages offered are competitive and designed to attract, retain and incentivise Executive Directors of high quality.

The main components

The main components of the policy are set out below:

i) Base salary

The base salary for each Executive Director is reviewed annually by the Committee taking into account the performance of the individual and information from independent sources on salary rates for similar jobs in comparable companies. The policy is to set base salaries around median level. The Committee considers that this is appropriate, given the nature of the business of the company.

ii) Annual bonus

The Committee believes that a significant portion of Executive Directors' remuneration should be performance-related. It is

therefore the practice of the Committee to incentivise the Executive Directors by setting challenging annual bonus targets which are relevant to the strategy of the business in the year in question. The setting of relevant and stretching targets in line with the strategic objectives of the company is seen as key to the effectiveness of any performance-related scheme.

The maximum bonus is 100% of base annual salary, but any element above 50% will be deferred into shares for three years using the Devro 2009 Deferred Share Bonus Plan (described below) in order to add a longer-term dimension.

The annual bonus plan for 2008 was focused on the single metric of profit growth. In adopting this approach, the Committee took the view that incentivising the executives to reverse the profit decline of previous years was of paramount importance. In February 2009, the Committee reviewed the results for 2008. They noted that the strong profit growth was assisted by positive currency movements toward the end of the year. Mr P W B Page requested that his bonus be restricted to 50% of base annual salary, citing the decline in safety performance in 2008 compared with prior year. The committee approved an award to Mr P C Williams of 68% of base annual salary, of which 18% was deferred into shares for three years under the Devro 2009 Deferred Share Bonus Plan. Full details are shown in the table on page 30.

The annual bonus plan for 2009 is again focused on the single metric of further profit growth, the Committee taking the view that sustained profit growth is one of the key drivers of shareholder value. The Committee believes that the actual targets are to some extent commercially sensitive and does not propose to publish precise details, but no bonus will be payable unless the profits for 2009 are significantly ahead of 2008. The Committee will meet in early 2010 to assess whether, and to what extent, the targets have been met by reviewing the audited performance of the group against these targets.

iii) The Devro 2009 Deferred Share Bonus Plan

The newly-introduced Devro 2009 Deferred Share Bonus Plan runs in conjunction with the annual bonus plan. Any bonus payable to Executive Directors above 50% of base annual salary is deferred into shares, which will generally not vest for a period of three years from the date of grant. In view of the fact that the targets required to earn the original bonus are stretching, no further performance conditions apply to these shares.

Taken together, the Committee believes that the annual bonus and deferred share bonus plans focus the Executive Directors on the short term needs of the business, while aligning their longer term interests with those of shareholders.

iv) The Devro 2003 Performance Share Plan

At the Annual General Meeting in May 2003 the shareholders approved the introduction of the Devro 2003 Performance Share Plan. The plan is designed to offer a competitive long-term incentive programme which will reward growth in profitability over a three-year performance period.

Conditional awards under this plan are considered annually, and following a review of remuneration completed in 2008, the Committee decided that awards to Executive Directors will be equivalent to 100% of annual base salary, and performance conditions will be a mix of Earnings Per Share ("EPS") and Total Shareholder Return ("TSR") for 50% of the awards each.

- The EPS performance condition will require EPS growth to exceed RPI by 9% over three years for 30% of this part of the award to vest. Growth of RPI +36% will be required for this part of the award to vest in full. Awards will vest on a sliding scale between these points.

Remuneration report

continued

- The other 50% of an award will be based on TSR measured against the constituents of the FTSE Small Cap index (excluding investment trusts) over 3 years. 30% of this part of the award will vest for median performance, increasing to the whole of this part of the award vesting for upper quintile performance.

The Committee has decided to include a TSR element to ensure that executives' interests are aligned with those of investors, by having a direct incentive and reward mechanism related to stock market performance. However, it still views EPS as an important indicator of the company's underlying performance and this provides a clear 'line of sight' for executives between the performance of Devro specifically and their reward. The sliding scale range for the EPS part of the performance condition has been calibrated carefully, taking account of the operating environment and the company's outlook for performance. In addition, the higher grant levels have also been taken into account.

The inclusion of a TSR element as part of the performance condition, as well as the higher grant level, are both permitted within the rules of the Performance Share Plan as approved by shareholders.

Details of the awards made to Executive Directors in 2008 are shown on page 30.

Company Policy on Contracts of Service

The company's Chairman, Mr P A Barrett, is engaged for an unspecified term, but has advised that he will retire at the forthcoming AGM.

Non-Executive Directors, other than the Chairman, are engaged for fixed terms, with no notice period. These appointments are subject to the Articles of Association and the wishes of the shareholders expressed in General Meeting.

notice or on payment of one year's salary. Due to the technical nature of the business, the directors' service contracts contain restrictive covenants.

None of the contracts provides for specific contractual termination payments and the company will seek to enforce rigorously the principle of mitigation of loss in the event of termination of any service contract.

The company's policy on the termination of contracts of service of senior executives is dictated by events, bearing in mind the circumstances of termination and the interests of the company. In the past, compensation payments have, in appropriate circumstances, been phased and linked to non-compete agreements. The Committee has reviewed the level of compensation which would be payable under the Executive Directors' Service Agreements in the event of termination.

The details of the service contracts of the current directors are:

Director	Date of contract	Date term due to expire	Notice period
P A Barrett	19 June 2001	n/a	12 months
P W B Page	25 April 2007	n/a	12 months
P A J Neep	1 May 2008	AGM 2011	n/a
S R Paterson	9 March 2009	AGM 2012	n/a
P C Williams	1 May 2008	n/a	12 months

Shareholding qualification

Executive directors are expected to build up a shareholding in the company over time, to the value of one year's salary. Any shares vesting from share schemes must be retained (after selling sufficient to pay any resulting income tax) until that target is reached.

External directorships

Neither of the Executive Directors has any external paid directorships.

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The service contracts of the Executive Directors include a provision that employment may be terminated by the company on one year's

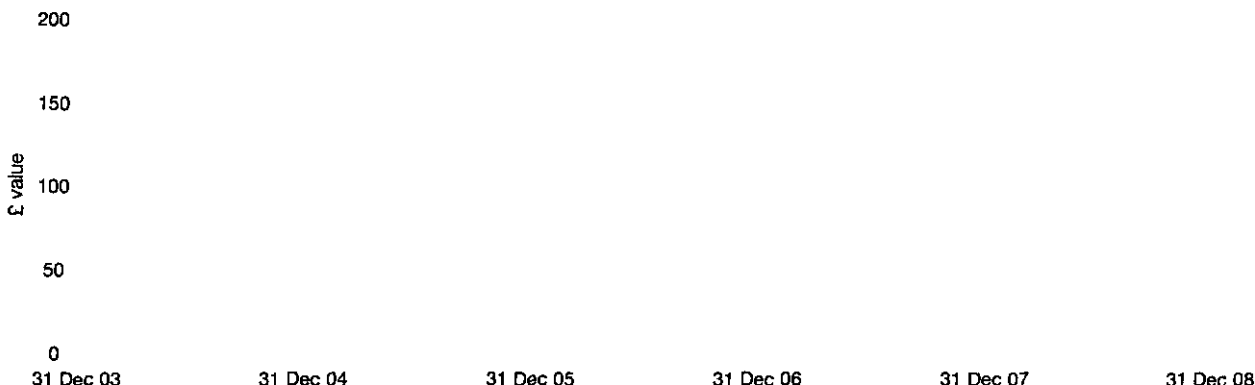
Performance Graph

Total shareholder return

Source: Thomson Financial

Devro plc

FTSE Small Cap Index excluding Investment Trusts



This graph shows the value, by 31 December 2008, of £100 invested in Devro plc on 31 December 2003 compared with the value of £100 invested in the FTSE Small Cap Index excluding Investment Trusts. The other points plotted are the values at intervening financial year-ends.

Under legislative requirements, the graph shows the total shareholder return over the last five years.

In the opinion of the directors, the FTSE Small Cap Index excluding Investment Trusts is the most appropriate index against which the total shareholder return of the company should be measured. There are no other food casings companies listed on the London Stock Exchange.

Auditable information

The following information has been audited by the company's auditors, PricewaterhouseCoopers LLP, as required by Schedule 7A to the Companies Act 1985.

Company pensions policy regarding Executive Directors

Mr P W B Page and Mr P C Williams are members of the Devro (Scotland) Limited Group Stakeholder Plan, a money purchase scheme. During the year, company contributions to the scheme amounted to £30,237 in respect of Mr P W B Page, and £13,333 in respect of Mr P C Williams.

Mr J A Neilson, who is no longer a director of the company, is a member of the Devro Limited (UK) Pension Plan, which is a funded, contributory, defined benefit pension plan incorporating a "money purchase" benefit guarantee. The plan provides for a pension for members of 1/50th of final pensionable salary (as defined for the purposes of the plan) for each year of pensionable service (as so defined) up to May 2006, and 1/70th of final pensionable salary for each year of pensionable service thereafter completed up to the normal retirement age of 65.

Pension entitlements and corresponding transfer values changed as follows during the year:

Director	Age at 31/12/2008	Gross decrease in accrued pension/ pension in payment in the year £ per annum	Decrease in accrued pension/ pension in payment (net of inflation) £ per annum	Total pension in payment at 31/12/2008 £ per annum	Cash lump sum taken on retirement £	Total change in value during period less director's contributions £	Transfer value at 31/12/2007 £	Value of pension in payment at 31/12/2008 £
		(A)	(B)	(C)	(D)	(E)	(F)	(G)
J A Neilson	55	(36,691)	(38,414)	68,384	412,500	1,049,787	1,386,086	2,438,924

- Mr J A Neilson retired on 1 May 2008. The pension amount shown above is his pension in payment at the date of retirement (C).
- Mr Neilson elected to surrender a portion of his pension in order to receive a cash lump sum at retirement (D). The cash lump sum has been included in the value of the pension in payment as at 31 December 2008 (G). The value in brackets (A) is negative due to the member surrendering part of his pension and the application of an early retirement factor to reflect the early payment of his pension and cash lump sum from the plan.
- The change in value (E) for Mr Neilson, disclosed in accordance with legal requirements, is the difference between the transfer value at 31 December 2007 (F) and the value of the pension in payment as at 31 December 2008 (including the lump sum payment referred to above) (G). It is calculated after deducting the director's contributions. The transfer value of the pension is calculated on a different basis from a pension in payment.
- The transfer value at 31 December 2007 was calculated in accordance with version 9.3 of guidance note GN11 issued by the actuarial profession.
- The value of the pension in payment at 31 December 2008 has been calculated in accordance with The Occupational Pension Scheme (Transfer Values) (Amendment) Regulations 2008.
- Voluntary contributions, transferred-in money purchase funds and resulting benefits are not shown.

The following additional information is applicable to members of the Devro Limited (UK) Pension Plan:

- Normal retirement age is 65.
- A spouse's pension of one-half of the member's pension is payable on death after retirement.
- Pension payments in excess of the Guaranteed Minimum Pension escalate at 5% per annum for service up to 31 December 2001. From 1 January 2002 until 30 April 2006, pension payments in excess of the Guaranteed Minimum Pension escalate in line with the Retail Prices Index ("RPI") plus 1%, subject to a minimum of zero and a maximum of 7%. For service from 1 May 2006, pension payments in excess of the Guaranteed Minimum Pension escalate in line with RPI up to a maximum of 5% per annum.
- Death-in-service benefit insurance provides for a payment equal to three times salary.

Remuneration report

continued

Directors' detailed emoluments

Details of directors' emoluments for those directors who served during the year ended 31 December 2008 are as follows:

Director	Base salary/Fees		Bonuses		Deferred Bonuses		Other		Benefits in kind		Total	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000	2008 £'000	2007 £'000	2008 £'000	2007 £'000	2008 £'000	2007 £'000	2008 £'000	2007 £'000
P A Barrett	95	95	-	-	-	-	-	-	-	-	95	95
P W B Page ¹	302	172	151	69	-	-	-	30	1	1	454	272
P A J Neep	35	35	-	-	-	-	-	-	-	-	35	35
J A Neilson ^{2,3}	64	175	-	17	-	-	58	-	7	20	129	212
S R Paterson	35	35	-	-	-	-	-	-	-	-	35	35
P C Williams ^{1,4}	133	-	67	-	24	-	107	-	1	-	332	-
TOTAL	664	512	218	86	24	-	165	30	9	21	1,080	649

1 Benefits in kind for Mr P W B Page and Mr P C Williams relate to medical insurance.

2 Mr J A Neilson retired on 1 May 2008. The Committee agreed that in recognition of more than 25 years service to the company, he should receive a payment of £44,793, being equivalent to three month's salary. In addition, the Committee agreed that he could retain his company car (value £13,400).

3 Benefits in kind for Mr J A Neilson include the provision of a company car, fuel and medical insurance.

4 Mr P C Williams joined the company on 1 May 2008. A payment of £45,000 was made to him to compensate for a bonus opportunity he lost on leaving his previous employer. The Committee also agreed to pay his removal expenses of £62,000, including a proportion of Stamp Duty, on the basis that this might be repayable in certain circumstances.

The Devro 2003 Performance Share Plan

The Executive Directors' awards under the Devro 2003 Performance Share Plan are as follows:

Director	Number held at 1 Jan 08	Shares awarded in 2008	Number of shares vested	Value vested	Number of shares lapsed	Number held at 31 Dec 08 or at date of retirement
P W B Page	128,260	375,000	-	-	-	503,260
J A Neilson	141,439	-	-	-	(141,439)	-
P C Williams	-	245,390	-	-	-	245,390

Directors' interests

The interests, all of which are beneficial, of the directors (and their immediate families) in the share capital of the company (ordinary shares of 10 pence each), and details of awards made under the 2003 Performance Share Plan, at the beginning and end of the financial year, are as follows:

Director	Ordinary shares 31 Dec 08	Ordinary shares 31 Dec 07	Performance Share Plan 31 Dec 08	Performance Share Plan 31 Dec 07
P A Barrett	427,887	367,887	-	-
P W B Page	248,554	119,400	503,260	128,260
P A J Neep	133,574	114,485	-	-
S R Paterson	30,000	20,000	-	-
P C Williams	100,000	-	245,390	-

On 17 February 2009, Mr P A Barrett purchased a further 10,000 ordinary shares and Mr P A J Neep purchased a further 6,700 ordinary shares.

On 19 March 2009, the Executive Directors' Remuneration Committee approved conditional awards under the 2003 Performance Share Plan of 342,000 ordinary shares to Mr P W B Page and 226,000 ordinary shares to Mr P C Williams.

The company operates an employee share ownership plan ("ESOP"). All employees of the group, including the Executive Directors, are beneficiaries of the ESOP and are deemed to be interested in the shares held by the ESOP which, at 31 December 2008, amounted to 2 ordinary shares.

The market price of the company's shares at 31 December 2008 was 79.5 pence and the range of market prices during the year was 63.75 pence to 93 pence.

On behalf of the Board

P A J Neep
Chairman
Executive Directors' Remuneration Committee
23 March 2009



Consolidated income statement

for the year ended 31 December 2008

		2008			2007 (Restated)		
	Notes	Before exceptional items £'000	Exceptional items £'000	Total £'000	Before exceptional items £'000	Exceptional items £'000	Total £'000
Continuing operations:							
Revenue	3	183,125	–	183,125	156,252	–	156,252
Operating profit	4,5	20,595	(3,478)	17,117	17,692	651	18,343
Net finance income on pension and post-retirement health plan assets/liabilities	8	622	–	622	585	–	585
Finance income	8	255	–	255	338	–	338
Finance expense	8	(2,654)	–	(2,654)	(3,048)	–	(3,048)
Profit before tax	9	18,818	(3,478)	15,340	15,567	651	16,218
Taxation	10	(5,532)	2,641	(2,891)	(5,244)	1,044	(4,200)
Profit for the year - continuing operations		13,286	(837)	12,449	10,323	1,695	12,018
Discontinued operation:							
Loss before tax	4	–	–	–	(734)	–	(734)
Taxation	10	–	–	–	159	–	159
Loss for the year - discontinued operation		–	–	–	(575)	–	(575)
Profit for the year	11	13,286	(837)	12,449	9,748	1,695	11,443
Earnings per share - continuing and discontinued operations							
- Basic	13	8.2p	(0.6p)	7.6p	6.0p	1.0p	7.0p
- Diluted	13	8.2p	(0.6p)	7.6p	6.0p	1.0p	7.0p
Earnings per share - continuing operations							
- Basic	13	8.2p	(0.6p)	7.6p	6.4p	1.0p	7.4p
- Diluted	13	8.2p	(0.6p)	7.6p	6.4p	1.0p	7.4p

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FINANCIAL STATEMENTS

Consolidated statement of recognised income and expense

for the year ended 31 December 2008

	Notes	2008 £'000	2007 £'000
Cash flow hedges:			
- net fair value (losses)/gains, net of tax	30	(794)	428
- reclassified and reported in operating profit	30	(406)	(219)
Actuarial (loss)/gain recognised in group pension schemes	25	(18,067)	12,040
Actuarial (loss)/gain recognised in US post-retirement benefit obligations		(41)	146
Movement in deferred tax on retirement benefit obligations	24	5,713	(4,018)
Net exchange adjustments	30	24,436	9,289
Net income recognised directly in equity		10,841	17,666
Profit for the year		12,449	11,443
Total recognised income for the year		23,290	29,109

The company has no significant recognised income and expense and, therefore, no separate statement of recognised income and expense has been presented.

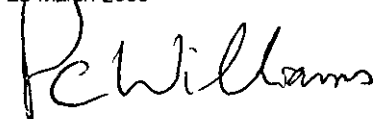
Balance sheets

at 31 December 2008

		Group		Company	
	Notes	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Assets					
Non-current assets					
Intangible assets	14	1,799	1,562	149	5
Property, plant and equipment	15	134,729	115,076	20	57
Investments in subsidiary undertakings	16	–	–	138,530	138,530
Deferred tax assets	24	11,300	5,349	37	40
Other receivables	18	61	99	20,194	14,225
		147,889	122,086	158,930	152,857
Current assets					
Inventories	17	25,753	22,311	–	–
Current tax assets		603	32	–	21
Trade and other receivables	18	33,067	22,872	823	659
Derivative financial instruments	23	709	746	251	20
Cash and cash equivalents	19	6,690	9,635	6	541
		66,822	55,596	1,080	1,241
Liabilities					
Current liabilities					
Financial liabilities					
- Borrowings	22	3,135	768	2,094	140
- Derivative financial instruments	23	2,550	214	–	–
Trade and other payables	20	28,811	21,620	3,846	2,369
Current tax liabilities		1,955	4,064	176	–
		36,451	26,666	6,116	2,509
Net current assets/(liabilities)		30,371	28,930	(5,036)	(1,268)
Non-current liabilities					
Financial liabilities					
- Borrowings	22	27,531	36,119	15,031	27,000
Deferred tax liabilities	24	11,564	10,892	–	–
Retirement benefit obligations	25	27,688	8,772	–	–
Other non-current liabilities	21	159	173	5,539	1,338
		66,942	55,956	20,570	28,338
Net assets		111,318	95,060	133,324	123,251
Equity					
Capital and reserves attributable to equity holders					
Ordinary shares	26	16,287	16,287	16,287	16,287
Share premium	29	6,097	6,097	6,097	6,097
Other reserves	30	81,283	57,836	44,734	44,549
Retained earnings	31	7,651	14,840	66,206	56,318
Total equity	32	111,318	95,060	133,324	123,251

The financial statements on pages 31 to 71 were approved by the Board of Directors and signed on its behalf by:

P G Williams, Finance Director
23 March 2009



Cash flow statements

for the year ended 31 December 2008

		Group	Company		
	Notes	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Continuing operations:					
Cash flows from operating activities					
Cash generated from/(used in) operations	33	31,280	23,435	(4,539)	(20,047)
Interest received		243	325	1,123	1,064
Interest paid		(2,724)	(3,075)	(1,948)	(2,785)
Tax (paid)/received		(5,177)	(3,845)	306	1,037
Net cash from/(used in) operating activities		23,622	16,840	(5,058)	(20,731)
Cash flows from investing activities					
Purchase of property, plant and equipment		(12,949)	(10,469)	-	(14)
Proceeds from sale of property, plant and equipment		67	30	-	-
Purchase of intangible assets		(457)	(298)	(149)	-
Payments to former minority shareholders of Cutisin a.s.		(1)	(3)	-	-
Increase in investment in subsidiary undertakings	16	-	-	-	(9,150)
Dividends received from subsidiary undertakings		-	-	21,930	35,719
Net cash (used in)/from investing activities		(13,340)	(10,740)	21,781	26,555
Cash flows from financing activities					
Proceeds from the issue of ordinary share capital		-	31	-	31
Net (repayments)/borrowing under the loan facilities		(9,187)	689	(11,969)	450
Dividends paid to shareholders	12	(7,243)	(7,245)	(7,243)	(7,245)
Net cash used in financing activities		(16,430)	(6,525)	(19,212)	(6,764)
Net decrease in cash and cash equivalents - continuing operations		(6,148)	(425)	(2,489)	(940)
Discontinued operation:					
Cash flows from operating activities					
Cash used in operations	33	-	(412)	-	-
Tax received		-	123	-	-
Net cash used in operating activities		-	(289)	-	-
Net decrease in cash and cash equivalents - discontinued operation		-	(289)	-	-
Net decrease in cash and cash equivalents		(6,148)	(714)	(2,489)	(940)
Cash and cash equivalents at beginning of year		9,495	8,232	401	1,341
Exchange gains on cash and cash equivalents		896	1,977	-	-
Cash and cash equivalents	19	6,690	9,635	6	541
Bank overdrafts		(2,447)	(140)	(2,094)	(140)
Net cash and cash equivalents at end of year		4,243	9,495	(2,088)	401

Notes to the financial statements

for the year ended 31 December 2008

1. Accounting policies

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

Basis of preparation

These consolidated financial statements have been prepared in accordance with European Union endorsed International Financial Reporting Standards ("IFRSs"), IFRIC interpretations and the Companies Act 1985 applicable to companies reporting under IFRSs. The financial statements have been prepared under the historical cost convention as modified by the revaluation of derivative financial instruments.

The preparation of financial statements in conformity with IFRSs requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best assessments of amounts, events or actions, actual results ultimately may differ from those estimates. The key uncertainties that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are the measurement of retirement benefit obligations, as disclosed in note 25, and taxation, as disclosed in notes 10 and 24.

(a) New standards, amendments to standards or interpretations effective in 2008

The following new standards, amendments to standards or interpretations became mandatory for the first time during the financial year beginning 1 January 2008. They either were not relevant for the group or had no material impact on the financial statements of the group.

IFRIC 11 - IFRS 2 - Group and treasury share transactions

IFRIC 12 - Service concession arrangements

IFRIC 13 - Customer loyalty programmes

IFRIC 14 - The limit on a deferred benefit asset, minimum funding requirements and their interaction

IAS 39 (amendment) - Financial instruments: Recognition and measurement

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

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

Effective date

IAS 1 (amendment) - Presentation of financial statements	1 January 2009
IAS 23 - Borrowing costs	1 January 2009
IAS 27 (amendment) - Consolidated and separate financial statements	1 July 2009
IAS 32 (amendment) - Financial instruments: Presentation	1 January 2009
IAS 39 (amendment) - Financial instruments: Recognition and measurement on eligible hedged items	1 July 2009
IFRS 1 (amendment) - First time adoption of IFRS	1 January 2009
IFRS 2 (amendment) - Share-based payments	1 January 2009
IFRS 3 (amendment) - Business combinations	1 July 2009
IFRS 8 - Operating segments	1 January 2009

Upon adoption of IFRS 8, the group will need to change the disclosures in relation to segmental information. The adoption of this standard is not expected to impact the group's profit or net assets. In addition, the directors do not anticipate that the adoption of these standards, amendments to standards and interpretations in future periods will have a material impact on the financial statements of the group. It is expected that the group will adopt these standards and interpretations on their effective dates.

Basis of consolidation

The consolidated financial statements include the financial statements of the company and all its subsidiary undertakings made up to 31 December 2008. Intra-group sales and profits are eliminated fully on consolidation. The purchase method of accounting is used to account for the acquisition of subsidiary undertakings by the group. The results of subsidiary undertakings acquired or disposed of are consolidated for the period from or to the date on which control passed. Uniform accounting policies are applied across the group.

Intangible assets

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

1. Accounting policies (continued)

Intangible assets (continued)

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

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

Research and development

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

Property, plant and equipment

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

The principal lives are:

Freehold buildings	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 or on assets under construction.

Assets under construction are transferred to the appropriate asset category when they come into use. Depreciation on assets so transferred is provided with effect from the month following the date of transfer.

Asset residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

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

Impairment

Assets that have an indefinite useful life are not subject to amortisation but are tested for impairment annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the income statement for the amount by which an asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

Grants

Grants in respect of capital expenditure are credited to deferred revenue and released to the income statement over the expected useful lives of the related assets.

Fixed asset investments

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

Leases

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

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments, and depreciated over the shorter of the asset's useful life and its lease term. The capital element of future rentals is treated as a liability. The interest element is charged to the income statement over the period of the lease.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first in, first out basis and includes transport and handling costs. In the case of manufactured products, cost includes all direct expenditure and production overheads based on the normal level of activity. Net realisable value is the price at which inventories can be sold in the normal course of business after allowing for the costs of realisation and, where appropriate, the cost of conversion from their existing state to a finished condition. Provision is made, where appropriate, for obsolete, slow-moving and defective inventories.

Trade receivables

Trade receivables are non-interest bearing and are stated at their nominal amount, which is generally the original invoiced amount less provisions made for estimated irrecoverable amounts. Estimated irrecoverable amounts are based on historical experience together with specific amounts that are not expected to be collectible. Individual trade receivables are written off when management deems them not to be collectible.

Cash and cash equivalents

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

Foreign currencies

Items included in the financial statements of each of the group's subsidiary undertakings are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in sterling, which is the company's functional and presentation currency.

Assets and liabilities denominated 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

Notes to the financial statements

for the year ended 31 December 2008 continued

undertakings are translated at average rates of exchange for the year. Differences on exchange arising from the translation of the opening net assets of overseas subsidiary undertakings and the results of those undertakings at closing rates are taken to the cumulative translation adjustment reserve, which is a separate component of equity.

Other gains and losses arising from foreign currency transactions are included in the income statement.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the group's activities. Sales revenue, which is net of returns, rebates and discounts, and excludes value added tax and sales between group companies, represents the net invoiced value of goods and services supplied and is recognised when the goods are shipped or the services are supplied to customers.

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

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

Taxation

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

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

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

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

Pension and other post-retirement benefits

The group operates a number of defined contribution and defined benefit retirement plans, in addition to a post-retirement medical plan. All defined benefit retirement plans are now closed to new members, and the post-retirement medical plan was closed on 30 January 2009.

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

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

Amounts recorded in the balance sheet represent the fair value of external plan assets less the present value of the defined benefit obligations.

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

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

Subject to certain conditions, the group provided health care benefits for retired employees in the United States. These benefits were earned over the active service lives of the employees. Provision was made for post-retirement medical costs based on an assessment of actuarial liabilities and this was amortised over the expected average remaining service lives of the relevant employees. As noted above, this scheme was closed on 30 January 2009.

Share schemes

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

Dividends payable

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

1. Accounting policies (continued)

Borrowings

Borrowings are recognised at the fair value of amounts received.

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

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

Trade payables

Trade payables are non-interest bearing and are stated at their nominal value.

Derivative financial instruments

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

The fair values of forward exchange contracts are calculated by reference to market forward rates at the balance sheet date.

The fair values of interest rate swap contracts are calculated on a discounted cash flow basis using market forward rates.

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

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

Cash flow hedges

The group has designated both interest rate swaps and forward foreign exchange contracts as cash flow hedges.

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

Exceptional items

Exceptional items are those significant items which are separately disclosed by virtue of their size or incidence to enable a full understanding of the group's financial performance.

2. Restatement of income statement for the year ended 31 December 2007

The income statement previously reported for the year ended 31 December 2007 has been restated as follows:

- (a) Net finance income on pension and post-retirement health plan assets and liabilities was previously included in pension costs in operating profit. It is now included as a separate element of finance income and expense. The impact on operating profit is as follows:

	Before exceptional items £'000	Exceptional items £'000	Total £'000
Continuing operations			
Operating profit as previously reported	18,277	651	18,928
Net finance income on pensions and post-retirement health plan assets and liabilities	(585)	-	(585)
Restated operating profit	17,692	651	18,343

- (b) As noted in last year's accounts, deferred tax balances at 31 December 2007 were remeasured as a result of changes to corporation tax rates in the UK and the Czech Republic. The amount involved, a credit of £1,344,000, has now been shown as an exceptional item in order to provide a better understanding of underlying tax rates.

Notes to the financial statements

for the year ended 31 December 2008 continued

3. Segmental information

(a) Primary reporting format – Business segments

The business segments shown below are as follows:

Collagen casings includes the three edible collagen brands, Devro, Coria and Cutisin, and Cutisin non-edible collagen casings.

Distributed products comprises Teepak cellulose, Krehalon plastics and other ancillary products. Other products includes collagen film, collagen gel, Cutisin plastic casings, collagen for medical use and, in 2007, thin-film products. The unallocated segment represents the activities of the group's head office based at Moodiesburn, Scotland and two subsidiary undertakings which are either solely holding companies or non-trading.

Group	Collagen casings		Distributed products		Other products		Unallocated		Group	
	2008 £'000	2007* £'000	2008 £'000	2007* £'000	2008 £'000	2007* £'000	2008 £'000	2007* £'000	2008 £'000	2007* £'000
Continuing operations										
Revenue										
Sales to external customers	144,695	125,104	21,523	18,080	16,907	13,068	-	-	183,125	156,252
Results										
Segment results before exceptional items	18,608	16,265	572	161	5,496	4,759	(4,081)	(3,493)	20,595	17,692
Exceptional items	(3,478)	1,000	-	-	-	-	-	(349)	(3,478)	651
Segment results	15,130	17,265	572	161	5,496	4,759	(4,081)	(3,842)	17,117	18,343
Finance expense - net									(1,777)	(2,125)
Profit before tax									15,340	16,218
Taxation									(2,891)	(4,200)
Profit for the year – continuing operations									12,449	12,018
Discontinued operation										
Revenue										
Sales to external customers	-	-	-	-	-	706	-	-	-	706
Results										
Segment results	-	-	-	-	-	(734)	-	-	-	(734)
Taxation									-	159
Loss for the year – discontinued operation									-	(575)
Profit for the year									12,449	11,443
Segment assets and liabilities										
Segment assets	181,513	154,975	4,767	3,625	16,551	12,752	(23)	949	202,808	172,301
Taxation									11,903	5,381
Total assets									214,711	177,682
Segment liabilities	47,818	24,526	3,854	2,878	6,337	1,894	3,646	1,621	61,655	30,919
Borrowings									28,419	36,747
Taxation									13,319	14,956
Total liabilities									103,393	82,622

* Restated (note 2)

3. Segmental information (continued)

(a) Primary reporting format – Business segments (continued)

	Collagen casings		Distributed products		Other products		Unallocated		Group	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Other segment items										
Additions to property, plant and equipment:										
continuing operations	11,182	10,428	24	11	1,012	384	–	–	12,218	10,823
Additions to intangible assets:										
continuing operations	294	291	–	–	14	7	149	–	457	298
Depreciation of property, plant and equipment:										
continuing operations	10,280	8,536	13	7	1,303	1,015	24	43	11,620	9,601
discontinued operation	–	–	–	–	–	165	–	–	–	165
	10,280	8,536	13	7	1,303	1,180	24	43	11,620	9,766
Amortisation of intangible assets:										
continuing operations	358	324	2	2	5	7	5	5	370	338
Impairment of property, plant and equipment:										
continuing operations	3,131	–	–	–	–	–	–	–	3,131	–
Goodwill written off:										
discontinued operation	–	–	–	–	–	177	–	–	–	177

There are no sales between business segments.

(b) Secondary reporting format – Geographical segments

	Europe		Americas		Asia/Pacific		Unallocated		Group	
	2008	2007*	2008	2007*	2008	2007*	2008	2007*	2008	2007*
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Continuing operations										
Segment revenue										
Total segment revenue	116,938	101,840	42,227	35,199	42,381	35,151	–	–	201,546	172,190
Less: inter-segment sales	9,649	9,325	8,600	6,421	172	192	–	–	18,421	15,938
Sales to external customers	107,289	92,515	33,627	28,778	42,209	34,959	–	–	183,125	156,252
Discontinued operation										
Segment revenue										
Sales to external customers	–	698	–	–	–	8	–	–	–	706
Segments assets										
Segment assets	148,792	121,213	28,927	25,247	39,269	31,712	20,700	15,583	237,688	193,755
Taxation									11,903	5,381
Inter-segment assets									(34,880)	(21,454)
Total assets									214,711	177,682
Other segment items										
Additions to property, plant and equipment:										
continuing operations	8,634	7,195	1,994	1,602	1,590	2,026	–	–	12,218	10,823
Additions to other intangible assets:										
continuing operations	242	221	27	–	39	77	149	–	457	298

* Restated (note 2)

Sales between geographical segments are made on arms-length terms and conditions which are available to unrelated parties.

Company

The company's business is to invest in its subsidiary undertakings and, therefore, it operates in single business and geographical segments.

Notes to the financial statements

for the year ended 31 December 2008 continued

4. Operating profit before exceptional items

	2008 £'000	2007 £'000
Continuing operations		
Revenue	183,125	156,252
Cost of sales	133,431	111,532
Gross profit	49,694	44,720
Selling and distribution costs	13,655	11,528
Administrative expenses	11,768	10,291
Research and development expenditure	5,156	4,328
Other expenses	996	1,122
	31,575	27,269
Less: other operating income	2,476	241
Net operating expenses	29,099	27,028
Operating profit before exceptional items	20,595	17,692
Discontinued operation	2008 £'000	2007 £'000
Revenue	–	706
Expenses	–	(1,214)
Operating loss	–	(508)
Loss on disposal of net assets	–	(226)
Loss before tax	–	(734)
Taxation (note 10)	–	159
Loss for the year on discontinued operation	–	(575)

The discontinued operation relates to the disposal on 28 December 2007 of BioFilm Limited ("BioFilm"), a subsidiary undertaking specialising in the manufacture and sale of thin-films. BioFilm was sold to a new company backed by Tate & Lyle Ventures LP and Scottish Enterprise's Scottish Venture Fund for a nominal consideration plus a sum in respect of working capital. The consideration was received in February 2008. The agreement provides for a potential further payment of up to £3.6 million in the event of a subsequent sale of the business.

In 2007, BioFilm contributed £706,000 to revenue and incurred a loss of £734,000 and net cash outflow of £289,000. The loss on disposal of net assets included a goodwill write off of £177,000. The taxation credit of £159,000 related to tax on the operating loss of BioFilm, resulting in a post-tax loss of £575,000. The discontinued operation is included in the other products segment.

The minority shareholder in BioFilm Limited was not required to bear a share of losses incurred by that company and, therefore, no amounts in respect of minority interest were included in the financial statements.

5. Exceptional items

(a) The following exceptional items are included in the operating profit on continuing operations of £17,117,000 (2007: £18,343,000):

	2008 £'000	2007 £'000
Provision for impairment of fixed assets (i) below	(3,131)	-
Provision for closure costs (i) below	(585)	-
Proceeds from the sale of land (ii) below	238	1,000
Charge in respect of bid approach costs (iii) below	-	(349)
	(3,478)	651

- (i) During the year, an operational review of the Korenov plant in the Czech Republic was undertaken to assess the carrying value of the assets of that facility. In general, the Korenov assets are older than those of the other plants in the Czech Republic, and would have required considerable expenditure to bring them up to forthcoming environmental and safety standards. They are also significantly less energy efficient. Management determined that the future cash flow from this plant no longer justified the carrying value of the assets. As a result, an impairment charge of £3,131,000 was recorded in the income statement for the year ended 31 December 2008.

In addition to the above, following the decision taken by the Board in August 2008 to close the Korenov plant, a provision of £585,000 was made in respect of the costs associated with the closure, including redundancies and the transfer of certain plant and equipment to Jilemnice. The closure will take place during 2009.

- (ii) Under the terms of the contract for the sale of land at Moodiesburn in 2005, additional income of £238,000 arose during the year ended 31 December 2008 and £1,000,000 arose during the year ended 31 December 2007.

- (iii) During the year ended 31 December 2007, there was a charge of £349,000 in respect of bid approach costs.

(b) The following exceptional items are included in taxation:

	2008 £'000	2007 £'000
Tax allowance on provision for impairment of fixed assets	592	-
Tax allowance on provision for closure costs	117	-
Tax charge on proceeds from sale of land	(68)	(300)
Release of prior year tax provisions (i) below	2,000	-
Reduction in deferred tax liabilities due to changes in corporation tax rates (ii) below	-	1,344
	2,641	1,044

- (i) Tax provisions of £2,000,000 have been released following the agreement of prior year returns with the tax authorities.

- (ii) As explained in note 2 above, there was a reduction of £1,344,000 in deferred tax balances as a result of changes to corporation tax rates in the UK and the Czech Republic.

6. Directors' emoluments

A detailed analysis of directors' emoluments, shareholdings, share options, long-term incentive schemes and pension arrangements is provided in the Remuneration Report on pages 27 to 30. Details of the emoluments of the highest-paid director are as follows:

	2008 £'000	2007 £'000
Aggregate emoluments	454	382
Defined benefit pension scheme: Pension in payment at the end of the year	-	40

9. Profit before tax

	2008 £'000	2007 £'000
Profit before tax is stated after charging/(crediting):		
Depreciation of tangible fixed assets		
- Owned assets	11,613	9,757
- Leased assets	7	9
Amortisation of intangible assets	370	338
Impairment of tangible fixed assets	3,131	-
Goodwill written off	-	177
Loss on disposal of property, plant and equipment	45	129
Loss on disposal of intangible assets	13	-
Inventory recognised as an expense	131,812	110,314
Inventory written down or written off	1,620	2,280
Repairs and maintenance expenditure	12,773	11,475
Research and development expenditure	5,156	4,386
Hire of plant and machinery - operating leases	316	360
Hire of other assets - operating leases	478	415
Net foreign exchange (gains)/losses (see below)	(2,383)	1,260
Auditors' remuneration (see below)	505	481

Net foreign exchange (gains)/losses

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

	2008 £'000	2007 £'000
Revenue	(17,223)	2,485
Cost of sales	13,252	(1,032)
Net operating expenses	1,588	(193)
	(2,383)	1,260

Services provided by the group's auditors

Remuneration of the auditors for the year ended 31 December 2008 is analysed below:

	2008 £'000	2007 £'000
Audit services		
Fees payable to the company's auditors for the audit of the parent company and consolidated accounts	77	69
Other services		
Fees payable to the company's auditors and its associates for other services:		
- The audit of the company's subsidiaries pursuant to legislation	208	175
- Other services pursuant to legislation	21	21
- Other services relating to taxation	191	202
- All other services	8	14
	505	481

In addition to the above services, the group's auditors acted as auditor to some of the group's pension schemes. The appointment of auditors to the group's pension schemes and the fees paid in respect of those audits are agreed by the trustees of each scheme, who act independently from the management of the group. The aggregate fees paid to the group's auditors for audit services to the pension schemes during the year were £8,000 (2007: £8,000).

Notes to the financial statements

for the year ended 31 December 2008 continued

10. Taxation

	Before exceptional items £'000	Exceptional items £'000	Total £'000
2008			
Continuing operations			
Current tax			
United Kingdom corporation tax at 28.5%	(68)	68	-
Foreign tax	5,308	(709)	4,599
	5,240	(641)	4,599
Adjustments in respect of prior years	(154)	(2,000)	(2,154)
Total current tax	5,086	(2,641)	2,445
Deferred tax			
Origination and reversal of timing differences representing:			
United Kingdom corporation tax	(2)	-	(2)
Foreign tax	451	-	451
	449	-	449
Adjustments in respect of prior years	(3)	-	(3)
Total deferred tax (note 24)	446	-	446
Taxation for the year ended 31 December 2008	5,532	(2,641)	2,891
Tax on items charged to equity			
Deferred tax credit on retirement benefit obligations	(5,713)	-	(5,713)
Deferred tax credit on net fair value losses on cash flow hedges	(469)	-	(469)
	(6,182)	-	(6,182)
Total current tax charge/(credit) for the year ended 31 December 2008	5,086	(2,641)	2,445
Total deferred tax credit for the year ended 31 December 2008	(5,736)	-	(5,736)
2007			
Continuing operations			
Current tax			
United Kingdom corporation tax at 30%	(174)	174	-
Foreign tax	5,992	(1,218)	4,774
	5,818	(1,044)	4,774
Adjustments in respect of prior years	229	-	229
Total current tax	6,047	(1,044)	5,003
Deferred tax			
Origination and reversal of timing differences representing:			
United Kingdom corporation tax	(191)	-	(191)
Foreign tax	(537)	-	(537)
	(728)	-	(728)
Adjustments in respect of prior years	(75)	-	(75)
Total deferred tax (note 24)	(803)	-	(803)
Taxation - continuing operations for the year ended 31 December 2007	5,244	(1,044)	4,200
Discontinued operation			
Current tax			
	(159)	-	(159)
Taxation - discontinued operation for the year ended 31 December 2007	(159)	-	(159)
Taxation for the year ended 31 December 2007	5,085	(1,044)	4,041

10. Taxation (continued)

	Before exceptional items £'000	Exceptional items £'000	Total £'000
Tax on items charged to equity			
Deferred tax charge on retirement benefit obligations	4,018	–	4,018
Deferred tax charge on net fair value gains on cash flow hedges	83	–	83
	4,101	–	4,101
Total current tax charge/(credit) for the year ended 31 December 2007	5,888	(1,044)	4,844
Total deferred tax charge for the year ended 31 December 2007	3,298	–	3,298

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

	Before exceptional items £'000	Exceptional items £'000	Total £'000
2008			
Profit/(loss) before tax	18,818	(3,478)	15,340
Profit/(loss) before tax multiplied by the standard rate of corporation tax in the UK of 28.5%	5,363	(991)	4,372
Effects of:			
Adjustments to tax in respect of prior years	(157)	(2,000)	(2,157)
Adjustments in respect of foreign tax rates	(1,035)	350	(685)
Permanent differences	201	–	201
Deferred tax assets not recognised	1,160	–	1,160
Taxation for the year ended 31 December 2008	5,532	(2,641)	2,891
2007			
Profit before tax	14,833	651	15,484
Profit before tax multiplied by the standard rate of corporation tax in the UK of 30%	4,450	195	4,645
Effects of:			
Adjustments to tax in respect of prior years	(5)	–	(5)
Adjustments in respect of foreign tax rates	(627)	–	(627)
Permanent differences	348	105	453
Changes in tax rates	–	(1,344)	(1,344)
Deferred tax assets not recognised	919	–	919
Taxation for the year ended 31 December 2007	5,085	(1,044)	4,041

Notes to the financial statements

for the year ended 31 December 2008 continued

11. Profit for the year

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

	2008 £'000	2007 £'000
Dealt with in the financial statements of the parent company	17,131	30,802
Loss retained by subsidiary undertakings	(4,682)	(19,359)
	12,449	11,443

12. Dividends

Group and company

	2008 £'000	2007 £'000
Final paid of 3.025 pence per share (2007: 3.025 pence)	4,927	4,926
Interim paid of 1.425 pence per share (2007: 1.425 pence)	2,321	2,321
Unclaimed dividends from previous years	(5)	(2)
	7,243	7,245

The directors propose a final dividend in respect of the financial year ended 31 December 2008 of 3.025 pence per share, which will absorb an estimated £4,927,000 of shareholders' funds. It will be paid on 15 May 2009 to shareholders who are on the register at close of business on 17 April 2009.

13. Earnings per share

	2008 £'000	2007 £'000
Profit for the year attributable to equity holders – continuing and discontinued operations	12,449	11,443
Adjustment for the loss in the year from the discontinued operation	–	575
Profit for the year attributable to equity holders – continuing operations	12,449	12,018
Adjustment for exceptional items after tax	837	(1,695)
Profit for the year before exceptional items attributable to equity holders – continuing operations	13,286	10,323
Adjustment for the loss in the year from the discontinued operation	–	(575)
Profit for the year before exceptional items attributable to equity holders – continuing operations	13,286	9,748

	2008 pence	2007 pence
Earnings per share from continuing and discontinued operations		
Basic	7.6	7.0
Diluted	7.6	7.0
Basic before exceptional items	8.2	6.0
Earnings per share from continuing operations		
Basic	7.6	7.4
Diluted	7.6	7.4
Basic before exceptional items	8.2	6.4
Loss per share from discontinued operation		
Basic	–	(0.4)
Diluted	–	(0.4)

13. Earnings per share (continued)

Basic earnings per share is calculated by dividing the profit for the year attributable to ordinary shareholders by 162,866,277 (2007: 162,852,705) shares, being the weighted average number of shares in issue throughout the year.

Share options are only treated as dilutive in the calculation of diluted earnings per share if their exercise would result in the issue of shares at less than the average market price of the shares during the year. Shares arising from share options, the deferred bonus scheme or the performance share plan are only treated as dilutive where the effect is to reduce earnings per share. Diluted earnings per share is calculated by dividing the profit for the year attributable to ordinary shareholders by the average number of shares, including the effect of all dilutive potential shares, of 164,537,830 (2007: 163,439,909).

Earnings per share before exceptional items is calculated in order to eliminate the effect of the exceptional charge after tax in 2008 of £837,000 (2007: credit of £1,695,000) on the results. Basic earnings per share before exceptional items is calculated by dividing the profit attributable to ordinary shareholders before exceptional items, after attributable tax, by 162,866,277 (2007: 162,852,705) shares, being the weighted average number of shares in issue throughout the year.

14. Intangible assets

Group	Computer software £'000	Development costs £'000	Other £'000	Total £'000
Cost				
At 1 January 2008	3,549	1,175	–	4,724
Exchange differences	554	114	–	668
Additions	450	–	7	457
Disposals	(76)	(13)	–	(89)
At 31 December 2008	4,477	1,276	7	5,760
Amortisation				
At 1 January 2008	3,009	153	–	3,162
Exchange differences	493	12	–	505
Charge for year	286	84	–	370
Disposals	(76)	–	–	(76)
At 31 December 2008	3,712	249	–	3,961
Net book value at 31 December 2008	765	1,027	7	1,799
Cost				
At 1 January 2007	3,270	971	–	4,241
Exchange differences	171	45	–	216
Additions	130	159	9	298
Disposals	(22)	–	(9)	(31)
At 31 December 2007	3,549	1,175	–	4,724
Amortisation				
At 1 January 2007	2,608	91	–	2,699
Exchange differences	143	4	–	147
Charge for year	280	58	–	338
Disposals	(22)	–	–	(22)
At 31 December 2007	3,009	153	–	3,162
Net book value at 31 December 2007	540	1,022	–	1,562

Included in the net book value of intangible assets is £1,022,000 (2007: £1,012,000) relating to internally generated development costs.

In the income statement, amortisation of £142,000 (2007: £139,000) is included in cost of sales; £nil (2007: £2,000) in selling and distribution costs; £217,000 (2007: £194,000) in administrative expenses; and £11,000 (2007: £3,000) in research and development expenditure.

Notes to the financial statements

for the year ended 31 December 2008 continued

14. Intangible assets (continued)

Company	Computer software £'000	Total £'000
Cost		
At 1 January 2008	174	174
Additions	149	149
At 31 December 2008	323	323
Amortisation		
At 1 January 2008	169	169
Charge for year	5	5
At 31 December 2008	174	174
Net book value at 31 December 2008	149	149
Cost		
At 1 January and 31 December 2007	174	174
Depreciation		
At 1 January 2007	164	164
Charge for year	5	5
At 31 December 2007	169	169
Net book value at 31 December 2007	5	5

15. Property, plant and equipment

Group	Freehold land and buildings £'000	Plant and machinery, and motor vehicles £'000	Fixtures and fittings £'000	Construction in progress £'000	Total £'000
Cost					
At 1 January 2008	65,528	142,894	2,536	7,729	218,687
Exchange differences	12,606	28,053	265	696	41,620
Additions	330	6,783	78	5,027	12,218
Disposals	(61)	(2,134)	(109)	-	(2,304)
Reclassification	431	6,364	5	(6,800)	-
At 31 December 2008	78,834	181,960	2,775	6,652	270,221
Depreciation					
At 1 January 2008	16,916	84,401	2,294	-	103,611
Exchange differences	2,912	16,186	224	-	19,322
Charge for year	1,766	9,766	88	-	11,620
Impairment	2,031	1,098	2	-	3,131
Disposals	(40)	(2,043)	(109)	-	(2,192)
Reclassification	(5)	5	-	-	-
At 31 December 2008	23,580	109,413	2,499	-	135,492
Net book value at 31 December 2008	55,254	72,547	276	6,652	134,729
Cost					
At 1 January 2007	59,754	133,271	2,434	4,996	200,455
Exchange differences	4,862	6,740	88	350	12,040
Additions	227	3,721	23	6,852	10,823
Disposals	(43)	(4,576)	(10)	(2)	(4,631)
Reclassification	728	3,738	1	(4,467)	-
At 31 December 2007	65,528	142,894	2,536	7,729	218,687
Depreciation					
At 1 January 2007	13,980	77,885	2,120	-	93,985
Exchange differences	1,084	3,172	76	-	4,332
Charge for year	1,430	8,228	108	-	9,766
Disposals	(24)	(4,438)	(10)	-	(4,472)
Reclassification	446	(446)	-	-	-
At 31 December 2007	16,916	84,401	2,294	-	103,611
Net book value at 31 December 2007	48,612	58,493	242	7,729	115,076

In the income statement, depreciation of £10,889,000 (2007: £9,076,000) has been charged in cost of sales; £142,000 (2007: £103,000) in selling and distribution costs; £403,000 (2007: £409,000) in administrative expenses; and £186,000 (2007: £178,000) in research and development expenditure.

Depreciation has not been charged on freehold land which is stated at historical cost of £3,355,000 (2007: £3,023,000).

Assets held under finance leases included above comprise computer equipment with a net book value of £1,000 at 31 December 2008 (2007: £8,000).

Notes to the financial statements

for the year ended 31 December 2008 continued

15. Property, plant and equipment (continued)

Company	Plant and machinery, and motor vehicles £'000	Fixtures and fittings £'000	Total £'000
Cost			
At 1 January 2008	260	36	296
Disposals	(49)	–	(49)
At 31 December 2008	211	36	247
Depreciation			
At 1 January 2008	211	28	239
Charge for year	22	2	24
Disposals	(36)	–	(36)
At 31 December 2008	197	30	227
Net book value at 31 December 2008	14	6	20
Cost			
At 1 January 2007	333	36	369
Additions	14	–	14
Disposals	(87)	–	(87)
At 31 December 2007	260	36	296
Depreciation			
At 1 January 2007	221	27	248
Charge for year	42	1	43
Disposals	(52)	–	(52)
At 31 December 2007	211	28	239
Net book value at 31 December 2007	49	8	57

16. Investments in subsidiary undertakings

Company	2008 £'000	2007 £'000
Interest in subsidiary undertakings		
Gross and net book value at 1 January	138,530	129,380
Add: increase in investment	–	9,150
Gross and net book value at 31 December	138,530	138,530

16. Investments (continued)

The company's principal subsidiary undertakings at 31 December 2008 are shown below:

Name of undertaking	Country of incorporation or registration	Nature of business	Proportion of issued ordinary shares held by:	
			Group	Company
Devro (Scotland) Limited	Scotland	Casings		100%
Devro New Holdings Limited	Scotland	Holding		100%
Devro Medical Limited	Scotland	Medical collagen		100%
Devro Acquisition Corp	USA	Holding	100%	
Devro Asia Limited	Hong Kong	Casings	100%	
Devro Pty Limited	Australia	Casings	100%	
Devro GmbH	Germany	Non-trading	100%	
Devro KK	Japan	Casings	100%	
Devro Inc	USA	Casings	100%	
Devro Investments Inc	USA	Holding	100%	
Cutisin s.r.o.	Czech Republic	Casings	100%	

Devro (Scotland) Limited has a branch located in Germany. Devro Pty Limited has a branch located in New Zealand.

17. Inventories

The company had no inventories at 31 December 2008 and 31 December 2007. Details of inventories relating to the group are as follows:

Group	2008	2007
	£'000	£'000
Raw materials and consumables	2,763	2,825
Work in progress	3,966	3,449
Finished goods and goods for resale	19,024	16,037
	25,753	22,311

At 31 December 2008, inventories amounting to £748,000 (2007: £537,000) were held at net realisable value.

18. Trade and other receivables

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Amounts falling due after more than one year				
Amounts owed by subsidiary undertakings	-	-	20,194	14,225
Prepayments and accrued income	61	99	-	-
	61	99	20,194	14,225
Amounts falling due within one year				
Trade receivables	29,588	20,493	-	-
Less: provision for doubtful debts	(575)	(241)	-	-
Trade receivables - net	29,013	20,252	-	-
Amounts owed by subsidiary undertakings	-	-	536	452
Other debtors	2,264	1,283	6	69
Prepayments and accrued income	1,790	1,337	281	138
	33,067	22,872	823	659

Notes to the financial statements

for the year ended 31 December 2008 continued

18. Trade and other receivables (continued)

Group

At 31 December 2008, trade receivables of £534,000 (2007: £217,000) were impaired and fully provided. It was assessed that none of the impaired receivables would be recovered. The ageing of these receivables is as follows:

	2008 £'000	2007 £'000
Less than 30 days past due	305	50
30 to 90 days past due	21	43
Greater than 90 days past due	208	124
	534	217

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

	2008 £'000	2007 £'000
At 1 January	217	310
Exchange differences	63	(2)
Discontinued operation	-	(84)
Receivables impaired	382	161
Receivables written off as uncollectible	82	(136)
Unused amounts reversed	(210)	(32)
At 31 December	534	217

In addition to the impairment provision, there was a specific experience-based provision of £41,000 at 31 December 2008 (2007: £24,000).

At 31 December 2008, trade receivables of £4,316,000 (2007: £3,966,000) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default. The ageing of these receivables is as follows:

	2008 £'000	2007 £'000
Less than 30 days past due	3,635	3,280
30 to 90 days past due	678	674
Greater than 90 days past due	3	12
	4,316	3,966

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

	2008 £'000	2007 £'000
euro	10,304	6,958
US dollar	7,733	4,571
Sterling	3,536	3,192
Australian dollar	3,359	2,687
Japanese yen	3,149	1,593
Czech koruna	2,894	2,201
Other currencies	2,153	1,769
	33,128	22,971

18. Trade and other receivables (continued)

Company

The company had no trade receivables at 31 December 2008 and 31 December 2007.

At 31 December 2008, receivables due from subsidiary undertakings of £20,730,000 (2007: £14,677,000) were neither past due nor impaired.

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

	2008 £'000	2007 £'000
Sterling	18,223	14,660
US dollar	2,487	95
Other currencies	307	129
	21,017	14,884

19. Cash and cash equivalents

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Cash and cash equivalents				
Cash at bank and in hand	5,446	7,412	6	541
Short-term bank deposits	1,244	2,223	-	-
	6,690	9,635	6	541

At 31 December 2008, an overdraft balance in the company was pooled with cash balances held at the same bank by a subsidiary undertaking. At 31 December 2007, an overdraft balance in a subsidiary undertaking was pooled with cash balances held at the same bank by the company. The resulting net cash positions were included in the group's cash at bank and in hand balances.

20. Trade and other payables - current

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Trade payables	10,821	8,670	-	-
Amounts owed to subsidiary undertakings	-	-	1,467	998
Other taxation and social security payable	1,573	1,147	146	33
Accruals and deferred income	16,417	11,738	2,233	1,338
Amounts owed to former shareholders of Cutisin a.s.	-	65	-	-
	28,811	21,620	3,846	2,369

21. Other non-current liabilities

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Amounts owed to subsidiary undertakings	-	-	5,539	1,338
Accruals and deferred income	159	173	-	-
	159	173	5,539	1,338

Notes to the financial statements

for the year ended 31 December 2008 continued

22. Financial liabilities – borrowings

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Current				
Unsecured bank loans and overdrafts due within one year or on demand	3,135	768	2,094	140
Non-current				
Unsecured bank loans	27,531	36,119	15,031	27,000

Borrowings are denominated in a number of currencies, and bear interest based on LIBOR or foreign equivalents appropriate to the country in which the borrowing is incurred. All of the group's borrowings are exposed to interest rate changes within one year.

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

	Currency	Rate	2008	2007
Bank overdrafts	euro	ECB min. bid rate plus 75 basis points	3.75%	4.75%
	Sterling	UK base rate plus 100 basis points	3.00%	6.50%
	US dollar	Higher of Fed Funds plus 250 basis points or Prime less 100 basis points	3.25%	–
Bank borrowings:				
Floating rate	Sterling	LIBOR plus 71 basis points	3.82%	7.46%
Floating rate	Australian dollar	BBSW plus 70 basis points	4.69%	7.53%
Floating rate	US dollar	LIBOR plus 70 basis points	1.63%	–
Average bank borrowings rate			4.11%	7.43%

Borrowings are denominated in the following currencies:

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Sterling	15,493	27,140	14,764	27,140
Australian dollar	12,500	9,119	–	–
US dollar	1,985	–	2,361	–
euro	688	628	–	–
	30,666	36,887	17,125	27,140

23. Financial risk management and financial instruments

Financial risk management

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

Market risk

a) Interest rate risk

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

The group borrows in the desired currencies at floating rates of interest and may use forward rate agreements or interest rate swaps to generate the desired interest rate profile and manage the group's exposure to interest rate fluctuations. Although group policy permits the hedging of up to 100% of interest rate exposures on borrowings for a period not exceeding five years, no interest rate hedging was in place at 31 December 2008 or 31 December 2007.

Cash is held in interest-bearing current accounts where practicable, and all deposits are for periods of less than three months.

A variation of, for example, 100 basis points in interest rates, applied to the group's borrowings, cash and short-term deposits at 31 December 2008 and 31 December 2007, would result in a movement in finance expense of £307,000 (2007: £369,000) and finance income of £67,000 (2007: £96,000). This would result in a post-tax impact on the group's income statement of £214,000 (2007: £268,000).

23. Financial risk management and financial instruments (continued)

b) Foreign exchange risk

The group has several significant overseas subsidiary undertakings whose revenues and expenses are denominated in a variety of currencies. Group policy dictates that foreign currency exposures arising from future commercial transactions are reviewed by Group Treasury and hedging activities are undertaken as appropriate in order to manage the net foreign exchange risks arising. Group policy permits the hedging of up to a maximum of 75% of the net external currency transaction exposures for periods of up to a maximum of one year forward. It is not group policy to routinely hedge translation exposures apart from inter-company loans. Specific Board approval is required for any other translation exposure hedging.

The table below details the impact of changes in foreign exchange rates on the group's post-tax profit for the year ended 31 December 2008 and 31 December 2007 and equity at 31 December 2008 and 31 December 2007. The gains and losses arise from translating receivables, payables, cash and derecognised currency hedges which are denominated in currencies other than each subsidiaries' reporting currency. The movements in equity arise from the translation of cash flow currency hedges.

In each case, it is assumed that the named currency is strengthening or weakening against all other currencies, while all the other currencies remain constant. The percentage foreign currency movements are based on the experience of the previous four years. Currency volatility in 2008 has resulted in higher percentages and an increase in the number of currencies requiring to be disclosed. Results are shown for all currencies where the impact on group post-tax profits would be more than £50,000.

Foreign currency movement	Impact on group post-tax profits - gains/(losses)		Impact on equity - increase/(decrease)	
	Strengthening £'000	Weakening £'000	Strengthening £'000	Weakening £'000
2008				
Australian dollar: 15%	(107)	107	595	(595)
Czech koruna: 15%	(398)	398	2,492	(2,492)
euro: 15%	306	(306)	(2,128)	2,128
Japanese yen: 25%	317	(317)	(690)	690
Sterling: 20%	(515)	515	753	(753)
US dollar: 20%	(290)	290	(1,215)	1,215
2007				
Czech koruna: 11%	(251)	251	1,142	(1,142)
euro: 8%	186	(186)	(807)	807
Sterling: 8.5%	(70)	70	130	(130)
US dollar: 11.5%	(62)	62	(148)	148

Credit risk

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

The group has no significant concentrations of credit risk. The group monitors its credit exposure using credit ratings, where applicable, and through its policy of requiring appropriate credit checks on potential customers before sales commence. These procedures limit the group's exposure to any one party to approved levels. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable. The group does not hold any collateral as security.

Liquidity risk

The group has medium-term loan facilities which are regularly reviewed to ensure that they provide adequate liquidity for the group. The facilities are managed on a centralised basis with appropriate local availability. Details of the undrawn committed borrowing facilities available at 31 December 2008 and 31 December 2007 are shown below:

	2008 £'000	2007 £'000
Expiring in more than two years	23,469	14,881

At 31 December 2008, the group had in place unsecured floating rate loan facilities comprising committed elements with a total of £51.0 million (2007: £51.0 million) and uncommitted working capital elements with a total of £9.0 million (2006: £9.0 million). These were co-ordinated, bilateral facilities with three banks and the committed elements are due to expire on 24 January 2012. The uncommitted facilities are renewable within one year.

The group was in compliance with the covenants related to its loan facilities throughout the years ending 31 December 2008 and 31 December 2007.

In addition to the group facilities, local uncommitted facilities of US\$ 2.0 million (2007: nil) and Czech koruna 60.0 million (2007: nil) were also in place at 31 December 2008. These facilities are renewable within one year.

Notes to the financial statements

for the year ended 31 December 2008 continued

23. Financial risk management and financial instruments (continued)

Capital risk

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

The principal measure used to monitor the strength of the group's balance sheet is the gearing ratio, which expresses the group's net debt as a percentage of its net assets. Net debt is total borrowings less cash and cash equivalents. Net assets are as shown in the consolidated balance sheet. The gearing ratios at 31 December 2008 and 31 December 2007 were as follows:

At 31 December	2008 £'000	2007 £'000
Total borrowings (note 22)	30,666	36,887
Less: cash and cash equivalents	(6,690)	(9,635)
Net debt (note 34)	23,976	27,252
Net assets	111,318	95,060
Gearing ratio	21.5%	28.7%

Financial instruments

Disclosures regarding financial instruments are set out below:

Fair value of derivative financial instruments

The fair values of derivative financial instruments are as follows:

	Group Assets £'000	Group Liabilities £'000	Company Assets £'000	Company Liabilities £'000
At 31 December 2008				
Forward foreign currency contracts:				
cash flow hedge	421	1,774	-	-
other	288	776	251	-
	709	2,550	251	-
At 31 December 2007				
Forward foreign currency contracts:				
cash flow hedge	485	169	-	-
other	261	45	20	-
	746	214	20	-

In accordance with IAS 39, "Financial instruments: Recognition and Measurement", the group has reviewed all contracts for embedded derivatives. At 31 December 2008 and 31 December 2007, there were no embedded derivatives.

At 31 December 2008, the net fair value losses on open forward foreign exchange contracts that hedge the foreign currency risk of anticipated future sales and purchases amount to £1,353,000 (2007: gains £316,000). These will be transferred to the income statement when the forecast sales and purchases occur during 2009.

There were no interest rate swap contracts at 31 December 2008 and 31 December 2007.

23. Financial risk management and financial instruments (continued)

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

Group	2008 £'000	2007 £'000
Forward foreign exchange currency contracts	33,660	19,690
Currency swaps	5,401	753

Fair values of non-derivative financial assets and financial liabilities

Group	2008		2007	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
Fair value of non-current borrowings				
Long-term borrowings (note 22)	(27,531)	(27,531)	(36,119)	(36,119)
Fair value of other financial assets and financial liabilities				
Primary financial instruments held or issued to finance the group's activities:				
Other non-current receivables (note 18)	61	61	99	99
Trade and other receivables (note 18)	33,067	33,067	22,872	22,872
Short-term bank deposits (note 19)	1,244	1,244	2,223	2,223
Cash at bank and in hand (note 19)	5,446	5,446	7,412	7,412
Trade and other payables (note 20)	(28,811)	(28,811)	(21,620)	(21,620)
Other non-current liabilities (note 21)	(159)	(128)	(173)	(132)
Short-term borrowings (note 22)	(3,135)	(3,135)	(768)	(768)

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

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

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

Notes to the financial statements

for the year ended 31 December 2008 continued

23. Financial risk management and financial instruments (continued)

Maturity of financial liabilities

The tables below analyse the group's and company's financial liabilities, which will be settled on a net basis, into relevant maturity groupings based on the remaining period to the contractual maturity date at 31 December 2008 and 31 December 2007. The amounts disclosed in the tables are the relevant undiscounted cash flows.

Group	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 years £'000
At 31 December 2008				
Borrowings	4,285	1,135	28,739	–
Derivative financial instruments	2,550	–	–	–
Trade and other payables	28,811	25	68	66
At 31 December 2007				
Borrowings	3,472	2,695	41,692	–
Derivative financial instruments	214	–	–	–
Trade and other payables	21,620	81	53	39

Company	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 years £'000
At 31 December 2008				
Borrowings	2,386	550	15,616	–
Trade and other payables	3,846	–	–	–
At 31 December 2007				
Borrowings	2,155	2,010	31,156	–
Trade and other payables	2,369	–	–	1,338

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

Maturity of derivative financial instruments

The tables below show the group's and company's derivative financial instruments, which will be settled on a gross basis. All derivative financial instruments mature within one year. The amounts disclosed in the tables are the contractual undiscounted cash flows.

	At 31 December 2008 £'000	At 31 December 2007 £'000
Group		
Forward foreign exchange contracts – cash flow hedges		
Outflow	23,606	14,708
Inflow	22,223	15,029
Forward foreign exchange contracts – other		
Outflow	14,037	5,617
Inflow	13,555	5,859
Company		
Forward foreign exchange contracts – other		
Outflow	5,148	727
Inflow	5,401	753

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

24. Deferred Tax

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Net (liability)/asset at 1 January	(5,543)	(1,595)	40	34
Exchange differences	(457)	(650)	-	-
(Charge)/credit for the year (note 10)	(446)	803	(3)	6
Credit/(charge) to equity	6,182	(4,101)	-	-
Net (liability)/asset at 31 December	(264)	(5,543)	37	40

Group

Deferred tax assets can be analysed as follows:

	Retired benefit obligations £'000	Accelerated capital allowances £'000	Other £'000	Total £'000
At 1 January 2008	3,400	28	1,921	5,349
Exchange differences	1,667	-	-	1,667
Charge for the year	(960)	(1)	(847)	(1,808)
Credit to equity	5,713	-	379	6,092
At 31 December 2008	9,820	27	1,453	11,300
At 1 January 2007	8,397	22	2,154	10,573
Exchange differences	(126)	-	(19)	(145)
Reclassification	-	-	(410)	(410)
(Charge)/credit for the year	(853)	6	196	(651)
Charge to equity	(4,018)	-	-	(4,018)
At 31 December 2007	3,400	28	1,921	5,349

Deferred tax liabilities can be analysed as follows:

	Accelerated capital allowances £'000	Other £'000	Total £'000
At 1 January 2008	(10,352)	(540)	(10,892)
Exchange differences	(3,002)	-	(3,002)
Credit for the year	2,234	6	2,240
Charge to equity	-	90	90
At 31 December 2008	(11,120)	(444)	(11,564)
At 1 January 2007	(11,562)	(606)	(12,168)
Exchange differences	(503)	(2)	(505)
Reclassification	-	410	410
Credit/(charge) for the year	1,713	(259)	1,454
Charge to equity	-	(83)	(83)
At 31 December 2007	(10,352)	(540)	(10,892)

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for the year ended 31 December 2008 continued

24. Deferred tax (continued)

The net deferred tax liability can be analysed as follows:

	Asset 2008 £'000	Asset 2007 £'000	Liability 2008 £'000	Liability 2007 £'000	Total 2008 £'000	Total 2007 £'000
Due within one year	1,649	1,165	309	(275)	1,958	890
Due after more than one year	9,651	4,184	(11,873)	(10,617)	(2,222)	(6,433)
	11,300	5,349	(11,564)	(10,892)	(264)	(5,543)

Company

Deferred tax assets can be analysed as follows:

	Accelerated capital allowances £'000	Other £'000	Total £'000
At 1 January 2008	28	12	40
Charge for the year	(1)	(2)	(3)
At 31 December 2008	27	10	37
At 1 January 2007	22	12	34
Credit for the year	6	–	6
At 31 December 2007	28	12	40

The deferred tax asset can be analysed as follows:

	2008 £'000	2007 £'000
Due after more than one year	37	40

Deferred tax assets and liabilities are only offset to the extent that there is a legally enforceable right to do so, as permitted by IAS 12.

No deferred tax has been recognised in respect of the unremitted earnings of certain subsidiaries. Unremitted earnings of subsidiary undertakings with a lower tax rate than the UK rate and on which UK tax could become payable if repatriated totalled £39.6 million at 31 December 2008 (31 December 2007: £29.5 million).

At 31 December 2008, a deferred tax asset of £28,000 (2007: £286,000) has not been recognised as its future utilisation is uncertain.

25. Retirement benefit obligations

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

	2008 £'000	2007 £'000
Pension obligations		
Defined benefit schemes:		
Current service costs	1,089	1,322
Net finance income	(715)	(671)
	374	651
Defined contribution schemes	803	731
	1,177	1,382
Post-retirement benefit obligations		
Post-retirement benefit scheme:		
Current service cost	23	31
Finance cost	93	86
	116	117
Total	1,293	1,499

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

	2008 £'000	2007 £'000
Pension obligations		
Fair value of plan assets	165,486	189,065
Present value of funded obligations	(191,311)	(196,477)
	(25,825)	(7,412)
Post-retirement benefit obligations		
Present value of benefit obligations	(1,863)	(1,360)
	(27,688)	(8,772)

(a) Pension obligations

The group operates a number of pension schemes throughout the world. The major schemes are of the defined benefit type and, with the exception of Germany where book reserves are supported by insurance policies, the assets of the schemes are held in separate trustee-administered funds. The defined benefit schemes are now closed to new members and have been replaced with defined contribution schemes. The total pension cost for the group was £1,177,000 (2007: £1,382,000), of which £1,080,000 (2007: £828,000) related to the overseas schemes. On the advice of the actuaries, cash contributions to the group's defined benefit schemes are expected to be £5.0 million for the year ending 31 December 2009 (2008: £4.3 million).

The most significant defined benefit scheme within the group is the Devro Limited (UK) Pension Plan, which operates in the UK. The latest completed formal actuarial valuation of the scheme was at 31 March 2005. A formal actuarial valuation at 31 March 2008 is being undertaken at present. The other major defined benefit schemes operate in Australia and the US.

Actuarial assumptions appropriate for each country have been used.

The last formal actuarial valuations of the group's material defined benefit schemes have been updated to 31 December 2008 by qualified independent actuaries. The major assumptions used by the actuaries in the following principal countries were:

	Australia		United Kingdom		United States	
	2008 %	2007 %	2008 %	2007 %	2008 %	2007 %
Discount rate	3.60	5.30	6.25	5.70	6.30	6.40
Rate of increase in salaries	4.00	4.00	3.70	4.30	—*	3.50
General inflation	2.50	2.50	2.70	3.30	2.80	2.50

* No rate of increase in salaries has been assumed as the United States plan is now frozen.

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

Notes to the financial statements

for the year ended 31 December 2008 continued

25. Retirement benefit obligations (continued)

Demographic assumptions, such as mortality rates, are set having regard to the latest trends in life expectancy plan experience. These assumptions are under continual review. The mortality assumptions at 31 December 2008 are based on the following tables:

	Years of life expectancy for current pensioners aged 65	
	Male	Female
United Kingdom – PA92 mc (YOB) + 2	20.2	23.1
United States – RP-2000 healthy projected to 2008	18.3	20.3

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

In addition to the above schemes, the group operates a defined benefit retirement plan in Germany which, in common with typical practice in that country, is supported by insurance policies. At 31 December 2008, the value of the insurance asset was £4.3 million (2007: £3.2 million) and the value of the liability was £4.6 million (2007: £3.4 million).

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

The aggregate fair values of assets in the group's defined benefit schemes at 31 December 2008 are estimated to be:

	Australia		United Kingdom		United States		Other		Group	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Equities	3,963	5,260	62,500	86,880	15,640	18,356	–	–	82,103	110,496
Bonds	701	1,146	55,288	54,602	16,082	14,140	–	–	72,071	69,888
Other	2,413	2,274	2,404	711	2,205	2,495	4,290	3,201	11,312	8,681
	7,077	8,680	120,192	142,193	33,927	34,991	4,290	3,201	165,486	189,065

The long-term rates of return expected at 31 December 2008 in the principal countries are as follows:

	Australia		United Kingdom		United States	
	2008	2007	2008	2007	2008	2007
	%	%	%	%	%	%
Equities	7.60	7.60	7.10	7.30	8.40	8.20
Bonds	4.80	4.80	5.00	5.05	5.30	5.10
Other	4.93	4.86	1.80	5.30	7.40	7.40

The net pension assets and liabilities at 31 December 2008 are as follows.

	Australia		United Kingdom		United States		Other		Group	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Total fair value of scheme assets (as above)	7,077	8,680	120,192	142,193	33,927	34,991	4,290	3,201	165,486	189,065
Present value of scheme liabilities	(8,619)	(7,188)	(124,700)	(145,878)	(52,859)	(39,602)	(5,133)	(3,809)	(191,311)	(196,477)
(Deficit)/surplus	(1,542)	1,492	(4,508)	(3,685)	(18,932)	(4,611)	(843)	(608)	(25,825)	(7,412)
Related deferred tax assets/(liabilities)	462	(448)	1,566	1,540	7,005	1,706	135	98	9,168	2,896
Net pension (liabilities)/assets	(1,080)	1,044	(2,942)	(2,145)	(11,927)	(2,905)	(708)	(510)	(16,657)	(4,516)

25. Retirement benefit obligations (continued)

The net deficit position has worsened during the year. The value of the assets in the schemes fell significantly, reflecting falls in worldwide equity and bond markets. The value of scheme liabilities also fell, reflecting increases in discount rates, but by less than the reduction in asset values. We continue to pay contributions to retirement schemes in accordance with local regulatory requirements and on the advice of qualified independent actuaries. The actuaries continually review the funding position of the schemes.

	2008 £'000	2007 £'000
Changes in the fair value of scheme assets were as follows:		
Fair value of plan assets at 1 January	189,065	178,979
Expected return on plan assets	12,213	11,170
Employer contributions	4,273	5,757
Member contributions	723	786
Benefits paid	(10,528)	(9,462)
Actuarial (losses)/gains	(41,435)	1,311
Exchange gains	11,175	524
Fair value of plan assets at 31 December	165,486	189,065

	2008 £'000	2007 £'000
Changes in the present value of defined benefit obligations were as follows:		
Present value of obligations at 1 January	196,477	203,771
Service cost	1,089	1,322
Interest cost	11,498	10,499
Member contributions	723	786
Benefits paid	(10,528)	(9,462)
Actuarial gains	(23,368)	(10,729)
Exchange losses	15,420	290
Present value of obligations at 31 December	191,311	196,477

Notes to the financial statements

for the year ended 31 December 2008 continued

25. Retirement benefit obligations (continued)

Amounts charged to the income statement and recognised in the statement of recognised income and expense are as follows:

	Australia		United Kingdom		United States		Other		Group	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Analysis of amounts charged to the income statement										
Current service cost	296	286	695	944	-	-	98	92	1,089	1,322
Expected return on pension scheme assets	(565)	(490)	(9,034)	(8,323)	(2,614)	(2,357)	-	-	(12,213)	(11,170)
Interest on pension scheme liabilities	395	334	8,197	7,692	2,683	2,292	223	181	11,498	10,499
Financing (credit)/charge	(170)	(156)	(837)	(631)	69	(65)	223	181	(715)	(671)
Net charge/(credit) to profit	126	130	(142)	313	69	(65)	321	273	374	651
Analysis of amounts recognised in statement of recognised income and expense										
Actual return less expected return on assets	(2,402)	22	(27,466)	2,087	(11,882)	(777)	311	(10)	(41,439)	1,322
Experience (losses)/gains on liabilities	(59)	(76)	5,064	170	(971)	(79)	(108)	(7)	3,926	8
Changes in assumptions	(675)	24	18,762	9,086	1,246	1,130	113	470	19,446	10,710
Actuarial (loss)/gain on assets and liabilities	(3,136)	(30)	(3,640)	11,343	(11,607)	274	316	453	(18,067)	12,040
Exchange gain/(loss)	42	134	-	-	(4,057)	108	(230)	(8)	(4,245)	234
Actuarial (loss)/gain recognised in sterling	(3,094)	104	(3,640)	11,343	(15,664)	382	86	445	(22,312)	12,274
Movement in surplus/(deficit) during the year										
Surplus/(deficit) in scheme at beginning of year	1,492	1,393	(3,685)	(18,820)	(4,611)	(6,585)	(608)	(780)	(7,412)	(24,792)
Movement in year:										
Pension (expense)/credit	(126)	(130)	142	(313)	(69)	65	(321)	(273)	(374)	(651)
Employer contributions	186	125	2,675	4,105	1,412	1,527	-	-	4,273	5,757
Actuarial (loss)/gain	(3,136)	(30)	(3,640)	11,343	(11,607)	274	316	453	(18,067)	12,040
Exchange gain/(loss)	42	134	-	-	(4,057)	108	(230)	(8)	(4,245)	234
(Deficit)/surplus in scheme at end of year	(1,542)	1,492	(4,508)	(3,685)	(18,932)	(4,611)	(843)	(608)	(25,825)	(7,412)

Cumulative actuarial gains and losses recognised in equity are as follows:

	2008	2007
	£'000	£'000
At 1 January	13,478	1,204
Net actuarial (losses)/gains recognised in the year	(22,312)	12,274
At 31 December	(8,834)	13,478

The actual return on plan assets was £(29.2) million in 2008 (2007: £12.5 million).

25. Retirement benefit obligations (continued)

Historical information in the principal countries is as follows:

	Fair value of scheme assets £'000	Present value of defined benefit obligations £'000	(Deficit)/ surplus in the schemes £'000	Difference between expected and actual return on scheme assets £'000	Experience (losses)/ gains on scheme liabilities £'000	Total amount recognised in statement of recognised income and expense £'000
Australia						
2008	7,077	(8,619)	(1,542)	(2,402)	(59)	(3,094)
2007	8,680	(7,188)	1,492	22	(76)	104
2006	7,692	(6,299)	1,393	472	(139)	409
2005	7,436	(6,487)	949	538	(126)	276
2004	6,362	(5,624)	738	816	(67)	655
United Kingdom						
2008	120,192	(124,700)	(4,508)	(27,466)	5,064	(3,640)
2007	142,193	(145,878)	(3,685)	2,087	170	11,343
2006	133,180	(152,000)	(18,820)	1,714	2,748	10,320
2005	127,351	(156,800)	(29,449)	13,133	(931)	(9,491)
2004	108,650	(128,490)	(19,840)	3,341	89	(1,080)
United States						
2008	33,927	(52,859)	(18,932)	(11,882)	(971)	(15,664)
2007	34,991	(39,602)	(4,611)	(777)	(79)	382
2006	35,030	(41,615)	(6,585)	2,032	(982)	2,262
2005	35,188	(46,553)	(11,365)	(380)	(705)	(3,015)
2004	30,936	(41,519)	(10,583)	1,550	428	427

(b) Post-retirement benefit obligations

The group also provided post-retirement health care benefits to certain groups of its retired employees in the United States. The amount of expense recognised in the current year is £116,000 (2007: £117,000) and the liability at 31 December 2008 is £1,863,000 (2007: £1,360,000). It was assumed that the annual per capita cost of benefits would increase by 7% in 2009. This rate was assumed to decrease to an ultimate rate of 5% in 2013. The weighted average discount rate used in determining the accumulated post-retirement benefit obligation at 31 December 2008 was 6.3% (2007: 6.4%).

The post-retirement health care plan was closed on 30 January 2009.

26. Called up share capital

Group and company	2008 £'000	2007 £'000
Authorised		
225,000,000 ordinary shares of 10 pence each	22,500	22,500
Allotted, called up and fully paid		
162,866,277 (2007: 162,866,277) ordinary shares of 10 pence each	16,287	16,287

No ordinary shares of 10 pence each were issued during the year in connection with options exercised under the Devro (No. 2) Executive Share Option scheme (2007: 21,000).

No ordinary shares of 10 pence each were issued during the year in connection with the Devro 2003 Performance Share Plan (2007: 20,230).

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27. Share-based payments

The Devro 2003 Performance Share Plan ("the plan") was introduced in 2003.

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

The fair value of an allocation represents the market value of the ordinary shares in the company on the date of the provisional allocation, less the discounted value of estimated dividends expected to be paid during the vesting period. A participant is not entitled to receive dividends during this period.

Amounts provided in the accounts are based on an estimate of the probability of the targets in respect of allocations being achieved.

During the year, no shares vested under the plan (2007: 20,230).

At 31 December 2008, the maximum number of shares which may vest under the plan is as follows:

Allocation date	Fair value per share	Vesting date	Number of shares
07/04/2006	£1.142	07/04/2009	567,142
03/05/2007	£0.985	03/05/2010	668,567
13/06/2007	£1.014	13/06/2010	128,260
28/03/2008	£0.679	28/03/2011	900,000
01/05/2008	£0.705	01/05/2011	245,390
26/09/2008	£0.693	26/09/2011	525,000

28. Options on shares of Devro plc

Options have been granted but not yet exercised or lapsed for ordinary shares at 31 December 2008 as follows:

Scheme	Price per share	Earliest date for exercise	Latest date for exercise	Number of share options	Remaining life (years): Contractual
The Devro 1993 (No 2) Executive Share Option Scheme	£0.97	19/10/2002	18/10/2009	90,000	0.9
	£0.515	24/10/2004	23/10/2011	18,000	2.9

A reconciliation of the movement in share options during the year ended 31 December 2008 is shown below:

	2008		2007	
	Number	Weighted average exercise price (£)	Number	Weighted average exercise price (£)
Outstanding at 1 January	408,000	1.46	754,000	2.37
Exercised	—	—	(21,000)	0.52
Lapsed	(300,000)	1.67	(325,000)	3.63
Outstanding at 31 December	108,000	0.89	408,000	1.46
Exercisable at 31 December	108,000	0.89	408,000	1.46

28. Options in shares of Devro plc (continued)

The weighted average remaining life (contractual) of outstanding options at 31 December 2008 is 1.2 years (31 December 2007: 1.3 years). There is no difference between the calculation on a contractual basis and on an expected basis.

There were no options held by directors at 31 December 2008.

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

29. Share premium account

	2008 £'000	2007 £'000
Group and company		
At 1 January	6,097	6,070
Premium on shares issued during the year under the share option schemes and the performance share plan	-	27
At 31 December	6,097	6,097

30. Other reserves

Group	Capital redemption reserve £'000	Special reserve £'000	Performance share plan £'000	Hedging reserve £'000	Cumulative translation adjustment £'000	Total £'000
At 1 January 2008	35,587	8,888	123	226	13,012	57,836
Exchange adjustments	-	-	-	-	24,436	24,436
Cash flow hedges	-	-	-	(1,200)	-	(1,200)
Performance share plan charge	-	-	211	-	-	211
At 31 December 2008	35,587	8,888	334	(974)	37,448	81,283
At 1 January 2007	35,587	8,888	132	17	3,723	48,347
Exchange adjustments	-	-	-	-	9,289	9,289
Cash flow hedges	-	-	-	209	-	209
Performance share plan charge	-	-	12	-	-	12
Performance share plan credit in respect of shares vested	-	-	(21)	-	-	(21)
At 31 December 2007	35,587	8,888	123	226	13,012	57,836

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30. Other reserves (continued)

Company	Capital redemption reserve £'000	Special reserve £'000	Performance share plan £'000	Total £'000
At 1 January 2008	35,587	8,888	74	44,549
Performance share plan charge	–	–	185	185
At 31 December 2008	35,587	8,888	259	44,734
At 1 January 2007	35,587	8,888	80	44,555
Performance share plan credit	–	–	(6)	(6)
At 31 December 2007	35,587	8,888	74	44,549

The balance on the capital redemption reserve represents the amount which arose at the time of the redemption of the preference share capital in 2002.

The balance on the special reserve account represents the remaining undistributable proportion of the amount which arose on the acquisition of Teepak International Inc in 1996 under the merger relief provisions of the Companies Act 1985.

31. Retained earnings

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
At 1 January	14,840	2,474	56,318	32,761
Profit for the year	12,449	11,443	17,131	30,802
Dividends paid	(7,243)	(7,245)	(7,243)	(7,245)
Actuarial (loss)/gain recognised in retirement benefit obligations, net of tax	(12,395)	8,168	–	–
At 31 December	7,651	14,840	66,206	56,318

32. Statement of changes in shareholders' equity

Group	Share capital £'000	Share premium £'000	Other reserves £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2008	16,287	6,097	57,836	14,840	95,060
Exchange adjustments	-	-	24,436	-	24,436
Cash flow hedges	-	-	(1,200)	-	(1,200)
Retirement benefit obligations, net of tax	-	-	-	(12,395)	(12,395)
Dividends paid	-	-	-	(7,243)	(7,243)
Performance share plan charge	-	-	211	-	211
Profit for the year	-	-	-	12,449	12,449
Balance at 31 December 2008	16,287	6,097	81,283	7,651	111,318
Balance at 1 January 2007	16,283	6,070	48,347	2,474	73,174
Exchange adjustments	-	-	9,289	-	9,289
Cash flow hedges	-	-	209	-	209
Retirement benefit obligations, net of tax	-	-	-	8,168	8,168
Issue of share capital	4	27	-	-	31
Dividends paid	-	-	-	(7,245)	(7,245)
Performance share plan charge	-	-	12	-	12
Performance share plan credit in respect of shares vested	-	-	(21)	-	(21)
Profit for the year	-	-	-	11,443	11,443
Balance at 31 December 2007	16,287	6,097	57,836	14,840	95,060
Company	Share capital £'000	Share premium £'000	Other reserves £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2008	16,287	6,097	44,549	56,318	123,251
Dividends paid	-	-	-	(7,243)	(7,243)
Performance share plan charge	-	-	185	-	185
Profit for the year	-	-	-	17,131	17,131
Balance at 31 December 2008	16,287	6,097	44,734	66,206	133,324
Balance at 1 January 2007	16,283	6,070	44,555	32,761	99,669
Issue of share capital	4	27	-	-	31
Dividends paid	-	-	-	(7,245)	(7,245)
Performance share plan credit	-	-	(6)	-	(6)
Profit for the year	-	-	-	30,802	30,802
Balance at 31 December 2007	16,287	6,097	44,549	56,318	123,251

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33. Reconciliation of net profit/(loss) to cash generated from operations

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Continuing operations				
Net profit/(loss)	12,449	12,018	(4,799)	(4,917)
Adjustments for:				
Taxation	2,891	4,200	(105)	(513)
Net finance income on pension and post-retirement health plan assets and liabilities	(622)	(585)	-	-
Finance income	(255)	(338)	(1,118)	(1,070)
Finance expense	2,654	3,048	1,869	2,763
Loss on disposal of property, plant and equipment	31	124	13	35
Loss on disposal of intangible assets	13	-	-	-
Depreciation of property, plant and equipment	11,620	9,601	24	43
Impairment of property, plant and equipment	3,131	-	-	-
Amortisation of intangible assets	370	338	5	5
Retirement benefit obligations	(3,142)	(4,024)	-	-
Performance share plan	211	(9)	185	(6)
Reduction in amounts payable to former Cutisin shareholders	(64)	-	-	-
Changes in working capital:				
Decrease/(increase) in inventories	1,125	(1,738)	-	-
(Increase)/decrease in trade and other receivables	(4,276)	472	(6,370)	(4,589)
Increase/(decrease) in trade and other payables	5,144	328	5,757	(11,798)
Cash generated from/(used in) continuing operations	31,280	23,435	(4,539)	(20,047)
Discontinued operation				
Net loss	-	(575)	-	-
Adjustments for:				
Taxation	-	(159)	-	-
Depreciation of property, plant and equipment	-	165	-	-
Goodwill written off	-	177	-	-
Loss on disposal	-	6	-	-
Changes in working capital:				
Decrease in inventories	-	9	-	-
Decrease in trade and other receivables	-	2	-	-
Decrease in trade and other payables	-	(37)	-	-
Cash used in discontinued operation	-	(412)	-	-

34. Analysis of net debt

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Cash and cash equivalents	6,690	9,635	6	541
Bank overdraft	(2,447)	(140)	(2,094)	(140)
Borrowings less bank overdraft	4,243	9,495	(2,088)	401
	(28,219)	(36,747)	(15,031)	(27,000)
	(23,976)	(27,252)	(17,119)	(26,599)

35. Capital commitments

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Capital expenditure contracted for but not provided in the financial statements	5,727	2,816	-	-

36. Contingent liabilities

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

37. Financial commitments

Operating leases

At 31 December 2008, there were annual commitments under non-cancellable operating leases as follows:

	2008 Land and buildings £'000	2008 Other £'000	2007 Land and buildings £'000	2007 Other £'000
Group				
Expiring within one year	220	130	193	87
Expiring after more than one year and less than five years	64	506	9	508
Expiring after more than five years	-	3	-	-
	284	639	202	595
Company				
Expiring within one year	-	-	-	10

38. Related party transactions

The group had no related party transactions, other than key management compensation as mentioned in note 7. Related party transactions carried out by the company during the year ended 31 December 2008 were as follows:

	2008 £'000	2007 £'000
Sale of services to subsidiary undertakings	1,730	1,735
Purchase of services from subsidiary undertakings	301	236
Interest received from subsidiary undertakings	1,110	1,020
Interest paid to subsidiary undertakings	81	449
Payment received from subsidiary undertakings for surrender of tax losses	306	1,038
Additional investment in subsidiary undertakings	-	9,150
Balances at 31 December arising from transactions with subsidiary undertakings:		
Receivables		
- current	536	452
- non-current	20,194	14,225
Payables:		
- current	1,467	998
- non-current	5,539	1,338

Independent auditors' report to the members of Devro plc

We have audited the group and parent company financial statements (the "financial statements") of Devro plc for the year ended 31 December 2008 which comprise the Consolidated Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Consolidated Statement of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Remuneration Report that is described as having been audited.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Business Review that is cross referred from the Review of Business section of the Directors' Report.

In addition, we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the Combined Code (2006) specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the company's or group's corporate governance procedures or its risks and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the financial statements. The other information comprises only the Directors' Report, the unaudited part of the Remuneration Report, the Chairman's Statement, the Business Review, the Corporate Governance Statement and the Corporate Social Responsibility Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 and the part of the Remuneration Report to be audited. 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 and company'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 and the part of the Remuneration Report to be audited 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 and the part of the Remuneration Report to be audited.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of affairs as at 31 December 2008 and of the profit and cash flows of the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2008 and of the cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Glasgow
23 March 2009

Notes

- The maintenance and integrity of the Devro plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Notice of Meeting

Notice is hereby given that the eighteenth Annual General Meeting ("AGM") of Devro plc ("the Company") will be held on 7 May 2009 at the Radisson SAS Hotel, 301 Argyle Street, Glasgow G2 8DL at 10.30 am for the following purposes:

- (1) To receive the Company's accounts for the year ended 31 December 2008, together with the Directors' Report and the Auditors' Report on those accounts.
- (2) To declare a final dividend for the year ended 31 December 2008.
- (3) To elect as a director Mr Peter Williams who, having been appointed by the Board since the last AGM, retires in accordance with the Articles of Association.
- (4) To re-elect as a director Mr Stuart Paterson, who retires by rotation under the provisions of the Articles of Association.
- (5) To re-appoint PricewaterhouseCoopers LLP as the Company's auditors to hold office until the conclusion of the next annual general meeting of the Company and to authorise the directors to fix their remuneration.

To consider and, if thought fit, pass the following resolutions of which Resolutions 6, 7 and 8 will be proposed as ordinary resolutions and Resolutions 9, 10 and 11 will be proposed as special resolutions:

Ordinary Resolutions

- (6) THAT the Remuneration Report contained within the Company's Report and Accounts for the year ended 31 December 2008 be and is hereby approved.
- (7) THAT the authorised share capital of the Company be increased from £22,500,000 to £27,500,000 by the creation of 50,000,000 ordinary shares of 10 pence each in the Company.
- (8) THAT in substitution for all existing authorities the directors be generally and unconditionally authorised to exercise all the powers of the Company to allot:
 - (A) relevant securities (as defined in the Companies Act 1985 (the "Act")) up to an aggregate nominal amount of £5,400,000; and
 - (B) relevant securities comprising equity securities (as defined in the Act) up to an aggregate nominal amount of £10,800,000 (such amount to be reduced by the aggregate nominal amount of relevant securities issued under paragraph (A) of this resolution 8) in connection with an offer by way of a rights issue:
 - (i) to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and
 - (ii) to holders of other equity securities as required by the rights of those securities or, subject to such rights, as the directors otherwise consider necessary, and the directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter,

such authorities to apply (unless previously renewed, varied or revoked by the Company in general meeting) until the end of the Company's next annual general meeting after this resolution is passed (or, if earlier, until the close of business on 30 June 2010) but, in each case, so that the Company may make offers and enter into agreements before the authority expires which would, or might, require relevant securities to be allotted after the authority expires and the directors may allot relevant securities under any such offer or agreement as if the authority had not expired.

Special Resolutions

- (9) THAT in substitution for all existing powers and subject to the passing of resolution 8, the directors be generally empowered to allot equity securities (as defined in the Act) for cash pursuant to the authority granted by resolution 8 and/or where the allotment constitutes an allotment of equity securities by virtue of section 94(3A) of the Act, in each case free of the restriction in section 89(1) of the Act, such power to be limited:

- (A) to the allotment of equity securities in connection with an offer of equity securities (but in the case of an allotment pursuant to the authority granted by paragraph (B) of resolution 8, such power shall be limited to the allotment of equity securities in connection with an offer by way of a rights issue only):
 - (i) to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and
 - (ii) to holders of other equity securities, as required by the rights of those securities or, subject to such rights, as the directors otherwise consider necessary,

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

- (B) to the allotment of equity securities pursuant to the authority granted by paragraph (A) of resolution 8 and/or an allotment which constitutes an allotment of equity securities by virtue of section 94(3A) of the Act (in each case otherwise than in the circumstances set out in paragraph (A) of this resolution 9) up to a nominal amount of £810,000,

such power to apply until the end of the Company's next annual general meeting after this resolution is passed (or, if earlier, until the close of business on 30 June 2010) but so that the Company may make offers and enter into agreements before the power expires which would, or might, require equity securities to be allotted after the power expires and the directors may allot equity securities under any such offer or agreement as if the power had not expired.

- (10) THAT the Company be and is hereby generally and unconditionally authorised for the purpose of section 166 of the Act to make one or more market purchases (within the meaning of section 163(3) of the Act) on the London Stock Exchange of ordinary shares of 10 pence each in the capital of the Company ("Ordinary Shares") provided that:

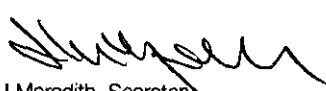
Notice of Meeting

continued

- (a) the maximum aggregate number of Ordinary Shares hereby authorised to be purchased is 16,000,000 (representing less than 10% of the Company's issued ordinary share capital);
- (b) the minimum price (exclusive of any expenses) which may be paid for an Ordinary Share is 10 pence, being the par value;
- (c) the maximum price (exclusive of any expenses) which may be paid for an Ordinary Share is an amount equal to not more than 5% above the average of the middle market quotations for an Ordinary Share as derived from The London Stock Exchange Daily Official List for the five business days immediately preceding the date on which that Ordinary Share is purchased;
- (d) unless previously renewed, varied or revoked, the authority hereby conferred shall expire at the conclusion of the next annual general meeting of the Company to be held in 2010 or 15 months from the date of passing this resolution whichever shall be the earlier; and
- (e) the Company may make a contract or contracts to purchase Ordinary Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority, and may make a purchase of Ordinary Shares in pursuance of any such contract or contracts.

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

By order of the Board,


J Meredith, Secretary
Moodiesburn
23 March 2009

Registered Office:
Moodiesburn,
Chryston G69 0JE

Notes

1. A member of the Company entitled to attend and vote at the AGM is entitled to appoint a proxy to exercise all or any of his rights to attend, speak and vote at a general meeting of the Company. A member may appoint more than one proxy, provided that each proxy is appointed to exercise the rights attached to different shares. A proxy need not be a member of the Company but must attend the meeting in person.
2. A person who is not a member of the Company, but has been nominated by a member of the Company (the "relevant member") to enjoy information rights, (the "nominated person") does not have a right to appoint any proxies under note 1 above. A nominated person may have a right under an agreement with the relevant member to be appointed or to have somebody else appointed as a proxy for the meeting. If a nominated person does not have such a right, or has such

a right and does not wish to exercise it, he may have a right under an agreement with the relevant member to give instructions as to the exercise of voting rights.

3. To be valid, the instrument appointing a proxy, together with the power of attorney or other authority, if any, under which it is signed (or a notarially certified copy of such power or authority) must be deposited at the office of the Company's registrars, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY, not less than 48 hours before the time fixed for holding the AGM. Completion and return of a form of proxy will not preclude shareholders from attending or voting in person at the AGM, if they wish.
4. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, eligibility to attend and vote at the AGM will be determined by reference to entries on the relevant register of members as at 6.00 pm on 5 May 2009. Changes to entries on the relevant register of members after 6.00 pm on 5 May 2009 shall be disregarded in determining the rights of any person to attend or vote at the AGM.
5. The following documents are available for inspection at the Company's registered office, Garfferry Road, Moodiesburn, Chryston, G69 0JE and at the offices of Clifford Chance LLP, 10 Upper Bank Street, London E14 5JJ during usual business hours, and will also be available at the place of the AGM from 10.00 am until the close of the meeting:
 - (a) copies of all service contracts of the Executive Directors;
 - (b) copies of all appointment letters of the Non-Executive Directors; and
 - (c) a copy of the Company's Articles of Association (under article 141 of which the directors have the benefit of a "qualifying third party indemnity provision" for the purposes of sections 237 and 238 of the Companies Act 2006).
6. At 20 March 2009 (being the last business day prior to the publication of this notice) the issued share capital of the Company consists of 162,866,277 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 20 March 2009 are 162,866,277.

Financial summary

for the year ended 31 December

	2008 £'million	2007** £'million	2006** £'million	2005 £'million	2004 £'million
Revenue	183.1	156.3	152.8	152.5	148.9
Operating profit before exceptional items*	20.6	17.7	19.7	21.6	21.9
Exceptional items	(3.5)	0.6	(1.0)	6.3	-
Operating profit*	17.1	18.3	18.7	27.9	21.9
Profit before tax	15.3	16.2	16.9	25.8	18.0
Profit after tax	12.4	12.0	12.4	18.7	12.9
Net assets	111.3	95.1	73.2	61.4	53.3
Earnings per share:					
- Basic	7.6p	7.4p	7.7p	11.5p	8.0p
- Diluted	7.6p	7.4p	7.6p	11.4p	7.9p
- Before exceptional items	8.2p	6.4p	8.1p	8.7p	8.0p
Dividends per share	4.45p	4.45p	4.45p	4.4p	4.0p
Net assets per share	68.3p	58.4p	44.9p	37.9p	33.0p

* Operating profit for the years prior to 2008 has been restated to exclude net finance income/expense on pension and post-retirement health plan assets/liabilities.

** The information for 2007 and 2006 above relates to continuing operations exclusive of the discontinued operation, BioFilm Limited, which was disposed of on 28 December 2007.

Shareholder information

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

Financial calendar

7 May 2009	Annual General Meeting
15 May 2009	Final Dividend Paid
August 2009	Half Year Results and Interim Dividend Announced
October 2009	Interim Dividend Paid
31 December 2009	Financial Year End
February 2010	2009 Results and Proposed Final Dividend Announced

Dividends

The final dividend will be paid on 15 May 2009 to shareholders on the register at close of business on 17 April 2009.

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).

Dividend Reinvestment Plan

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

Payment of dividends in foreign currency

The company's registrar offers a Global Payment Service, which allows you to receive your dividends directly into your bank account in your local currency. Interested parties can view terms and register at www.computershare.com/uk/investors/GPS or contact the registrar by telephone on +44 (0) 870 889 3229.

Shareholder enquiries

For all share registration and dividend mandate enquiries contact:

For other shareholder enquiries contact:

The Registrar
Computershare Investor Services PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol
BS99 7NH
Telephone - 0870 702 0010

Company Secretary
Devro plc
Moodiesburn
Chryston
G69 0JE

Telephone - 01236 879191

Website

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

Directors and advisers

Executive Directors

P W B Page

P C Williams (Appointed 1 May 2008)

Non-Executive Directors

P A Barrett OBE

P A J Neep

S R Paterson

Company Secretary and registered office

J Meredith

Moodiesburn

CHRYSTON

G69 0JE

Registered Number: SC129785

Independent auditors

PricewaterhouseCoopers LLP

Kintyre House

209 West George Street

GLASGOW

G2 2LW

Solicitors

Clifford Chance LLP

10 Upper Bank Street

Canary Wharf

LONDON

E14 5JJ

Financial advisers

Hawkpoint Partners Limited

4 Great St Helens

LONDON

EC3A 6HA

Principal bankers

Barclays Bank plc

1st Floor, Aurora Building

120 Bothwell Street

GLASGOW

G2 7JT

Clydesdale Bank PLC

Clydesdale Bank Plaza

50 Lothian Road

EDINBURGH

EH3 9BY

Lloyds TSB Scotland plc

Henry Duncan House

120 George Street

EDINBURGH

EH2 4LH

Stockbrokers

Investec Securities

2 Gresham Street

LONDON

EC2V 7QP

Registrars

Computershare Investor Services PLC

PO Box 82

The Pavilions

Bridgwater Road

BRISTOL

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Designed and produced by corporatepm, Edinburgh and London. www.corporatepm.co.uk



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