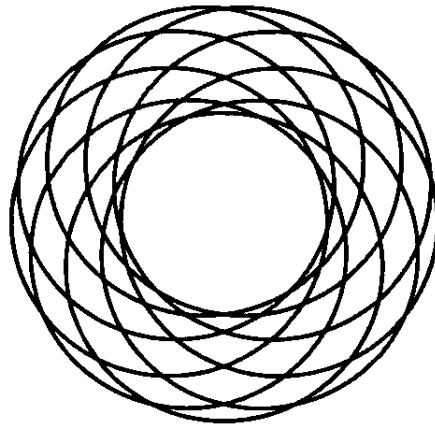


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Devro plc Annual Report & Accounts 2011

Our business

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

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

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

Devro plc was listed on the London Stock Exchange in June 1993. The shares are 100% free-float, with approximately 6,000 holders of a total of 165 million shares.



Scotland, UK

- ① Moodiesburn
- ② Bellshill
 - Sales
 - Manufacturing
 - Technical development
 - Head office
 - 506 employees

China

- ⑦ Hong Kong
 - Sales
 - 5 employees
- ⑧ Beijing
 - Sales
 - 6 employees

Czech Republic

- ③ Jilemnice
- ④ Slavkov
 - Sales
 - Manufacturing
 - Technical development
 - 948 employees

Japan

- ⑨ Tokyo
 - Sales
 - 6 employees

Russia

- ⑤ Moscow
 - Sales
 - 2 employees

NSW, Australia

- ⑩ Bathurst
 - Sales
 - Manufacturing
 - Technical development
 - 258 employees

South Carolina, USA

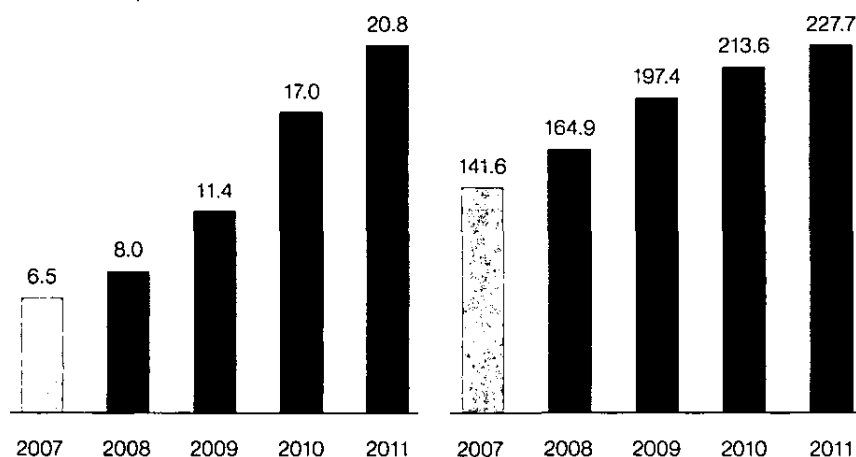
- ⑥ Sandy Run
 - Sales
 - Manufacturing
 - Technical development
 - 386 employees

New Zealand

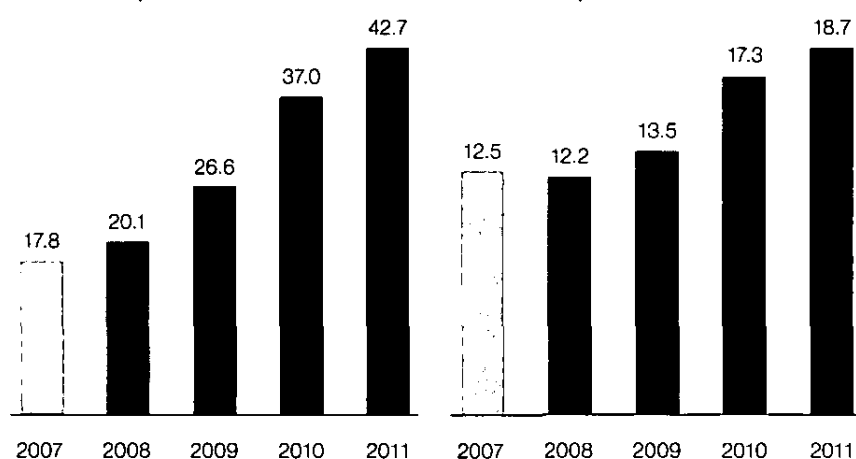
- ⑪ Auckland
 - Sales
 - 6 employees

Financial highlights

Earnings per share (pence) before exceptional items* Group revenue* (£m)



Operating profit (£m) before exceptional items* Operating profit margin (%) before exceptional items*



* continuing operations

Continuing operations	2011	2010
Dividends per share	8.0p	7.0p
Operating profit before exceptional items	£42.7m	£37.0m
– Margin	18.7%	17.3%
Exceptional items	–	£18.8m
Profit before tax	£43.0m	£54.0m
Cash generated from operations	£45.1m	£44.5m
Capital expenditure	£43.4m	£26.9m
Net debt	£22.7m	£12.2m
Gearing	16.2%	8.0%

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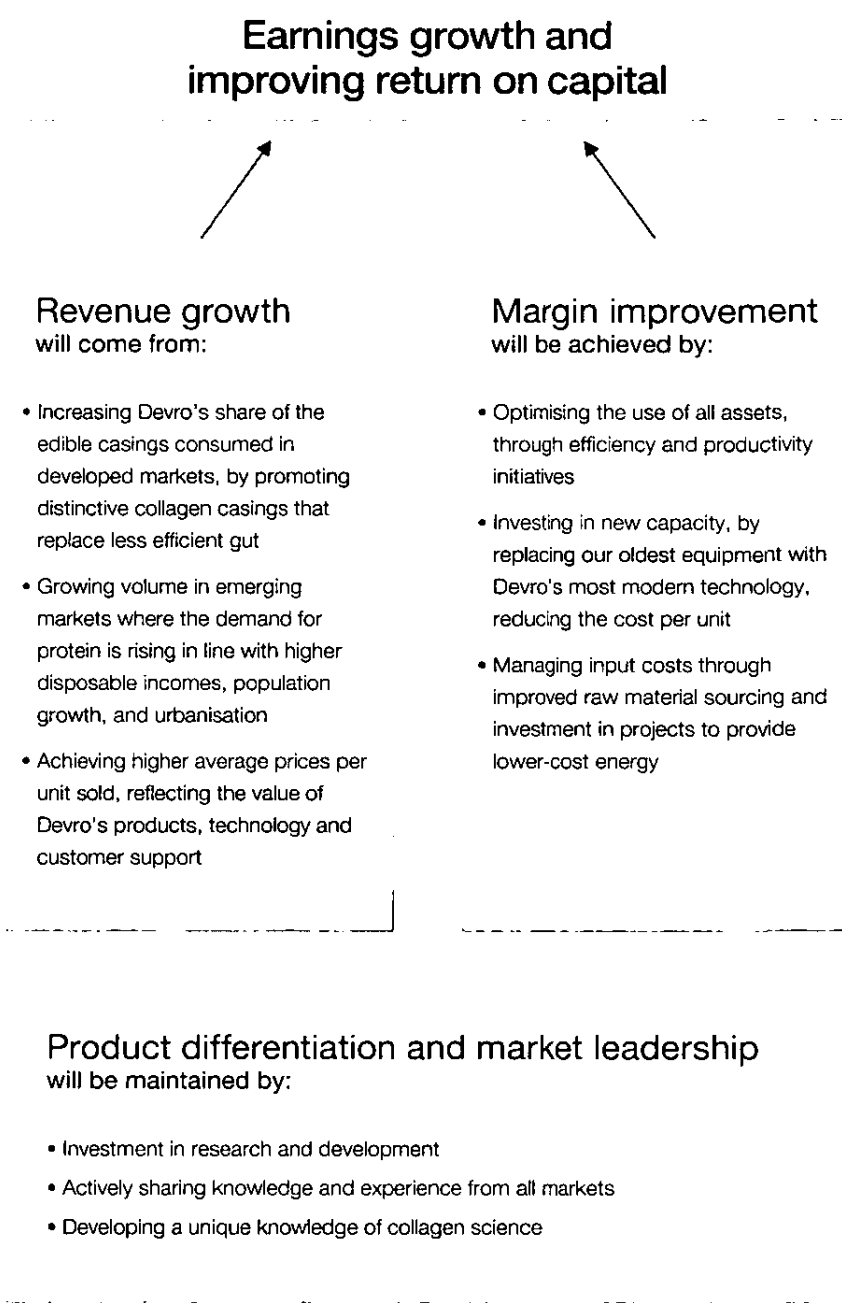
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Three part strategy

Devro's three part strategy, outlined to investors in January 2008, concentrates on the significant opportunities for edible collagen casings in the food sector.

The strategy is reviewed annually by the Board and Executive Committee of Devro plc.

Earnings growth and improving return on capital



Revenue growth will come from:

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

Margin improvement will be achieved by:

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

Product differentiation and market leadership will be maintained by:

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

Chairman's statement

Steve Hannam *Chairman*

I am delighted to report that 2011 was a year of further growth in the business, improved financial performance and significant progress with our strategy. Compared with 2010, operating profit before exceptional items increased 15.5% and strong cash flow generation enabled net debt to be kept to £22.7 million despite significant investment in capital expenditure during the year. The continued strong performance has allowed the Board to recommend a final dividend of 5.5 pence per share, bringing the full year dividend to 8.0 pence per share, a 14.3% increase.

Financial highlights

On a continuing operations basis revenue was £227.7 million in 2011 (2010: £213.6 million), an increase of 6.6%. The performance in the second half of the year showed an improvement over the first half with revenue growing by 10.6% in H2 compared to 2.4% in H1. Growth in sales to Russia and Eastern Europe and the success of *Select* in Japan and Europe have particularly contributed to this continued improvement.

Operating profit before exceptional items increased by 15.5% to £42.7 million (2010: £37.0 million). The operating margin increased from 17.3% to 18.7% which reflects our focus on higher value sales and more efficient manufacturing.

Basic earnings per share was 20.8 pence, up by 22.4% compared with 17.0 pence in 2010 (excluding exceptional gains).

As expected, net debt rose to £22.7 million at the end of 2011 (2010: £12.2 million) due to significant capital expenditure in 2011.

The business renegotiated its banking facilities in September 2011 and has new 5 year revolving facilities of £51 million.

Discontinued operation refers to the sale of Devro GmbH which was completed on 30 September 2011.

Profit before tax and exceptionals rose by 22.4% to £43.0 million (2010: £35.2 million). In 2010 there was an exceptional gain of £18.8 million due to changes to the UK pension scheme.

Dividend

The Board is proposing a final dividend of 5.5 pence per share (2010: 5.0 pence), bringing the total for the year to 8.0 pence per share (2010: 7.0 pence). The dividend will be paid on 4 May 2012 to those on the register on 30 March 2012. The increase in the dividend reflects the Board's confidence in the group and its financial strength.

The Board retains its policy of reviewing the amount distributed annually with the intent

of moving dividends in line with underlying earnings, whilst taking into account the future prospects and cash requirements of the business.

Business

The global market for collagen casings continues to grow, driven by economic expansion and increased meat consumption in emerging markets. High sheep gut prices and limited availability are also providing more opportunities in developed markets for substitution by collagen casing.

Our *Select* range of products, which was launched last year specifically to replace sheep gut in premium sausages, has made excellent progress in Japan and Northern Europe. Sales have increased month by month and represented 4.3% of total sales in 2011. Additional trials are under way and *Select* presents an excellent opportunity for further growth in 2012.

In developing markets, we saw further good sales growth in Latin America, Eastern Europe and Russia. During the year the sales team in Hong Kong was strengthened and a representative office was opened in Beijing. The increased focus has already produced higher sales in South East Asia and a number of customer trials are underway in China.

The year was very much one of two halves with earthquakes, floods and severe weather affecting the markets and production performance in several regions in the first half. These were not a factor in the second half and the business had a strong finish to the year. Yield improvement and cost reduction programmes have continued to produce benefits and each of our sites has been accredited to FS22000, the new global standard for food hygiene management.

To concentrate further on our core business of collagen casings and to strengthen sales activities in Europe, Devro GmbH was sold to ViskoTeepak Holdings Ab Ltd on 30 September 2011. This disposal will improve group margins by virtually eliminating future sales of low margin distributed products.

Chairman's statement continued

Capital expenditure

2011 was a significant year for capital projects with total expenditure of £43.4 million.

The majority of the expenditure has been on replacing old manufacturing lines in Scotland with our latest high speed lines and preparing an older manufacturing building in the Czech Republic for line replacement through 2012. The full benefit of this will be available in 2013.

During the year we have also installed a high speed line in the USA. This has been commissioned and is currently trialling products suited to the Americas region. If successful, we would have the opportunity to upgrade our USA production with these lines.

This approach of replacing older lines with more efficient modern lines is cost effective and low risk. Projects are justified on the cost savings made on existing volumes, whilst providing additional volumes at low cost.

Two other investments that were successfully completed during the year include the project to convert Devro to a single ERP system. This well managed project will now allow us to build on our base systems to provide real time management and financial information.

In Australia a natural gas powered co-generation plant has been installed which will reduce energy costs and carbon emissions.

Safety

The Board has continued to place a considerable emphasis on safety with the Health and Safety Committee having regular direct contact with the Safety Committees at each of our sites. During visits to two sites the whole Board participated in behavioural audits. There is great commitment to safety across the group and during the year we operated without lost day incidents for periods of up to six months. It therefore continues to be disappointing that a number of small incidents resulted in 287 lost days, albeit a substantial improvement on last year.

Employees

The rate of growth and change in the group requires the continuing commitment and flexibility of all Devro employees. I am delighted to say that they have risen to this challenge. From locations across the globe, colleagues have worked as one team to successfully install the new ERP system. During the year we have seen manufacturing teams from the USA and Scotland spending time in the Czech Republic for training on the new production lines, and teams from the Czech Republic helping with commissioning in the USA and Scotland.

The scale of some of the capital projects carried out on sites that continue to manufacture has presented new challenges for our staff, not least in the area of safe working. Their approach to these challenges has been commendable.

A single Continental European sales organisation has been put in place to establish a uniform marketing approach and single point of contact for customers. This required changes in working practices and close contact between various parts of the group.

The Board would like to thank all the Devro team for their continuing efforts and commitment as we continue to raise our standards and create a truly global company.

Board changes

As announced last year, Simon Webb joined the Board on 17 January 2011 and took over as Group Finance Director from Peter Williams who retired on 6 April 2011.

On 28 April 2011, Paul Withers was appointed as an additional Non-Executive Director. Paul is an experienced Non-Executive Director who has a technical marketing background with considerable exposure to emerging markets, gained during his 20 years with BPB plc.

After six years with Devro, Stuart Paterson will not be standing for re-election at the Annual General Meeting on 19 April 2012. Stuart has

been Chairman of the Audit Committee during that time and both in this role, and as a director, he has made a valuable and committed contribution to the group. I would like to thank Stuart for his efforts over the years, particularly as he has held full time executive roles throughout this time.

I am delighted to say that Jane Lodge joined the Board on 1 March 2012. Until recently Jane was a senior audit partner with Deloitte, where she spent over 25 years advising global manufacturing companies. Jane will assume the post of Chair of the Audit Committee following the forthcoming Annual General Meeting, when Stuart Paterson stands down.

Our approach to Board level recruitment, following the publication of the Davies Report last year, is set out in the Corporate Governance report on pages 22 to 27.

Outlook

The fundamental growth prospects for our global markets remain encouraging. With our evolving product range and strategic capital investment programme, we are well placed to take advantage of this opportunity. The strong performance in the second half of 2011 and the continuing strength of the balance sheet give us confidence for the future.



Steve Hannam
Chairman

Business review

Peter Page *Chief Executive*

2011 is the fourth year in succession that Devro has increased operating profits before exceptional items, while also making significant capital investments in capacity for the future. The continued progress is very pleasing, with 2012 set to be another year of growth and development in line with our long-term strategy.

Sales and markets

In 2011, the global demand for edible collagen casings continued to increase, albeit with considerable variations between markets and regions. Developed markets were generally subdued, reflecting the economic situation. In emerging markets, there is long-term growth arising from increasing disposable income and urbanisation, generating stronger demand for all proteins. Current estimates indicate that the global market for collagen grew by as much as 10% in 2011, with China again making a significant contribution to this.

For Devro, with a strategy of seeking value and profitable sales, total volume growth during 2011 was 4.6%. This was largely due to the growing demand for *Select* casings, a highly innovative product introduced in 2010, specifically designed for developed markets to replace sheep gut in premium sausages. In 2011, 4.3% of Devro's edible collagen sales volume was *Select* casings.

The product development and marketing efforts that we have devoted to *Select* worldwide form the first part of our strategy to grow sales in established markets, where the total demand for sausages is not increasing but where there are still significant opportunities to replace sheep gut at good prices, especially where Devro already has well-established distribution arrangements and sales teams in place. Throughout the world, supply of top quality sheep gut was constrained in 2011, resulting in further price increases.

In Japan, retail prices of food products have been held constant and as a result this has encouraged a transition from gut to collagen. In this market Devro's total volumes increased 30% over 2010, entirely due to *Select* manufactured at our plant in Australia. Introduced to customers in January and February, the first retail product was listed with Japan's largest supermarket chain in June, and now 12 customers are regularly manufacturing products with *Select* casings from Devro. The rate of progress in this very challenging market is impressive, with several more opportunities ready to be developed in 2012 and 2013.

In Europe, *Select* casings manufactured at our Scottish and Czech plants are now being sold to over 40 customers in 13 countries, from the Baltics and Scandinavia to Russia and Ukraine. A prime objective for *Select* is to increase Devro's share of the German

market, where *Select* accounted for 29.1% of our sales during the year. We are particularly pleased that the branded Rügenwalder Mühlen-Würstchen introduced in September 2010 with *Select* casing continues to grow, whilst an innovative poultry-based wiener in *Select* has passed earlier stages of evaluation to the point where it is now distributed in more than 30 leading discount stores in southern Germany.

In the UK, strong supermarket discounting and promotion of certain segments led to a slight reduction in the share of sausages sold in collagen casings. The resultant effect on Devro's sales volumes was offset by improved UK pricing and the opportunity to export a greater proportion of our UK production to meet growing demand in other markets.

In the USA, lower disposable incomes and increased pork costs, due to high corn prices, led to a significant move from fresh sausage in edible casings to extruded, non-cased meat products as part of a low-price frozen meal. However, this was compensated for by a large beefstick manufacturer completing the transition from co-extrusion to collagen casing resulting in an increase in sales of collagen casing. Whilst this had a small, adverse impact on our sales of collagen gel used in co-extrusion, we increased sales of gel to other key accounts and we continue to be optimistic about the longer-term prospects for collagen gel as a substitute for plastic and cellulose casings.

Natural and climatic events have affected demand in some markets. Australia and New Zealand, both large markets for fresh sausage, have been adversely affected by rainfall, floods and earthquakes. Australian volumes declined slightly but in New Zealand, despite the earthquakes, Devro volume remained stable, in part attributable to the six-week Rugby World Cup.

The second part of our strategy for growth in sales is to gain volume in emerging markets where the combination of rising populations, higher disposable incomes, urbanisation, and industrialisation of food manufacturing provide real opportunities for collagen casing.

Latin American volumes and average prices continued to rise as distributors succeed in developing new accounts and in expanding existing business.

Business review continued

Eastern European sales increased significantly, in large part due to the ongoing success of FINE casings manufactured at our plant in the Czech Republic. Sales in Russia grew further, as Devro maintained a market-leading position and locally manufactured supply appeared to have been curtailed.

The overall market growth in China moderated slightly compared to the rates of expansion in the three previous years. This was due to food price inflation directly linked to higher pork prices, and also a small number of food related scares. The long-term prospects for China remain attractive. During 2011, Devro established a representative office in Beijing and strengthened the sales and technical team in Hong Kong, enabling a much higher level of activity throughout South East Asia. Volumes in Thailand, Indonesia, South Korea, Taiwan and the Philippines all benefitted from more promotional and technical activity. Although 2011 sales volumes in China were very limited, Devro products have been introduced to, and trialled at, all of the leading sausage manufacturers, with a view to developing business in 2012 and 2013.

The third part of our strategy for sales growth is to achieve higher average prices per unit of edible collagen sold. In 2011, the average price increased 4.2%, as a result of several factors, including the higher proportion of *Select* in our total sales, a continuing shift in the mix of markets, products, and customers, and negotiated price increases with customers and distributors. We are acutely aware of the cost pressures faced by our customers, and always seek to find ways of adding value in proportion to any cost increases resulting from price rises.

Devro has a diverse product portfolio. Among various changes in the product mix, it is worth noting that 3.2% of 2011 edible collagen sales came from "gut conversions" achieved in 2009 and 2010, and a further 3.9% of sales volumes in 2011 came from gut conversions achieved during the past year.

Operations and manufacturing

2011 was a challenging time for Devro's manufacturing operations, with extreme weather-related events in the early part of the year, and a large amount of engineering

and installation work at all sites. Overall, our output of saleable collagen casing was unchanged from prior year, although recent capital investment projects added nearly 4% to capacity compared with 2010. Current capital investment work will add capacity in 2012 and 2013 equivalent to a further 8% of 2010's capacity in each of these two years, as previously announced.

In order to maintain margins, part of our strategy is to optimise the use of existing assets, and this is achieved by improving performance through a combination of work process activities involving operators, and modifications to remove constraints and limitations. On the former, continuous improvement projects using techniques such as 5S and Six Sigma have continued to provide benefits. Low cost capital projects in Scotland and Australia have raised productivity and reduced marginal costs on older lines. The commitment and enthusiastic involvement of so many operators and shift leaders has made these continuous improvement projects a valuable contributor to our profitability and it is greatly appreciated by the Board.

Capital expenditure of £4.6 million has been invested in a new line in the USA, using high-speed technology developed in Europe. During 2012, this installation will be developed and evaluated in anticipation of further investments.

£12 million of investment at our Bellshill factory funded the replacement of some of the oldest lines with our newest high-speed technology. The attraction of this type of modernisation investment is that it installs proven, bespoke process equipment within existing infrastructure, to be managed and operated by experienced colleagues, leading to the benefits of both lower unit costs and higher volumes of output.

At our plant in Jilemnice, in the Czech Republic, we completed substantial preparatory works so that, in 2012, the original edible casing manufacturing hall can undergo a full programme of replacement and modernisation, again with proven technology being placed within existing infrastructure.

The final part of our manufacturing strategy is to reduce unit costs. Whilst improved yields and productivity make a large

contribution to this, we are seeking any opportunity to improve in this area. During 2011, we installed a natural gas powered co-generation plant at Bathurst in Australia. This generates electricity through a turbine and generator, and provides steam for the manufacturing process. It is expected to reduce energy costs in Australia, and in reducing CO₂ emissions by 30%, it will bring our Australian operation in line with the requirements of forthcoming legislation.

Safety

My top priority is that Devro should be a safe place to work, for employees, visitors and contractors. Huge efforts by all employees have contributed to a much higher level of awareness, and I am very pleased with the progress we have made. Whilst statistics such as Lost Work Day Injury rates and Severity levels tell part of the story, our real measure is "Safe Days Worked" when no injury leading to absence from work occurs. Earlier in the year we achieved a period of 111 Safe Days, and from July to December we had a run of 163 Safe Days worked. I am very encouraged and, again, am very grateful for everyone's contribution. Personally, I keep in touch with Safety issues by accompanying Behavioural Audits whenever I visit a plant, by taking time to meet and hear from colleagues who have suffered a time-loss injury at work, and promptly receiving reports of all incidents and near-misses.

Corporate activities

There were several developments and achievements which were completed at a corporate or group level.

At the end of 2011 we introduced a new corporate identity. During 2012, this single marque will come to represent the one global company philosophy at Devro, and it will replace the four brands and logos arising from the legacy of acquisitions and past corporate developments. To support this change, Cutisin s.r.o. was renamed as Devro s.r.o. during the year as our regional business unit for Continental Europe.

Throughout 2011, many colleagues from all regions and disciplines have worked late and over weekends as they completed the upgrade and transfer to a single ERP system. Now that this is completed, work will begin in 2012 to ensure that we benefit

from faster and less complex financial reporting, better visibility and consistency of inventory data, and a single demand planning and sales forecasting system.

I am very pleased that every one of our manufacturing locations was accredited to FS22000, the new global standard for food hygiene management systems throughout the food chain. As the only collagen casings manufacturer with this demanding accreditation, it is a clear sign of Devro's commitment to providing customers and consumers with the highest possible levels of assurance in food safety.

At the end of September we completed the sale of our Hamburg-based distribution company, Devro GmbH. This business unit was a legacy from a 1990's acquisition, and as 80% of its sales revenue came from non-Devro products, it did not fit with our strategy for developed markets. We will work closely with the acquirer during a transition phase in 2012, when Devro will establish direct sales arrangements more in line with our strategy of working closely with key accounts.

Outlook

We expect 2012 will be another year of sales growth, as the *Select* projects continue in Japan and Europe, and as we increase volumes sold to emerging markets. Pricing, as always, will be a challenge, with customers under pressure from retailers, and competitors taking the opportunity to offer lower prices.

Manufacturing capacity will rise in line with recent investments and input costs should be manageable, although increases are expected, particularly in energy in the UK and Czech Republic. As always, every effort will be made to maintain margins through productivity and process improvements.

In 2012, there will be further investment in Research, Product Development, and Process Technology, in order to ensure that we continue to deliver shareholder returns in the current year and beyond.



Peter Page
Chief Executive

Financial review

Continuing basis

Following the sale of Devro GmbH on 30 September 2011, the numbers and values in the statement refer to continuing business unless stated otherwise. The results of this business contributed sales of £16.4 million and operating profit of £0.04 million in 2011 (9 months), (2010 (12 months): sales of £23.4 million and operating profit of £1.2 million).

Revenue

Reported revenue for 2011 was £227.7 million (2010: £213.6 million), representing an increase of £14.1 million, or 6.6%, over 2010. Of this increase, £6.3 million related to volume, £4.7 million to sales price and mix, and £3.1 million to foreign currency movements.

Sales revenues by product group were as follows:

Collagen casings		Other products		Total	
2011	2010	2011	2010	2011	2010
£208.1m	£191.6m	£19.6m	£22.0m	£227.7m	£213.6m

Sales volumes of edible collagen rose by 4.6% in 2011 due to the growth experienced in many of the developing markets and the continued conversion of gut to collagen in established markets.

Distributed product sales, which included cellulose and fibrous casing, are no longer shown separately as the majority of these sales were part of Devro GmbH which was sold in September 2011 as referred to above.

Other Products, which includes collagen gel, collagen film and plastic casings, showed a decline of 11% due to the conversion back to casing from co-extrusion by a large USA beefstick producer.

Year on year revenue growth between 2007 and 2011 can be further analysed as follows:

Sales mix	2011 vs 2010	2010 vs 2009	2009 vs 2008	2008 vs 2007
Volume	+3.0%	+1.4%	+3.8%	+3.0%
Price/Mix	+2.2%	+4.2%	+5.7%	+4.3%
Exchange	+1.4%	+2.6%	+10.2%	+9.1%
Total	+6.6%	+8.2%	+19.7%	+16.4%

Sales volumes increased overall, but there were significant movements between markets. Pricing and sales mix improved again in 2011, reflecting underlying price increases and a change in mix to higher value customers, products and markets.

2011 revenue growth by geographical region compared to 2010 can be analysed as follows:

Region	2011	Volume	Price/Mix	Exchange	Total
Europe	£8.5m	+3.3%	+3.2%	+1.4%	+7.9%
Americas	£0.8m	+5.1%	0.0%	-3.4%	+1.7%
Asia/Pacific	£4.8m	-0.6%	+3.3%	+5.8%	+8.5%
Total	£14.1m	+3.0%	+2.2%	+1.4%	+6.6%

The above analysis covers all product ranges. Within this analysis, edible collagen average price increased by 4.2% including the favourable impact of exchange.

European sales increased in volume terms, and showed price growth in part due to increased sales of *Select* casing. Growth in the Americas was driven by encouraging sales in Latin America. There was also a movement back to casing from collagen gel by one large American customer. Selling prices continued to move ahead, but the adverse impact of selling lower-value products meant that the overall price/mix effect was flat. Progress in this

Simon Webb Group Finance Director

region was hampered by adverse exchange rate movement. In Asia /Pacific, there was an overall reduction in volumes, but this was limited to China and Australia, with other countries in South East Asia and Japan showing strong growth.

Operating profit

The movement between 2010 and 2011 operating profit before exceptional items can be analysed as follows:

Operating profit 2010	£37.0m
Price/Mix	+£5.1m
Volume	+£3.5m
Manufacturing	+£1.9m
Exchange	+£0.3m
Input costs	-£5.1m
Operating profit 2011	£42.7m

Price/Mix

Overall, we achieved a profit improvement of £5.1 million from higher sales prices and a better sales mix. Of this, £2.4 million resulted from actual increases in sales prices and £2.7 million from changes to customers, markets and product mix.

Volume

Profit impact of volume represents the gross margin earned on net additional sales between 2010 and 2011 by product group.

Manufacturing

We continue to invest in new equipment to improve manufacturing efficiencies and productivity. These benefits will come through in 2012 with the Bellshill lines and the USA investment coming on stream and in 2013 with the completion of the capital expenditure in the Czech Republic. These projects will also help expand capacity.

Foreign currency

Devro operates worldwide and with multiple currencies. Its major transactional exposures arise from sales in euros, US dollars and Japanese yen whereas the manufacturing costs are in Australian dollars, Czech koruna, US dollars and sterling. Translational exposures arise from the conversion of the results into sterling.

The overall impact of exchange on the results was low, showing a gain of £0.3 million compared to 2010. There was an overall translation gain of £1.4 million which reflected the strength of the Czech koruna and Australian dollar against sterling, offset by £1.1 million of transaction loss. This transactional loss was primarily due to the weakening of the euro against the Czech koruna.

Euro sales make up 30% of the group's total sales. The group holds an average of €3 million in cash and the level of euro receivables is approximately €9 million. The group's practice is to take out cash flow hedges across all currencies up to one year ahead, to mitigate the impact of future exchange rate volatility.

Input costs

Input costs rose by £5.1 million during the year, of which inflation on wages and salaries accounted for £2.3 million.

The remainder reflects increases in hide and other raw material costs as well as investments in facilities particularly in China, Hong Kong and South East Asia.

Energy cost increases in 2011 were relatively small at £0.4 million as the businesses agree their electricity contracts forward by one year wherever possible. We expect these costs to be approximately £2 million higher in 2012 in view of the rise in global energy costs reflected in contract renewals.

Financial review continued

Operating margin

Operating margin increased to 18.7% for the year, compared to 17.3% for 2010.

Analysis of results by half year

	H1			H2			TOTAL		
	2011	2010	% change	2011	2010	% change	2011	2010	% change
Sales	£107.1m	£104.6m	2.4%	£120.6m	£109.0m	10.6%	£227.7m	£213.6m	6.6%
Operating profit*	£19.5m	£17.5m	11.6%	£23.2m	£19.5m	19.0%	£42.7m	£37.0m	15.5%
% Margin	18.2%	16.7%		19.2%	17.9%		18.7%	17.3%	

*before exceptionals

The first half of the year showed a slower growth in sales, which reflected the strong comparisons in Q1 2010, particularly in China and UK, and also there was a series of natural disasters including severe weather, a tsunami in Japan and an earthquake in New Zealand. In spite of these natural events, the group successfully grew its operating margins from 16.7% to 18.2% with improved pricing and stronger mix helping this growth.

During the second half of the year, sales momentum grew strongly with *Select* contributing to an improvement in Japan and Europe, with Russia and Eastern Europe continuing to expand.

Margins further strengthened in the second half in line with the increased volumes and the positive mix effect of *Select*.

Capital investment

Capital expenditure in the year was £43.4 million. The major items of investment related to the upgrade of some lines in the Bellshill factory in Scotland, one line in USA and work on the building in Jilemnice which will house replacement lines in the Czech Republic. The benefits of the Bellshill and USA lines will come through in 2012 and the Czech investment in 2013.

Other significant expenditure included the installation of a gas co-generation plant in our factory in Bathurst, Australia at the end of December 2011. This project will help reduce the carbon emissions of the business and control future energy costs.

Wherever we invest in capital expenditure the business targets a return on capital employed sufficient to at least maintain the current return on capital presently enjoyed by Devro.

For 2012 we expect capital investments to be over £30.0 million as the group looks to continue to expand capacity and improve manufacturing facilities.

Working capital

	2011		2010 (excluding Devro GmbH)	
	£m	No of days	£m	No of days
Inventories	27.6	54	25.5	54
Trade receivables	30.8	52	27.0	46
Other receivables	4.0		3.7	
Accounts payable	(8.5)	28	(8.4)	24
Accruals and other payables	(24.7)		(22.2)	
Total	29.2		25.6	

Cash generation and optimising working capital remain a priority for Devro.

Gross inventory levels increased by 8% which reflects the building of inventory in anticipation of the work in Jilemnice in 2012 as new lines are installed.

Trade receivables increased in line with sales, with the number of days outstanding increasing due to a greater proportion of sales to Japan, where payment terms tend to be longer.

Financing

Key financial measures are as follows:

	2011	2010
Net debt	£22.7m	£12.2m
Net debt/EBITDA	0.40	0.24
Gearing	16.2%	8.0%
Return on Capital Employed (ROCE)	21.5%	21.1%

Net debt rose by £10.5 million in 2011 as a result of capital investments offset by the strong EBITDA. It is our intention to maintain a prudent level of gearing in the business in the future.

As expected, return on capital employed remained relatively flat as a result of the significant capital investment in 2011, the benefits of which will flow through in 2012 and 2013.

Interest

	2011	2010
	£m	£m
Net interest cost	(0.9)	(0.7)
Net finance income/(costs) on pension assets and liabilities	1.2	(1.1)
Total net interest	0.3	(1.8)

Total net interest was an income figure in 2011 due to the net finance income on pensions. This income is in spite of the overall gross deficit and reflects the difference between the expected returns on assets and the interest on liabilities.

In 2012, the net finance income on pensions will revert to an interest cost of £1.2m for the full year, which is more in line with the level experienced in 2010 (£1.1m cost)

Tax

The group had an effective tax rate of 20.5% for 2011 (2010: 21.6% before exceptional items).

The group continues to benefit from a lower tax rate in the Czech Republic in 2011 as a result of a local investment scheme, the benefits of which are expected to continue until at least 2015.

Earnings per share

Basic earnings per share for 2011 was 20.8 pence, up 22.4% (2010: 17.0 pence before exceptional items). This reflected the improved operating margin and the net finance income on pensions.

Dividend

With the improvement in performance, the Board is proposing an increase of 14.3% in the dividend for the year, making a final dividend of 5.5 pence per share (2010: 5.0 pence), bringing the total for the year to 8.0 pence per share (2010: 7.0 pence). This will be payable on 4 May 2012 to shareholders on the register as at 30 March 2012. Based on the proposal for the full year, dividend cover will be 2.6 times.

Financial review continued

Pensions

The group operates a number of defined benefit schemes around the world. All of these are closed to new entrants although the liabilities to existing schemes are considerable.

	2011 £m	2010 £m
Fair value of scheme assets	196.6	198.5
Present value of scheme liabilities	(242.8)	(211.9)
Net pension liabilities	(46.2)	(13.4)

During the year the value of the scheme assets was relatively stable. However, the present value of the pension liabilities increased as a result of the fall in discount rates. The UK scheme is the largest of the schemes and the discount rate decreased from 5.4% to 4.7% in 2011, generating £25 million of additional net liabilities.

In 2010, the UK scheme was restructured which has helped limit the volatility. Work is ongoing with advisers to look at developing the group pension strategy in order to manage the underlying risks.

Further additional contributions will be made to the schemes in 2012 to reduce the deficit. The results of the triennial valuation for the UK scheme as at 31 March 2011 will be concluded in the first half of 2012.

As a result of the increase in the pension deficit, the related deferred tax asset has risen to £13.8m from £5.4m in 2010.

Principal risks and uncertainties

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

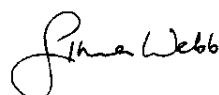
- Loss of market share/profit margins due to increased competitive pressures
- Disruption to supply and increase in price of key raw materials
- Foreign exchange rate movements
- Development of non-casing technologies
- Impact of changes in regulations affecting food production
- Increases in energy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

Going concern

The business renegotiated its banking facilities in September 2011 and has new 5 year revolving facilities of £51 million. As at 31 December 2011 it was operating comfortably within the covenants relating to these facilities.

We believe that Devro is well financed and has sufficient liquidity to fund the future requirements of the business.

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



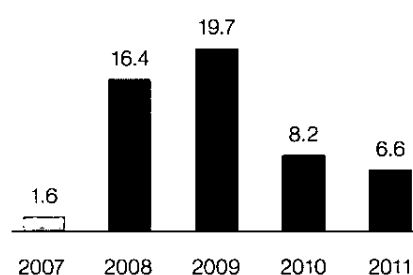
Simon Webb
Group Finance Director

Key performance indicators

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

Revenue growth*

Value growth %



A key element underpinning the group's strategy is to deliver growth in sales revenue.

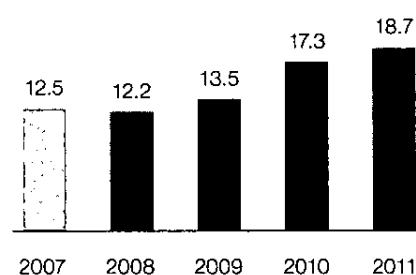
Devro sells to markets around the world from strategically located commercial operations and through an extensive network of distributors and agents.

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

- Collagen casings
- Other products

Operating margin*

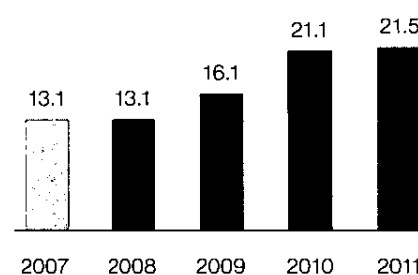
Operating profit before exceptional items %



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

Return on capital employed*

Operating profit before exceptional items / Average capital employed %

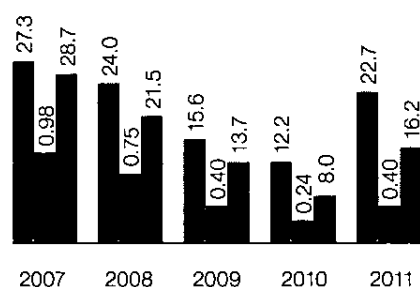


Return on capital employed (ROCE) represents operating profit before exceptional items as a percentage of average capital employed. Capital employed is defined as fixed assets plus current assets less current liabilities, excluding all balances related to interest-bearing assets and liabilities, effective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

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.

Debt*

Net Debt £m, Net Debt/EBITDA, Gearing %

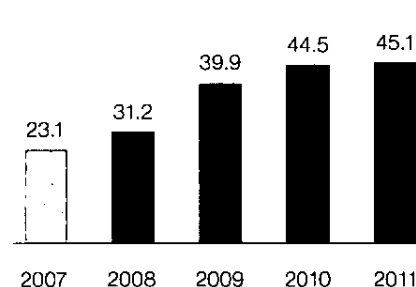


Net debt/earnings before interest, tax, depreciation and amortisation (EBITDA) measures the liquidity of the group.

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

Operating cash flow*

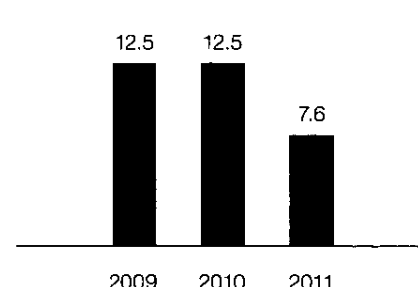
Cash generated from operations £m



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

Health and safety

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



Health and Safety matters are discussed further on pages 16 and 25 of this Annual Report. Safety performance is measured in various ways at a local level. At group level, it is measured by the rate of injuries requiring treatment by a health professional, which is calculated as the number of injuries per million hours worked.

* continuing operations

Principal risks and uncertainties

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

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

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

Details of the most significant risks faced by the group are set out on pages 14 and 15.



Risk



Impact



Mitigation

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

The group operates in competitive markets throughout the world.

A major change in the production technologies, changing attitudes on the value of animal products or on consumer behaviour, either through changes in legal requirements, could have a significant adverse effect on sales, revenue and profitability.

In addition to substantial capital investment, the group invests over £7 million in research and development activities each year to extend and differentiate the product range and improve the quality of our products. We also expand the total collagen casings market by developing products which convert gut casing applications to collagen.

Disruption to supply of key raw materials

The group's most important raw material is collagen, a naturally occurring animal protein obtained from cattle and pig hides.

There is a risk that the effect of changes in the distribution of animal products will lead to a shortage of raw materials, resulting in significant cost increases for the group's business. Raw material increases of approximately 10% of the group's total operating costs.

Changes in animal product prices or fluctuations in the feeding habits of livestock could also have an impact on the future of collagen. In turn affecting the productivity and utilisation rates of the group's manufacturing processes.

The group manages the collagen sourcing risk by, where possible, entering into long-term arrangements with several specialised suppliers in various parts of the world. We monitor developments and changes in the global abattoir and leather industries to maintain and develop appropriate relationships.

Foreign exchange rate movements

As an international business, with costs being incurred and revenues earned in several different currencies, the group is exposed to the risk of changes in the relative strengths of currencies. This risk increases in times of international economic uncertainty, such as the Eurozone crisis.

This may result in lowered margins on certain products and the sterling value of revenue from the manufacturing units of the group overseas are currently payable in currencies other than sterling.

The financial impact of exchange rate fluctuations within our operating units is mitigated by a policy of hedging a substantial portion of transactional foreign exchange risk for periods of up to fifteen months using forward contracts. The group does not hedge the risk arising from changes in the rates at which overseas earnings are translated into sterling.

Development of non-casing technologies

More than 85% of the group's revenue is derived from the manufacture and sale of edible collagen casings, primarily for sausages. For many years, several manufacturers of machinery used in the food industry have been promoting "co-extrusion" systems for sausages which do not require casings.

The group has invested in research and development to develop a co-extrusion system which would allow the group to produce sausages without the use of casings, reducing the costs of the group's operations.

The group makes substantial investments in product and process development to sustain competitive advantage.

Where there have been conversions to co-extrusion in the past, the group has often been successful in obtaining the business to supply the collagen gel required for such applications.

Impact of changes in regulations affecting food production

As a food manufacturer, the group complies with food safety regulations. The relevant regulations are not only those of the jurisdictions where products are manufactured (the European Union, the USA and Australia), but also the regulations of the many countries in which products are sold. Regulatory authorities routinely enact changes to food safety legislation.

The group is constantly aware of changes in regulations and takes steps to ensure compliance. The group has a dedicated regulatory affairs department which monitors changes in regulations and ensures that the group's products and processes are in compliance with all applicable regulations.

The Regulatory Affairs Manager actively monitors planned and actual changes to regulations in all relevant jurisdictions in order to minimise disruption to our business.

The group is a founder member of the Collagen Casings Trade Association, which represents the industry and promotes its excellent record in regulatory and health issues.

All of our manufacturing sites have achieved FS22000 approval.

Increases in energy costs

Energy represents a major element of the group's manufacturing costs, but may be subject to significant price volatility.

The group has a strong focus on measures aimed at reducing usage and cost per unit of output. An example is the investment in the co-generation plant at our Australian factory. In addition, costs are actively managed by having the capability to use different forms of energy at some of our manufacturing plants, and by entering into fixed-price contracts where these are considered appropriate. As the group replaces old fixed assets, energy consumption tends to reduce as new machines are more energy efficient.

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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 investment performance of the pension scheme assets, future bond yields, changes to assumptions about the longevity of the schemes' members, and statutory requirements.

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The position and performance of each of the pension schemes are continually monitored by the group, in conjunction with trustees and professional advisers.

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. These include not only customer risk, but also the risk of failures in the banking system and may increase in times of economic uncertainty.

The group has established internal procedures and controls to mitigate the risk of non-payment wherever we do business. For example, we require either payment in advance or confirmed letters of credit before releasing product to customers or distributors in parts of the world where we assess the risk to be high.

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Corporate social responsibility report

Being a responsible business

As a global manufacturing business, we inevitably have an impact on the wider world. We take our responsibilities to society seriously and make sure they are reflected in all our group policies. Health and Safety, the Environment, Food Safety and Quality, Human Resources – all these policies are reviewed annually and the latest versions were endorsed by the Board at the end of 2011. They are available to read on our website (www.devro.com).

Safety

Health and safety is fundamental to our operation as a manufacturing business. We believe that all accidents are preventable. Our aim is to do everything safely and we are working towards a target of zero injuries. Safety is a regular agenda item at board meetings, and the board safety committee met three times last year to review progress and hear from regional safety committees.

We focus on three main aspects of safety:

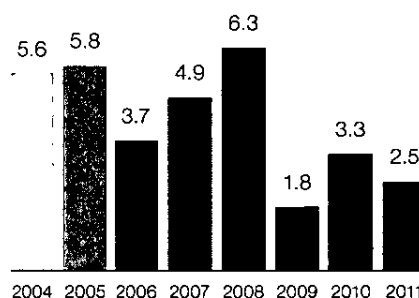
- Process safety: ensuring safe equipment and processes
- Procedural safety: ensuring that we have adequate procedures for the safe operation and maintenance of our equipment
- Behavioural safety: helping our employees to act in a safe way

We ensure process safety by means of risk assessments whenever we make any changes to our processes. Local safety procedures are now governed by our Golden Rules – a set of 15 safety standards which lay down minimum requirements across the business. We undertook a first compliance audit in 2011 and drew up improvement plans. We plan annual audits in future. We also reviewed and updated the annual safety climate survey in 2011, and we continue to make progress in this area.

We are paying particularly close attention to behavioural safety. Many of the injuries suffered by our staff during 2011 could have been prevented if individuals had chosen to behave differently. We are continuing to review and improve the way we carry out behavioural safety audits around the world.

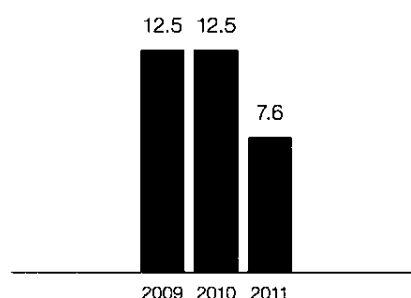
How we did in 2011

Our rate of lost working day injuries (LWDIs) rose in 2010 but fell again in 2011. However we prefer to measure our performance by looking at the number of injuries which are beyond simple first aid and require the attention of a health professional. By this measure our safety performance improved significantly. Unfortunately we also had a number of contractor/agency staff injuries on our sites in 2011. This is of concern, not least because in two cases the individual was not under our direct control and thus prevention was more difficult.



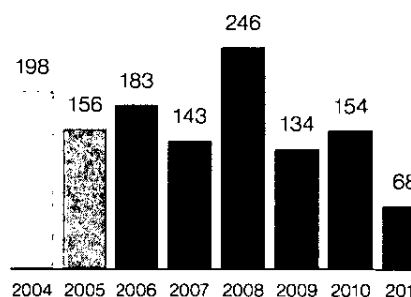
Lost working day injury rate
(injuries per million hours worked)

The rate of injuries requiring treatment by a health professional (recordable injuries) reduced significantly in 2011:



Recordable injury rate
(injuries per million hours worked)

The number of working days lost as a result of injury declined in 2011; this was our best result since we started to keep records in 2000.



Number of lost working days
per million hours worked

Environmental policy

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

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

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

We monitor three measures:

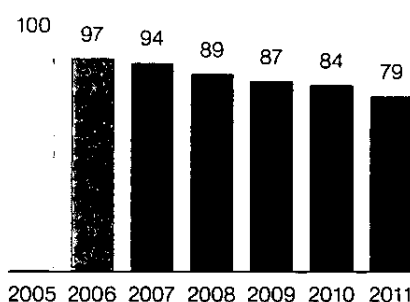
- carbon dioxide (CO₂) emissions from the use of fuels and electricity in our factories
- water consumption
- solid waste to landfill or incineration

Our major concern is climate change and the twin issues of fuel consumption and electricity-related CO₂ emissions. Our use of refrigerant gases and business travel have relatively little impact on our carbon footprint by comparison.

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

Carbon dioxide

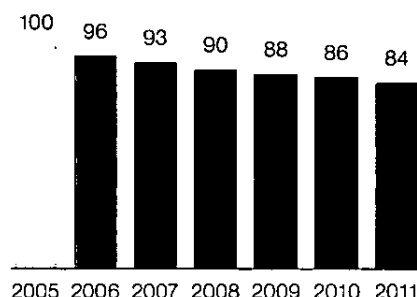
During 2011, encouragingly, we reduced our emissions per kilometre-equivalent-product by more than 5%. Not only did sales increase but emissions of carbon dioxide fell. This puts us well on the way to achieving our 2015 target.



CO₂ emissions
(tes CO₂/million metres equivalent casing sold)
2005 = 100; 2015 target = 75.6

Water

Water use is generally not a big issue on our sites, but we are still keen to reduce it whenever possible. This year, a small increase in actual usage was offset by the increase in sales, making the improvement in our measure slightly better than targeted.

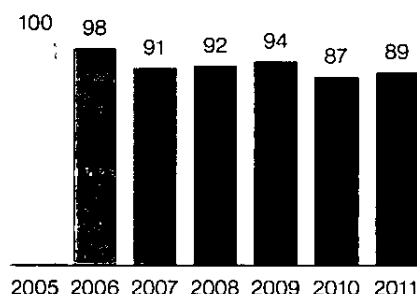


Water use
(m³ water/million metres equivalent casing sold)
2005 = 100; 2015 target = 77.6

Solid waste to landfill or incineration

Increased project activity across all four sites meant that we generated more waste in 2011 than in 2010.

The figures below do not include the silt removed from a pond in the Czech Republic, which is taken as being the responsibility of the third party operating company involved.



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

Environmental management systems

All four of our manufacturing sites developed environmental management systems during 2011. Our Czech factory then proceeded to obtain ISO 14001 registration and we will be working to achieve similar registrations on other sites.

Targets

Our 2011 performance is compared with our 2015 targets below:

	2010	2011	2015*
Carbon dioxide	84.0	79.3	75.6
Water use	86.3	83.9	77.6
Solid waste	86.7	88.8	78.0

(per million metres equivalent casing, 2005 = 100)

*2015 figures are set as a target

Here we have provided an overview of our performance and corporate approach to social responsibility over the past year. A snapshot of how we have put it into practice across the business, under the three headings of Safety, People and Environment, is available on our website.

Directors and senior management

Board

Steve Hannam (63) *Chairman*

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

Peter Page (48) *Chief Executive*

Peter has worked for 25 years in the international food and agribusiness sector, as a general manager, and as a marketing manager where he gained experience of managing the interface between technology and food manufacturers, which is relevant to Devro's situation. He held senior positions with Adnams plc and then Aviagen Group prior to joining Devro as Chief Executive in June 2007. He is Chairman of the Non-Executive Directors' Remuneration Committee.

Simon Webb (48) *Group Finance Director*

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

Jane Lodge (56) *Non-Executive Director*

Jane joined the Board on 1 March 2012. A Chartered Accountant, she was until recently a senior audit partner with Deloitte, where she spent over 25 years advising global manufacturing companies including businesses in the food and automotive sectors. Jane was the partner in charge of the UK manufacturing industry sector, where she was responsible for strategy and marketing, and was a member of the Deloitte Global Manufacturing Executive. She was a member of the CBI Manufacturing Council until 2011. Jane's extensive experience with manufacturing companies and her strategic work with Deloitte has given her a strong international business perspective. She will take over the role of Audit Committee Chairman when Stuart Paterson steps down on 19 April 2012.

Paul Neep (58) *Non-Executive Director*

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

Stuart Paterson (54) *Non-Executive Director*

Stuart joined Devro in March 2006 as a Non-Executive Director. He was recently appointed as Chief Financial Officer of Forth Ports Limited. Former roles include Finance Director of Aggreko plc and Chief Financial Officer of Johnston Press plc. This listed company experience, and qualification as a Chartered Accountant, is very relevant in his role as Chairman of the Audit Committee. Stuart will step down from the Board at the annual general meeting on 19 April 2012.

Paul Withers (55) *Non-Executive Director*

At BPB plc Paul was Group Managing Director responsible for emerging markets and group development, giving him real insights into the challenges and opportunities for growth at Devro. As a Non-Executive Director of two other listed companies, Premier Farnell plc and Hyder Consulting plc, he is able to bring experience of current thinking to Devro's Board.

Executive Committee

Mike Cooke (60) *Strategic Development Director*

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

Gordon Frame (52) *Business Director*

Gordon joined Devro in 1986. Over the past 25 years, Gordon has worked for Devro in USA, UK, Europe and Asia, and so has a broad understanding of customer applications and requirements in different situations. In 2011, Gordon moved to Hong Kong, taking responsibility for the group's activities in China and South East Asia.

Alan Kilpatrick (46) *Business Director*

Alan, a Chartered Accountant, joined Devro in 1996. He now has 16 years' experience at Devro, in both finance and general management roles at Group and Regional level. In 2011, Alan's role was expanded to cover UK and Ireland, Australasia and Japan.

Dorothy Lowry (51) *Group Human Resources Director*

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

Douglas Stewart (49) *Business Director*

Douglas has worked for Devro for 18 years in USA, UK, Asia and Australia, in roles ranging from shift manager to Regional Director, giving a real understanding of daily operational issues. In December 2005 he relocated to South Carolina to become Business Director, Americas and has responsibility for leading the group's business activities in that region.

Michal Stoczek (52) *Business Director*

Michal has worked in product development and, more recently, general management, for 27 years, bringing in-depth knowledge of collagen products and an ability for adapting and improving them. A chemical engineer, he was appointed to the Czech management team in 1997 and became a member of the Executive Committee of Devro and Business Director with responsibility for Eastern Europe in August 2006. In 2011, his remit was expanded to include all of Continental Europe and Africa.

Directors' report

The directors present their report and the audited consolidated financial statements for the year ended 31 December 2011.

Principal activities

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

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

The company's principal subsidiary undertakings and branches, including those located outside the UK, are listed in note 16 to the financial statements.

Review of business

The consolidated income statement for the year is set out on page 35. The information that fulfils the requirements of the review of business is contained in the Chairman's Statement, the Business Review, the Financial Review, the Key Performance Indicators, and the Principal Risks and Uncertainties on pages 3 to 15.

Dividends

Reflecting the improvement in the group's performance, the Board is proposing a final dividend of 5.5 pence per share (2010: 5 pence), making a total dividend for the year of 8.0 pence per share (2010: 7 pence), an increase of 14.3%. The final dividend will be payable to shareholders on the register as at 30 March 2012. Based on the proposal for the full year, dividend cover excluding exceptional items will be 2.6 times.

Share capital

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

The company had 165,008,564 shares in issue at 31 December 2011 (2010: 163,609,007) as shown in note 26 to the financial statements.

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

Share schemes

Details of share scheme awards granted but not exercised or lapsed at 31 December 2011 are shown in note 27 to the financial statements.

Research and development

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

Directors

The names and brief biographical details of the directors of the company at the date of this report are set out on page 18. Mr S C Webb was appointed as a director on 17 January 2011. Mr P C Williams retired on 6 April 2011. Mr P N Withers was appointed as a director on 28 April 2011. Ms J A Lodge was appointed as a director on 1 March 2012.

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

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

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

The interests of the directors in the share capital of the company are shown on page 34.

Charitable and political contributions

The contributions made by the group during the year for charitable purposes amounted to £58,000 (2010: £54,000). The contributions were mainly made to charities where the group's operations are based and can be analysed as follows:-

	2011	2010
	£	£
Local community groups	38,000	29,000
Schools and colleges	13,000	11,000
Health care and medical research	7,000	14,000
	58,000	54,000

There were no contributions for political purposes (2010: £nil).

Employees

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

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

Policy on payment of suppliers

The group agrees terms and conditions with suppliers before business takes place. The group's policy is to pay agreed invoices in accordance with the terms of payment. At 31 December 2011, the amount owed to trade creditors by the company was equivalent to 34 days of purchases from suppliers (2010: 40 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 plans contain provisions relating to a change of control. Outstanding awards may become exercisable, subject to the rules of the relevant schemes.

Annual General Meeting ("AGM")

The AGM of the company will be held on 19 April 2012 at 10.00am at the Balmoral Hotel, 1 Princes Street, Edinburgh, EH2 2EQ. The Notice of Meeting is set out on pages 84 to 86. In addition to the ordinary business of the meeting under items 1 to 9, shareholders will be asked for their approval of other items of business which are explained in the notes on page 83. These notes form part of this directors' report and are incorporated into it by cross-reference.

Independent auditors and disclosure of information to auditors

In the case of each person who is a director at the date of approval of this report, each director is satisfied that the auditors are aware of all information relevant to the audit of the group's financial statements for the year ended 31 December 2011 and that they have taken all the steps necessary to make themselves aware of the relevant audit information and to establish that the auditors are aware of that information.

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

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:-

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the

financial position of the company and the group and enable them to ensure that the financial statements and the directors' remuneration report comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS 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 company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' statement pursuant to the Disclosure and Transparency Rules

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

- the financial statements, prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the group and company; and
- the 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 group, together with a description of the principal risks and uncertainties that they face.

The directors are responsible for the maintenance and integrity of the group website www.devro.com.

Corporate governance

The company's statement on corporate governance can be found in the corporate governance report on pages 22 to 27 of these financial statements. The corporate governance report forms part of this directors' report and is incorporated into it by cross-reference.

Substantial shareholdings

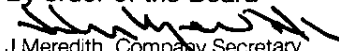
At 2 March 2012, the company had been notified of the following material interests in the issued ordinary share capital of the company:

	Number of ordinary shares	Percentage (%) of issued capital
Artemis Investment Management Ltd	19,839,514	12.02
Marathon Asset Management	16,229,594 ¹	9.84
Schroder Investment Management	11,730,295 ²	7.11
Standard Life Investments Ltd	9,846,038	5.97
Legal and General Investment Management	5,905,801	3.58

¹ In respect of 3,044,557 ordinary shares, the voting rights are not exercised by Marathon

² In respect of 2,210,201 ordinary shares, the voting rights are not exercised by Schroder

By order of the Board


J Meredith, Company Secretary
12 March 2012

Corporate governance report

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

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

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

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

S J Hannam
Chairman
12 March 2012

From 1 January 2011, the company applied the 2010 UK Corporate Governance Code (the "Code").

1. Board composition

Mr S J Hannam, 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 2011. Mr P C Williams, former Finance Director, retired on 6 April 2011 and Mr S C Webb joined the Board on 17 January 2011, taking over as Finance Director upon Mr P C Williams' retirement. Mr P N Withers and Ms J A Lodge joined the Board as Non-Executive Directors on 28 April 2011 and 1 March 2012 respectively.

The Non-Executive Directors are considered to be "independent" directors. This opinion is based primarily on careful consideration of their character and judgement and their contribution to the work of the Board and its committees. None holds any external position which would impinge upon his or her independence or objectivity, nor are there any relationships or circumstances as are envisaged by Provision B.1.1 of the Code.

Mr S R Paterson has advised the Board that, after serving as a Non-Executive Director for six years, he will not be seeking re-election at the forthcoming Annual General Meeting, and will step down at its close.

Mr P N Withers' performance has been considered since he joined the Board in April 2011. His background allows him to bring a fresh perspective to the boardroom, along with an independent and challenging approach. The Board has no hesitation in putting him forward for his first formal election at the forthcoming Annual General Meeting ("AGM").

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

The Board views the Senior Independent Director's role as essentially a passive one, but acknowledges that there can be occasions where there may be a need for shareholders to convey concerns to the Board other than through the Chairman or the Chief Executive. The company's major shareholders are reminded that the Senior Independent Director is willing to meet with them if they wish.

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

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

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

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

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

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

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

Balance and diversity

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

In the course of 2011, the Board reviewed the Davies Report, setting out the case for gender diversity on Boards, and encouraging the setting of targets for female board membership. The Chairman and the Board understand the need to ensure that the balance of the Board is appropriate for the requirements of the business, and the benefits of diversity in its broadest sense are clearly understood. However, for a small Board, it is difficult to set targets for members of any particular background, and this applies to the issue of women on the Board. The Board's policy is therefore to actively encourage women to apply to join the Board whenever a vacancy exists, and the report from the Nomination Committee on page 25 sets out how this will be done. However, any appointments must ultimately be made on merit, taking account of the specific needs of the business at the relevant times, for the benefit of the company and its stakeholders.

Information flow

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

The directors are supplied with detailed papers covering the group's operating functions in advance of all Board meetings. Members of the executive management team attend and make presentations as appropriate at meetings of the Board.

A programme of strategic and other reviews, together with training provided during the year, ensures that the directors continually update their skills, knowledge and familiarity with the group's

businesses, as well as their awareness of industry, risk, legal, regulatory, financial and other developments to enable them to fulfil their role effectively on the Board and committees of the Board.

In addition, the Board arranges for its non-executive directors to visit the group's principal locations to discuss operations with local management. The Board plans to visit at least one of the group's principal locations each year, where they receive a presentation and tour of the facility. During the course of 2011, the Board visited the group's Scottish and US operations.

The directors can obtain independent professional advice at the company's expense in performance of their duties as directors, although none has done so in the period under review. In addition, all directors have access to the service of the Company Secretary, who is also responsible for ensuring that Board procedures are observed and for advising the Board on Corporate Governance matters.

Board and committee proceedings

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

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

In order to discharge these responsibilities, the Board and its committees meet on a regular basis throughout the year. In 2011, the Board held 8 meetings, including one by telephone. Full details of the Board and committee attendance are shown in the table below:

	S J Hannam	P W B Page	P A J Neep	S R Paterson	P C Williams	S C Webb	P N Withers
Board							
8 meetings	8	8	8	7	3	8	5
Audit Committee							
5 meetings	2	—	5	4	—	—	3
Executive Directors' Remuneration Committee							
5 meetings	5	—	5	4	—	—	1
Non-Executive Directors' Remuneration Committee							
2 meetings	—	2	—	—	1	1	—
Nomination Committee							
3 meetings	3	—	3	3	—	—	—
Health and Safety Committee							
3 meetings	3	3	3	—	—	—	—
Risk Committee							
4 meetings	—	3	—	—	—	4	—

Corporate governance report

continued

Mr S J Hannam resigned from the Audit Committee on 9 June 2011 in order to comply with the Code. He attended both Audit Committee meetings in the year under review up to that date.

Mr P C Williams retired on 6 April 2011.

Mr P N Withers joined the Board on 28 April 2011 and the Audit Committee and the Executive Directors' Remuneration Committee on 9 June 2011. He attended all Board and Committee meetings from the respective appointment dates.

Mr S C Webb was appointed to the Non-Executive Directors' Remuneration Committee on 29 March 2011 and attended the only meeting of that Committee in the balance of the year.

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

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

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

Board evaluation

A new formal process for evaluating the performance of the Board was introduced during the year under review. This process is conducted internally, and is based on a detailed questionnaire which is distributed to the directors for them to complete. The returns are collated confidentially by the Company Secretary and used as the basis for individual and collective discussions on the Board's performance.

The questionnaire examines the balance of the skills of the directors, the operation of the Board in practice, including its corporate governance, and the operation and content of Board meetings. The feedback received from the questionnaire is then used to identify opportunities to improve the performance of the Board, its committees and the directors.

The results of the evaluation for 2011 were discussed by the Board and, where areas for improvement were identified, actions were agreed.

The Board review to be carried out in 2012 will be externally facilitated.

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

2. Relationship with shareholders

The company communicates with institutional investors primarily 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 is willing to meet with shareholders to discuss matters such as strategy and governance and, as mentioned above, the Senior Independent Director is available in the event of shareholder concerns which cannot be addressed through the usual channels.

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

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

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

3. Directors' remuneration

Details of the level of remuneration received by the directors in 2011 are set out in the Remuneration Report on pages 28 to 34. The Board believes that the current levels of remuneration are sufficient to attract and retain the directors needed to run the company successfully, without being excessive. Base salaries for Executive Directors are reviewed against those paid for similar positions in comparable companies. Professional advice from independent advisers is sought each year in this regard by the Executive Directors' Remuneration Committee.

An explanation of the company's incentive schemes, including how these are linked to the company's strategy, is set out in the Remuneration Report. The provisions of Schedule A to the Code are applied when incentive schemes are discussed.

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

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

Mr P A J Neep chaired the Executive Directors' Remuneration Committee throughout 2011. The other members of the Committee were Mr S R Paterson and Mr S J Hannam, for the full year, and Mr P N Withers from 9 June 2011. This Committee met five times in 2011.

The Non-Executive Directors' Remuneration Committee is chaired by Mr P W B Page, with Mr P C Williams until his retirement on 6 April 2011, and Mr S C Webb from 29 March 2011. This Committee met twice in 2011.

The Remuneration Report contains a detailed statement of the remuneration of each director for 2011, including details of the company's pension policy for Executive Directors.

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

4. Report from the Audit Committee

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

Mr S R Paterson chaired the Committee throughout the year. The other members of the committee in 2011 were Mr P A J Neep for the full year, Mr S J Hannam until 9 June 2011 and Mr P N Withers from 9 June 2011. 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, the Chief Executive and the Group Risk and Control manager, as invitees. Representatives of the auditors also attend as required.

The Committee and the external auditors operate procedures to ensure that the auditors remain objective and independent. These procedures include the pre-approval of the scope of the audit by the Committee. Each year the Committee considers carefully the external auditors' independence and objectivity, taking into account the appropriate guidelines. The external auditors also report annually to the Committee on the actions they have taken to comply with professional and regulatory requirements, as well as current best practice, in order to demonstrate their independence. There are no contractual commitments restricting the Committee's choice of external auditors, and the Committee will continue to periodically review their performance.

The company's auditors, PricewaterhouseCoopers LLP, rotate the audit partner every 5 years. The current audit partner has been in position since 31 December 2007 and will rotate out of the role in 2012.

As part of the formal annual review of the independence of the auditors, the Committee also looks carefully at the level of non-audit work conducted by the auditors and the detailed safeguards which they have in place. The Committee is satisfied that there is no risk to the objectivity and independence of the external audit arising from the level of non-audit fees. The fees paid to external auditors in 2011 are set out in note 9 to the financial statements on page 50. 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.

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

5. Report from the Nomination Committee

The members of the Committee during the year were Mr S J Hannam, Mr 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 2011, the Committee met on three occasions.

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

In the course of the year under review, two Board appointments were made. The positions were open to all suitable candidates, and the eventual appointees were both identified using independent external recruitment consultants. Mr S C Webb was selected following a search for a replacement Finance Director upon Mr P C Williams' retirement. Mr P N Withers' appointment as Non-Executive Director was made after a lengthy process to identify someone with "business to business" market development experience in specific emerging markets. Candidates from diverse geographic backgrounds were actively sought, before Mr Withers emerged as the best applicant.

Following a review of the Davies Report by the Board in the course of 2011, the Committee will continue to facilitate the candidature of women for Board appointments, and recruitment consultants will be instructed to ensure that a significant proportion of any long list put forward should be women. Short lists will also be drawn up in a way which forces diversity amongst the final candidates.

In 2012, the Committee commenced a search for a new Non-Executive Director, with the ability to chair the Audit Committee. Ms J A Lodge was identified after a formal process using independent consultants. Her background as a senior audit partner with Deloitte, with twenty five years of experience advising global manufacturing companies, made her a strong candidate for the position, with the necessary recent and relevant financial experience to handle the Audit Committee role.

6. Report from the Health and Safety Committee

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

The members of the Committee during the year were Mr S J Hannam, Mr P W B Page, Mr P A Neep and Dr M H Cooke, the company's Strategic Development Director.

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

The Committee convened three times in 2011 and on each occasion met (either by telephone or in person) with representatives of the Safety Committee of one of the group's major manufacturing facilities.

Corporate governance report

continued

7. Financial reporting

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

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

8. Internal control and risk

An ongoing process is in place to identify, evaluate and manage the significant risks the group faces, which accords with the Turnbull Guidance. A Risk Committee was formed in 2010, comprising the Executive Directors and other members of the Executive Committee, as listed on pages 18 and 19. This Committee meets four times a year and is charged with reviewing risk throughout the group. As part of the process, the Group Risk and Control Manager has responsibility for the application of risk assessment procedures, including an assessment of non-financial risks across the group. Each group operating company prepares a risk assessment for its business. This involves each company preparing a report identifying the relevant risks to both current operations and future strategy, the process for managing and mitigating these risks and the means by which management might be assured that the processes are effective. A similar exercise is also conducted at group level, taking account of any significant risks identified by each of the individual operating companies. The risk assessment reports are reviewed and collated by the Risk Committee, and then the Audit Committee, before finally being considered by the Board. The system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives. The principal risks and uncertainties identified as part of the group risk assessment process and how they are managed or mitigated are summarised on pages 14 and 15.

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

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

• Financial reporting

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

• Operating controls

Financial and operational policies and procedures are set out in formal procedures manuals which are held by all Business Directors and finance staff. The latter are responsible for ensuring that all relevant staff are familiar with their content and application. All Board members, Business Directors and senior finance staff have been issued with Internal Control Guidelines.

• Treasury

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

• Internal Audit

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

• Capital investment appraisal

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

• Integrity of personnel

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

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

9. Going concern

The group's business activities, together with the factors likely to affect its future performance, are set out in the Business Review on pages 5 to 7. Details of the group's exposure to credit, interest rate and liquidity risks are outlined in note 23 to the financial statements.

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

The Board considers that the group's net debt of £22.7 million as at 31 December 2011 to be manageable, when compared to its profit before exceptional items of £34.2 million.

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

10. Share capital

The Takeover Directive disclosures regarding the company's share capital structure are included in the share capital section of the directors' report on page 20 of this report.

11. Statement on compliance

This statement, together with the Remuneration Report set out on pages 28 to 34, describes how, in respect of the year ended 31 December 2011, the company has applied the provisions and principles of corporate governance as set out in the Code. The company has complied with all the Code's provisions throughout the period in question, with two exceptions. It did not comply with Provision C.3.1, as the Chairman remained a member of the Audit Committee after the company joined the FTSE 250 index in August 2010 until he withdrew from the Committee on 9 June 2011, when Mr P N Withers replaced him. It is generally accepted that a company should have a reasonable period of time to bring practice into compliance in such circumstances.

Secondly, the company's Remuneration Committee structure does not fully comply with Provision D.2.2, as the remuneration of the Chairman is set by the Non-Executive Directors' Remuneration Committee comprising the Executive Directors, instead of by a committee of Non-Executive Directors, as proposed by the Code. The company's two-committee approach, which is more fully described and explained in the Remuneration Report, is designed to ensure that no director is involved in setting his or her own remuneration, thus avoiding any potential conflict of interest, while ensuring that the experience of the Chairman is available to the Executive Directors' Remuneration Committee. The Board believes that this arrangement is an appropriate and effective use of the available resources and is fully aligned with the spirit of the Code.

Remuneration report

Introduction

The report sets out details of individual salaries, fees, incentives and pension benefits for all the directors for the year under review.

As required by legislation, we have split the remuneration report into two parts: one that contains unaudited information and the other containing audited information. The company's auditors are required to report on the auditable part of the remuneration report and state whether in their opinion that part has been properly prepared in accordance with the Companies Act 2006.

UNAUDITED INFORMATION

Committee structure

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, recommends and approves the level and structure of remuneration for senior management. The Non-Executive Directors' Remuneration Committee, whose members are the Executive Directors, decides the level of fees paid to the Non-Executive Directors, including the Non-Executive Chairman. The directors believe that 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 2011, the Executive Directors' Remuneration Committee took advice from New Bridge Street Consultants, a firm of independent remuneration consultants appointed by the committee. 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 2011 were Mr P W B Page, Mr P C Williams until his retirement on 6 April 2011, and Mr S C Webb from 11 February 2011.

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 are set out on page 30.

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

The members of the Committee in 2011 were Mr P A J Neep (Committee Chairman), Mr S R Paterson and Mr S J Hannam for the full year, and Mr P N Withers from 9 June 2011.

The link between remuneration policy, strategy and shareholders' interests

The company's remuneration policy must enable it to attract and retain leaders with the skills, experience and drive to execute the company's business strategy within a framework which is aligned to the interests of the company's shareholders, for example, through the deferral of bonuses and the requirement to hold shares.

The Committee believes that a significant proportion of Executive Directors' remuneration should be performance related, and details are set out in the table on page 29.

Sustainable profit growth is the cornerstone of shareholder value, and the ultimate aim of the company's strategy set out on page 2. There is therefore a profit metric in both the Annual Bonus and the longer-term Performance Share Plan. This latter plan also has a target based on relative Total Shareholder Return, providing the clearest possible linkage of executive and shareholder interests.

Each year, the Committee conducts a formal review of risk in the context of remuneration, and the introduction of new "clawback" provisions, more fully described below, is a direct result of this process. A review of pay for other employees across the group is also conducted each year.

Policy changes in 2011

In February 2011, the Committee reviewed the company's two share schemes – the Devro 2003 Performance Share Plan and the Devro 2009 Deferred Share Bonus Plan – and introduced two amendments to each:

1. Participants are now required to apply for vesting of awards, and will be permitted to delay vesting of awards, generally for up to five years from the earliest vesting date.
2. The rules applying to participants who retire have been clarified in light of the UK's age discrimination legislation. Those who retire with the agreement of the company – irrespective of age – will now generally be considered eligible to apply to vest any outstanding awards to the extent that any performance condition is satisfied, and subject also (in the case of the Performance Share Plan) to the scaling-back of the level of award pro rata to any reduction in the performance period up to the date of retirement.

Clawback

The Committee has introduced clawback provisions which will apply from 2012 onwards to all Annual Bonus and Share Scheme awards made to Executive Directors and Executive Committee members.

The right to clawback will operate at the discretion of the Committee, and would arise in the following circumstances:

- Overpayment due to material misstatement of the group's results;
- Errors made in calculation of the performance condition which resulted in overpayment; and
- Gross misconduct of the executive during the relevant performance period leading to dismissal.

The right to clawback will subsist for a period of three years after the end of the relevant performance period.

Summary of remuneration arrangements for Executive Directors

Element of remuneration	How this supports the strategy	Opportunity	Explanation, including performance measures and vesting schedule
Base salary	Takes account of experience and personal contribution to group strategy. Set at a level to facilitate recruitment and retention of suitably experienced executives.	Salary at 31 December 2011 Chief Executive: £380,000 Group Finance Director: £270,000	- Reviewed annually on 1 April. - Policy is to set salaries around median. - Chief Executive's salary increased from £340,000 to £380,000 in 2011, reflecting the performance of the company and his personal contribution, while taking into account pay rates at other companies of a similar size and complexity. - Group Finance Director's salary agreed when he was recruited in January 2011.
Annual bonus	Rewards performance against specific annual financial goals which are consistent with the strategic direction of the business.	100% of salary	2011 target based 75% on underlying profit growth, measured on EBIT, and 25% on working capital management. Full details on page 31. - Clawback provisions apply from 2012 onwards. 2012 targets based on profit growth and operating cash flow.
The Devro 2009 Deferred Share Bonus Plan	Aligns the interest of executives and shareholders, and provides a retention tool for key executives.	Any element of bonus above 50% is deferred into shares.	- Shares normally vest in three years' time subject to continued employment. - No additional performance conditions, as Annual Bonus awards required to qualify are stretching. - In 2012, clawback provisions introduced.
The Devro 2003 Performance Share Plan	Aims to incentivise and reward long term value creation using three-year or four-year EPS and TSR metrics.	Annual awards equivalent to 100% of salary but with scope for higher awards in recruitment situations.	Awards in 2011 targeted as follows: 50% based on EPS growth, no vesting unless growth outstrips RPI by 3% per annum, with full vesting requiring growth to exceed RPI by 12% per annum. 50% based on TSR performance versus a comparator group of the 100 listed companies (excluding Investment Trusts) closest to the company in terms of market capitalisation (i.e. 50 higher and 50 lower), no vesting below median, and full vesting requiring upper quintile ranking. - Three-year or four-year performance period (see table on page 33). - Clawback provisions introduced from 2012 onwards. - Performance assessed by Committee after performance period has elapsed, on the basis of audited results for EPS, and externally reviewed TSR.

Policy on contracts of service

Non-Executive Directors 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.

The service contracts of the Executive Directors include a provision that employment may be terminated by the company on one year's notice. Due to the technical nature of the business, the Executive

Directors' service contracts contain restrictive covenants. None of the contracts provides for specific contractual termination payments.

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. The Committee has reviewed the level of compensation which would be payable under the Executive Directors' service agreements in the event of termination.

Remuneration report

continued

Details of the service contracts of the directors in position as at 31 December 2011 are as follows

Director	Date of initial contract	Date term due to expire	Notice period
S J Hannam	6 April 2009	AGM 2015	n/a
P W B Page	25 April 2007	n/a	12 months
P A J Neep	5 February 2005	AGM 2014	n/a
S J Paterson	7 March 2006	AGM 2012	n/a
S C Webb	14 January 2011	n/a	12 months
P N Withers	12 April 2011	11 April 2014	n/a

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. The extent of the Executive Directors' compliance with the share ownership guidelines is set out in the table below:

Director	Number of shares held by director and immediate family as at 31 December 2011	Share ownership as a percentage of salary as at 31 December 2011	Number of shares eligible for vesting under share schemes, but unexercised
P W B Page	396,719	269%	375,000
S C Webb	10,000	9%	0

External directorships

Neither of the Executive Directors has any external paid directorships.

Performance graph

The graph below shows the value, by 31 December 2011, of £100 invested in Devro plc's shares on 31 December 2006 compared with the value of £100 invested in both the FTSE Small Cap Index and the FTSE 250 Index (both excluding Investment Trusts). In the opinion of the directors, comparing Devro's TSR against both indices is appropriate because Devro is a constituent of the FTSE 250 Index following its promotion from the FTSE Small Cap Index in August 2010. General FTSE indices have been used as the number of comparable UK listed food producers is too small to form a sufficiently broad-based index for this purpose. Under legislative requirements, the graph shows the total shareholder return over the last five years.

Mr P C Williams' leaving arrangements

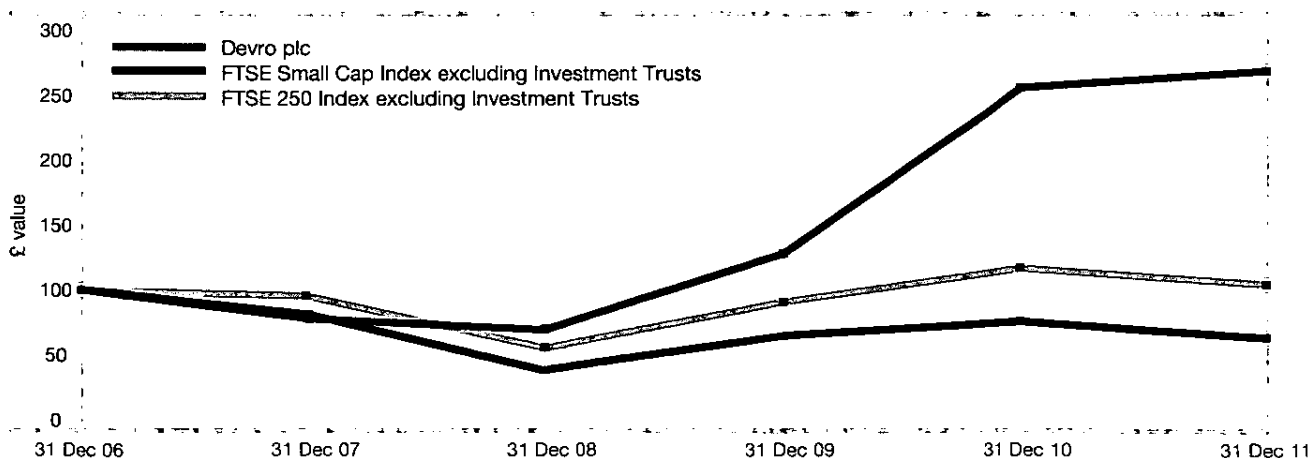
The company agreed with Mr P C Williams, the former Group Finance Director, that he would retire on 6 April 2011. As a retiree he was entitled to apply for the vesting of any bonuses earned in previous years, but deferred into shares under the Devro 2009 Deferred Share Bonus Plans. He was also entitled to any awards granted to him under the Devro 2003 Performance Share Plan, subject to the awards being scaled back on account of the shortened performance period to the date of retirement, and to the extent that the relevant performance conditions had been met up to that date.

As the timing of his retirement was dictated by the company, taking account the need to recruit and induct a suitable successor, it was agreed that Mr Williams would work until 6 April 2011 and would then receive £143,333 being a payment in lieu of the 12 months' notice to which he was entitled under the terms of his service agreement. An additional pension contribution of 10% of this sum (£14,333) was also paid. Full details are set out in the table on page 31.

Performance graph

Total shareholder return

Source: Thomson Financial



This graph shows the value, by 31 December 2011, of £100 invested in Devro plc on 31 December 2006 compared with the value of £100 invested in the FTSE Small Cap Index excluding Investment Trusts and the FTSE 250 Index excluding Investment Trusts. The other points plotted are the values at intervening financial year-ends.

AUDITED INFORMATION

The following information has been audited by the company's auditors, PricewaterhouseCoopers LLP, as required by Schedule 8 to Statutory Instrument 2008/410.

Company pensions policy regarding Executive Directors

During the year, company contributions to pension schemes amounted to £36,994 (2010: £33,233) in respect of Mr P W B Page, £25,475 (2010: n/a) in respect of Mr S C Webb and £20,039 (2010: £21,240) in respect of Mr P C Williams. The contributions paid on behalf of the Executive Directors by the company amount to 10% of their respective salaries. The company provides lump sum death benefit cover of three times salary.

Directors' detailed emoluments

Details of directors' emoluments for those directors who served during the year ended 31 December 2011 were as follows:

Director	Emoluments													
	Base salaries/fees at 31 December		Base salaries/fees		Bonuses		Deferred bonuses		Other payments		Benefits in kind		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
S J Hannam	103	103	103	103	—	—	—	—	—	—	—	—	103	103
P W B Page ¹	380	340	370	332	153	170	—	170	—	—	1	1	524	673
P A J Neep	41	41	41	41	—	—	—	—	—	—	—	—	41	41
S R Paterson	41	41	41	41	—	—	—	—	—	—	—	—	41	41
P C Williams ²	—	215	57	213	—	108	—	107	143	—	1	1	201	429
S C Webb ³	270	—	259	—	105	—	—	—	45	—	1	—	410	—
P N Withers	39	—	26	—	—	—	—	—	—	—	—	—	26	—
TOTAL			897	730	258	278	—	277	188	—	3	2	1,346	1,287

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

2 A payment of £143,333 was made to Mr P C Williams on his leaving the company, being a payment in lieu of notice. He also received medical insurance.

3 Benefits in kind for Mr S C Webb relate to medical insurance. He also received accommodation and travel expenses shown in the "Other payments" column.

The bonuses for 2011 disclosed in the table above were calculated on the following targets:

EBIT targets (before exceptional items)	Bonus payable as a percentage of base salary
Below £41.5 million	0%
£41.5 million	18.75%
£41.5 million - £43.1 million	Pro rata 18.75% - 46.875%
£43.1 million - £46.5 million	Pro rata 46.875% - 75%
At or above £46.5 million	75%
2011 EBIT	£42.73 million
Bonus approved	40.37%
Working capital targets	Bonus payable as a percentage of base salary
Sum of trade receivables and inventories (averaged)	
Above £58 million	Nil
£58 million	5%
£56 million - £58 million	Pro rata 5% - 25%
Below £56 million	25%
2011 Sum of trade receivables and inventories	£60.1 million
Bonus approved	0%

Remuneration report

continued

The Devro 2003 Performance Share Plan

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

Director	Date awarded	Market value at date of award (pence per share)	Market value at date of vesting of shares (pence per share)	Number of shares held at 1 January 2011	Number of shares awarded during year	Number of shares vested during year	Number of shares lapsed during year	Number of shares held at 31 December 2011	Earliest normal vesting date
P W B Page	28 March 2008	80.5	—	375,000	—	—	—	375,000	28 March 2011
	19 March 2009	86.75	—	342,000	—	—	—	342,000	19 March 2012
	24 March 2010	164.5	—	187,000	—	—	—	187,000	24 March 2013
	29 March 2011	287.8	—	—	120,000	—	—	120,000	29 March 2014
S C Webb ¹	24 February 2011	256.6	—	—	103,846	—	—	103,846	24 February 2014
	24 February 2011	256.6	—	—	103,846	—	—	103,846	24 February 2015
P C Williams ²	1 May 2008	83.25	294.3	245,390	—	(245,390)	—	—	1 May 2011
	19 March 2009	86.75	294.3	226,000	—	(169,500)	(56,500)	—	19 March 2012
	24 March 2010	164.5	294.3	124,000	—	(51,667)	(72,333)	—	24 March 2013

1 Mr S C Webb was awarded two tranches under the Devro 2003 Performance Share Plan, as part of his recruitment arrangements. One of the awards is for the usual 3-year performance period, and the other for a 4-year period, with the targets extended pro rata.

2 The early vesting and scaling back of these awards is explained in the section on Mr P C Williams' leaving arrangements on page 30.

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

The awards made in 2011 were granted as nil-priced options. Previous awards were granted in the form of conditional entitlements.

EPS Growth above RPI during the performance period	Performance shares vesting percentage
For 3 year performance period	
Below 9%	0%
9%	15%
9% - 36%	Pro rata 15% - 50%
At or above 36%	50%
For 4 year performance period	
Below 12%	0%
12%	15%
12% - 48%	Pro rata 15% - 50%
At or above 48%	50%
TSR ranking relative to comparator group	Performance shares vesting percentage
Below median	0%
Median	15%
Between median and upper quintile	Pro rata 15% - 50%
Upper quintile or above	50%

All awards made between 2008 and 2010 shown in the table on page 32 were subject to a three year performance period, and the targets were as above, save that the TSR performance was measured against a comparator group consisting of the companies in the FTSE Small Cap Index, excluding Investment Trusts.

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

The Devro 2009 Deferred Share Bonus Plan

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

Director	Date awarded	Market value at date of award (pence per share)	Market value at date of vesting of shares (pence per share)	Number of shares held at 1 January 2011	Number of shares awarded during year	Number of shares vested during year	Number of shares lapsed during year	Number of shares held at 31 December 2011	Earliest normal vesting date
P W B Page	4 March 2010	173.0	—	89,415	—	—	—	89,415	14 March 2013
	9 March 2011	287.0	—	—	58,025	—	—	58,025	9 March 2014
P C Williams ¹	25 March 2009	90.25	294.3	39,560	—	(39,560)	—	—	25 March 2012 ¹
	4 March 2010	173.0	294.3	59,142	—	(59,142)	—	—	4 March 2013 ¹

¹ These awards vested early on Mr P C Williams' retirement, as explained more fully in the note on page 30.

Remuneration report

continued

The awards made in 2009 and 2010 were granted in the form of conditional entitlements. The awards made in 2011 were granted as nil-priced options. No performance conditions apply to these awards, all of which were made in respect of past performance. Changes to the rules of the Devro 2009 Deferred Share Bonus Plan are described in the note on page 28 and incorporated into this section by cross-reference.

The market price of the company's shares at the end of the financial year was 257.8p. The range of market prices during the year was between 223.5p and 296.9p.

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

Director	Total number of ordinary shares 1 January 2011	Shares acquired during year	Total number of ordinary shares 31 December 2011	Performance Share Plan 1 January 2011	Performance Share Plan 31 December 2011	Deferred Share Bonus Plan 1 January 2011	Deferred Share Bonus Plan 31 December 2011
S J Hannam	132,690	78,338	211,028	—	—	—	—
P W B Page	392,757	3,962	396,719	904,000	1,024,000	89,415	147,440
P A J Neep	187,523	15,970	203,493	—	—	—	—
S R Paterson	65,000	5,000	70,000	—	—	—	—
S C Webb ¹	N/A	10,000	10,000	N/A	207,692	—	—
P C Williams ²	140,000	N/A	N/A	595,390	N/A	98,702	N/A
P N Withers ³	N/A	45,000	45,000	—	—	—	—

1 Mr S C Webb joined the company on 17 January 2011.

2 Mr P C Williams retired on 6 April 2011.

3 Mr P N Withers joined the company on 28 April 2011.

Dealings of the directors (and their immediate families) in the share capital of the company (ordinary shares of 10p each) in the period after 31 December 2011 to the date of this report are as follows:

Director	Nature of dealing	Date of dealing	Number of shares
P A J Neep	Purchase	22 February 2012	6,800

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 2011, amounted to 1,098,557 ordinary shares.

On behalf of the Board

P A J Neep
Chairman
Executive Directors' Remuneration Committee
12 March 2012



Consolidated income statement

for the year ended 31 December 2011

		2011			2010 Restated*		
		Before exceptional items £'000	Exceptional items £'000	Total £'000	Before exceptional items £'000	Exceptional items £'000	Total £'000
	Note						
Continuing operations							
Revenue	2	227,723	—	227,723	213,631	—	213,631
Operating profit	3,4	42,692	—	42,692	36,971	18,851	55,822
Finance income	8	121	—	121	97	—	97
Finance costs	8	(953)	—	(953)	(782)	—	(782)
Net finance income/(costs) on pension assets and liabilities	8	1,174	—	1,174	(1,123)	—	(1,123)
Profit before tax	9	43,034	—	43,034	35,163	18,851	54,014
Taxation	10	(8,805)	—	(8,805)	(7,405)	(5,090)	(12,495)
Profit for the year from continuing operations	11	34,229	—	34,229	27,758	13,761	41,519
Discontinued operation							
(Loss)/profit for the year from discontinued operation	5	(37)	—	(37)	715	—	715
Profit for the year attributable to owners of the parent		34,192	—	34,192	28,473	13,761	42,234
Earnings per share							
Basic earnings per share							
- Continuing operations	13	20.8p	—	20.8p	17.0p	8.4p	25.4p
- Discontinued operation	13	0.0p	—	0.0p	0.4p	0.0p	0.4p
		20.8p	—	20.8p	17.4p	8.4p	25.8p
Diluted earnings per share							
- Continuing operations	13	20.5p	—	20.5p	16.7p	8.2p	24.9p
- Discontinued operation	13	0.0p	—	0.0p	0.4p	0.0p	0.4p
		20.5p	—	20.5p	17.1p	8.2p	25.3p

* The comparatives have been restated to classify Devro GmbH as a discontinued operation, reflecting the requirements of IFRS 5 'Non-current assets held for sale and discontinued operations'.

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Consolidated statement of comprehensive income

for the year ended 31 December 2011

	Note	2011 £'000	2010 £'000
Profit for the year		34,192	42,234
Other comprehensive income			
Cash flow hedges:			
- net fair value gains	30	111	1,324
- reclassified and reported in operating profit	30	(980)	(781)
- movement in deferred tax		226	(148)
Group pension schemes:			
- actuarial losses recognised	25	(38,331)	(2,077)
- movement in deferred tax	24	8,526	139
Net exchange adjustments	30	(4,997)	6,234
Other comprehensive income for the year, net of tax		(35,445)	4,691
Total comprehensive income for the year attributable to owners of the parent		(1,253)	46,925
Total comprehensive income attributable to owners of the parent arises from:			
- Continuing operations		(1,235)	46,169
- Discontinued operation		(18)	756
		(1,253)	46,925

Balance sheets

at 31 December 2011

		Group	Company		
	Note	2011 £'000	2010 £'000	2011 £'000	2010 £'000
ASSETS					
Non-current assets					
Intangible assets	14	3,678	2,549	2,581	1,338
Property, plant and equipment	15	180,215	157,024	175	112
Investments	16	—	—	138,530	138,530
Deferred tax assets	24	18,390	8,699	5	12
Trade and other receivables	18	—	—	25,182	15,777
		202,283	168,272	166,473	155,769
Current assets					
Inventories	17	27,556	28,653	—	—
Current tax assets		779	694	3,443	2,431
Trade and other receivables	18	34,820	32,791	1,120	1,195
Derivative financial instruments	23	572	996	—	187
Cash and cash equivalents	19	7,614	5,789	3,054	847
		71,341	68,923	7,617	4,660
LIABILITIES					
Current liabilities					
Borrowings	22	2,213	2,794	1,168	1,414
Derivative financial instruments	23	1,615	482	308	257
Trade and other payables	20	33,256	33,859	2,999	4,235
Current tax liabilities		3,833	3,626	—	—
		40,917	40,761	4,475	5,906
Net current assets/(liabilities)		30,424	28,162	3,142	(1,246)
Non-current liabilities					
Borrowings	22	28,103	15,172	20,847	6,623
Deferred tax liabilities	24	16,631	13,979	145	85
Retirement benefit obligations	25	46,158	13,405	—	—
Other payables	21	1,336	878	10,554	13,903
		92,228	43,434	31,546	20,611
Net assets		140,479	153,000	138,069	133,912
EQUITY					
Capital and reserves attributable to owners of the parent					
Ordinary shares	26	16,501	16,361	16,501	16,361
Share premium	29	7,642	6,773	7,642	6,773
Other reserves	30	79,917	85,607	45,996	45,901
Retained earnings	31	36,419	44,259	67,930	64,877
Total equity		140,479	153,000	138,069	133,912

The financial statements on pages 35 to 80 were approved by the Board of Directors and signed on its behalf by:-

S C Webb, Group Finance Director
12 March 2012

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Statements of changes in equity

for the year ended 31 December 2011

Group	Note	Ordinary shares £'000	Share premium £'000	Other reserves £'000	Retained earnings £'000	Total equity attributable to owners of the parent £'000
Balance at 1 January 2011		16,361	6,773	85,607	44,259	153,000
Comprehensive income						
Profit for the year		—	—	—	34,192	34,192
Other comprehensive income						
Cash flow hedges, net of tax	30	—	—	(643)	—	(643)
Retirement benefit obligations, net of tax	25,24	—	—	—	(29,805)	(29,805)
Exchange adjustments	30	—	—	(4,997)	—	(4,997)
Total other comprehensive income		—	—	(5,640)	(29,805)	(35,445)
Total comprehensive income		—	—	(5,640)	4,387	(1,253)
Transactions with owners						
Performance share plan charge	30	—	—	1,011	—	1,011
Performance share plan credit in respect of shares vested	30	—	—	(1,061)	—	(1,061)
Issue of share capital		140	869	—	—	1,009
Dividends paid	12	—	—	—	(12,227)	(12,227)
Total transactions with owners		140	869	(50)	(12,227)	(11,268)
Balance at 31 December 2011		16,501	7,642	79,917	36,419	140,479
Balance at 1 January 2010		16,287	6,097	78,690	12,997	114,071
Comprehensive income						
Profit for the year		—	—	—	42,234	42,234
Other comprehensive income						
Cash flow hedges, net of tax	30	—	—	395	—	395
Retirement benefit obligations, net of tax	25,24	—	—	—	(1,938)	(1,938)
Exchange adjustments	30	—	—	6,234	—	6,234
Total other comprehensive income		—	—	6,629	(1,938)	4,691
Total comprehensive income		—	—	6,629	40,296	46,925
Transactions with owners						
Performance share plan charge	30	—	—	1,023	—	1,023
Performance share plan credit in respect of shares vested	30	—	—	(735)	—	(735)
Issue of share capital		74	676	—	—	750
Dividends paid	12	—	—	—	(9,034)	(9,034)
Total transactions with owners		74	676	288	(9,034)	(7,996)
Balance at 31 December 2010		16,361	6,773	85,607	44,259	153,000

Statements of changes in equity

for the year ended 31 December 2011 continued

Company	Note	Ordinary shares £'000	Share premium £'000	Other reserves £'000	Retained earnings £'000	Total equity attributable to owners of the parent £'000
Balance at 1 January 2011		16,361	6,773	45,901	64,877	133,912
Comprehensive income						
Profit for the year		—	—	—	15,280	15,280
Transactions with owners						
Performance share plan charge	30	—	—	938	—	938
Performance share plan credit in respect of shares vested	30	—	—	(843)	—	(843)
Issue of share capital		140	869	—	—	1,009
Dividends paid	12	—	—	—	(12,227)	(12,227)
Total transactions with owners		140	869	95	(12,227)	(11,123)
Balance at 31 December 2011		16,501	7,642	45,996	67,930	138,069
Balance at 1 January 2010		16,287	6,097	45,547	72,173	140,104
Comprehensive income						
Profit for the year		—	—	—	1,738	1,738
Transactions with owners						
Performance share plan charge	30	—	—	868	—	868
Performance share plan credit in respect of shares vested	30	—	—	(514)	—	(514)
Issue of share capital		74	676	—	—	750
Dividends paid	12	—	—	—	(9,034)	(9,034)
Total transactions with owners		74	676	354	(9,034)	(7,930)
Balance at 31 December 2010		16,361	6,773	45,901	64,877	133,912

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Cash flow statements

for the year ended 31 December 2011

		Group		Company	
			Restated		
	Note	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Cash flows from operating activities					
Continuing operations:					
- Cash generated from operations	32	45,087	44,520	(17,855)	12,788
- Interest received		140	72	314	179
- Interest paid		(998)	(722)	(609)	(367)
- Tax paid		(5,642)	(6,957)	(82)	(71)
Discontinued operation	5	285	398	—	—
Net cash generated from/(used in) operating activities		38,872	37,311	(18,232)	12,529
Cash flows from investing activities					
Continuing operations:					
- Purchase of property, plant and equipment		(37,183)	(23,620)	(68)	(103)
- Proceeds from sale of property, plant and equipment		24	379	—	8
- Purchase of intangible assets		(1,560)	(1,239)	(1,448)	(1,120)
- Capital grants received		544	—	—	—
- Dividends received from subsidiary undertakings		—	—	19,195	5,870
- Disposal of subsidiary net of cash disposed		747	—	—	—
Discontinued operation	5	(9)	(34)	—	—
Net cash (used in)/generated from investing activities		(37,437)	(24,514)	17,679	4,655
Cash flows from financing activities					
Continuing operations:					
- Proceeds from the issue of ordinary shares		1,009	750	1,009	750
- Net borrowing/(repayment) under the loan facilities		12,931	(11,580)	14,224	(10,385)
- Dividends paid	12	(12,227)	(9,034)	(12,227)	(9,034)
Net cash generated from/(used in) financing activities		1,713	(19,864)	3,006	(18,669)
Net increase/(decrease) in cash and cash equivalents		3,148	(7,067)	2,453	(1,485)
Net cash and cash equivalents at 1 January		2,995	9,743	(567)	918
Exchange (loss)/gain on cash and cash equivalents		(742)	319	—	—
Cash and cash equivalents	19	7,614	5,789	3,054	847
Bank overdrafts		(2,213)	(2,794)	(1,168)	(1,414)
Net cash and cash equivalents at 31 December		5,401	2,995	1,886	(567)

Notes to the financial statements

for the year ended 31 December 2011

1. Accounting policies

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

Basis of preparation

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

For practical reasons, the company previously prepared its financial statements based on periods of 52 or 53 weeks. From 2011 onwards, however, the financial statements will be prepared for the period ending 31 December. The financial statements for 2011 reflect the period from 3 January 2011 to 31 December 2011 (2010: 52 week period ended 2 January 2011).

Critical estimates and judgements

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

Changes in accounting policies and disclosures

(a) New standards, amendments to standards and interpretations effective in 2011

The following new standards, amendments to standards and interpretations became mandatory for the first time during the financial year beginning 1 January 2011. They either were not relevant for the group or had no material impact on the financial statements of the group:

IAS 32 (amendment) – Financial instruments: Presentation - Classification of rights issues
IFRIC 19 – Extinguishing financial liabilities with equity instruments
IFRS 1 (amendment) – First-time adoption of IFRS – Limited exemption from comparative IFRS 7 disclosures for first-time adopters
IAS 24 (revised) – Related party disclosures
IFRIC 14 (amendment) – IAS 19 – The limit on defined benefit assets, minimum funding requirements and their interaction

Improvements to International Financial Reporting Standards 2010 was issued in May 2010. This was a collection of amendments to six standards and one interpretation.

These amendments to standards and interpretations had no impact on any statement of financial position and consequently no opening balance sheet as at 1 January 2010 has been presented.

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

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

	Effective date
IFRS 7 (amendments) – Financial instruments: Disclosures - on derecognition	1 July 2011
IFRS 1 (amendments) – First time adoption - on fixed dates and hyperinflation	1 July 2011
IAS 12 (amendment) – Income taxes - on deferred tax	1 January 2012
IAS 1 (amendment – Financial statement presentation - regarding other comprehensive income	1 July 2012
IAS 19 (amendment) – Employee benefits	1 January 2013
IFRS 9 – Financial instruments	1 January 2015
IFRS 10 – Consolidated financial statements	1 January 2013
IFRS 11 – Joint arrangements	1 January 2013
IFRS 12 – Disclosures of interests in other entities	1 January 2013
IFRS 13 – Fair value measurement	1 January 2013
IAS 27 (revised 2011) – Separate financial statements	1 January 2013
IAS 28 (revised 2011) – Associates and joint ventures	1 January 2013

It is expected that the group will adopt these standards and amendments to standards on their effective dates. The directors do not anticipate that the adoption of these standards and amendments to standards will have a material impact on the financial statements of the group.

Basis of consolidation

The consolidated financial statements include the financial statements of the company and all its subsidiary undertakings made up to 31 December 2011. 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.

Notes to the financial statements

for the year ended 31 December 2011 continued

1. Accounting policies (continued)

Basis of consolidation (continued)

The subsidiaries are entities over which the group has the power to govern the financial and operating policies. The cost of acquisition is measured as the fair value of assets given, equity instruments issued and liabilities incurred. Any identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any minority interest. Any unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Intangible assets

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

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

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

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

Intangible assets are valued at cost less accumulated amortisation.

Research and development

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

Property, plant and equipment

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

The principal lives are:

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

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

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

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

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

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

Impairment

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

Grants

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

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

Fixed asset investments

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

Leases

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

Inventories

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

1. Accounting policies (continued)

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.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges.

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

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the group's activities. Sales revenue, which is net of returns, rebates and discounts, and which excludes value added tax and sales between group companies, represents the net invoiced value of goods 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 substantively enacted by the balance sheet date.

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

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

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

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

Pension and other post-retirement benefits

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

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

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

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

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

Notes to the financial statements

for the year ended 31 December 2011 continued

1. Accounting policies (continued)

Pension and other post-retirement benefits (continued)

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

Share schemes

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

Dividends payable

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

Borrowings

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

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

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

Trade payables

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

Derivative financial instruments

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

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

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

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

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

Cash flow hedges

The group has designated 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 other comprehensive income. Gains or losses relating to any ineffective part of changes in fair value are taken immediately to the income statement. Amounts accumulated in equity are transferred to the income statement in the same period as the hedged transaction occurs, for example, when 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.

Segment reporting

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

Exceptional items

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

2. Segment information

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

The Board reviews the group's financial results on a product basis in order to assess performance and allocate resources. Operating segments have been determined accordingly. These are now as follows:

- Collagen casings, which includes the three edible collagen brands, Devro, Coria and Cutisin, and Cutisin non-edible collagen casings.
- Other products, which includes the non-reportable segments of collagen film, collagen gel, Cutisin plastic casings, collagen for medical use and distributed products.

Distributed products is no longer a reportable segment as the vast majority of sales were made by Devro GmbH, the sale of which took place during the year as described in note 5. The results for the business being sold are presented in these financial statements, including this note, as a discontinued operation.

2. Segment information (continued)

The Board assesses the performance of the operating segments based on a measure of adjusted earnings before interest and tax ("Adjusted EBIT"). This measurement basis excludes the effects of exceptional income and expenditure from the operating segments.

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

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

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

	Collagen casings		Other segments		Total continuing operations		Discontinued operation		Total group	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000	2011 £'000	2010 £'000	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Revenue										
Sales to external customers	208,150	191,610	19,573	22,021	227,723	213,631	16,376	23,408	244,099	237,039
Adjusted EBIT	43,767	36,081	3,864	6,049	47,631	42,130	38	1,250	47,669	43,380
Corporate overheads					(4,939)	(5,159)	—	—	(4,939)	(5,159)
EBIT before exceptional items					42,692	36,971	38	1,250	42,730	38,221
Changes to UK pension scheme					—	18,851	—	—	—	18,851
EBIT after exceptional items					42,692	55,822	38	1,250	42,730	57,072
Finance income					121	97	1	—	122	97
Finance costs					(953)	(782)	(2)	(4)	(955)	(786)
Net finance income/(costs) on pension assets and liabilities					1,174	(1,123)	(63)	(94)	1,111	(1,217)
Profit before tax					43,034	54,014	(26)	1,152	43,008	55,166
Other segment information:										
Additions to property, plant and equipment:										
Segment	41,155	24,484	573	1,063	41,728	25,547	9	34	41,737	25,581
Corporate									68	103
Total									41,805	25,684
Additions to intangible assets:										
Segment	168	116	9	3	177	119	—	—	177	119
Corporate									1,448	1,120
Total									1,625	1,239
Depreciation of property, plant and equipment:										
Segment	12,352	11,284	1,057	1,110	13,409	12,394	21	27	13,430	12,421
Corporate									5	1
Total									13,435	12,422
Amortisation of intangible assets:										
Segment	261	300	5	9	266	309	—	1	266	310
Corporate									205	39
Total									471	349

Notes to the financial statements

for the year ended 31 December 2011 continued

2. Segment information (continued)

Segment assets and liabilities can be analysed as follows:

	2011 £'000	2010 £'000
Assets		
Collagen casings	232,855	204,615
Other segments	14,492	15,103
Distributed products	—	5,333
Total segment assets	247,347	225,051
Corporate assets net of pooled bank overdraft	7,108	2,751
Taxation	19,169	9,393
Total assets	273,624	237,195
Liabilities		
Collagen casings	65,924	37,109
Other segments	10,094	4,554
Distributed products	—	4,393
Total segment liabilities	76,018	46,056
Corporate liabilities	8,561	5,362
Borrowings	28,103	15,172
Taxation	20,463	17,605
Total liabilities	133,145	84,195

The company is domiciled in the United Kingdom. Revenue from sales to customers can be analysed as follows:

	2011 £'000	2010 £'000
Continuing operations		
United Kingdom	30,896	28,328
Other Europe	86,060	80,127
Total Europe	116,956	108,455
United States	35,003	35,378
Other Americas	14,432	13,232
Total Americas	49,435	48,610
Australia	28,395	27,936
Other Asia/Pacific	32,937	28,630
Total Asia/Pacific	61,332	56,566
Total – continuing operations	227,723	213,631
Discontinued operation	16,376	23,408
Total	244,099	237,039

2. Segment information (continued)

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

	2011 £'000	2010 £'000
United Kingdom	46,721	33,217
Other Europe	82,171	80,154
Americas	22,171	18,555
Asia/Pacific	32,830	27,647
	183,893	159,573

3. Operating profit before exceptional items

	2011 £'000	2010 £'000
Continuing operations		
Revenue	227,723	213,631
Cost of sales	142,865	138,129
Gross profit	84,858	75,502
Selling and distribution costs	16,432	15,582
Administrative expenses	16,554	14,573
Research and development expenditure	7,668	7,096
Other expenses	1,288	1,714
	41,942	38,965
Other operating expense/(income)	224	(434)
Net operating expenses	42,166	38,531
Operating profit before exceptional items from continuing operations	42,692	36,971

4. Exceptional item

During 2010, after consultation with employees and pensioners, certain changes were made to the UK defined benefit pension scheme, which resulted in a reduction of £18,851,000 in scheme liabilities.

Notes to the financial statements

for the year ended 31 December 2011 continued

5. Discontinued operation

On 30 September 2011, the group sold Devro GmbH, a wholly-owned subsidiary, to ViskoTeepak Holding Ab Ltd of Finland. The purchase price was based on adjusted net book value (excluding certain pension assets and liabilities). An estimated preliminary price of 1.9 million euros was paid on completion. This will be subject to final adjustment, which is expected to be during the first quarter of 2012.

Approximately 80% of Devro GmbH's sales in the nine months ended 30 September 2011 related to distributed third party products. ViskoTeepak will handle sales of Devro products in Germany on an agency basis for a transitional period, after which Devro will take direct control of sales of collagen casings in Germany. This disposal enables the group to concentrate on its core business of collagen casings and is part of its plan to strengthen sales and marketing activities in Europe.

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

(a) Income statement for discontinued operation

	2011 £'000	2010 £'000
Revenue	16,376	23,408
Expenses	(16,046)	(22,158)
Operating profit from discontinued operation	330	1,250
Net finance costs	(64)	(98)
Profit before tax from discontinued operation	266	1,152
Taxation	(88)	(437)
Profit after taxation from discontinued operation	178	715
Costs associated with the disposal of the discontinued operation before taxation	(292)	—
Taxation	77	—
Expenses associated with the disposal of the discontinued operation after taxation	(215)	—
(Loss)/profit for the period from discontinued operation	(37)	715

(b) Cash flows from discontinued operation

	2011 £'000	2010 £'000
Net cash used in operations	285	398
Net cash used in investing activities	(9)	(34)
Net cash from financing activities	—	—
Effect on cash flows	276	364

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 28 to 34. Details of the emoluments of the highest-paid director are as follows:

	2011 £'000	2010 £'000
Aggregate emoluments	524	673
Pension contributions – money purchase scheme	37	33

7. Employee information

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

	2011	2010
By employee category		
Operations and engineering	1,813	1,777
Sales and marketing	96	95
Distribution	30	30
Administration	124	111
Research and development	105	98
	2,168	2,111

Staff costs for the group were:

	2011 £'000	2010 £'000
Wages and salaries	62,605	58,143
Social security costs	9,343	8,254
Retirement benefit obligation costs (note 25)	1,048	3,381
Performance share plan charge	1,011	1,023
	74,007	70,801

The key management of the group comprises the Executive and Non-Executive Directors. Details of their emoluments, long-term incentives and pension arrangements are contained in the Remuneration Report on pages 28 to 34.

8. Finance income and expense

	2011 £'000	2010 £'000
Finance income		
Interest receivable and similar income:		
- On bank balances	121	97
Finance costs		
Interest payable and similar charges:		
- On bank loans and overdrafts	(953)	(782)
Net finance income/(costs) on pension assets and liabilities		
Expected return on pension assets	12,086	11,030
Interest on pension liabilities	(10,912)	(12,153)
	1,174	(1,123)

Notes to the financial statements

for the year ended 31 December 2011 continued

9. Profit before tax

	2011 £'000	2010 £'000
Profit before tax is stated after charging/(crediting):		
Depreciation of property, plant and equipment	13,435	12,422
Amortisation of intangible assets	471	349
Loss on disposal of property, plant and equipment	334	333
Loss on disposal of intangible assets	—	3
Inventory recognised as an expense	136,743	154,831
Inventory written down or written off	2,629	2,490
Repairs and maintenance expenditure	16,463	16,045
Research and development expenditure	7,668	7,096
Hire of assets – operating leases	969	887
Net foreign exchange gains (see below)	(303)	(1,902)
Auditors' remuneration (see below)	526	685

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

Net foreign exchange gains

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

	2011 £'000	2010 £'000
Revenue	(3,101)	(4,589)
Cost of sales	2,945	3,148
Net operating expenses	(147)	(461)
	(303)	(1,902)

Services provided by the company's auditors

Remuneration of the auditors is analysed below:

	2011 £'000	2010 £'000
Audit services		
Fees payable to the company's auditors for the audit of the parent company and consolidated accounts	84	66
Other services		
Fees payable to the company's auditors and their associates for other services:		
- The audit of the company's subsidiaries pursuant to legislation	189	199
- Other services pursuant to legislation	22	21
- Other services relating to taxation	184	227
- All other services	47	172
	526	685

In addition to the above services, the company's auditors acted as auditor to some of the group's pension schemes. The appointment of auditors to the group's pension schemes and the fees paid in respect of those audits are agreed by the trustees of each scheme, who act independently from the management of the group. The aggregate fees paid to the company's auditors for audit services to the pension schemes during the year were £7,835 (2010: £9,000).

10. Taxation

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

Notes to the financial statements

for the year ended 31 December 2011 continued

10. Taxation (continued)

	Before exceptional items £'000	Exceptional items £'000	Discontinued operation £'000	Total £'000
2010				
Current Tax				
United Kingdom corporation tax at 28%	—	—	—	—
Foreign tax	5,300	—	437	5,737
	5,300	—	437	5,737
Adjustment in respect of prior years	509	—	—	509
Total current tax	5,809	—	437	6,246
Deferred tax				
Origination and reversal of timing differences representing:				
United Kingdom corporation tax	623	5,090	—	5,713
United Kingdom corporation tax rate change	(69)	—	—	(69)
Foreign tax	978	—	—	978
	1,532	5,090	—	6,622
Adjustments in respect of prior years	64	—	—	64
Total deferred tax (note 24)	1,596	5,090	—	6,686
Taxation for the year ended 31 December 2010	7,405	5,090	437	12,932
Tax on items charged to equity				
Deferred tax credit on retirement obligations	(139)	—	—	(139)
Deferred tax charge on net fair value gains on cash flow hedges	148	—	—	148
	9	—	—	9
Total current tax charge for the year ended 31 December 2010	5,809	—	437	6,246
Total deferred tax charge for the year ended 31 December 2010	1,605	5,090	—	6,695

10. Taxation (continued)

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

	Before exceptional items £'000	Exceptional items £'000	Discontinued operation £'000	Total £'000
2011				
Profit before tax	43,034	—	(26)	43,008
Profit before tax multiplied by the blended rate of corporation tax in the UK of 26.5%	11,404	—	(7)	11,397
Effects of:				
Adjustments to tax in respect of prior years	(634)	—	—	(634)
Adjustments in respect of foreign tax rates	(1,502)	—	18	(1,484)
Permanent differences	(463)	—	—	(463)
Taxation for the year ended 31 December 2011	8,805	—	11	8,816
2010				
Profit before tax	35,163	18,851	1,152	55,166
Profit before tax multiplied by the standard rate of corporation tax in the UK of 28%	9,845	5,278	323	15,446
Effects of:				
Adjustments to tax in respect of prior years	622	—	—	622
Adjustments in respect of foreign tax rates	(1,718)	—	114	(1,604)
Permanent differences	(1,344)	(188)	—	(1,532)
Taxation for the year ended 31 December 2010	7,405	5,090	437	12,932

During the year, a change in the UK corporation tax rate from 28% to 26%, effective from 1 April 2011, was substantively enacted in March 2011. A further reduction to 25%, effective from 1 April 2012, was substantively enacted in July 2011 and the relevant deferred tax balances have been re-measured accordingly.

Further reductions in the UK corporation tax rate have been announced which will reduce the rate by 1% per annum until it reaches 23% by 1 April 2014. These changes had not been substantively enacted and, therefore, are not recognised in these financial statements. Had the change in rate to 23% been substantively enacted as of the balance sheet date, there would have been no significant impact on the accounts.

11. Profit for the year

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

The parent company profit for the year is £15,280,000 (2010: £1,738,000).

12. Dividends

Group and company	2011 £'000	2010 £'000
Final paid of 5.0 pence per share (2010: 3.575 pence)	8,144	5,786
Interim paid of 2.5 pence per share (2010: 2.0 pence)	4,089	3,252
Unclaimed dividends from previous years	(6)	(4)
	12,227	9,034

During the year, dividends totalling £90,000 (2010: £72,000) were waived in respect of shares owned by the Devro Employee Share Ownership Trust.

The directors propose a final dividend of 5.5 pence per share in respect of the financial year ended 31 December 2011 which will absorb an estimated £9,075,000 of shareholders' funds. It will be paid on 4 May 2012 to shareholders who are on the register at close of business on 30 March 2012.

Notes to the financial statements

for the year ended 31 December 2011 continued

13. Earnings per share

	2011 pence	2010 pence
Earnings per share		
Continuing operations		
Basic	20.8	25.4
Diluted	20.5	24.9
Basic before exceptional items	20.8	17.0
Discontinued operations		
Basic	—	0.4
Diluted	—	0.4
Basic before exceptional items	—	0.4
Total		
Basic	20.8	25.8
Diluted	20.5	25.3
Basic before exceptional items	20.8	17.4
	Number of shares	Number of shares
Shares in issue		
Weighted average number of shares	164,479,795	163,437,170
Adjustments for:		
- Share options	—	13,399
- Performance share plan	2,259,154	3,264,340
Weighted average number of shares – diluted earnings per share	166,738,949	166,714,909

Basic earnings per share is calculated by dividing the profit for the year attributable to owners of the parent of £34,192,000 (2010: £42,234,000) by 164,479,795 (2010: 163,437,170) shares, being the weighted average number of shares in issue throughout the year.

Share options are only treated as dilutive in the calculation of diluted earnings per share if their exercise would result in the issue of shares at less than the average market price of the shares during the year. Shares arising from share options, the deferred bonus scheme or the performance share plan are only treated as dilutive where the effect is to reduce earnings per share. Diluted earnings per share is calculated by dividing the profit for the year attributable to ordinary shareholders of £34,192,000 (2010: £42,234,000) by the average number of shares, including the effect of all dilutive potential shares, of 166,738,949 (2010: 166,714,909).

Earnings per share before exceptional items is calculated in order to eliminate the effect of the exceptional credit after tax in 2011 of £nil (2010: £13,761,000) 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, of £34,192,000 (2010: £28,473,000), by 164,479,795 (2010: 163,437,170) 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 2011	5,848	1,265	19	7,132
Exchange differences	(110)	(27)	(1)	(138)
Additions	1,625	—	—	1,625
Disposals	(9)	—	—	(9)
Sale of subsidiary	(46)	—	—	(46)
At 31 December 2011	7,308	1,238	18	8,564
Accumulated amortisation				
At 1 January 2011	4,159	418	6	4,583
Exchange differences	(114)	(2)	—	(116)
Charge for year	386	83	2	471
Disposals	(9)	—	—	(9)
Sale of subsidiary	(43)	—	—	(43)
At 31 December 2011	4,379	499	8	4,886
Net book value at 31 December 2011	2,929	739	10	3,678
Cost				
At 1 January 2010	4,613	1,248	22	5,883
Exchange differences	123	17	—	140
Additions	1,239	—	—	1,239
Disposals	(127)	—	(3)	(130)
At 31 December 2010	5,848	1,265	19	7,132
Accumulated amortisation				
At 1 January 2010	3,917	329	2	4,248
Exchange differences	106	6	1	113
Charge for year	263	83	3	349
Disposals	(127)	—	—	(127)
At 31 December 2010	4,159	418	6	4,583
Net book value at 31 December 2010	1,689	847	13	2,549
Cost at 1 January 2010	4,613	1,248	22	5,883
Accumulated amortisation at 1 January 2010	3,917	329	2	4,248
Net book value at 1 January 2010	696	919	20	1,635

Included in the net book value of intangible assets is £739,000 (2010: £847,000) relating to internally generated development costs.

In the income statement, amortisation of £149,000 (2010: £151,000) is included in cost of sales; nil (2010: £1,000) in selling and distribution costs; £310,000 (2010: £180,000) in administrative expenses; and £12,000 (2010: £17,000) in research and development expenditure.

Notes to the financial statements

for the year ended 31 December 2011 continued

14. Intangible assets (continued)

Company	Computer software £'000	Total £'000
Cost		
At 1 January 2011	1,529	1,529
Additions	1,448	1,448
At 31 December 2011	2,977	2,977
Accumulated amortisation		
At 1 January 2011	191	191
Charge for year	205	205
At 31 December 2011	396	396
Net book value at 31 December 2011	2,581	2,581
Cost		
At 1 January 2010	449	449
Additions	1,120	1,120
Disposals	(40)	(40)
At 31 December 2010	1,529	1,529
Accumulated amortisation		
At 1 January 2010	192	192
Charge for year	39	39
Disposals	(40)	(40)
At 31 December 2010	191	191
Net book value at 31 December 2010	1,338	1,338
Cost at 1 January 2010	449	449
Accumulated amortisation at 1 January 2010	192	192
Net book value at 1 January 2010	257	257

15. Property, plant and equipment

Group	Freehold land and buildings £'000	Plant and machinery, and motor vehicles £'000	Fixtures and fittings £'000	Construction in process £'000	Total £'000
Cost					
At 1 January 2011	80,824	208,722	2,798	12,833	305,177
Exchange differences	(2,762)	(4,422)	(17)	(679)	(7,880)
Additions	2,421	9,183	323	29,878	41,805
Disposals	(10)	(2,033)	(10)	(1)	(2,054)
Reclassification	1,330	6,847	1,075	(9,252)	—
Sale of subsidiary	—	(42)	(465)	—	(507)
At 31 December 2011	81,803	218,255	3,704	32,779	336,541
Accumulated depreciation					
At 1 January 2011	25,122	120,659	2,372	—	148,153
Exchange differences	(698)	(2,372)	(14)	—	(3,084)
Charge for year	1,918	11,337	180	—	13,435
Disposals	(9)	(1,677)	(10)	—	(1,696)
Reclassification	93	(889)	796	—	—
Sale of subsidiary	—	(39)	(443)	—	(482)
At 31 December 2011	26,426	127,019	2,881	—	156,326
Net book value at 31 December 2011	55,377	91,236	823	32,779	180,215
Cost					
At 1 January 2010	78,236	185,255	2,632	9,770	275,893
Exchange differences	3,149	8,838	49	406	12,442
Additions	2,107	13,900	181	9,496	25,684
Disposals	(2,984)	(5,732)	(93)	(33)	(8,842)
Reclassification	316	6,461	29	(6,806)	—
At 31 December 2010	80,824	208,722	2,798	12,833	305,177
Accumulated depreciation					
At 1 January 2010	24,961	110,507	2,354	—	137,822
Exchange differences	1,172	4,838	29	—	6,039
Charge for year	1,829	10,511	82	—	12,422
Disposals	(2,840)	(5,197)	(93)	—	(8,130)
At 31 December 2010	25,122	120,659	2,372	—	148,153
Net book value at 31 December 2010	55,702	88,063	426	12,833	157,024
Cost at 1 January 2010	78,236	185,255	2,632	9,770	275,893
Accumulated depreciation at 1 January 2010	24,961	110,507	2,354	—	137,822
Net book value at 1 January 2010	53,275	74,748	278	9,770	138,071

In the income statement, depreciation of £12,677,000 (2010: £11,707,000) has been charged in cost of sales; £121,000 (2010: £119,000) in selling and distribution costs; £455,000 (2010: £418,000) in administrative expenses; and £182,000 (2010: £178,000) in research and development expenditure.

Notes to the financial statements

for the year ended 31 December 2011 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 2011	175	36	211
Additions	68	—	68
At 31 December 2011	243	36	279
Accumulated depreciation			
At 1 January 2011	67	32	99
Charge for year	4	1	5
At 31 December 2011	71	33	104
Net book value at 31 December 2011	172	3	175
Cost			
At 1 January 2010	182	36	218
Additions	103	—	103
Disposals	(110)	—	(110)
At 31 December 2010	175	36	211
Accumulated depreciation			
At 1 January 2010	177	31	208
Charge for year	—	1	1
Disposals	(110)	—	(110)
At 31 December 2010	67	32	99
Net book value at 31 December 2010	108	4	112
Cost at 1 January 2010	182	36	218
Accumulated depreciation at 1 January 2010	177	31	208
Net book value at 1 January 2010	5	5	10

16. Investments

Company	2011 £'000	2010 £'000
Interest in group undertakings		
Cost at 1 January and 31 December	138,530	138,530
Impairment at 1 January and 31 December	—	—
Net book value at 1 January and 31 December	138,530	138,530

The company's principal subsidiary undertakings at 31 December 2011 are shown below:

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

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

Devro Pty Limited has a branch located in New Zealand.

17. Inventories

Details of inventories relating to the group are as follows:

	2011 £'000	2010 £'000
Raw materials and consumables	4,218	3,932
Work in progress	4,605	3,721
Finished goods and goods for resale	18,733	21,000
	27,556	28,653

At 31 December 2011, inventories amounting to £147,000 (2010: £352,000) were held at net realisable value.

Notes to the financial statements

for the year ended 31 December 2011 continued

18. Trade and other receivables

	Group		Company	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Amounts falling due after more than one year				
Amounts owed by subsidiary undertakings	—	—	25,182	15,777
Amounts falling due within one year				
Trade receivables	31,099	29,401	25	—
Less: provision for doubtful debts	(288)	(264)	—	—
Trade receivables – net	30,811	29,137	25	—
Amounts owed by subsidiary undertakings	—	—	90	929
Other receivables	2,195	2,145	168	90
Prepayments and accrued income	1,814	1,509	837	176
	34,820	32,791	1,120	1,195

Group

At 31 December 2011, trade receivables of £269,000 (2010: £240,000) were impaired and fully provided. It was assessed that none of the impaired receivables would be recovered. The ageing of these receivables was as follows:

	2011 £'000	2010 £'000
Less than 30 days past due	118	92
30 to 90 days past due	52	48
Greater than 90 days past due	99	100
	269	240

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

	2011 £'000	2010 £'000
At 1 January	240	367
Exchange differences	(15)	(2)
Receivables impaired	86	101
Receivables written off as uncollectible	(37)	(52)
Unused amounts reversed	(5)	(174)
At 31 December	269	240

In addition to the impairment provision, at 31 December 2011 there was a specific experience-based provision of £19,000 (2010: £24,000).

18. Trade and other receivables (continued)

At 31 December 2011, trade receivables of £3,283,000 (2010: £3,612,000) were past due but not impaired. These related to a number of customers for whom there is no recent history of default. The ageing of these receivables was as follows:

	2011 £'000	2010 £'000
Less than 30 days past due	2,903	2,854
30 to 90 days past due	380	758
	3,283	3,612

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

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

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

	2011 £'000	2010 £'000
US dollar	8,119	7,107
euro	7,608	9,668
Japanese yen	6,201	3,669
Sterling	5,809	4,346
Australian dollar	3,957	3,932
Czech koruna	1,193	2,370
Other currencies	1,933	1,699
	34,820	32,791

Company

At 31 December 2011, trade receivables of £25,000 (2010: nil) were neither past due nor impaired.

At 31 December 2011, receivables due from subsidiary undertakings of £25,272,000 (2010: £16,706,000) were neither past due nor impaired.

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

	2011 £'000	2010 £'000
Sterling	19,060	13,540
Japanese yen	3,855	2,640
US dollar	3,198	96
Other currencies	189	696
	26,302	16,972

Notes to the financial statements

for the year ended 31 December 2011 continued

19. Cash and cash equivalents

	Group		Company	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
Cash at bank and in hand	6,390	5,287	3,054	847
Short-term bank deposits	1,224	502	—	—
	7,614	5,789	3,054	847

20. Trade and other payables – current

	Group		Company	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
Trade payables	8,505	11,640	461	41
Amounts owed to subsidiary undertakings	—	—	48	729
Taxation and social security payable	2,028	1,830	429	520
Accruals and deferred income	22,723	20,389	2,061	2,945
	33,256	33,859	2,999	4,235

21. Other payables – non-current

	Group		Company	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
Amounts owed to subsidiary undertakings	—	—	10,554	13,903
Accruals and deferred income	1,336	878	—	—
	1,336	878	10,554	13,903

22. Financial liabilities – borrowings

	Group		Company	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
Current				
Unsecured bank loans and overdrafts due within one year or on demand	2,213	2,794	1,168	1,414
Non-current				
Unsecured bank loans	28,103	15,172	20,847	6,623

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.

During the year, as a result of the renegotiation of the group's bank facilities, £5.75 million was repaid to one bank which ceased to be a lender on the renewal date.

22. Financial liabilities – borrowings (continued)

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

	Currency	Rate	2011	2010
Bank overdrafts	Sterling*	UK base rate plus 250 basis points	3.00%	3.00%
	US dollar	UK base rate plus 250 basis points	3.00%	—
	Czech koruna	PRIBOR plus 90 basis points	1.40%	—
	euro (Czech Republic)	LIBOR plus 90 basis points	1.33%	1.34%
	US dollar (Czech Republic)	LIBOR plus 90 basis points	—	1.13%
Bank borrowings:				
Floating rate	Sterling	LIBOR plus 100 basis points (2010: 71 basis points)	1.76%	1.29%
Floating rate	Australian dollar	LIBOR plus 100 basis points (2010: 70 basis points)	5.53%	5.55%
Floating rate	Japanese yen	LIBOR plus 100 basis points (2010: 70 basis points)	1.14%	0.90%
Average bank borrowings rate			2.62%	3.38%

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

Borrowings were denominated in the following currencies:

	Group		Company	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Sterling	17,329	5,106	17,329	4,577
Australian dollar	7,256	8,549	—	—
Japanese yen	3,847	2,623	3,847	2,623
Czech koruna	1,045	100	—	—
US dollar	839	837	839	837
euro	—	751	—	—
	30,316	17,966	22,015	8,037

Notes to the financial statements

for the year ended 31 December 2011 continued

23. Financial risk management and financial instruments

Financial risk management

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

Market risk

a) Interest rate risk

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

The group borrows in the desired currencies at floating rates of interest and may use forward rate agreements or interest rate swaps to generate the desired interest rate profile and manage the group's exposure to interest rate fluctuations. Although group policy permits the hedging of up to 50% of interest rate exposures on borrowings for a period not exceeding five years, no interest rate hedging was in place at 31 December 2011 or 31 December 2010.

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 2011 and 31 December 2010, would result in a movement in finance costs of £303,000 (2010: £172,000) and finance income of £76,000 (2010: £50,000). This would result in a post-tax impact on the group's income statement of £164,000 (2010: £88,000).

b) Foreign exchange risk

The group has several significant overseas subsidiary undertakings whose revenues and expenses are denominated in a variety of currencies. Group policy dictates that foreign currency exposures arising from future commercial transactions are reviewed by Group Treasury and hedging activities are undertaken as appropriate in order to manage the net foreign exchange risks arising. Group policy permits the hedging of up to a maximum of 80% of the net external currency transaction exposures for periods of up to a maximum of fifteen months forward. It is not group policy to routinely hedge translation exposures apart from 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 2011 and 31 December 2010 and equity at 31 December 2011 and 31 December 2010. The gains and losses arise from translating receivables, payables, cash and derecognised currency hedges which are denominated in currencies other than each group company's reporting currency. The movements in equity arise from the translation of cash flow currency hedges.

In each case, it is assumed that the named currency is strengthening or weakening against all other currencies, while all the other currencies remain constant. The percentage foreign currency movement is based on the experience of the previous four years. 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
2011				
Australian dollar: 20%	(244)	244	3,687	(3,687)
Czech koruna: 15%	(192)	192	2,909	(2,909)
euro: 15%	136	(136)	(3,761)	3,761
Japanese yen: 25%	844	(844)	(3,217)	3,217
Sterling: 20%	(843)	843	2,700	(2,700)
US dollar: 20%	246	(246)	(1,872)	1,872
2010				
Australian dollar: 20%	(148)	148	1,470	(1,470)
Czech koruna: 15%	(55)	55	2,903	(2,903)
euro: 15%	119	(119)	(2,691)	2,691
Japanese yen: 25%	492	(492)	(1,092)	1,092
Sterling: 20%	(574)	574	1,032	(1,032)
US dollar: 20%	60	(60)	(1,314)	1,314

23. Financial risk management and financial instruments (continued)

Credit risk

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

The group 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 2011 and 31 December 2010 are shown below:

	2011 £'000	2010 £'000
Expiring in more than one year but less than two years	—	35,828
Expiring in more than two years	22,897	—
	22,897	35,828

At 31 December 2011, the group had in place unsecured floating rate loan facilities comprising committed elements with a total of £51.0 million (2010: £51.0 million). These facilities were negotiated in September 2011 and are due to expire on 30 September 2016. These are co-ordinated bilateral facilities with four banks. The group also has uncommitted working capital facilities of £5.0 million (2010: £7.0 million). 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 2011 and 31 December 2010.

In addition to the group facilities, local uncommitted facilities of US dollars 2.0 million (2010: US dollars 2.0 million), Czech koruna 90.0 million (2010: Czech koruna 60.0 million) and Australian dollars 0.5 million (2010: nil) were also in place at 31 December 2011. These facilities are renewable within one year.

Capital risk

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

The principal measure used to monitor the strength of the group's balance sheet is the gearing ratio, which expresses the group's net debt as a percentage of its net assets. Net debt is total borrowings less cash and cash equivalents. Net assets are as shown in the consolidated balance sheet. The gearing ratios at 31 December 2011 and 31 December 2010 were as follows:

	2011 £'000	2010 £'000
Total borrowings (note 22)	30,316	17,966
Less: cash and cash equivalents (note 19)	(7,614)	(5,789)
Net debt (note 33)	22,702	12,177
Net assets	140,479	153,000
Gearing ratio	16.2%	8.0%

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for the year ended 31 December 2011 continued

23. Financial risk management and financial instruments (continued)

Financial instruments

Disclosures regarding financial instruments are set out below:

Fair value of derivative financial instruments

The fair values of derivative financial instruments were as follows:

	Group		Company	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
At 31 December 2011				
Forward foreign exchange contracts				
- cash flow hedge	494	947	—	—
- other	78	668	—	308
	572	1,615	—	308
At 31 December 2010				
Forward foreign exchange contracts				
- cash flow hedge	624	209	—	—
- other	372	273	187	257
	996	482	187	257

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

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

All of the group's assets and liabilities that are measured at fair value were classified as Level 2 as at 31 December 2011 (2010: Level 2)

At 31 December 2011, the net fair value losses on open forward foreign exchange contracts that hedge the foreign currency risk of anticipated future sales and purchases amounted to £454,000 (2010: gains £415,000). These will be transferred to the income statement when the forecast sales and purchases occur during 2012.

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

	2011 £'000	2010 £'000
Forward foreign exchange contracts	60,577	39,602
Currency swaps	16,994	13,812

23. Financial risk management and financial instruments (continued)

Fair values of non-derivative financial assets and liabilities

Group	2011		2010	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
Fair value of non-current borrowings				
Long-term borrowings (note 22)	28,103	28,103	(15,172)	(15,172)
Fair value of other financial assets and liabilities				
Primary financial instruments held or issued to finance the group's activities:				
Trade and other receivables (note 18)	34,820	34,820	32,791	32,791
Short-term bank deposits (note 19)	1,224	1,224	502	502
Cash at bank and in hand (note 19)	6,390	6,390	5,287	5,287
Trade and other payables (note 20)	(33,256)	(33,256)	(33,859)	(33,859)
Other non-current liabilities (note 21)	(1,336)	(1,166)	(878)	(718)
Short-term borrowings (note 22)	2,213	2,213	(2,794)	(2,794)

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

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

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

Maturity of financial liabilities

The tables below analyse the group's and company's financial liabilities, which will be settled on a net basis, into relevant maturity groupings based on the remaining period to the contractual maturity dates at 31 December 2011 and 31 December 2010. 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 2011				
Borrowings	2,963	742	30,144	—
Derivative financial instruments	1,615	—	—	—
Trade and other payables	29,892	218	413	705
At 31 December 2010				
Borrowings	3,385	15,206	—	—
Derivative financial instruments	482	—	—	—
Trade and other payables	31,153	229	266	381

Notes to the financial statements

for the year ended 31 December 2011 continued

23. Financial risk management and financial instruments (continued)

Maturity of financial liabilities (continued)

Company	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 years £'000
At 31 December 2011				
Borrowings	1,516	342	21,788	—
Derivative financial instruments	308	—	—	—
Trade and other payables	2,570	—	—	—
At 31 December 2010				
Borrowings	2,340	6,627	—	—
Derivative financial instruments	257	—	—	—
Trade and other payables	3,715	—	—	—

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

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

Maturity of derivative financial instruments

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

	At 31 December 2011 £'000	At 31 December 2010 £'000
Group		
Forward foreign exchange contracts – cash flow hedges		
Outflow	51,231	31,729
Inflow	51,166	32,293
Forward foreign exchange contracts – other		
Outflow	26,340	21,685
Inflow	23,879	21,786
Company		
Forward foreign exchange contracts – other		
Outflow	15,327	13,812
Inflow	13,141	13,742

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

24. Deferred tax

	Group		Company	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Net (liability)/asset at 1 January	(5,280)	1,229	(73)	38
Exchange differences	424	186	—	—
Charge for the year	(2,311)	(6,686)	(72)	(111)
Credit/(charge) to equity	8,752	(9)	—	—
United Kingdom corporation tax rate change	174	—	5	—
Net asset/(liability) at 31 December	1,759	(5,280)	140	(73)

Group

Deferred tax assets can be analysed as follows:

	Retirement benefit obligations £'000	Accelerated capital allowances £'000	Short term timing differences £'000	Total £'000
At 1 January 2011	5,418	—	3,281	8,699
Exchange differences	31	—	—	31
(Charge)/credit for the year	(220)	—	1,128	908
Credit to equity	8,526	—	226	8,752
At 31 December 2011	13,755	—	4,635	18,390
At 1 January 2010	10,379	26	3,207	13,612
Exchange differences	417	—	—	417
(Charge)/credit for the year	(5,517)	(26)	222	(5,321)
Credit/(charge) to equity	139	—	(148)	(9)
At 31 December 2010	5,418	—	3,281	8,699

Deferred tax liabilities can be analysed as follows:

	Accelerated capital allowances £'000	Short term timing differences £'000	Total £'000
At 1 January 2011	(13,090)	(889)	(13,979)
Exchange differences	393	—	393
Charge for the year	(1,080)	(1,965)	(3,045)
At 31 December 2011	(13,777)	(2,854)	(16,631)
At 1 January 2010	(11,707)	(676)	(12,383)
Exchange differences	(231)	—	(231)
Charge for the year	(1,152)	(213)	(1,365)
At 31 December 2010	(13,090)	(889)	(13,979)

Notes to the financial statements

for the year ended 31 December 2011 continued

24. Deferred tax (continued)

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

	Asset 2011 £'000	Asset 2010 £'000	Liability 2011 £'000	Liability 2010 £'000	Total 2011 £'000	Total 2010 £'000
Due within one year	3,955	2,987	(286)	(473)	3,669	2,514
Due after more than one year	14,435	5,712	(16,345)	(13,506)	(1,910)	(7,794)
	18,390	8,699	(16,631)	(13,979)	1,759	(5,280)

Company

	Accelerated capital allowances £'000	Short term timing differences £'000	Total £'000
(Liability)/asset at 1 January 2011	(85)	12	(73)
Charge for the year	(65)	(7)	(72)
United Kingdom corporation tax rate change	5	—	5
(Liability)/asset at 31 December 2011	(145)	5	(140)
Asset at 1 January 2010	26	12	38
Charge for the year	(111)	—	(111)
(Liability)/asset at 31 December 2010	(85)	12	(73)

The deferred tax asset can be analysed as follows:

	2011 £'000	2010 £'000
Due after more than one year	5	12

The deferred tax liability can be analysed as follows:

	2011 £'000	2010 £'000
Due after more than one year	(145)	(85)

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

At 31 December 2011, unrecognised deferred tax is nil (2010: nil).

No deferred tax has been recognised in respect of any withholding or other taxes that would be payable on the unremitted earnings of subsidiaries. There are no unremitted earnings on which UK tax is expected to become payable if repatriated (2010: nil).

25. Retirement benefit obligations

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

	2011 £'000	2010 £'000
Pension obligations		
Defined benefit schemes:		
Current service cost	799	899
Net finance (income)/costs	(1,111)	1,217
	(312)	2,116
Defined contribution schemes	1,360	1,265
	1,048	3,381

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

	2011 £'000	2010 £'000
Pension obligations		
Fair value of scheme assets	196,617	198,518
Present value of funded obligations	(242,775)	(211,923)
	(46,158)	(13,405)

Pension obligations

The group operates a number of pension schemes throughout the world. The major schemes are of the defined benefit type and, with the exception of Germany where book reserves are supported by insurance policies, the assets of the schemes are held in separate trustee-administered funds. The defined benefit schemes are closed to new members. The total net pension cost for the group was £1,048,000 (2010: £3,381,000), of which £2,396,000 (2010: £2,448,000) related to the overseas schemes. On the advice of the actuaries, cash contributions to the group's defined benefit schemes are expected to be £5.8 million for the year ending 31 December 2012 (2011: £5.2 million).

The most significant defined benefit scheme within the group is the Devro Limited (UK) Pension Plan, which operates in the United Kingdom. The latest formal actuarial valuation of the scheme was at 31 March 2008. The other major defined benefit schemes operate in Australia and the United States.

Actuarial assumptions appropriate for each country have been used.

The last formal actuarial valuations of the group's material defined benefit schemes have been updated to 31 December 2011 by qualified independent actuaries. The major assumptions used by the actuaries in the following principal countries were:

	Australia		United Kingdom		United States	
	2011 %	2010 %	2011 %	2010 %	2011 %	2010 %
Discount rate	3.20	4.90	4.70	5.40	4.52	5.31
Rate of increase in salaries*	4.00	4.00	1.00	1.00	—	—
General inflation	2.50	2.50	3.10	3.40	2.50	2.60

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

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

Notes to the financial statements

for the year ended 31 December 2011 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 2011 are based on the following tables:

	Years of life expectancy for current pensioners aged 65			
	2011		2010	
	Male	Female	Male	Female
United Kingdom – PA92 mc (YOB) +1% underpin + 2	21.9	24.1	20.9	24.0
United States – RP-2000 healthy projected to 2011	19.1	21.0	18.9	20.8

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 2011, the value of the insurance asset was £2.5 million (2010: £4.2 million) and the value of the liability was £2.7 million (2010: £4.4 million). As mentioned in note 5, a proportion of the assets and liabilities of the German plan, relating to the period when the business operated as a branch of Devro Inc or Devro (Scotland) Limited, was retained by the group after the sale of Devro GmbH.

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

The aggregate fair values of assets in the group's defined benefit schemes at 31 December 2011 were estimated to be:

	Australia		United Kingdom		United States		Other		Total	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000	2011 £'000	2010 £'000	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Equities	6,296	5,824	72,993	81,096	14,493	14,585	—	—	93,782	101,505
Bonds	1,546	1,510	68,682	63,284	24,103	23,793	—	—	94,331	88,587
Other	3,204	3,451	2,494	435	323	309	2,483	4,231	8,504	8,426
	11,046	10,785	144,169	144,815	38,919	38,687	2,483	4,231	196,617	198,518

The long-term rates of return expected at 31 December 2011 in the principal countries were as follows:

	Australia		United Kingdom		United States	
	2011 %	2010 %	2011 %	2010 %	2011 %	2010 %
Equities	7.80	7.80	5.80	7.50	7.70	8.00
Bonds	4.60	4.60	2.80	4.60	3.90	4.10
Other	5.20	5.10	0.30	0.30	3.50	3.50

25. Retirement benefit obligations (continued)

Net pension assets and liabilities at 31 December 2011 were as follows:

	Australia		United Kingdom		United States		Other		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Total fair value of scheme assets (as above)	11,046	10,785	144,169	144,815	38,919	38,687	2,483	4,231	196,617	198,518
Present value of scheme liabilities	(15,057)	(11,747)	(164,127)	(139,777)	(60,377)	(55,571)	(3,214)	(4,828)	(242,775)	(211,923)
(Deficit)/surplus	(4,011)	(962)	(19,958)	5,038	(21,458)	(16,884)	(731)	(597)	(46,158)	(13,405)
Related deferred tax assets/(liabilities)	1,202	288	4,990	(1,360)	7,296	6,247	267	243	13,755	5,418
Net pension (liabilities)/assets	(2,809)	(674)	(14,968)	3,678	(14,162)	(10,637)	(464)	(354)	(32,403)	(7,987)

The net deficit position has deteriorated significantly during the year. During the year the value of the scheme assets was relatively stable. However, the present value of the pension liabilities increased as a result of the fall in discount rates. The UK scheme is the largest of the schemes and the discount rate decreased from 5.4% to 4.7% in 2011, generating around £25 million of additional net liabilities. In 2010, the UK scheme was restructured which has helped limit the volatility and resulted in the exceptional credit of £18,851,000 in that year. Work is ongoing with advisers to look at developing the group pension strategy in order to manage the underlying risks. Further additional contributions will be made to the schemes in 2012 to reduce the deficit. The results of the triennial valuation for the UK scheme as at 31 March 2011 will be concluded in the first half of 2012. The group continues to pay contributions to retirement schemes in accordance with local regulatory requirements and on the advice of qualified independent actuaries. The actuaries continually review the funding position of the schemes.

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

	2011	2010
	£'000	£'000
At 1 January	198,518	180,963
Expected return on plan assets	12,086	11,030
Employer contributions	5,168	4,550
Member contributions	750	747
Benefits paid	(10,717)	(11,057)
Sale of subsidiary	(1,723)	—
Actuarial (losses)/gains	(7,708)	9,275
Exchange gains	243	3,010
At 31 December	196,617	198,518

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

	2011	2010
	£'000	£'000
At 1 January	211,923	212,796
Service cost	799	899
Interest cost	10,975	12,247
Member contributions	750	747
Benefits paid	(10,717)	(11,057)
Amendments	—	(6,194)
Plan curtailments	—	(12,657)
Sale of subsidiary	(1,906)	—
Actuarial losses	30,623	11,352
Exchange losses	328	3,790
At 31 December	242,775	211,923

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for the year ended 31 December 2011 continued

25. Retirement benefit obligations (continued)

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

	Australia		United Kingdom		United States		Other		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Amounts charged/(credited) to the income statement										
Current service cost	597	502	130	326	—	—	72	71	799	899
Amendments/curtailments	—	—	—	(18,851)	—	—	—	—	—	(18,851)
Net charge/(credit) to operating profit	597	502	130	(18,525)	—	—	72	71	799	(17,952)
Expected return on pension scheme assets	(714)	(637)	(9,293)	(8,253)	(2,079)	(2,140)	—	—	(12,086)	(11,030)
Interest on pension scheme liabilities	569	492	7,408	8,544	2,769	2,956	229	255	10,975	12,247
Financing (credit)/charge	(145)	(145)	(1,885)	291	690	816	229	255	(1,111)	1,217
Net charge/(credit) to profit	452	357	(1,755)	(18,234)	690	816	301	326	(312)	(16,735)
Amounts recognised in statement of comprehensive income										
Actual return less expected return on assets	(1,009)	(349)	(6,056)	7,053	(675)	2,170	2	439	(7,738)	9,313
Experience (losses)/gains on liabilities	(81)	(181)	(4,709)	(251)	(348)	(845)	(32)	141	(5,170)	(1,136)
Changes in assumptions	(2,205)	(775)	(18,146)	(5,929)	(4,921)	(3,265)	(151)	(285)	(25,423)	(10,254)
Actuarial (losses)/gains on assets and liabilities	(3,295)	(1,305)	(28,911)	873	(5,944)	(1,940)	(181)	295	(38,331)	(2,077)
Exchange (losses)/gains	(64)	(68)	—	—	(186)	(667)	165	(45)	(85)	(780)
Total actuarial (losses)/gains recognised	(3,359)	(1,373)	(28,911)	873	(6,130)	(2,607)	(16)	250	(38,416)	(2,857)

Movements in deficits/surplus during the year were as follows:

	Australia		United Kingdom		United States		Other		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
(Deficit)/surplus in scheme at beginning of year	(962)	293	5,038	(16,245)	(16,884)	(15,360)	(597)	(521)	(13,405)	(31,833)
Movement in year:										
Pension (charge)/credit	(452)	(357)	1,755	18,234	(690)	(816)	(301)	(326)	312	16,735
Employer contributions	762	475	2,160	2,176	2,246	1,899	—	—	5,168	4,550
Actuarial (losses)/gains	(3,295)	(1,305)	(28,911)	873	(5,944)	(1,940)	(181)	295	(38,331)	(2,077)
Sale of subsidiary	—	—	—	—	—	—	183	—	183	—
Exchange (losses)/gains	(64)	(68)	—	—	(186)	(667)	165	(45)	(85)	(780)
(Deficit)/surplus in scheme at end of year	(4,011)	(962)	(19,958)	5,038	(21,458)	(16,884)	(731)	(597)	(46,158)	(13,405)

The actual return on plan assets in 2011 was £4.3 million (2010: £20.3 million).

The cumulative actuarial losses recognised in other comprehensive income are £58,962,000 (2010: £20,546,000).

25. Retirement benefit obligations (continued)

Historical information in the principal countries is as follows:

	Fair value of scheme assets £'000	Present value of defined benefit obligations £'000	(Deficit)/ surplus in the schemes £'000	Difference between expected and actual return on scheme assets £'000	Experience (losses)/gains on scheme liabilities £'000	Total amount recognised in statement of comprehensive income £'000
Australia						
2011	11,046	(15,057)	(4,011)	(1,009)	(81)	(3,359)
2010	10,785	(11,747)	(962)	(349)	(181)	(1,373)
2009	9,130	(8,837)	293	240	(30)	1,924
2008	7,077	(8,619)	(1,542)	(2,402)	(59)	(3,094)
2007	8,680	(7,188)	1,492	22	(76)	104
United Kingdom						
2011	144,169	(164,127)	(19,958)	(6,056)	(4,709)	(28,911)
2010	144,815	(139,777)	5,038	7,053	(251)	873
2009	133,169	(149,414)	(16,245)	8,517	(3,767)	(13,644)
2008	120,192	(124,700)	(4,508)	(27,466)	5,064	(3,640)
2007	142,193	(145,878)	(3,685)	2,087	170	11,343
United States						
2011	38,919	(60,377)	(21,458)	(675)	(348)	(6,130)
2010	38,687	(55,571)	(16,884)	2,170	(845)	(2,607)
2009	34,564	(49,924)	(15,360)	2,993	37	2,193
2008	33,927	(52,859)	(18,932)	(11,882)	(971)	(15,664)
2007	34,991	(39,602)	(4,611)	(777)	(79)	382

26. Ordinary shares

Group and company	2011 £'000	2010 £'000
Issued and fully paid		
165,008,564 (2010: 163,609,007) ordinary shares of 10 pence each	16,501	16,361

18,000 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 (2010: nil).

1,381,557 ordinary shares of 10 pence each were issued during the year in connection with the Devro 2003 Performance Share Plan (2010: 742,730).

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27. Share-based payments

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

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

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

During the year, 1,381,557 shares vested under the plan (2010: 742,730).

At 31 December 2011, the maximum number of shares which may vest under the plan is as follows:

Allocation date	Form of allocation	Fair value per share	Normal vesting date	Number of shares
28 March 2008	Conditional award	£0.679	28 March 2011	375,000
26 September 2008	Conditional award	£0.693	26 September 2011	135,000
19 March 2009	Conditional award	£0.733	19 March 2012	867,000
24 March 2010	Conditional award	£1.475	24 March 2013	467,000
24 February 2011	Nil-priced option	£2.329	24 February 2014	103,846
24 February 2011	Nil-priced option	£2.242	24 February 2015	103,846
29 March 2011	Nil-priced option	£2.640	29 March 2014	300,000

28. Options on shares of Devro plc

At 31 December 2011, no options on ordinary shares had been granted under the Devro (No. 2) Executive Share Option Scheme (the "scheme") but not yet exercised or lapsed.

A reconciliation of the movement in share options under the scheme during the year ended 31 December 2011 is shown below:

	Number	2011 Weighted average exercise price (£)	Number	2010 Weighted average exercise price (£)
Outstanding at 1 January	18,000	0.515	18,000	0.515
Exercised	(18,000)	0.515	—	—
Outstanding at 31 December	—	—	18,000	0.515
Exerciseable at 31 December	—	—	18,000	0.515

The weighted average remaining life (contractual) of outstanding options at 31 December 2011 is nil years (2010: 0.8 years). There is no difference between the calculation on a contractual basis and on an expected basis.

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

29. Share premium

	2011 £'000	2010 £'000
Group and company		
At 1 January	6,773	6,097
Premium on shares issued under the Devro 2003 Performance Share Plan and the Devro (No.2) Executive Share Option Scheme	869	676
At 31 December	7,642	6,773

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 2011	35,587	8,888	1,654	303	39,175	85,607
Exchange adjustments	—	—	—	—	(4,997)	(4,997)
Cash flow hedges, net of tax	—	—	—	(643)	—	(643)
Performance share plan charge	—	—	1,011	—	—	1,011
Performance share plan credit in respect of shares vested	—	—	(1,061)	—	—	(1,061)
At 31 December 2011	35,587	8,888	1,604	(340)	34,178	79,917
At 1 January 2010	35,587	8,888	1,366	(92)	32,941	78,690
Exchange adjustments	—	—	—	—	6,234	6,234
Cash flow hedges, net of tax	—	—	—	395	—	395
Performance share plan charge	—	—	1,023	—	—	1,023
Performance share plan credit in respect of shares vested	—	—	(735)	—	—	(735)
At 31 December 2010	35,587	8,888	1,654	303	39,175	85,607

Company	Capital redemption reserve £'000	Special reserve £'000	Performance share plan £'000	Total £'000
At 1 January 2011	35,587	8,888	1,426	45,901
Performance share plan charge	—	—	938	938
Performance share plan credit in respect of shares vested	—	—	(843)	(843)
At 31 December 2011	35,587	8,888	1,521	45,996
At 1 January 2010	35,587	8,888	1,072	45,547
Performance share plan charge	—	—	868	868
Performance share plan credit in respect of shares vested	—	—	(514)	(514)
At 31 December 2010	35,587	8,888	1,426	45,901

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

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

Notes to the financial statements

for the year ended 31 December 2011 continued

31. Retained earnings

	Group		Company	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
At 1 January	44,259	12,997	64,877	72,173
Profit for the year	34,192	42,234	15,280	1,738
Dividends paid	(12,227)	(9,034)	(12,227)	(9,034)
Actuarial loss recognised in retirement benefit obligations, net of tax	(29,805)	(1,938)	—	—
At 31 December	36,419	44,259	67,930	64,877

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

	Group		Company	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
Continuing operations				
Profit before tax	43,034	54,014	(4,780)	(5,299)
Adjustments for:				
Finance income	(121)	(97)	(290)	(203)
Finance costs	953	782	578	391
Net finance (income)/costs on pension assets and liabilities	(1,174)	1,123	—	—
Loss/(gain) on disposal of property, plant and equipment	334	333	—	(8)
Loss on disposal of intangible assets	—	3	—	—
Depreciation of property, plant and equipment	13,414	12,395	5	1
Amortisation of intangible assets	471	348	205	39
Release from capital grants reserve	(54)	(43)	—	—
Expenses associated with the disposal of the discontinued operation	(212)	—	—	—
Retirement benefit obligations - exceptional credits	—	(18,851)	—	—
- other	(4,622)	(4,433)	—	—
Performance share plan	(50)	288	95	354
Changes in working capital:				
Increase in inventories	(2,322)	(341)	—	—
(Increase)/decrease in trade and other receivables	(4,217)	(1,114)	(9,355)	3,051
(Decrease)/increase in trade and other payables	(347)	113	(4,313)	14,462
Cash generated from/(used in) continuing operations	45,087	44,520	(17,855)	12,788
Discontinued operation				
Profit before tax	266	1,152	—	—
Adjustments for:				
Finance income	(1)	—	—	—
Finance costs	2	4	—	—
Net finance costs on pension assets and liabilities	63	94	—	—
Depreciation of property, plant and equipment	21	27	—	—
Amortisation of intangible assets	—	1	—	—
Release from capital grants reserve	—	—	—	—
Retirement benefit obligations - other	21	50	—	—
Changes in working capital:				
Decrease/(increase) in inventories	1,353	(662)	—	—
Increase in trade and other receivables	(116)	(794)	—	—
(Decrease)/increase in trade and other payables	(939)	593	—	—
Cash generated from discontinued operation	670	465	—	—
Total cash generated from/(used in) operations	45,757	44,985	(17,855)	12,788

33. Analysis of net debt

	Group		Company	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Cash and cash equivalents	7,614	5,789	3,054	847
Bank overdrafts	(2,213)	(2,794)	(1,168)	(1,414)
	5,401	2,995	1,886	(567)
Borrowings less bank overdrafts	(28,103)	(15,172)	(20,847)	(6,623)
	(22,702)	(12,177)	(18,961)	(7,190)

34. Capital commitments

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

	Group		Company	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Property, plant and equipment	11,956	1,245	—	—
Intangible assets	21	8	16	—
	11,977	1,253	16	—

35. Contingent liabilities

In the opinion of the directors, the group has no material contingent liabilities (2010: nil).

36. Financial commitments

Operating leases

At 31 December 2011, the future aggregate minimum lease payments were as follows:

	2011 £'000	2010 £'000
Group		
Expiring within one year	745	790
Expiring after more than one year and less than five years	838	1,202
Expiring after more than five years	93	—
	1,676	1,992
Company		
Expiring within one year	6	6
Expiring after more than one year and less than five years	16	8
	22	14

Notes to the financial statements

for the year ended 31 December 2011 continued

37. Related party transactions

The group had no related party transactions, other than key management compensation as mentioned in note 7. A detailed analysis of directors' emoluments is provided in the Remuneration Report on pages 28 to 34.

Related party transactions carried out by the company during the year ended 31 December 2011 were as follows:

	2011 £'000	2010 £'000
Sale of services to subsidiary undertakings	3,405	3,200
Purchase of services from subsidiary undertakings	177	336
Charges from subsidiary undertakings in respect of systems upgrade project	789	518
Royalty income received from subsidiary undertaking	1,276	1,084
Interest received from subsidiary undertakings	220	176
Interest paid to subsidiary undertakings	105	25
Balances at 31 December arising from transactions with subsidiary undertakings:		
Receivables		
- current	90	929
- non-current	25,182	15,777
Payables:		
- current	48	729
- non-current	10,554	13,903

Independent auditors' report to the members of Devro plc

We have audited the financial statements of Devro plc for the year ended 31 December 2011 which the consolidated income statement, the consolidated statement of comprehensive income, the group and parent company balance sheets, the group and parent cash flow statements and the related notes. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

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

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2011 and of the group's profit and group's and parent cash flows for the year then ended 31 December 2011;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate governance statement set out on pages 22 to 27 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a corporate governance statement has not been prepared by the parent company.

Under the Listing Rules we are required to review:

- the directors' statement, set out on pages 26 and 27, in relation to going concern;
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Alan Wilson

Alan Wilson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Glasgow
12 March 2012

Notes:

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

Financial summary

For the years ended 31 December

	2011 £'million	2010 £'million	2009 £'million	2008 £'million	2007** £'million
Revenue*	227.7	213.6	197.4	164.9	141.6
Operating profit before exceptional items*	42.7	37.0	26.6	20.1	17.8
Exceptional items*	—	18.8	1.8	(3.5)	0.6
Operating profit*	42.7	55.8	28.4	16.6	18.4
Profit before tax*	43.0	54.0	26.2	15.0	16.4
Profit after tax*	34.2	41.5	19.7	12.2	12.3
Net assets	140.5	153.0	114.1	111.3	95.1
Earnings per share:					
- Basic*	20.8p	25.4p	12.1p	7.5p	7.6p
- Diluted*	20.5p	24.9p	11.9p	7.4p	7.5p
- Basic before exceptional items*	20.8p	17.0p	11.4p	8.0p	6.5p
Dividends per share	8.0p	7.0p	5.0p	4.45p	4.45p
Net assets per share	85.1p	93.5p	70.0p	68.3p	58.4p

* The information above refers to continuing operations exclusive of the discontinued operation, Devro GmbH, which was sold on 30 September 2011. The information above for 2007 is also exclusive of the discontinued operation, BioFilm Limited, which was disposed of on 28 December 2007.

** Operating profit for 2007 has been restated to exclude net finance income/expense on pension and post-retirement health plan assets and liabilities.

Explanatory notes to AGM notice

The AGM of the company will be held on 19 April 2012 at 10.00 am at the Balmoral Hotel, 1 Princes Street, Edinburgh, EH2 2EQ. The Notice of Meeting is set out on pages 84 to 86. In addition to the ordinary business of the meeting under items 1 to 9, shareholders will be asked for their approval of the following matters:

Item 10: Remuneration Report

Shareholders will be invited to approve the Remuneration Report set out on pages 28 to 34.

Item 11: Allotment of new shares

This resolution is to renew, for a further year, the general authority to allot shares given to the directors at the last AGM of the company held on 28 April 2011. Paragraph (a) of the resolution will give the directors a general authority to allot up to 55,000,000 ordinary shares of 10 pence each, representing approximately one third of the company's issued ordinary share capital (excluding any shares held in treasury) as at 2 March 2012, which is the latest practicable date before publication of this notice. The company did not hold any of its own shares as treasury shares as at 2 March 2012.

Paragraph (b) of the resolution proposes that a further authority be conferred on the directors to allot unissued shares or rights to subscribe for shares in favour of holders of equity securities (which would include ordinary shareholders) as required by the rights of those securities or as the directors may otherwise consider necessary, up to a maximum aggregate nominal amount of £11,000,000 (such amount to be reduced by the nominal amount of any shares or rights to subscribe for shares issued under the authority conferred by paragraph (a) of this resolution), which represents an amount which is approximately two thirds of the aggregate nominal value of the issued and unconditionally allotted ordinary share capital of the company as at 2 March 2012, which is the latest practicable date before publication of the notice.

This resolution complies with the latest institutional guidelines issued by the Association of British Insurers ("ABI") and, if the directors do exercise the authority conferred by paragraph (b) of this resolution, they intend to follow emerging best practice as regards its use (including as regards the requirement for directors to stand for re-election) as recommended by the ABI. Other than in relation to the company's employee share plans, the directors have no present intention to use these authorities, which will expire at the earlier of the conclusion of the next AGM of the company and 30 June 2013. As is normal practice, the directors intend to seek renewal of these authorities at subsequent AGMs.

Item 12: Pre-emption rights

Resolution 12, which will be proposed as a special resolution, seeks to renew the authority conferred on the directors at the last AGM to issue equity securities of the company for cash without application of the pre-emption rights as provided by section 561 of the Companies Act 2006 (the "Act"). The authorities being sought provide for non-pre-emptive allotments of equity securities (i) to ordinary shareholders in proportion to their existing shareholdings; (ii) to holders of other equity securities as required by, or subject to (as the directors consider necessary), the rights of those securities, and to deal with treasury shares, fractional entitlements and legal and practical problems in any territory, for example on a rights issue or other similar share issue; and (iii) for cash up to an aggregate nominal value of £825,000 which represents slightly less than 5% of the issued ordinary share capital of the company as at 2 March 2012, which is the latest practicable date before publication of this notice. This authority will expire at the earlier of the conclusion of the next AGM of the company and 30 June 2013.

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

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

Item 13: Authorising market purchase of its own shares by the company

The authority for the company to purchase its own ordinary shares of 10 pence each granted at last year's AGM will expire on the date of the forthcoming AGM. The directors wish to renew this authority and a special resolution will be proposed as special business to give the company the authority to purchase its own ordinary shares in the market as permitted by the Act. The authority limits the number of shares that could be purchased to a maximum of 16,500,000 (representing less than 10% of the issued ordinary share capital of the company as at 2 March 2012, which is the latest practicable date before publication of this notice) and sets minimum and maximum prices. This authority will expire at the earlier of the conclusion of the next AGM of the company and 30 June 2013.

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

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

As at 2 March 2012, there were share scheme awards over 2,351,692 ordinary shares in the capital of the company, which represents 1.4% of the company's issued ordinary share capital. If the authority to purchase the company's ordinary shares were exercised in full, these share scheme awards would represent 1.4% of the company's issued ordinary share capital. As at 2 March 2012, 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 14: General meeting notice

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

Before the coming into force of the Shareholders' Rights Regulations on 3 August 2009, the company was able to call general meetings other than AGMs on 14 clear days' notice without obtaining such shareholder approval. At the last AGM, the shareholders approved a notice period of not less than 14 clear days (other than for AGMs) effective until the forthcoming AGM. The directors believe it is in the best interests of shareholders to preserve this ability and resolution 14 seeks such approval. The approval will be effective until the company's next AGM, when it is intended that a similar resolution will be proposed.

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

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

Notice of meeting

Notice is hereby given that the twenty-first Annual General Meeting ("AGM") of Devro plc ("the Company") will be held at The Balmoral Hotel, 1 Princes Street, Edinburgh EH2 2EQ on 19 April 2012 at 10.00 am for the following purposes:

- (1) To receive the Company's accounts for the year ended 31 December 2011, together with the Directors' Report and the Auditors' Report on those accounts.
- (2) To declare a final dividend for the year ended 31 December 2011.
- (3) To re-elect as a director Mr Steve Hannam*.
- (4) To re-elect as a director Mr Peter Page*.
- (5) To re-elect as a director Mr Paul Neep*.
- (6) To re-elect as a director Mr Simon Webb*.
- (7) To elect as a director Mr Paul Withers*.
- (8) To elect as a director Ms Jane Lodge*.

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

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

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

Ordinary resolutions

- (10) THAT the Remuneration Report contained within the Company's Report and Accounts for the year ended 31 December 2011 be and is hereby approved.
- (11) THAT, in substitution for all existing authorities, the directors be generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the Company to:
 - (a) allot shares (as defined in section 540 of the Act) in the Company or grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £5,500,000; and
 - (b) allot equity securities (as defined in section 560 of the Act) up to an aggregate nominal amount of £11,000,000 (such amount to be reduced by the aggregate nominal amount of shares allotted or rights to subscribe for or to convert any security into shares in the Company granted under paragraph (a) of this resolution 11) in connection with an offer by way of rights issue:

- (i) to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and
- (ii) to holders of other equity securities (as defined in section 560(1) of the Act) as required by the rights of those securities or, subject to such rights, as the directors otherwise consider necessary,

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

such authorities to apply (unless previously renewed, varied or revoked by the Company in general meeting) until the end of the Company's next annual general meeting after this resolution is passed (or, if earlier, until the close of business on 30 June 2013) but, in each case, so that the Company may make offers and enter into agreements before the authority expires which would, or might, require shares to be allotted or rights to subscribe for or to convert any security into shares to be granted after the authority expires and the directors may allot shares or grant such rights under any such offer or agreement as if the authority had not expired.

Special resolutions

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

- (a) to the allotment of equity securities in connection with an offer of equity securities (but in the case of an allotment pursuant to the authority granted by paragraph (b) of resolution 11, such power shall be limited to the allotment of equity securities in connection with an offer by way of a rights issue only):
 - (i) to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holdings; and
 - (ii) to holders of other equity securities (as defined in section 560(1) of the Act), as required by the rights of those securities or, subject to such rights, as the directors otherwise consider necessary,

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

- (b) to the allotment of equity securities pursuant to the authority granted by paragraph (a) of resolution 11 and/or an allotment which constitutes an allotment of equity securities by virtue of section 560(3) of the Act (in each case otherwise than in the circumstances set out in paragraph (a) of this resolution 12) up to a nominal amount of £825,000,

such power to apply (unless previously renewed, varied or revoked by the Company in general meeting) until the end of the Company's next annual general meeting after this resolution is passed (or, if earlier, until the close of business on 30 June 2013) 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.

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

- (a) the maximum aggregate number of Ordinary Shares hereby authorised to be purchased is 16,500,000 (representing less than 10% of the issued ordinary share capital of the Company as at 2 March 2012 which is the latest practicable date before publication of this notice);
- (b) the minimum price (exclusive of expenses) which may be paid for an Ordinary Share is 10 pence, being the par value;
- (c) the maximum price (exclusive of expenses) which may be paid for an Ordinary Share is an amount equal to not more than 5% above the average of the middle market quotations for an Ordinary Share as derived from The London Stock Exchange Daily Official List for the five business days immediately preceding the date on which that Ordinary Share is purchased;
- (d) unless previously renewed, varied or revoked by the Company in general meeting, the authority hereby conferred shall expire at the end of the Company's next annual general meeting after this resolution is passed (or, if earlier, at the close of business on 30 June 2013); 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.

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

By order of the Board

John Meredith,
Company Secretary
Devro plc
Moodiesburn
12 March 2012

Notes

1. A member of the Company is entitled to appoint a proxy to exercise all or any of his/her rights to attend, speak and vote at a general meeting of the Company. A member may appoint more than one proxy in relation to the meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy need not be a member of the Company but must attend the meeting in person. A proxy form which may be used to make such appointment and give proxy instructions accompanies this notice.
2. To be valid, the instrument appointing a proxy, together with the power of attorney or other authority, if any, under which it is signed (or a notarially certified copy of such power or authority) must be deposited at the office of the Company's registrars, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY, not later than 10.00 am on 17 April 2012. Completion and return of a form of proxy will not preclude shareholders from attending or voting in person at the AGM, if they wish to do so.
3. Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 (the "Act") to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.
4. The statement of the rights of shareholders in relation to the appointment of proxies in paragraphs 1 and 2 above does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by shareholders of the Company.
5. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of the same powers as the corporation could exercise if it were an individual member provided they do not do so in relation to the same shares.

Notice of meeting

continued

6. To be entitled to attend and vote at the meeting (and for the purpose of the determination by the Company of the votes they may cast), shareholders must be registered in the register of members of the Company at 6.00 pm on 17 April 2012 (or, in the event of any adjournment, on the date which is 48 hours (excluding any part of a day that is not a working day) before the time of the adjourned meeting). Changes to the register of members of the Company after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.
7. Under section 527 of the Act members meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the meeting; or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Act. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with section 527 or 528 of the Act. Where the Company is required to place a statement on a website under section 527 of the Act, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the meeting includes any statement that the Company has been required under section 527 of the Act to publish on a website.
8. Any member of the Company attending the meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.
9. The following documents are available for inspection at the Company's registered office, Gartferry Road, Moodiesburn, Chryston, G69 0JE and at the offices of Clifford Chance LLP, 10 Upper Bank Street, London E14 5JJ during usual business hours, and will also be available at the place of the AGM from 9.00 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 135 of which the directors have the benefit of a "qualifying third party indemnity provision" for the purposes of sections 232, 234 and 236 of the Act).
10. At 2 March 2012 (being the latest practicable date prior to the publication of this notice) the issued share capital of the Company consists of 165,008,564 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 2 March 2012 are 165,008,564.
11. A copy of this notice, and other information required by section 311A of the Act, can be found at www.devro.com.

Shareholder information

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

Financial calendar

19 April 2012	Annual General Meeting
4 May 2012	Final Dividend Paid
31 July 2012	Half Year Results and Interim Dividend Announced
October 2012	Interim Dividend Paid
31 December 2012	Financial Year End
February 2013	2012 Results and Proposed Final Dividend Announced

Dividends

The final dividend will be paid on 4 May 2012 to shareholders on the register at close of business on 30 March 2012.

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

Payment of dividends in foreign currency

The company's registrar offers a Global Payment Service, which allows you to receive your dividends directly into your bank account in your local currency. Interested parties can view terms and register at www.investorcentre.co.uk or contact the registrar by telephone on +44 (0) 870 889 4050.

Half year results

Any shareholder wishing to receive a paper copy of the Interim Report and Results for the six months to 30 June 2012 should contact the Company Secretary.

Shareholder enquiries

For all share registration and dividend mandate enquiries contact:

The Registrar
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol
BS99 6ZZ
Telephone – 0870 889 4050

For other shareholder enquiries contact:

Company Secretary
Devro plc
Moodiesburn
Chryston
G69 0JE
Telephone – 01236 879191

Website

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

Directors and advisers

Executive directors

P W B Page

S C Webb (appointed 17 January 2011)

Non-executive directors

S J Hannam

J A Lodge (appointed 1 March 2012)

P A J Neep

S R Paterson

P N Withers (appointed 28 April 2011)

Company secretary and registered office

J Meredith

Moodiesburn

CHRYSTON

G69 0JE

Registered number: SC129785

Chartered accountants and statutory auditors

PricewaterhouseCoopers LLP

141 Bothwell Street

GLASGOW

G2 7EQ

Solicitors

Clifford Chance LLP

10 Upper Bank Street

Canary Wharf

LONDON

E14 5JJ

Financial advisers

Lazard & Co., Limited

50 Stratton Street

LONDON

W1J 8LL

Principal bankers

Barclays Bank plc

1st Floor, Aurora Building

120 Bothwell Street

GLASGOW

G2 7JS

Clydesdale Bank PLC

Clydesdale Bank Plaza

50 Lothian Road

EDINBURGH

EH3 9BY

HSBC Bank plc

Thames Valley

Corp. Banking Centre

5th Floor

Apex Plaza

READING

RH1 1AX

Rabobank International

Thames Court

One Queenhithe

LONDON

EC4V 3RL

Stockbrokers

Investec Securities

2 Gresham Street

LONDON

EC2V 7QP

Registrars

Computershare Investor Services PLC

The Pavilions

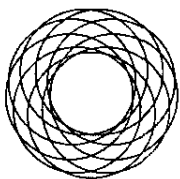
Bridgwater Road

BRISTOL

BS99 6ZZ

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DEVRO

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