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Devro plc

The world leader in edible casings

Leveraging our technical expertise

Annual Report and Accounts 2002

Devro is one of the world's leading producers of manufactured casings for the food industry, supplying a wide range of products and technical support to manufacturers of sausages, salami, hams and other cooked meats. The group's main focus is edible collagen-based products, which are a key component of our customers' product offerings to the end consumer, and have been steadily replacing gut casings in markets around the world.

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A focused business

Profile
Devro – the world leader in collagen casings

Devro is the world's leading provider of collagen products for the food industry. It manufactures a broad range of collagen casings at production plants in Scotland, Australia, the Czech Republic and the US, supported by technical development facilities in each country. Collagen is one of the most common forms of animal protein. It is transformed into edible casings by highly sophisticated biochemical processing technologies which are constantly being developed and improved. The Devro group is one of the most advanced exponents of these technologies.

Manufacturing locations

UK: Moodiesburn and Bellshill, Scotland
USA: Sandy Run, South Carolina
Czech Republic: Jilemnice, Korenov, Slavkov
Australia: Bathurst, New South Wales
Total employees – 1,700

Sales offices

Moodiesburn, Scotland; Hamburg, Germany; Sandy Run, South Carolina, USA; Auckland, New Zealand; Bathurst, New South Wales, Australia; Tokyo, Japan; Hong Kong; Prague, Czech Republic
Total employees – 100

Technical development sites

Moodiesburn, Scotland; Jilemnice, Czech Republic; Bathurst, New South Wales, Australia; Sandy Run, South Carolina, USA
Total employees – 100

Structure
Global direction – local focus

Devro supplies world markets from strategically located commercial operations and through an extensive network of distributors and agents. A realigned management structure has established Regional Directors with responsibility for day-to-day sales and operations at their businesses, and local profit accountability. Strategy, financial policy and business development continue to be directed centrally.

Products
A collagen casing for every application

We can supply edible collagen casings for any sausage application. With its Devro, Coria and Cutisin ranges, and comprehensive technical know-how, the business is well placed to meet the demands of the markets and customers around the world. Devro also manufactures and markets collagen films, plastic casings and purified collagen raw materials for medical and cosmetic use. In addition, the company distributes cellulose, fibrous and plastic casings.

1 Fresh sausage: typically breakfast or dinner sausage

2 Small calibre smoked sausage: wiener, frankfurter

3 Bratwurst: processed sausage eaten in summer, particularly in Germany and Central Europe

4 Beefstick: initially a US snack product, now expanding into many markets

5 Dried sausage: a wide category, including Swiss Landjaeger, Spanish Chorizo and Asian Lap Cheong

6 Linguisa: fresh and processed pork sausages made in Latin countries

7 Larger diameter smoked sausage: a wide category of principally pork sausage

8 Collagen film: protects the surface of wrapped meats during cooking

Key financials
Significant progress achieved in the key priority of debt reduction

	2002*	2001* (as restated)**
Earnings per share	**6.0p**	4.8p
Dividends per ordinary share	**3.0p**	2.0p
Turnover	**£138.0m**	£208.3m
Gross profit	**£44.6m**	£62.2m
– margin	**32.3%**	29.9%
Operating profit	**£18.4m**	£18.6m
– margin	**13.3%**	8.9%
Profit before taxation	**£15.5m**	£15.2m
Net cash from operating activities	**£29.3m**	£31.1m
Capital expenditure	**£5.9m**	£7.9m
Total indebtedness	**£35.2m**	£60.7m
Gearing	**62.9%**	155.5%

*Before exceptional items.
**Restated for the adoption of Financial Reporting Standard 19, Deferred Tax.

Chairman's statement Since the disposal of the cellulose business we have been seeing a much more stable business pattern

I am glad to report that our trading in 2002 demonstrated greater stability in all our operations as the year progressed, and we were able to put behind us the serious difficulties of recent years coupled with the food scares of 2001. Your business is now in a better position to progress than for some time with a more diverse product offering for our customers and restored balance sheet strength.

Total sales for 2002 were £138.0 million. Prior year sales as reported for the continuing business were £127.6 million. However, to provide a more meaningful comparison, £9.8 million of sales for distributed cellulose products should be added to the 2001 figure. On this like-for-like basis, 2002 sales are then 0.4% ahead of prior year. Sales volumes were 2.7% ahead of prior year with edible collagen showing modest increases across the entire range. Cutisin had a particularly strong year. Offsetting volume increases, however, was some price erosion, a function of mix change, competitive pressures and, most significantly, adverse exchange rate movements, principally in respect of the Czech Koruna which impacted Cutisin export pricing.

Pre-tax profit before exceptional items was £15.5 million against £15.2 million in 2001. An exceptional charge of £1.8 million was taken in the second half to cover the corporate restructuring announced in November. This charge reduced pre-tax profit as reported to £13.7 million against the 2001 reported loss of £37.0 million. Earnings per share before exceptional items increased to 6.0 pence from 4.8 pence in 2001. Net debt has been reduced significantly to £35.2 million from an overall level, including preference shares, of £60.7 million at 31 December 2001.

While a number of market issues that affected us last year continued into 2002, particularly in Europe, the scale of these issues eased through the year and we saw business returning to a more stable pattern. As a result, the important UK, Western European and American markets all produced a steady performance while Australia, Japan and South East Asian markets each delivered strong growth over prior year.

2002 was a year when we were able to focus all our attention on the collagen business following the disposal of the cellulose operations in 2001. As a result we have made considerable progress in extending and developing the range of products we can now offer our customers.

During 2002, we introduced a new porcine-based collagen casing range. This new range will sharpen our competitive edge by enabling us to offer customers a choice of porcine or bovine casings and should help us to increase collagen's market penetration. We introduced porcine collagen casings into continental European markets in the last quarter of 2002 and we intend to extend this range to UK applications during the first half of 2003. While overall volumes in this range are unlikely to be substantial during 2003, we believe that this will become a major competitive advantage in our drive to differentiate our product offering in the market place, with initial trials proving to be very successful.

However, important as porcine casings are, the key to Devro's continuing success rests on our desire and ability to satisfy the broader needs of our customers, and their customers, right around the world. This approach has led us to maintain an ongoing programme of product innovation, development and improvement. This year the programme has yielded, amongst several other advances, a new brand of Cutisin casing with improved strength, improved taste and improved bite characteristics and an enhanced Devro casing which offers our customers further opportunities to make significant productivity savings.

In November we announced a realignment of our worldwide management structure. This change places a greater emphasis on local control through regional business entities in Europe, the

Americas and Asia/Pacific. It creates a better focus on local profit generation and has released substantial overhead costs. The one-off cost associated with this structural change was £1.8 million. This charge is expected to yield annual savings of the same order and can be expected to be fully recouped during the course of 2003.

As part of the strategic positioning of the company, strengthening the balance sheet has been one of our key objectives. During 2002 our cash generation was strong and total indebtedness at the end of the year was £35.2 million compared with £60.7 million at 31 December 2001. This is a major achievement. Cash generation will continue to be the prime financial focus for us, at least in the short-term. The company redeemed all its preference shares during the period for £27.7 million, a discount, after costs, of £7.9 million. The reduction in indebtedness of £25.5 million since 31 December 2001 reflects this discount as well as the benefits of strong operational cash flow, constraints on capital expenditure, lower tax payments and the realignment of the dividend policy.

Dividend

The Board is proposing a final dividend of 2 pence (2001: 1 pence) bringing the total for the year to 3 pence (2001: 2 pence). It will be paid on 21 May 2003 to shareholders on the register at 11 April 2003. As I said in my last report to you, we intend to pursue a sustainable yet progressive dividend policy into the future. This significant improvement in the level of the final dividend reflects the success of our focus on reducing the level of indebtedness.

Employees

Once again, I have been impressed by the ability of our employees worldwide to tackle with equal vigour the opportunities and challenges faced by our business. Their hard work and commitment is greatly appreciated and, on behalf of the Board, I would like to thank everyone for their contribution.

Prospects

While the world economy remains uncertain, the global collagen casings market continues to demonstrate a reasonable degree of resilience. We have strong market positions in most areas of our business with the stability of a worldwide presence, and the business continues to be a strong cash generator with good potential for future growth. We are continuing to invest positively in the development of our products, processes and technology to underpin this growth potential. With sound financial management, focused technological innovation and stringent cost control supporting the manufacture of a sophisticated product range, I am confident that Devro will maintain its position as a leading producer of high quality, high performance casings.

Trading in the early part of the year has been generally satisfactory. The US, in particular, has achieved good volume growth over prior year although this has been largely offset by slower sales in South East Asia. Overall, however, there has been a solid start to the year and early results are in line with our expectations.

We have entered 2003 a stronger company with a stronger balance sheet and a sharper focus on local business responsiveness and profitability than was the case entering 2002. While we will continue to face competitive pressure, the group is in a good position to take advantage of the opportunities that will arise as the world food market becomes increasingly automated, generating increasing use for collagen casings. The Board therefore views the development of the company over the next few years with confidence and enthusiasm.

P. A. Barrett.

Pat Barrett OBE, Chairman

An improved structure A realigned structure for better control and profit accountability at a local level

With a sharper focus on local business operations, the new structure supports our continuing drive to improve cash generation, reduce costs and improve profitability by removing substantial overhead costs.

We have appointed four Business Directors – one at each of our major operations around the world. They oversee all day-to-day activities relating to sales and operations in their businesses and have local profit responsibility. All sit on the Executive Committee.

A number of functions benefit from being managed on a global basis. These functions, specifically Finance and Business Development, will continue to be managed centrally. The directors of these two functions also sit on the Executive Committee.

Global approach

The group comprises three effective global businesses – Devro, Coria and Cutisin – each producing products with differing characteristics to cater for individual customer applications across the world. Until the recent change, the business was centrally managed by functional management in order to make best use of resources and optimise the interaction of each of these businesses in the world's markets. While this global approach brought significant benefits – underlined by our product development successes this year, including the introduction of pork collagen casings – it also led to increased overheads, longer communications links and less effective responsiveness.

Local focus

The new structure leads directly to more regional control and responsibility, with local resources available for addressing opportunities at a local level. Strategic direction will be set globally, as will the major activities of market development, technical development and financial policy. This new structure is enabling us to reduce overhead costs and improve local profit accountability while still balancing the needs of the business globally. Sharper, and with lower costs, this new focus will help us improve our market responsiveness, improve our development lead times and improve our overall profitability. A global business with a local flavour.

Graeme Alexander

Graeme Alexander OBE, Chief Executive

Strengthening the balance sheet Excellent progress in debt reduction

Improving the financial strength of the business continues to be a key objective in the short to medium term, while not restricting important investment on initiatives that are essential to the group's long-term growth. Within this coherent strategy, debt reduction remains a priority. We have made significant progress. At 31 December 2002, total indebtedness was £35 million, a reduction of £26 million from £61 million at 31 December 2001.

Strong cash generation

The improved financial position was achieved by a balanced approach to cash management. While reducing capital expenditure, an appropriate amount was nevertheless invested in the maintenance and development of the business for the future. Working capital was improved through reductions in inventory holdings and the outstanding preference share capital was redeemed at a substantial discount. These achievements were supplemented by a one-off tax refund in the US of £3.2 million.

Redemption of preference share capital

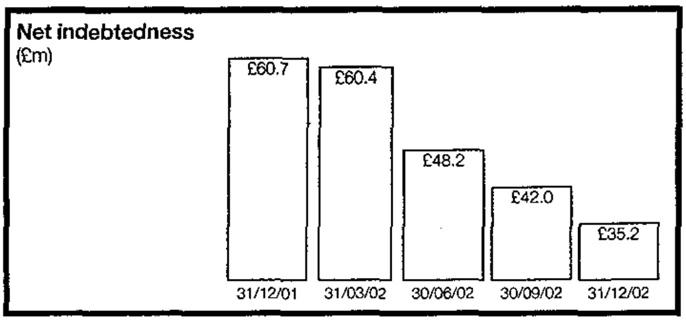
During the year, the company redeemed all its preference shares for £27.7 million. After costs, this reduced the group's overall indebtedness by £7.9 million. By agreeing to redeem the preference shares now – rather than in 2006 when they were due – we were able to redeem them at an effective discount of almost 25%.

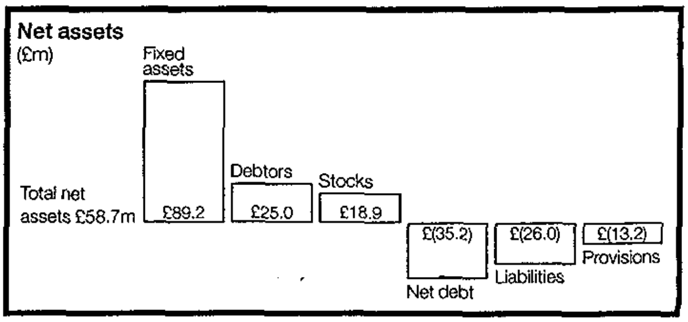
Maximising the value of our assets

We continue to explore opportunities for fully exploiting our assets in the most effective way possible to realise maximum value from them – whether that is by working assets harder or through disposal of redundant assets.

Although our progress this year has been bolstered by one-off initiatives such as the redemption of the preference share capital, our underlying focus on cash management yielded excellent results. We will continue this focus on cash.

John Neilson, Finance Director





Innovating for growth In a technology-driven market place, Devro is technically strong

Our technical expertise and the breadth of our product range make us the world's leading provider of collagen products for the food industry. Around the world, Devro produces a wide range of differing types of bovine collagen casing. Every sausage product needs a casing with different performance attributes. These attributes might be set by the meat recipe or the consumer's taste expectations, by the production process, or the way in which the sausage will be cooked. The casing for a fresh pork sausage, for example, is radically different from the casing for a pork bratwurst. Being able to offer more solutions for more customer applications helps us to reach new markets and encourage more sausage manufacturers to switch to collagen products.

Modern production methods

Traditionally, sausages were made by hand, with animal gut casings being filled with meat. Nowadays, most major manufacturers use sophisticated machinery which produces sausage products at very high speeds – resulting in significant productivity improvements and hence cost savings. But these modern production methods demand casings of high strength, predictability and consistency. At the same time, for the consumer, the casings must be capable of delivering excellent cooking performance together with good edibility and bite characteristics.

Our collagen casings meet each of these demands. Collagen also has positive food safety benefits. It comes from clean and controlled sources and can be traced back to its origin. While collagen casings are not necessarily cheaper than gut, the finished sausage almost invariably will be, thanks to the efficiency improvements that collagen casings allow in the manufacturing process.

Manufacturing efficiencies

Productivity – that's what Devro sells. We design our products to help our customers achieve productivity improvements in their sausage manufacturing processes. Just one example was our development in 2002 of a pleating process that can increase the length of casings available in a single strand by as much as 25%. Typically, this gives our customers the potential to reduce their machine cycling downtime by up to 7%.

Our extensive technical expertise means we are able to manipulate collagen to deliver range extensions and innovative new products that represent added value to our customers. Our technical development teams focus both on creating products that help our customers manufacture more efficiently and on constantly enhancing our own production processes.

Trevor Morgan,
Technical Director

Also, this year, under the Cutisin Fine brand, our Czech facility has developed a new casing for wiener and frankfurter-style sausages that offers improved edibility (including a low bite threshold) and cooking performance. At the same time, the casing maintains the high-tensile strength required for production.

Our technical leadership is underpinned by our teams of mechanical engineers, chemical engineers, microbiologists, applied chemists and food scientists. As well as helping customers improve their efficiency, we have a goal of year-on-year productivity improvements at our own plants. We apply our technical skills to develop processes that improve the manufacturing effectiveness at each of our plants. While we continue to seek to improve our productivity, we never lose sight of the need to maintain and improve the consistency and quality of our products. Quality and quality improvements are watchwords for the entire company.

Medical-grade collagen
Collagen has a range of applications in the medical field, including wound dressing, haemostasis products and medical devices.

From a specially customised hide processing facility in Bathurst, Australia, we produce medical-grade collagen, mainly for the US market. This is a small but steadily growing part of the Australian business.

Leveraging technology
The long-term potential of the casings market comes from accelerating the switch to collagen products and from fully exploiting new and as yet under-developed markets – and innovation is crucial to both those aims.

While we work closely with our customers to tailor our casings for the demands of their particular products, we are also developing products that change the market – such as our launch this year of the world's first casings made from pork collagen.

Porcine collagen casing – a world first The most significant expansion to Devro's product range in 25 years – and an industry breakthrough

For many years, sausage manufacturers have requested porcine-based collagen casings in order to produce pork sausage in pork casing – an important criterion for today's consumers and today's retailers. To date, collagen casing manufacturers have been heavily dependent on bovine collagen as a raw material. In recent years, there have been numerous disruptions to the supply chain and to the market, most notably due to BSE scares which have occurred within Europe. The new Devro range of pork collagen casings not only broadens our raw material supply base, it also greatly increases customer choice.

Developing pork-based collagen casing was not straightforward – several significant technical hurdles had to be overcome.

Tackling the technical issues

There were many challenges – raw material sourcing, developing a functional collagen matrix and establishing a viable commercial manufacturing process, to name but three. To address these issues, Devro set up a global multi-disciplinary team, including external specialist support.

A major technical issue requiring resolution was the fact that porcine collagen has significantly more intrinsic fat than its bovine equivalent. An entirely new process was required to be engineered in order to remove this fat in a manner that left the collagen matrix intact.

The hair structure within porcine collagen also created a major challenge. In bovine collagen, the hair follicle remains close to the surface of the skin and is easily removed. In pork collagen, it completely penetrates the entire collagen layer. An early challenge for the team was devising a novel method for removing this hair effectively and systematically without damaging the collagen structure.

The fibre network within porcine collagen is inherently weaker than in bovine collagen. In order to strengthen the porcine collagen to meet the requirements of the modern production methods used by our customers, we required to change the way the collagen molecules bond to each other. This was yet another challenge that the team met and overcame.

"We successfully developed the world's first porcine collagen casings."

Derek Norwood
Product Development Manager

Recognising the scale of the challenge that developing porcine collagen casings represented, we put together a multi-disciplinary project team of scientists and engineers from across the company. It also included people from external research support agencies. The team worked closely throughout the project to define milestones and met regularly to discuss progress. In order to shorten the timescale, the final development of the product and its manufacturing process took place simultaneously.

Our goal was to commercialise the product as speedily as possible. In order to achieve this, having established that the product itself was a feasible concept, the manufacturing process was developed simultaneously with the product development programme. In order to minimise capital expenditure in new equipment, the objective was set to develop a process which would utilise as much of the existing equipment as possible. This was successfully achieved and, importantly for our bovine kosher and halal certification, the porcine collagen can be processed completely separately from any bovine collagen in the same plant. A key food safety benefit which Devro's collagen has over gut casings is its complete traceability and this attribute has been maintained in the porcine collagen manufacturing process.

Helping to overcome resistance to collagen

Thanks to Devro, sausage manufacturers can now produce a small diameter pure pork sausage – never before possible. Previously, manufacturers would have required to use sheep intestine to achieve the necessary diameter.

Offering a wider range of collagen products offers our customers greater choice. While this in itself will not move manufacturers directly to collagen, it will help to overcome some of the old-fashioned prejudice on the merits of gut.

We have launched porcine collagen casings in continental Europe for wiener-type applications and a prototype is currently available for trial in UK fresh sausage applications. Our intention is to roll out this range in the UK and Europe during 2003-2004 and a worldwide patent has been applied for. We have drawn on our worldwide technical expertise to deliver a product which significantly extends the choice that our customers can offer consumers. It is no surprise that reaction to this new product – right across the industry – has been extremely positive.

From proposal to product launch – in under 20 months

0 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 months

- **0** March 2001 – porcine project receives Board approval
- **1** April 2001 – multi-disciplinary project team established
- **2** May 2001 – market research into porcine potential and key issues
- **4** June 2001 – project scientists establish prototype feasibility in laboratory (fat and hair removal problems solved)
- **6** August 2001 – mechanical engineers complete plant/process scoping
- **8** October 2001 – prototype casings successfully meet strength tests
- **11** January 2002 – first casing run in product testing laboratories
- **12** February 2002 – contract secured with reliable pork hide supplier
- **13** March 2002 – first process run successfully completed
- **16** June 2002 – consumer taste and bite evaluations
- **17** July 2002 – first full-scale production facility up and running
- **18** August 2002 – final product evaluation
- **19** September 2002 – first commercial sales

Operating and financial review

Operating review

2002 was a year of consolidation following the disposal of the cellulose business. It was also a year which saw a return to a more stable trading environment, particularly in those territories which had been influenced by issues such as BSE.

Total turnover for the year, at £138.0 million, was 0.4% ahead of the 2001 sales value of £137.4 million on a like-for-like basis. To reflect the sale of the cellulose business in September 2001, the prior year sales value has been restated to provide a more meaningful comparison. During 2002, 84% of group sales came from collagen products manufactured by group companies. The balance largely comprised products distributed on behalf of third parties.

Sales volumes were 2.7% ahead of prior year, with global volumes in each of our product lines showing an increase.

In Europe, after a quiet summer, UK domestic sales ended 2002 on a strong note, which resulted in volumes for the year as a whole being marginally ahead of 2001. Prices, however, eased down slightly during the course of the year and this more than offset the volume increase. As a consequence, turnover in the UK market was slightly behind prior year. Elsewhere, Cutisin had a particularly good performance with increases in almost every continental European market. This resulted directly from the continuous improvements being made to the Cutisin range in terms of both design of product and consistency of manufacture, and applied not only to edible casing but also to the non-edible range. Coria also had a positive year in Europe, with a strong showing in both the German and other Western European markets.

The principal issue in Europe was the strengthening of the Czech Koruna against the US dollar and the Euro, Cutisin's major trading currencies. This reduced the effective price of Cutisin's exports and led to an overall reduction in profitability of some £2 million.

In the Americas, while casing volume showed a slight decrease on prior year, the effective underlying growth pattern was maintained. In 2001, Coria experienced a one-off temporary benefit as American regulatory authorities restricted collagen casing imports for part of the year as a result of the BSE issue. Although volumes reverted to more normal levels, Coria continued to develop its commercial position with gains in market share being achieved in the US. These gains have been won largely on the strength of significant improvements in the consistency and quality of the Coria product offering.

In Asia, solid gains were achieved in every major market as the region recovered from earlier BSE concerns. Japan recorded a 20% uplift in volume while the other South East Asian markets together achieved a similar result. Asian markets in total, however, account for only around 5% of group turnover and therefore the positive impact on group profits is correspondingly limited. Nevertheless, this region, being a large consumer of sausage products, continues to offer opportunities for future growth and there is clearly considerable potential in this substantial emerging market over the longer-term. Elsewhere in the Pacific area, trading in Australia, after a slow start to the year, gradually improved and the year as a whole showed a solid gain over 2001. This resulted from a combination of an improvement in market conditions and some further share gains.

In our manufacturing operations, significant improvements have been achieved. Good progress has been made in both Coria and Cutisin in improving the quality of the product, plant productivity and the cost of manufacture. In Devro plants, technical development continues to yield significant benefits in both products and processes. These improvements helped considerably to offset pricing pressure in the markets where it was an issue. While significant progress was made in 2002, there still remains substantial scope for continuing the improvement process. The group's manufacturing assets continue to form a very solid base for the further development of our business.

2002 saw a concerted effort to broaden, develop and improve our product offering across the group. As a result, a number of enhancements were made to both products and processes, ranging from significant productivity improvement in Coria through improved casing texture from Cutisin, to a more robust wiener product from Devro for the important frankfurter market.

Of particular note was the introduction of the new technology for manufacturing pork-based collagen casings. This has been designed initially for use in processed sausage applications such as wieners and frankfurters. However, a version which is suitable for fresh applications in markets such as the UK is well on track for introduction during the course of 2003. This innovative product will allow manufacturers to extend further their choice of casing not only between bovine and porcine collagen but, particularly in the smaller diameters of pork sausage, between sheep gut and porcine collagen.

As the Chairman has outlined, a significant improvement in the group's cash position was a key objective for the year. As part of the strategy for achieving this improvement, considerable effort was placed behind reducing inventory levels. This led to some periods of capacity being temporarily restricted, which in turn had a negative impact on the group's profit performance. However, a substantial improvement in the group's balance sheet was achieved by these actions.

Our efforts to reduce costs and improve business performance continue to be vigorous. While Devro operates on a global scale, our knowledge and expertise are local. We therefore require to take a global view of our products and our technology while staying close to our local markets. To achieve this more effectively we decided to realign the management structure during the second half of 2002. This change allows for greater local control of day-to-day operational matters, while still retaining a global perspective on longer-term business, market and technology development issues. This realignment has enabled us to streamline our corporate structure with a corresponding reduction in overhead costs, while also improving our responsiveness to local business issues.

Despite economic uncertainty in worldwide markets, 2002 was a year which saw a return to a more stable operating environment in the collagen casing industry and growth in the group's volumes. We believe that our strong global operational base together with the exciting new products in the pipeline will result in Devro being well positioned to continue this growth in 2003 and beyond.

We continue to face strong competition in all the markets in which we operate. We will meet this challenge through our programmes of product improvements and innovation, together with rigorous cost containment. Our great strength remains the two thousand people who make up Devro worldwide. It is their skills, creativity and commitment which will drive our business forward to future success.

Financial review

Sales for the year were £138.0 million. Prior year sales as reported for the continuing business were £127.6 million. However, to provide a more meaningful comparison, £9.8 million of sales for distributed cellulose products should be added to the 2001 figure. On this like-for-like basis, 2002 sales were 0.4% ahead of prior year.

Sales volumes were 2.7% ahead of prior year. While the growth in edible collagen casings was relatively modest, substantial increases were recorded in both non-edible collagen casings and distributed cellulose products.

Average selling prices fell by 3%, partly due to pricing pressure and partly as a result of adverse transactional exchange rate movements, principally related to the strength of the Czech Koruna.

The translation of local currencies into sterling had a positive impact of 0.7% on group turnover.

Gross profit of £44.6 million (32.3%) compares with £43.7 million (34.2%) for the continuing business in 2001. If the impact of distributed cellulose products is excluded from both years, the gross profit in 2002 can be restated as 34.7% (2001: 34.5%).

Price deterioration was the major factor affecting the gross profit margin, with an adverse impact on group profitability of some £4 million, of which over £2 million relates to foreign exchange. The majority of this pricing pressure affected the European operations of Devro and Cutisin.

Sales volume growth generated £1.5 million of gross profit, with sales in the Asia/Pacific region significantly up on prior year as these markets recover from concerns over BSE.

Inventory levels were substantially reduced with factory output down on 2001. The concentration on reducing working capital, while significantly improving cash generation, has had a negative impact on profitability in 2002. However, manufacturing efficiencies and yields were improved, particularly in the US and Scotland. In addition, raw material costs were reduced by £1 million. These measures, coupled with tight cost controls, helped offset the negative factors affecting profit margins.

The operating profit, before exceptional items, of £18.4 million, 13.3% of sales, compares with £19.4 million, 15.2% of sales, for the continuing business in 2001. Net operating expenses, excluding exceptional costs, of £26.3 million are £2 million higher than prior year. These expenses are only marginally higher than 2001 if £1.5 million of head office costs previously borne by the cellulose business are excluded from the comparison.

The exceptional charge of £1.8 million represents the costs incurred on the recent realignment of the worldwide management structure. A tax allowance of £0.5 million has been provided in respect of this charge. The exceptional tax credit of £3.2 million relates to the carry back of tax losses in the group's US operations.

Net interest expense totalled £2.8 million in 2002 (2001: £3.4 million). The interest charge is lower than 2001 despite the increased borrowing undertaken to redeem the preference shares. Interest rates have fallen and cash generation in 2002 has been particularly strong. Interest cover on underlying earnings was 6.4 times.

The foreign currency and interest rate risk profile of our business is minimised by a policy of hedging. All hedging is undertaken centrally by the Corporate Treasury function, based in Moodiesburn, in accordance with Board approved policies and authorities. Specifically, policies permit forward transaction hedging to a maximum level of 75% of anticipated currency flows for up to one year ahead. They also permit hedging of up to 100% of interest rate exposures for a period not exceeding five years. As a matter of policy, the group does not undertake any speculative transactions which would increase its foreign exchange or interest rate risks.

The tax charge of £1.0 million (7.5%) takes account of the exceptional tax credit of £3.2 million mentioned above. The group's underlying effective tax rate, before exceptional items, is 30% (2001: 31.2%). Financial Reporting Standard 19, Deferred Tax, specifies the use of the full provision method of accounting. This new standard has been adopted by the group this year and the deferred tax provision at December 2002 is £8.6 million. Prior year numbers have been restated to reflect the impact of this change in accounting policy.

As approved at the Extraordinary General Meeting held on 12 June 2002, the company redeemed all its preference shares during the period for £27.7 million, a discount, after costs, of £7.9 million. The preference dividend of £1.0 million represents the amounts paid up to the dates of redemption of the preference share capital.

Due to the redemption of the preference shares during the year, it is more meaningful to compare net debt at 31 December 2002 with net debt and preference share capital totalling £60.7 million at 31 December 2001. Net debt at 31 December 2002 totalled £35.2 million. This significant reduction reflects the discount of £7.9 million obtained on the redemption of the preference shares, lower tax payments and rigorous control over working capital and capital expenditure. Net debt at the year end comprised gross debt of £49.4 million and cash of £14.2 million in a variety of currencies held on deposit by various group companies for local commercial reasons.

Earnings attributable to ordinary shareholders, before exceptional items, have increased to £9.6 million from £7.8 million in 2001. Earnings per share before exceptional items was 6.0 pence compared with 4.8 pence in 2001.

An interim dividend per share of 1 pence was paid in October 2002 which, together with the proposed final dividend of 2 pence, will bring the total for the year to 3 pence (2001: 2 pence).

Graeme Alexander OBE, Chief Executive

John Neilson, Finance Director

Environmental report

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

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

It is a group objective that none of its products, processes or operations shall pose any threat to the environment. Commitment to this objective is highlighted in the Safety & Environmental Policy, which complements the company Philosophy. Recognising that teamwork and co-operation are key to success, training arrangements are in place to raise employee awareness of environmental issues and develop support for future initiatives.

Environmental update

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

- Energy

  The Scottish operation achieved its annual energy reduction target in line with the plan submitted to achieve the 80% discount on the climate change levy which was introduced by the UK Government in 2001. The energy reduction programme required to achieve the 2003 target is already in place and the appropriate capital allocation has been committed.

  The Czech operation has replaced the cooling unit in its mass preparation room in Jilemnice which has increased the effectiveness of this facility.

- Effluent

  During this year, the equipment necessary to re-use the waste washings from our core casing process was installed in our Australian facility. These recovered washings will be used to initially process the bovine hides, reducing the quantity of water being used by around one third.

  An upgrade to the control systems at the effluent treatment plant at Jilemnice resulted in increased purity of the discharge stream.

  Effluent monitoring systems are in place across the group and this information is being used to target areas in line with the group's policy of continuous improvement.

- Spillage control

  Improvements to the acid storage tanks at the Czech facility were undertaken which reduce the risk of spillage and improve the efficiency of this operation. The Scottish operation has recently invested in a spillage control re-training programme for the emergency response team who are responsible for mitigating any chemical spillage.

- Waste

  We installed the technology necessary to allow the hide waste from our primary collagen processing plant to be concentrated before discharge. This improvement has reduced the quantity of waste going to landfill from this operation by a factor of four.

  The US facility has sourced different colour components and improved its technology, which results in improved efficiency of this process and reduced waste.

- Air emissions

  A system for removing particulates has been successfully installed in our US facility which utilises waste wood as an energy source.

  An acid scrubbing system has been installed in the Australian facility which improves the quality of air being emitted.

- Accreditation

  The Czech operating company has been accredited the Environmental Standard ISO 14001 and the other facilities in the group are working towards this level of standard.

  The Australian Government last year introduced a national packaging covenant which requires companies to adopt an Environmental Code of Practice for packaging which leads to the recycling of packaging and an overall reduction in the quantity of waste. Our Australian operation was highly commended for its action plan which it submitted to the Government Agency.

The group has demonstrated compliance with regulations, permits and consent limits in its various activities. However, with a philosophy of continuous improvement in all areas of the business, improved environmental performance is expected. The implementation of an effective Environmental Management System will provide assurance in this regard.

Environmental issues will continue to be a high priority within the group.

Directors and Executive Committee

Board
Pat Barrett, Graeme Alexander, Patrick Mocatta, Trevor Morgan, John Napier, John Neilson

Executive Committee
Graeme Alexander, Mike Cooke, Gordon Frame, Graham McGilchrist, Trevor Morgan, John Neilson, Petr Raschik

*Independent Non-Executive Directors

1 **Pat Barrett OBE (66)**
Chairman*
Pat joined Devro in June 2001 as a Non-Executive Director and was elected Chairman in July 2001. He is Chairman of Pura plc, a leading supplier to the food manufacturing industry; is Chairman of East Surrey Holdings plc, a company involved in the water and natural gas sector; and is also Chairman of Yorkshire Group plc, a manufacturer of dyes and speciality chemicals. It is his responsibility to lead the Board and oversee management in its development of strategies to grow Devro's business.

2 **Dr Graeme Alexander OBE (53)**
Chief Executive
Graeme joined Devro in 1977 and was appointed as a director of the company controlling Devro's European operations in 1989, becoming Chief Executive following the company's flotation in 1993. He is responsible for the overall direction of Devro's business and leads the Executive Management team. He is actively involved in all the important aspects of the group's development – people, markets, products and technology. Graeme has extensive knowledge of the global casing market and is a key driver in the development of company strategy and vision. He is Chairman of the Non-Executive Directors' Remuneration Committee.

3 **Patrick Mocatta (53)**
Non-Executive Director*
Patrick joined Devro in June 1996 as a Non-Executive Director. He is a Partner of UBS Capital, the private equity investment arm of UBS, where he has spent ten years and held a number of senior managerial positions. He is Chairman of the Executive Directors' Remuneration Committee.

4 **Trevor Morgan (46)**
Executive Director
Trevor joined Devro in 1982 and has held a number of key positions at a senior executive level within the group. He was appointed a director in March 1998. Trevor is responsible for overseeing the development of the group's technology base. With a broad technical background and considerable product applications experience, he plays an important role in the development of our products and processes.

5 **John Napier (65)**
Non-Executive Director*
John joined Devro in June 1999 as a Non-Executive Director. He was formerly Finance Director of WH Smith Group plc. He is the Senior Independent Director and is Chairman of the Audit Committee. He is a Non-Executive Director of Hamleys PLC, Thomson Intermedia plc and Electrak Holdings Limited.

6 **John Neilson (49)**
Finance Director
A Chartered Accountant, John joined Devro in 1976 and was appointed as a director of the company controlling Devro's European operations in 1989, becoming Finance Director in 1991. With a small corporate finance team and finance directors in each of our operating entities located in seven countries, each trading in several currencies, John maintains a tight control over cash, treasury and capital expenditure. He is responsible for the development of financial policies and procedures and for ensuring these are adhered to around the world.

7 **Dr Mike Cooke (51)**
Regional Director Europe
Mike joined Devro in September 2001 after 25 years in ICI. He brought with him a wide experience of senior technical, project and manufacturing roles in different businesses both in the UK and overseas. Mike was appointed Regional Director Europe during 2002 and has responsibility for leading the group's business activities in Europe.

8 **Gordon Frame (43)**
Regional Director Americas
Gordon joined Devro in 1986 and has held a number of key technical and business development positions at a senior level within the group. In 2000, he was relocated to South Carolina, US to head up the manufacturing operation of the Coria facility. During 2002, Gordon was appointed Regional Director Americas and has responsibility for leading the group's business activities in both North America and Latin America.

9 **Graham McGilchrist (52)**
Regional Director Asia/Pacific
Graham joined Devro in 1981 as head of finance for the Australian operation. Since that time, he has held a number of senior positions within the Devro worldwide organisation, including President of our North American operations until returning to Australia in 1995. During 2002, Graham had his area of responsibility expanded to include Japan and South East Asia as well as the Australian and New Zealand markets.

10 **Petr Raschik (58)**
Business Director Cutisin
Petr joined the Cutisin organisation in 1967 and has held a number of senior positions in the technical function until his appointment as General Manager in 1990. In this role, he has been responsible for the Cutisin business and, under his leadership, Cutisin has become a major contributor to the Devro group. Petr was appointed to the Executive Committee of Devro in 2002.

Directors' report for the year ended 31 December 2002

The directors present their report and the audited financial statements for the year ended 31 December 2002.

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

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

The consolidated profit and loss account for the year is set out on page 27.

Dividends and transfers to reserves
The directors recommend a final dividend of 2 pence per ordinary share. If the final dividend is approved by shareholders, ordinary dividends for the year will total 3 pence (2001: 2 pence).

The preference dividend of £1,044,000 represents the amounts paid at the time of redemption of the preference shares.

After providing for the dividends detailed above, the profit of £6,687,000 will be transferred to group reserves (2001 restated: loss of £49,877,000 was transferred from group reserves).

Redemption of convertible cumulative preference shares
At the Extraordinary General Meeting of the company held on 12 June 2002, shareholders passed an ordinary resolution approving the redemption of the outstanding convertible cumulative preference shares. Further details of the redemption are included in note 22 to the financial statements.

Share capital
No ordinary shares were issued during the year. The total number of ordinary shares in issue at 31 December 2002 was 160,495,760.

Share options
Options were granted on 19 March 2002 at a nil exercise price in respect of 273,384 ordinary shares of 10 pence each under the Devro 2001 Deferred Bonus Scheme to seven eligible executives.

Details of all options granted but not exercised or lapsed at 31 December 2002 are shown in note 23 to the financial statements.

Research and development
The group is committed to research and development activities in order to secure its position as a world leader in the casings industry. The research and development expenditure incurred in the year is set out in note 3 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 pages 14 and 15.

In accordance with the Articles of Association, Mr J A Neilson and Mr J A Napier retire by rotation and being eligible offer themselves for re-election at the Annual General Meeting. Mr J A Neilson is presently subject to a service agreement with the company which is terminable by either party on two years' notice, but this notice period will be reviewed in the course of 2003. Mr J A Napier's appointment is for a fixed term until the Annual General Meeting in 2005, subject to the Articles of Association and the wishes of the shareholders expressed in General Meeting.

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

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

The interests of the directors in the share capital of the company are shown on page 26.

Substantial shareholdings
At 20 March 2003, the company had been notified of the following material interests in 3% or more of the issued ordinary share capital of the company:

	Number of ordinary shares	Percentage of issued capital at date of notification
Acomita Investments Limited	22,434,052	13.98
BriTel Fund Trustees Limited/ The Trustees of BT Pension Scheme	10,958,169	6.83
Devon County Council	7,023,730	4.38
Lazard Asset Management	6,230,200	3.88
Prudential plc and its subsidiary undertakings	5,570,382	3.47
JP Morgan Securities Limited	5,531,768	3.45
West Yorkshire Pension Fund	5,258,379	3.28
John David Hughes	4,815,000	3.00

Charitable and political contributions
The contributions made by the group during the year for charitable purposes amounted to £52,000. There were no contributions for political purposes.

Employees
The group aims to attract, retain and motivate employees of the highest calibre in order to achieve improvements in its performance.

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

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

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

- Financial information was disclosed by means of employee briefings and the distribution of the Interim and Annual Report and Accounts:
- There were joint management and employee committees on Health and Safety; and

- Meetings were undertaken with employees and union representatives to discuss the issues affecting them.

Policy on payment of suppliers

The group agrees terms and conditions with suppliers before business takes place. The group's policy is to pay agreed invoices in accordance with the terms of payment. At 31 December 2002, the company had no trade creditors; the amount owed to trade creditors by the group was equivalent to 42 days of purchases from suppliers.

Annual General Meeting

The Annual General Meeting of the company will be held on Thursday 8 May 2003 at 11.00 am at The Westerwood Hotel, 1 St Andrews Drive, Cumbernauld. The Notice of Annual General Meeting is set out on pages 56 to 59. In addition to the ordinary business of the meeting under items 1 to 4, shareholders will be asked for their approval of the following matters:

Item 5: Auditors

Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 30 January 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP, as auditors. A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the Annual General Meeting.

Item 6: Remuneration report

Shareholders will be invited to approve the Remuneration Report set out on pages 22 to 26.

Item 7: Approval of the Devro 2003 Performance Share Plan

This year the Devro 1993 (No. 1) Executive Share Option Scheme and the Devro 1993 (No. 2) Executive Share Option Scheme (the "Schemes") will expire at the end of their 10-year lives. In light of this, the Board has been considering what long-term incentive arrangements should be introduced to replace the Schemes. The Board looked into various alternatives, including replacing the Schemes with a new executive option scheme or introducing a deferred annual bonus arrangement, before concluding that the introduction of a new performance share plan would be the most appropriate form of replacement. In reaching this conclusion, the directors believe that awarding performance shares subject to meeting challenging and relevant performance conditions will provide a better link between reward and performance. Furthermore, under new accounting standards for share-based payments, the Board believes that performance shares will provide a more cost-effective incentive. Finally, compared with a share option scheme, dilution (to the extent that newly issued shares are used) will be lower as fewer shares will need to be granted to deliver an award of equivalent value.

The proposed performance share plan is designed to offer a competitive, long-term incentive programme which will reward growth in profitability over a three year performance period. For group-based employees, the performance condition will require growth in underlying earnings per share ("EPS"). For regional-based employees, the Board considers that linking the vesting of performance shares to more bespoke targets, based on growth in regional profits, will create a more focused reward mechanism. Any performance conditions based on regional targets will be designed to be as demanding as the EPS growth targets that will be set for group-based employees. Performance conditions for members of the Executive Committee (including Executive Directors) will be based on group performance only.

The directors consider that the proposed performance share plan will operate to align employees' interests with those of shareholders by its focus on improved financial performance and by encouraging employees to build and maintain a direct shareholding in the company.

Except in relation to recruitment, the maximum value of shares that may be awarded in any financial year is limited in the rules to an employee's annual base salary. In practice, other than in exceptional circumstances, award levels are expected to be well within this limit.

The present intention is that participation in the proposed performance share plan will be offered to the most senior executives below Executive Committee level. Currently, the Executive Directors and other Executive Committee members participate in a deferred bonus plan as their sole form of longer-term incentive arrangement, but this will be reviewed later in the year and the rules of the proposed plan have been drafted so as not to preclude their participation.

Details of the new performance share plan are set out on page 58 of this document and Resolution 7 on page 56 seeks shareholder approval for the plan.

Item 8: Political donations

This resolution seeks authority from shareholders to enable the company to make donations or incur expenditure which it would otherwise be prohibited from making or incurring following the coming into effect of Part XA of the Companies Act 1985 (as amended by the Political Parties, Elections and Referendums Act 2000) (the "Act"). Amongst other things, the Act prohibits the company from making donations to European Union ("EU") political organisations in excess of an aggregate of £5,000 per annum unless the company has been authorised to make such donations by its shareholders.

The company has no intention of changing its current practice of not making donations to political parties in the EU and it will not do so without the specific endorsement of its shareholders. However, the Act defines EU political organisations widely to include, amongst other things, organisations which carry on activities which are capable of being reasonably regarded as intended to affect public support for a political party in any EU member state or to influence voters in relation to any referendum in any EU member state. As a result, it is possible that EU political organisations may include, for example, bodies concerned with policy review and law reform, with the representation of the business community or sections of it or with the representation of other communities or special interest groups which it may be in the company's interest to support.

The Act requires that this authorising resolution should not purport to authorise particular donations or expenditure. However, the Act also requires the disclosure in the company's Annual Report of the particulars of any donation made to an EU political organisation or any EU political expenditure incurred which is in excess of £200. As such, if any such donation is made or expenditure is incurred this will be disclosed in the company's Annual Report for next year and, as appropriate, succeeding years.

The Board considers that the authority sought under resolution 8 to allow it or the company's subsidiary, Devro (Scotland) Limited, to make such donations and/or incur this type of expenditure is necessary, principally to ensure that, because of the uncertainty over which bodies are covered in the definition of the EU political organisation, the company does not unintentionally commit a technical breach of the Act.

Item 9: Allotment of new shares
The general authority of the directors to allot the unissued share capital of the company conferred at the Annual General Meeting on 14 May 1998 will expire on 13 May 2003. The directors wish to renew this authority for a period of five years, including the limited disapplication of shareholders pre-emption rights. An ordinary resolution which is set out in full in the Notice of Meeting on page 56 will be proposed as special business at the Annual General Meeting to grant allotment authority in respect of 52,000,000 ordinary shares of 10 pence, forming £5,200,000 of share capital, being less than 33% of the issued ordinary share capital.

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

The directors consider that it is in the best interests of the company to have available these authorisations in items 9 and 10 in case of need, even though there is no immediate intention to use them.

Item 11: Purchase of own shares by the company
The authority granted to the directors to purchase the company's own ordinary shares of 10 pence each will expire at the date of the forthcoming meeting. The directors wish to renew this authority and a special resolution, which is set out in full in the Notice of Meeting on page 57, will be proposed as special business at the Annual General Meeting to grant authority to purchase up to 10% of the issued ordinary share capital.

Again, the directors consider that it is in the best interests of the company to have available this authorisation, in case of circumstances when it would be appropriate to use it. They would only use it when satisfied that this will result in an increase in earnings per share and is in the best interests of shareholders generally.

Item 12: New Articles of Association
The last revision of the articles was approved by shareholders in 1996. Special Resolution 12 seeks authority to adopt new articles for the company (the "articles") to make them consistent with the regulations governing:

(i) the CREST system for holding and transferring shares in uncertificated form; and

(ii) electronic communications between the company and its shareholders.

At the same time, the opportunity is being taken to make a number of changes to bring the articles up to date with recent legislative and regulatory changes and to facilitate the practical management of the company.

It is also proposed that the provisions in the articles which relate to convertible preference shares be deleted, as, following their redemption by the company last year, none remain in issue.

In his recent report, "A Review of the Role and Effectiveness of Non-Executive Directors", Derek Higgs recommended a number of changes in the way in which listed companies are managed. His recommendations are likely to be implemented in July of this year and may require the company to appoint additional non-executive directors, and for the roles of non-executive directors to change. Accordingly, it is proposed that the articles be amended so as to increase the maximum number of directors from nine to eleven and to increase the annual limit on the aggregate fees paid to them to £350,000.

Although the company is not currently able to provide the facility to communicate with shareholders electronically, it may wish to offer this service in the future. If this facility is put in place, shareholders will not be obliged to receive communications electronically, but will be able to elect to receive certain communications from the company in electronic form. It is hoped that in due course, a large take-up will result in efficiencies and cost savings.

The main effects of the changes proposed are described in the Appendix on pages 58 and 59 of this document.

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

The directors confirm that suitable accounting policies have been used and applied consistently and that reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 2002. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 1985. In addition, they are responsible for taking reasonable steps to safeguard the assets of the company and the group and to prevent and detect fraud and other irregularities.

By order of the Board
J Meredith Secretary
Chryston 26 March 2003

Corporate governance

The company remains committed to high standards of corporate governance. All listed companies are obliged to report on how they apply the Principles of Good Governance set out in the Combined Code (the "Code"), and whether they complied with the Code's Provisions throughout the accounting period.

The Board and its Committees

The Board of the company meets regularly throughout the year. In 2002 nine formal meetings were held. In addition, the Board has established Remuneration, Nomination and Audit Committees to provide independent and objective advice on important aspects of the group's affairs. All Committees have written remits.

The Executive Directors' Remuneration Committee comprises Mr P J E Mocatta, who chairs the Committee, Mr P A Barrett and Mr J A Napier, all of whom are Non-Executive Directors. The Committee decides all aspects of the remuneration packages for the company's Executive Directors, ensuring that they are appropriately rewarded for their individual contributions to the group's overall performance.

The Non-Executive Directors' Remuneration Committee comprises Dr G Y Alexander, who chairs the Committee, and Mr J A Neilson. The remit of the Committee is to consider and settle the remuneration of the Non-Executive Directors.

The Nomination Committee comprises Mr P A Barrett, Mr P J E Mocatta and Mr J A Napier, all of whom are Non-Executive Directors, and Dr G Y Alexander. This Committee is responsible for monitoring and reviewing the composition of the Board. Mr P A Barrett chairs this Committee.

The Audit Committee comprises Mr J A Napier, who chairs the Committee, Mr P A Barrett, and Mr P J E Mocatta, all of whom are Non-Executive Directors. The Finance Director, the Head of Risk Assurance and Controls, who is responsible for internal audit, and senior representatives of the external auditors are normally invited to attend meetings. The detailed remit of the Committee includes ensuring the preservation of good financial practices throughout the group; monitoring that controls are in force to ensure the integrity of the financial information; reviewing the interim and annual financial statements before their submission to the Board; and providing, by way of regular meetings, a line of communication between the Board and the external and internal auditors.

Under the company's detailed procedures, a number of specific matters are reserved to the Board for decision. These include the setting of corporate strategy, approval of the annual budget and decisions on major capital expenditure.

There is an agreed procedure for directors to obtain independent legal and other professional advice, but so far none of the directors has felt it necessary to take this course.

All directors have direct access to the advice and services of the Company Secretary.

The company has a formal policy for training directors.

As noted on page 14, Mr P A Barrett, Mr P J E Mocatta and Mr J A Napier are "independent" directors.

Chairman and Chief Executive

Since its Listing on the Stock Exchange in 1993, the company has operated in line with the principle that there are two key tasks at the top of the company – the running of the Board, with which the Chairman is charged, and the Chief Executive's responsibility for running the company's business. Mr P A Barrett was appointed Non-Executive Chairman in July 2001 and Dr G Y Alexander has been Chief Executive since September 1993. The Chairman has no direct executive responsibility for running the company's business.

In line with Provision A.2.1 of the Code, Mr J A Napier was appointed to the position of "Senior Independent Director" in 2001. The Board sees this primarily as a passive role, but accepts the Hampel Committee's view 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 Chief Executive.

Board balance

The Chairman believes that an efficient Board requires a range of skills and a blend of experience in order to ensure balanced and informed discussions at Board meetings. The present structure of the Board consists of three Non-Executive Directors from a range of backgrounds, including the Chairman, and three Executive Directors, including the Chief Executive. The composition of the Board is reviewed on an ongoing basis. Background details of the current directors are set out on pages 14 and 15.

Supply of information

To ensure that the Board is supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties, the agenda and relevant papers are generally circulated five days in advance of any meeting. Detailed monthly management accounts in a format agreed by the Board are circulated to each director.

Appointments to the Board

As outlined above, the company has a formal Nomination Committee with a detailed written remit. In line with best practice, the function of the Committee is to review candidates on behalf of the Board and put forward nominations to the Board for final consideration.

Re-election of Directors

The Code recommends that all directors should be required to submit themselves for re-election at least every three years. The company's Articles of Association presently require that at each Annual General Meeting one third of the directors or, if the number is not a multiple of three, the number nearest to but not exceeding one-third, shall retire from office on a rotating basis. The Board acknowledges that there is a hypothetical conflict between this Article and Code Provision A.6.2, and intends to invite the shareholders to amend the Articles at the forthcoming Annual General Meeting to bring them fully into line with the Code.

Directors' remuneration
Details of the level of remuneration received by the directors in 2002 are set out in the Remuneration Report on pages 22 to 26. 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. Basic salaries for Executive Directors are reviewed annually against those paid for similar positions in comparable companies. Professional advice from independent advisers is sought each year in this regard by the Executive Directors' Remuneration Committee, which also reviews external survey data.

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

The Executive Directors' service contracts provide for notice periods of two years. Code Provision B.1.7 recommends one-year notice periods and the Executive Directors' Remuneration Committee will review this issue in the course of the year with the intention of bringing company practice into line with the Code. Due to the technical nature of the business these contracts contain restrictive covenants which will be rigorously applied.

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

All members of the Executive Directors' Remuneration Committee are Non-Executive Directors and free from any potential conflict of interest. The Non-Executive Directors' Remuneration Committee consists only of Executive Directors, so no director is involved in deciding his own remuneration. Both Committees have formal written terms of reference.

The Remuneration Report on pages 22 to 26 follows Schedule B to the Code and contains a detailed statement of the remuneration of each director for 2002, including details of the company's pension policy.

Dialogue with shareholders
The company is willing to enter into discussions with any shareholder. Each year, a programme of meetings with major institutional investors takes place, covering the principal issues affecting the company and trading in its markets.

All shareholders have access to the company's website at www.devro.plc.uk.

The Annual General Meeting
The company's normal practice at the Annual General Meeting is for the Chief Executive and Finance Director to give detailed presentations on the previous year's trading and the issues affecting the business, and this will be continued in 2003. All directors are expected to be present, and those who chair committees of the Board will be available to answer any relevant questions. The company will indicate the level of proxy votes lodged on each Resolution as recommended by Code Provision C.2.1.

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 an Operating and Financial Review by the Chief Executive and the Finance Director. 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.

Internal control
A process has been established for identifying, evaluating and managing the significant risks the group faces. This includes the appointment of a Head of Risk Assurance and Controls whose responsibility is to apply the risk assessment procedures throughout the group and work alongside subsidiary undertakings in establishing this process. Furthermore, the programme of work performed by internal audit includes non-financial risks.

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

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

- **Financial reporting**
  There is a budgeting system in place which includes an annual budget approved by the Board. Monthly actual results are reported against budget. Revised forecasts for the year are prepared regularly. The company reports to shareholders twice a year.
- **Operating controls**
  Financial and operational policies and procedures are set out in formal procedures manuals which are held by all Business Directors and finance staff. The latter are responsible for ensuring that all relevant staff are familiar with their content and application.
  All Board members, Business Directors and senior finance staff have been issued with Internal Control Guidelines.
- **Treasury**
  Formal written treasury procedures are in operation, covering banking arrangements, hedging instruments, investment of cash balances and borrowing procedures. Individual staff responsibilities and levels of delegated authority in relation to treasury matters are defined.
- **Internal audit**
  The company has an internal audit function, which has a reporting line to the Chairman of the Audit Committee and also direct access to the Chairman of the Board. The Head of Risk Assurance and Controls, who is responsible for internal audit, normally attends all Audit Committee meetings and makes a formal report to the Committee annually.

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

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

The 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.

Audit Committee and auditors

The Audit Committee, consisting of Non-Executive Directors, reviews the annual and interim reports (including the Chairman's Statement and the Operating and Financial Review) and discusses the main issues and assumptions with the external auditors. Each year the Committee is required by its remit to review internal control issues with the internal and external auditors, and agrees an internal audit programme for the coming year. The Committee also considers the performance and the cost-effectiveness of the auditors.

Compliance

The company complied with all the Code Provisions throughout the accounting period other than those specifically referred to in the above report.

Going concern

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

Remuneration report

The Board has established two committees to deal with directors' remuneration. The Executive Directors' Remuneration Committee, consisting entirely of independent Non-Executive Directors, settles all aspects of the remuneration of the Executive Directors, while the Non-Executive Directors' Remuneration Committee, whose members are both Executive Directors, decides the level of fees paid to the Non-Executive Directors. 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 2002, both committees took advice from New Bridge Street Consultants Limited, a firm of independent remuneration consultants appointed by both committees. 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 are Dr G Y Alexander (Committee Chairman) and Mr J A Neilson.

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 any other benefit, nor is any element of their remuneration pensionable. Details of their contracts of service are set out on page 23.

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

The members of the Committee are Mr P J E Mocatta (Committee Chairman), Mr P A Barrett and Mr J A Napier.

Compliance

The constitution and operation of the Committee is in compliance with the provisions of the Combined Code on Corporate Governance. When setting its remuneration policy, the Committee gives full consideration to the provisions and principles of the Combined Code.

Policy on Executive Directors' remuneration

Total level of remuneration

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

The main components

The Committee plans to review Executive Directors' remuneration in the course of the year to ensure that it is appropriate and in line with best practice. Details will be published in next year's Remuneration Report. The main components of the current policy are set out below.

i) Base salary

The base salary for Executive Directors is reviewed annually by the Committee taking into account the performance of the individual and information from independent sources on the rates of salary for similar jobs in comparable companies. The policy is to set base salaries around median level.

ii) Annual bonus and deferred bonus

The Committee believes that a significant portion of Executive Directors' remuneration should be performance related. It is therefore the practice of the Committee to incentivise the Executive Directors by setting challenging annual bonus targets which are relevant to the needs of the business in the year in question.

Cash bonuses up to a maximum of 50% of annual base salary may be achieved and such awards, if any, will be matched by a grant of shares of equivalent value under the Devro 2001 Deferred Bonus Scheme. These shares will generally not vest for a period of three years from the date of grant, and will lapse if a director resigns before the vesting period has elapsed. In view of the fact that the targets required to be achieved to earn the original bonus are stretching, no further performance conditions attach to these shares.

Under this framework, the maximum achievable by any Executive Director under these performance-related schemes in any year is the equivalent of his annual base salary.

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

The setting of relevant targets in line with the strategic objectives of the company is key to the effectiveness of any performance-related scheme. In 2002 the main priority of the Board was securing and improving the financial footing of the company. Therefore, the Committee developed a two-year programme whereby the initial focus was on cash flow generation and debt reduction. Subsequent targets would employ more traditional measures to address shareholder value. Accordingly, in 2002 the Committee set targets with an exceptional emphasis on debt reduction and a smaller element attributable to profit improvement and personal performance. The debt reduction and profit improvement performance targets were identical for each director. During the year, cash generation was particularly well managed and the company's preference shares were redeemed on discounted terms. The combined effect saw the group's total indebtedness fall from £60.7 million to £35.2 million resulting in a reduction in financing costs of the order of £2 million per annum. As a result of these achievements, annual bonuses of 35% of base salary were paid, with matching share awards under the Deferred Bonus Scheme. Details are set out on pages 25 and 26.

The annual bonus for 2003 is focused on fixed targets for profit growth, margin improvement and debt reduction. In setting these new parameters, the Committee took account of the group's much-strengthened balance sheet and operating flexibility, and decided that profit growth plus margin improvement should have a slightly greater weighting than debt reduction. The Committee believes that the actual targets, which are the same for all Executive Directors, are commercially sensitive and does not intend to publish precise details. However, no bonus will be paid in respect of profit growth or margin improvement unless the 2002 position is exceeded, and substantial debt reduction will be required for any award to be triggered under that heading. The Committee will meet in early 2004 to assess whether and to what extent the targets have been met by reviewing the audited performance of the group against these targets.

The Committee currently operates the Deferred Bonus Scheme described above as its sole form of longer-term incentive for Executive Directors.

The company intends to seek approval at the forthcoming Annual General Meeting for the introduction of a Performance Share Plan. Full details are set out on page 58.

Company policy on contracts of service

The company's Chairman, Mr P A Barrett, is engaged for a fixed term, with a 12 month notice period applying thereafter.

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

The service contract of each of the three Executive Directors presently contains a provision that employment may be terminated by the company on two years notice or on payment of two years salary. Due to the technical nature of the business, the directors' service contracts contain restrictive covenants. The Committee proposes to review notice periods in the course of the year, with the intention of bringing the position into line with best practice as set out in the Combined Code.

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

The company's policy on the termination of contracts of service of senior executives is dictated by events, bearing in mind the circumstances of termination and the interests of the company. In the past, compensation payments have, in appropriate circumstances, been phased and linked to non-compete agreements.

The details of the service contracts of those who served as directors during the year are:

	Date of contract	Date term due to expire	Notice period
P A Barrett	19 Jun 2001	12 Jun 2004	12 months
G Y Alexander	16 Jun 1993	n/a	24 months
P J E Mocatta	11 Dec 2002	AGM 2005*	n/a
T F Morgan	21 Mar 1995	n/a	24 months
J A Napier	11 Dec 2002	AGM 2005*	n/a
J A Neilson	16 Jun 1993	n/a	24 months

*Subject to the Articles of Association and the wishes of the shareholders expressed in General Meeting.

Company pensions policy regarding Executive Directors

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

Set out below are details of the pension benefits to which each of the Executive Directors is entitled:

	Age at 31 Dec 02	Additional accrued benefits earned in the year £ per annum	*Additional* accrued benefits earned in the year (net of inflation) £ per annum	Accrued entitlement £ per annum	**Transfer value at 31 Dec 02 £**	Transfer value at 31 Dec 01 £	Increase in transfer value less directors' contributions £
G Y Alexander	53	10,273	7,079	120,416	**1,375,231**	1,102,846	263,559
T F Morgan	46	4,970	3,563	53,490	**447,118**	368,608	73,697
J A Neilson	49	5,914	4,052	70,122	**672,028**	551,774	115,225

Notes to pension benefits:

i) The accrued pension entitlement shown at the year end is that which would be paid annually on retirement, based on service to the end of the year. The additional accrued benefits shown above represent the difference between the accrued benefit at the year end and that at the previous year end.

ii) Members generally contribute at 4.5% of pensionable salary which is gross earnings (excluding benefits in kind and discretionary payments) less the lower earnings limit. However, between 1 September 2001 and 1 September 2002 members contributed at 3.5% of pensionable salary.

iii) All transfer values have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11. The transfer values of the accrued entitlement represent the value of assets that the pension scheme would need to transfer to another pension provider on transferring the scheme's liability in respect of the directors' pension benefits. They do not represent sums payable to individual directors and, therefore, cannot be added meaningfully to annual remuneration.

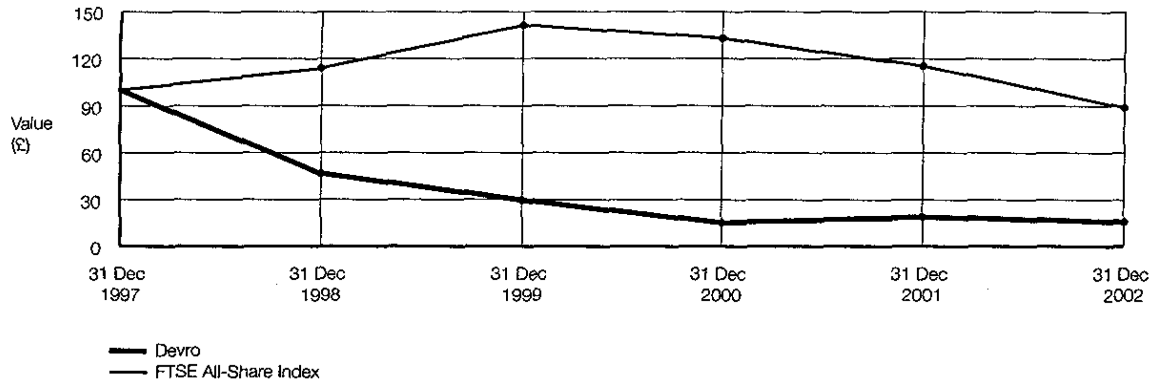
During the year, the Trustees of the Plan (who act independently of the company), following advice from the scheme actuaries, decided that it was appropriate in view of the changing investment conditions to alter a number of the assumptions including the discount rate for calculating transfer values. This has resulted in a substantial increase in transfer values as at 31 December 2002.

The increase in the transfer value less directors' contributions is the increase in the transfer value of the accrued benefits during the year excluding inflation and after deducting the directors' personal contributions to the scheme.

The following additional information is applicable:

- Normal retirement age is 65. Members may retire at age 60 without actuarial reduction to the accrued pension.
- A spouse's pension of one-half of the member's pension is payable on death after retirement.
- Pension payments in excess of the Guaranteed Minimum Pension escalate at 5% per annum for service up to 31 December 2001. From 1 January 2002, pension payments in excess of the Guaranteed Minimum Pension will escalate in line with the Retail Price Index plus 1%, subject to a minimum of zero and a maximum of 7%.
- Death in service benefit insurance provides for a payment equal to three times salary.

Performance graph



The above graph looks at the value, by the end of 2002, of £100 invested in Devro plc on 31 December 1997 compared with the value of £100 invested in the FTSE All-Share Index. The other points plotted are the values at intervening financial year-ends.

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

In the opinion of the directors the FTSE All-Share Index is the most appropriate index against which the total shareholder return of the company should be measured. There are no other food casings companies listed on the London Stock Exchange.

Directors' detailed emoluments

Details of directors' emoluments for those directors who served during the year ended 31 December 2002 were as follows:

	Basic salary		Bonuses		Fees		Benefits in kind*		Total	
	2002 £'000	2001 £'000	**2002 £'000**	2001 £'000	**2002 £'000**	2001 £'000	**2002 £'000**	2001 £'000	**2002 £'000**	2001 £'000
P A Barrett†	**–**	–	**–**	–	**90**	49	**–**	–	**90**	49
G Y Alexander	**234**	227	**82**	45	**–**	–	**20**	16	**336**	288
P J E Mocatta	**–**	–	**–**	–	**25**	24	**–**	–	**25**	24
T F Morgan	**129**	126	**45**	25	**–**	–	**15**	14	**189**	165
J A Napier	**–**	–	**–**	–	**25**	25	**–**	–	**25**	25
J A Neilson	**135**	131	**47**	33	**–**	–	**18**	14	**200**	178
Total	**498**	484	**174**	103	**140**	98	**53**	44	**865**	729

†P A Barrett joined the Board in June 2001.

*Benefits in kind include the provision of a company car, fuel and medical insurance for each Executive Director.

Deferred Bonus Scheme

Awards made to Executive Directors under the Devro 2001 Deferred Bonus Scheme during the year were as follows:

	Cycle ending	Award date	Number held at 1 Jan 02	Shares awarded in course of year	Number of shares vested	Value vested	**Number held at 31 Dec 02**
G Y Alexander	2005	19 Mar 02	–	70,088	–	–	**70,088**
T F Morgan	2005	19 Mar 02	–	38,895	–	–	**38,895**
J A Neilson	2005	19 Mar 02	–	50,448	–	–	**50,448**

The market price on 19 March 2002 (the date of the award) was 66 pence. No performance criteria attach to the Scheme. The awards made in 2002 were in respect of the performance of the individual directors in 2001, and will vest on 19 March 2005 subject to continued service.

Awards made since 31 December 2002 in respect of the performance of the individual directors in 2002 were as follows:

	Cycle ending	Award Date	Deferred Bonus Shares
G Y Alexander	2006	13 Mar 03	157,571
T F Morgan	2006	13 Mar 03	87,117
J A Neilson	2006	13 Mar 03	90,906

The market price on 13 March 2003 (the date of the award) was 54 pence.

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), details of outstanding options to acquire ordinary shares and details of awards made under the 2001 Deferred Bonus Scheme, at the beginning and end of the financial year, are as follows:

	Ordinary shares 31 Dec 02	Ordinary shares 31 Dec 01	**Share options at 31 Dec 02**	Share options at 31 Dec 01	**Exercise price (pence)**	**Earliest date for exercise**	**Latest date for exercise**	**Deferred Bonus Scheme Shares 31 Dec 02**	Deferred Bonus Scheme Shares 31 Dec 01
P A Barrett	**145,000**	100,000	–	–	–	–	–	–	–
G Y Alexander	**436,642**	436,642	**60,000[1]**	60,000	**248**	**14.04.97**	**13.04.04**	**70,088**	–
			60,000[2]	60,000	**251**	**11.12.98**	**10.12.05**		
			100,000[2]	100,000	**244**	**19.09.99**	**18.09.03**		
P J E Mocatta	**60,000**	20,000	–	–	–	–	–	–	–
T F Morgan	**180,051**	180,051	**25,000[1]**	25,000	**237**	**27.10.96**	**26.10.03**	**38,895**	–
			40,000[2]	40,000	**251**	**11.12.98**	**10.12.05**		
			50,000[2]	50,000	**244**	**19.09.99**	**18.09.03**		
J A Napier	**20,000**	5,000	–	–	–	–	–	–	–
J A Neilson	**423,485**	423,485	**45,000[1]**	45,000	**248**	**14.04.97**	**13.04.04**	**50,448**	–
			45,000[2]	45,000	**251**	**11.12.98**	**10.12.05**		
			70,000[2]	70,000	**244**	**19.09.99**	**18.09.03**		

[1] No performance conditions are attached to options granted in 1993 and 1994.

[2] Exercise of options is conditional on average earnings per share growth of RPI plus 2% per annum over a three year period.

Messrs Barrett and Napier purchased a further 20,000 and 7,500 ordinary shares respectively in January 2003.

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 2002, amounted to 273,386 ordinary shares.

The vesting date of the Deferred Bonus Scheme Shares is 19 March 2005.

All share options were granted for nil consideration.

No options were exercised by directors, or lapsed unexercised, during the year or up to the date of this report.

The market price of the company's shares at 31 December 2002 was 44 pence and the range of market prices during the year was 44 pence to 93 pence. The market price of the company's shares on the date on which the Deferred Bonus Scheme shares were awarded was 66 pence.

On behalf of the Board

P J E Mocatta Chairman, Executive Directors' Remuneration Committee
26 March 2003

Consolidated profit and loss account for the year ended 31 December 2002

	Notes	2002 Before exceptional items £'000	2002 Exceptional items (note 4) £'000	2002 Total £'000	2001 (as restated) Before exceptional items £'000	2001 (as restated) Exceptional items (note 4) £'000	2001 (as restated) Total £'000
Turnover							
Continuing operations	2	**138,033**	–	**138,033**	127,619	–	127,619
Discontinued operations	2	–	–	–	80,645	–	80,645
		138,033	–	**138,033**	208,264	–	208,264
Operating profit/(loss)							
Continuing operations	3	**18,356**	**(1,762)**	**16,594**	19,393	–	19,393
Discontinued operations	3	–	–	–	(802)	–	(802)
		18,356	**(1,762)**	**16,594**	18,591	–	18,591
Loss on disposal of cellulose business	4	–	–	–	–	(52,132)	(52,132)
Interest (net)	7	**(2,848)**	–	**(2,848)**	(3,421)	–	(3,421)
Profit/(loss) on ordinary activities before taxation	2, 8	**15,508**	**(1,762)**	**13,746**	15,170	(52,132)	(36,962)
Tax on profit/(loss) on ordinary activities	9	**(4,653)**	**3,628**	**(1,025)**	(4,737)	(2,402)	(7,139)
Profit/(loss) on ordinary activities after taxation		**10,855**	**1,866**	**12,721**	10,433	(54,534)	(44,101)
Minority interests		**(181)**	–	**(181)**	(229)	95	(134)
Profit/(loss) for the financial year	10	**10,674**	**1,866**	**12,540**	10,204	(54,439)	(44,235)
Dividends – ordinary	11	**(4,809)**	–	**(4,809)**	(3,210)	–	(3,210)
– preference	11	**(1,044)**	–	**(1,044)**	(2,432)	–	(2,432)
Transfer to/(from) retained profits	24	**4,821**	**1,866**	**6,687**	4,562	(54,439)	(49,877)
Earnings/(loss) per ordinary share							
– basic	12			**7.2p**			(29.1)p
– diluted	12			**7.2p**			(29.1)p
– basic before exceptional items	12			**6.0p**			4.8p

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

Statement of group total recognised gains and losses

	2002 £'000	2001 (as restated) £'000
Profit/(loss) for the financial year	**12,540**	(44,235)
Exchange differences (note 25)	**1,809**	2,761
Total gains and losses recognised for the year	**14,349**	(41,474)
Prior year adjustment (note 9)	**(6,278)**	–
Total gains and losses recognised since the last Annual Report	**8,071**	(41,474)

Balance sheets
at 31 December 2002

	Notes	Group 2002 £'000	Group 2001 (as restated) £'000	Company 2002 £'000	Company 2001 £'000
Fixed assets					
Tangible assets	13	**89,187**	91,795	**149**	282
Investments	14	**–**	–	**133,227**	121,237
		89,187	91,795	**133,376**	121,519
Current assets					
Stocks	15	**18,921**	22,258	**–**	–
Debtors: amounts falling due after more than one year	16	**3,324**	3,204	**12,836**	41,545
Debtors: amounts falling due within one year	16	**21,637**	22,787	**1,463**	599
Cash at bank and in hand		**14,146**	18,770	**2,715**	1,608
		58,028	67,019	**17,014**	43,752
Creditors: amounts falling due within one year	17	**(32,864)**	(30,082)	**(30,889)**	(14,780)
Net current assets/(liabilities)		**25,164**	36,937	**(13,875)**	28,972
Total assets less current liabilities		**114,351**	128,732	**119,501**	150,491
Creditors: amounts falling due after more than one year	18	**(42,462)**	(39,553)	**(37,000)**	(32,000)
Provisions for liabilities and charges	20	**(13,206)**	(11,468)	**(459)**	(135)
		(55,668)	(51,021)	**(37,459)**	(32,135)
		58,683	77,711	**82,042**	118,356
Capital and reserves					
Called up share capital	22	**16,050**	52,117	**16,050**	52,117
Share premium account	24	**4,848**	4,848	**4,848**	4,848
Capital redemption reserve	24	**35,587**	–	**35,587**	–
Special reserve	24	**128**	3,138	**24,672**	52,172
Profit and loss account	24	**(593)**	15,105	**885**	9,219
Equity shareholders' funds		**56,020**	39,141	**82,042**	82,289
Non-equity shareholders' funds		**–**	36,067	**–**	36,067
Total shareholders' funds	25	**56,020**	75,208	**82,042**	118,356
Minority interests – equity	26	**2,663**	2,503	**–**	–
		58,683	77,711	**82,042**	118,356

The financial statements on pages 27 to 54 were approved by the Board of Directors and signed on its behalf by:

J A Neilson Finance Director
26 March 2003

Consolidated cash flow statement for the year ended 31 December 2002

	Notes	2002 £'000	2001 £'000
Net cash inflow from operating activities	27	**29,305**	31,126
Returns on investments and servicing of finance	28	**(5,271)**	(5,704)
Taxation		**1,775**	(5,492)
Capital expenditure and financial investment	28	**(5,582)**	(7,762)
Acquisitions and disposals	28	**(1,190)**	(1,837)
Equity dividends paid		**(3,204)**	(6,901)
Cash inflow before management of liquid resources and financing		**15,833**	3,430
Management of liquid resources	28	**4,657**	10,922
Financing	28	**(21,810)**	(15,320)
Decrease in cash in the year		**(1,320)**	(968)

	Notes	2002 £'000	2001 £'000
Reconciliation of net cash flow to movement in net debt			
Decrease in cash in the year		**(1,320)**	(968)
Cash (inflow)/outflow from (increase)/decrease in debt	29	**(5,917)**	15,320
Cash inflow from decrease in liquid resources	29	**(4,657)**	(10,922)
Change in net debt resulting from cash flows		**(11,894)**	3,430
Translation difference	29	**1,327**	862
Movement in net debt in the year		**(10,567)**	4,292
Opening net debt		**(24,681)**	(28,973)
Closing net debt	29	**(35,248)**	(24,681)

Notes to the financial statements for the year ended 31 December 2002

1 Principal accounting policies

The financial statements have been prepared under the historical cost convention, in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important group accounting policies is set out below, together with an explanation of changes made to previous policies on the adoption of new accounting standards in the year.

Changes in accounting policies

Financial Reporting Standard 17, Retirement Benefits, is being adopted in line with the transitional timetable laid down by the standard.

Financial Reporting Standard 19, Deferred Tax, has been adopted in these financial statements. The implementation of this standard requires full rather than partial provision for deferred tax and represents a change in accounting policy. Comparative figures have been restated accordingly. The effect of this change is explained in note 9.

Basis of consolidation

The consolidated financial statements include the financial statements of the company and all its subsidiary undertakings up to 31 December 2002. Intra-group sales and profits are eliminated fully on consolidation.

Goodwill

Goodwill arising on acquisitions represents the difference between the fair value of the consideration given and the aggregate of the fair values of the identifiable net assets acquired. Goodwill arising on acquisitions prior to 1998 was eliminated from the consolidated financial statements by immediate write off to reserves..There have been no acquisitions since 1998.

Intangible assets which represented patents, trademarks, trade names, know-how and payments for non-compete agreements were reclassified as goodwill at the time of the company's flotation in June 1993. This goodwill is set off against an unrealised reserve which is being transferred to realised reserves on a straight line basis over 20 years in accordance with Financial Reporting Standard 10, Goodwill and Intangible Assets.

Tangible fixed assets

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

The principal lives are:

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

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

In accordance with Financial Reporting Standard 11, Impairment of Fixed Assets and Goodwill, the group undertakes a review for impairment of fixed assets if events or changes in circumstances indicate that the carrying amount of the fixed assets may require to be reassessed. To the extent that the carrying amount exceeds the recoverable amount, i.e. the higher of net realisable value or "value in use", the fixed assets are written down, as appropriate, by charging additional depreciation. The value in use is determined from discounted estimated future net cash flows obtainable as a result of an asset's continued use.

Fixed asset investments

The company's investments in subsidiary undertakings are shown at cost less any provision for impairment.

Leases

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

Research and development

All research and development expenditure is written off as incurred.

Stocks and work in progress

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

Foreign currencies

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

Turnover

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

Deferred taxation

Full provision is made on a non-discounted basis for deferred tax liabilities arising from timing differences. Deferred tax assets are recognised to the extent that they are regarded as recoverable.

Pension and other post-retirement benefits

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

The group provides health care benefits for retired employees in the United States. The majority of the group's employees in the United States may become eligible for these benefits if they reach retirement age while still working for the group. These benefits are earned over the active service lives of the employees. Provision is made for post-retirement medical costs based on an assessment of actuarial liabilities and this is amortised over the expected average remaining service lives of the relevant employees.

Financial instruments

Accounting policies relating to the principal financial instruments used by the group are set out below:

- **Interest rate swaps**
  Interest rate swaps are used to manage interest rate exposures and are accounted for under the hedge accounting method. Gains or losses arising from the difference between floating and swap rates are taken to the profit and loss account as adjustments to interest expense in the year in which they arise.
- **Forward foreign currency contracts**
  The group enters into forward foreign currency contracts for the purchase and sale of foreign currencies arising from operating activities in order to manage its exposure to fluctuations in currency rates. Gains or losses on contracts are taken to the profit and loss account on the maturity of each contract.
- **Cross currency swaps**
  Cross currency swaps are used to manage foreign exchange exposure on intercompany borrowings by matching liabilities for borrowings in currencies other than the base currency of the relevant entity with assets in the same currencies as the borrowings.

2 Segmental information

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

	Turnover		Operating profit/(loss)		Net assets	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000	2002 £'000	2001 (as restated) £'000
By geographical origin (legal entity basis)						
Europe	**80,737**	72,024	**12,477**	12,623	**61,038**	69,624
Americas	**30,994**	33,271	**2,088**	1,618	**21,108**	26,446
Asia/Pacific	**26,302**	22,324	**3,791**	5,152	**18,537**	16,641
Total continuing operations	**138,033**	127,619	**18,356**	19,393	**100,683**	112,711
Discontinued operations	**–**	80,645	**–**	(802)		
	138,033	208,264				
Before exceptional items			**18,356**	18,591		
Exceptional items (note 4)			**(1,762)**	(52,132)		
Net interest			**(2,848)**	(3,421)		
Profit/(loss) before tax			**13,746**	**(36,962)**		
Debt due by Devro plc					**(42,000)**	(35,000)
					58,683	77,711

The geographical destination of turnover does not differ materially from the geographical origin analysis above.

The geographical analysis of operating profit in 2001 has been restated to reflect a more appropriate allocation of certain internal recharges to make the figures comparable with 2002.

3 Cost of sales and other operating income and expenses

	2002	2001		
	Total £'000	Continuing £'000	Discontinued £'000	Total £'000
Turnover	**138,033**	127,619	80,645	208,264
Cost of sales	**93,401**	83,950	62,068	146,018
Gross profit	**44,632**	43,669	18,577	62,246
Selling and distribution costs	**12,789**	10,766	9,348	20,114
Administrative expenses	**11,150**	9,188	5,658	14,846
Research and development expenditure	**3,513**	3,375	3,306	6,681
Other expenses	**1,328**	1,178	1,363	2,541
	28,780	24,507	19,675	44,182
Less: Other operating income	**742**	231	296	527
Net operating expenses	**28,038**	24,276	19,379	43,655
Operating profit/(loss)	**16,594**	19,393	(802)	18,591

The above analysis for 2002 includes the exceptional items totalling £1,762,000 as detailed in note 4.

4 Exceptional items

a) Exceptional costs in the year ended 31 December 2002

A charge of £1,762,000, largely in respect of redundancy costs, has been made during 2002. This restructuring charge has been deducted in arriving at the operating profit of £16,594,000 and is included in the following headings in note 3 above:

	2002 £'000
Selling and distribution costs	**1,066**
Administrative expenses	**536**
Research and development expenditure	**160**
	1,762

A tax allowance of £469,000 in respect of the restructuring charge has been provided at 31 December 2002.

b) Exceptional tax credit in the year ended 31 December 2002

During the year, the group received a tax refund of £3,159,000 relating to the carry back of tax losses in its US operation.

c) Exceptional costs in the year ended 31 December 2001 – loss on disposal of the cellulose business

On 1 October 2001, the cellulose assets of the group, including the intellectual property and the share capital of certain of the group's subsidiary undertakings in Belgium, Holland and Canada, were sold to Teepak, LLC, an entity established by Lake Pacific Partners, LLC, a Chicago-based private equity fund.

The exceptional charge for the year ended 31 December 2001 of £52.1 million together with the associated tax charge of £2.4 million represented the loss on disposal of the cellulose business of £54.5 million. This loss comprised a reduction in net assets of £19.9 million and a charge to the profit and loss account of £34.6 million for goodwill relating to the cellulose business which was written off to reserves on acquisition. There was no effect on net assets for the goodwill write off because of a corresponding credit to reserves.

5 Directors' emoluments

A detailed analysis of directors' remuneration, including salaries, performance-related bonuses and long-term incentives, is provided in the Remuneration Report on pages 22 to 26. Details of the emoluments of the highest paid director are as follows:

	2002 £'000	2001 £'000
Aggregate emoluments	**336**	288
Defined benefit pension scheme:		
Accrued pension at end of year	**120**	110

6 Employee information

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

	2002 Number	2001 Number
By employee category		
Operations and engineering	**1,721**	2,566
Sales and marketing	**102**	150
Distribution	**36**	64
Administration	**123**	163
Research and development	**99**	129
	2,081	3,072

	2002 £'000	2001 £'000
Staff costs (for the above persons):		
Wages and salaries	**35,535**	60,179
Social security costs	**4,310**	7,842
Other pension costs (note 21)	**2,213**	2,728
	42,058	70,749

7 Interest (net)

	2002 £'000	2001 £'000
Interest receivable and similar income	**1,675**	1,309
Interest payable and similar charges:		
On bank loans and overdrafts repayable within five years	**(4,523)**	(4,730)
	(2,848)	(3,421)

8 Profit/(loss) on ordinary activities before taxation

	2002 £'000	2001 £'000
Profit/(loss) on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation of tangible fixed assets	**8,753**	11,429
Research and development expenditure	**3,513**	6,681
Auditors' remuneration (company £55,000; 2001: £50,000)	**188**	181
Hire of plant and machinery – operating leases	**343**	353
Hire of other assets – operating leases	**281**	209
(Gain)/loss on disposal of tangible fixed assets	**(3)**	30
Loss on disposal of cellulose business (note 4)	**–**	52,132

Remuneration of the company's auditors for the year ended 31 December 2002 for provision of non-audit services to the group was £338,000, of which £266,000 related to tax planning and compliance (2001: £878,000, of which £452,000 related to the disposal of the cellulose business and £290,000 related to tax planning and compliance).

9 Tax on profit/(loss) on ordinary activities

	2002 £'000	2001 (as restated) £'000
Current tax		
United Kingdom corporation tax at 30% (2001: 30%)	**466**	1,393
Foreign tax	**3,309**	2,646
	3,775	4,039
Adjustments in respect of prior years	**(3,346)**	208
Total current tax	**429**	4,247
Deferred tax		
Origination and reversal of timing differences representing:		
United Kingdom corporation tax	**111**	211
Foreign tax	**489**	2,737
	600	2,948
Adjustments in respect of prior years	**(4)**	(56)
Total deferred tax	**596**	2,892
Tax on profit/(loss) on ordinary activities	**1,025**	7,139

An exceptional tax refund of £3,159,000 (note 4) relating to the group's US operation is included within current tax – adjustments in respect of prior years.

Included within the foreign deferred tax charge of £2,737,000 for the year ended 31 December 2001 is a charge of £2,402,000 which was a consequence of the sale of the cellulose business and relates to the reversal of certain deferred tax assets (note 4).

The effective tax rates for both years are lower than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2002 £'000	2001 £'000
Profit/(loss) on ordinary activities before tax	**13,746**	(36,962)
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	**4,124**	(11,089)
Effects of:		
Adjustments to tax in respect of prior period	**(3,350)**	152
Foreign tax rates	**66**	243
Permanent differences	**185**	(209)
Permanent differences in respect of exceptional items	**–**	18,042
Tax on profit/(loss) on ordinary activities	**1,025**	7,139
Origination and reversal of timing differences – deferred tax charge	**(596)**	(2,892)
Current tax charge	**429**	4,247

2001 incorporates the impact of the disposal of the cellulose business on 1 October 2001.

Prior year adjustment

The policy on accounting for deferred tax was changed during the year to comply with Financial Reporting Standard 19, Deferred Tax. The comparative figures have been restated to reflect the new policy. The effect of the change is summarised below:

	2001 £'000
Profit and loss account	
Increase in deferred tax charge	383
Increase in loss for the financial year	383
Statement of group total recognised gains and losses	
Increase in loss for the financial year	383
Balance sheet	
Increase in opening deferred tax provision	6,278
Increase in deferred tax charge for the year	383
Increase in closing deferred tax provision	6,661
Decrease in profit and loss account reserve	6,661

10 Profit/(loss) for the financial year

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

	2002 £'000	2001 (as restated) £'000
Dealt with in the financial statements of the holding company	**(2,734)**	(49,217)
Profit retained by subsidiary undertakings	**15,274**	4,982
	12,540	(44,235)

11 Dividends

	2002 £'000	2001 £'000
Dividends on equity shares:		
Ordinary – Interim paid of 1 pence per share (2001: 1 pence) ((a) below)	**1,599**	1,605
– Final proposed of 2 pence per share (2001: 1 pence)	**3,210**	1,605
	4,809	3,210
Dividends on non-equity shares:		
Preference 6.65% – paid	**1,044**	1,233
– payable ((b) below)	**–**	1,199
	1,044	2,432
	5,853	5,642

(a) The employee share ownership plan trust waived the dividends due in respect of the shares purchased by it under the Devro 2001 Deferred Bonus Scheme (note 23).

(b) The preference shares were redeemed during the year (note 22).

12 Earnings/(loss) per ordinary share

	2002	2001 (as restated)
Earnings/(loss) per ordinary share (pence)		
– Basic	**7.2**	(29.1)
– Diluted	**7.2**	(29.1)
– Basic before exceptional items	**6.0**	4.8

Basic earnings per share for 2002 is calculated by dividing the profit for the year, after preference dividends, of £11,496,000 (2001 restated: loss of £46,667,000) by 160,495,760 (2001: 160,495,760) ordinary shares, being the number of shares in issue throughout the year.

In accordance with Financial Reporting Standard 14, Earnings Per Share, share options are only treated as dilutive in the calculation of diluted earnings per share if their exercise would result in the issue of ordinary shares at less than the average market price of the shares during the year. Potential ordinary shares are only treated as dilutive where the effect is to reduce earnings per share or increase loss per share. Diluted earnings per share is calculated by dividing the profit for the year, after preference dividends, of £11,496,000 by the average number of shares, including the effect of all dilutive potential ordinary shares, of 160,785,041.

For the year ended 31 December 2001, the effect of the potential conversion of preference shares and share options into ordinary shares is not reflected in the diluted earnings per share calculation as it would not have been beneficial for holders of preference shares or share options to have converted these given the average market price of ordinary shares during the year.

The earnings per share before exceptional items is calculated in order to eliminate the effect of the exceptional items of £1,866,000 (2001: £54,439,000) on the results. Basic earnings per share before exceptional items is based on the profit attributable to ordinary shareholders before exceptional items, after attributable tax, of £9,630,000 (2001 restated: £7,772,000) and 160,495,760 (2001: 160,495,760) ordinary shares, being the number of shares in issue throughout the year.

13 Tangible fixed assets

Group	Freehold land and buildings £'000	Plant and machinery, and motor vehicles £'000	Fixtures and fittings £'000	Construction in progress £'000	*Total* £'000
Cost					
At 1 January 2002	44,831	102,088	2,226	2,177	151,322
Exchange differences	1,225	(1,483)	13	(15)	(260)
Additions	189	2,571	42	3,063	5,865
Disposals	(70)	(863)	(3)	(26)	(962)
Reclassification	27	1,899	10	(1,936)	–
At 31 December 2002	**46,202**	**104,212**	**2,288**	**3,263**	**155,965**
Depreciation					
At 1 January 2002	7,428	50,695	1,404	–	59,527
Exchange differences	162	(989)	2	–	(825)
Charge for year	985	7,592	176	–	8,753
Disposals	(9)	(665)	(3)	–	(677)
Reclassification	–	–	–	–	–
At 31 December 2002	**8,566**	**56,633**	**1,579**	**–**	**66,778**
Net book value at 31 December 2002	**37,636**	**47,579**	**709**	**3,263**	**89,187**
Net book value at 31 December 2001	37,403	51,393	822	2,177	91,795

Depreciation has not been charged on freehold land which is stated at historical cost of £3,703,000 (2001: £3,666,000).

Company	Plant and machinery, and motor vehicles £'000	Fixtures and fittings £'000	Total £'000
Cost			
At 1 January 2002	660	28	688
Additions	35	–	35
Disposals	(209)	–	(209)
At 31 December 2002	**486**	**28**	**514**
Depreciation			
At 1 January 2002	390	16	406
Charge for year	109	2	111
Disposals	(152)	–	(152)
At 31 December 2002	**347**	**18**	**365**
Net book value at 31 December 2002	**139**	**10**	**149**
Net book value at 31 December 2001	270	12	282

14 Investments

Company	£'000
Interest in group undertakings	
Net book value at 1 January 2002	121,237
Increase in investment	11,990
Net book value at 31 December 2002	**133,227**

During the year, as part of an internal reorganisation of subsidiary shareholdings, the company increased its investment in Devro New Holdings Limited to enable that company to acquire the shares in Devro BV which were held by Devro Holdings Limited. As Devro Holdings Limited is not a trading company and no longer has any investments in subsidiary undertakings, it is the intention to wind up this company, which will result in a reduction in the interest in group undertakings equivalent to the increase shown above.

The company's principal subsidiary undertakings at 31 December 2002 were:

Name of undertaking	Country of incorporation or registration	Description of shares held	Proportion of nominal value of issued shares held by: Group (%)	Company (%)
Devro (Scotland) Limited	Scotland	Ordinary		100
Devro Holdings Limited	Scotland	Ordinary		100
Devro New Holdings Limited	Scotland	Ordinary		100
Devro Acquisition Corp	USA	Common		100
Devro BV	Netherlands	Ordinary	100	
Devro Asia Limited	Hong Kong	Ordinary	100	
Devro Pty Limited	Australia	Ordinary	100	
Devro GmbH	Germany	Ordinary	100	
Devro KK	Japan	Ordinary	100	
Devro Inc	USA	Ordinary	100	
Devro Investments Inc	USA	Ordinary	100	
Cutisin a.s.	Czech Rep.	Ordinary	96	

The group is continuing, where appropriate, to acquire the remaining minority shares in Cutisin a.s.

15 Stocks

The company had no stocks at 31 December 2002. Details of stocks relating to the group are as follows:

Group	2002 £'000	2001 £'000
Raw materials and consumables	**1,952**	3,184
Work in progress	**2,175**	2,379
Finished goods and goods for resale	**14,794**	16,695
	18,921	22,258

16 Debtors

	Group		Company	
	2002 £'000	2001 £'000	**2002 £'000**	2001 £'000
Amounts falling due after more than one year				
Amounts owed by subsidiary undertakings	–	–	**12,822**	41,545
Deferred tax asset (note 20)	–	–	**14**	–
Prepayments and accrued income	**3,324**	3,204	–	–
	3,324	3,204	**12,836**	41,545
Amounts falling due within one year				
Trade debtors	**17,011**	16,205	–	–
Amounts owed by subsidiary undertakings	–	–	**467**	294
Other debtors	**1,980**	3,635	**948**	235
Prepayments and accrued income	**2,646**	2,947	**48**	70
	21,637	22,787	**1,463**	599

Prepayments and accrued income falling due after more than one year represents a pension cost prepayment of £3,324,000 (2001: £3,204,000) due to the application of Statement of Standard Accounting Practice 24.

17 Creditors: amounts falling due within one year

	Group		Company	
	2002 £'000	2001 £'000	**2002 £'000**	2001 £'000
Bank loans and overdrafts	**7,112**	4,056	**12,993**	9,034
Trade creditors	**6,053**	6,980	–	–
Amounts owed to subsidiary undertakings	–	–	**12,857**	1,251
Corporation tax payable	**3,902**	2,083	–	–
Other taxation and social security payable	**1,326**	1,234	**35**	40
Accruals and deferred income	**11,261**	12,925	**1,794**	1,651
Dividends payable	**3,210**	2,804	**3,210**	2,804
	32,864	30,082	**30,889**	14,780

An overdraft balance in the company is pooled with cash balances held at the same bank by a subsidiary undertaking. The resulting net cash position is included in the group's cash at bank and in hand balance.

18 Creditors: amounts falling due after more than one year

	Group		Company	
	2002 £'000	2001 £'000	**2002 £'000**	2001 £'000
Bank loans (repayable between one and five years)	**42,282**	39,395	**37,000**	32,000
Accruals and deferred income	**180**	158	**–**	–
	42,462	39,553	**37,000**	32,000

The group has in place a £70 million (2001: £60 million) unsecured loan facility agreement comprising term loans and a revolving facility. Interest is currently charged at 1.75% above LIBOR and the agreement expires on 1 October 2005. The amount of the undrawn facility at 31 December 2002 is shown on page 43.

19 Financial instruments

The term "financial instrument" as used in this note is as defined in Financial Reporting Standard 13, Derivatives and Other Financial Instruments: Disclosures.

The Board reviews and agrees policies for managing each of the risks associated with interest rate, liquidity and foreign currency. 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:

- **Interest rate risk**
  The group borrows in the desired currencies at floating rates of interest and can use forward rate agreements or interest rate swaps to generate the desired interest profile and to manage the group's exposure to interest rate fluctuations. At 31 December 2002 and 31 December 2001, there were no interest rate swaps.

- **Liquidity risk**
  The group has one medium-term loan facility which is regularly reviewed to ensure that it provides adequate liquidity for the group. The current facility was agreed on 1 October 2001 and expires four years from that date. This facility is managed on a centralised basis with appropriate local availability.

- **Foreign currency risk**
  The group has several significant overseas subsidiaries whose revenues and expenses are denominated in a variety of currencies. It is the group's policy to hedge up to a maximum of 75% of the net external currency transaction exposures for periods of up to a maximum of one year forward. It is the group's policy not to routinely hedge translation exposures. Specific Board approval is required for any translation exposure hedging.

Short-term debtors and creditors

Apart from bank loans and overdrafts due within one year, short-term debtors and creditors have been excluded from all of the disclosures in this note other than the currency risk disclosures.

Interest rate risk profile of financial liabilities

The profile of the group's financial liabilities at 31 December 2002 was:

Currency	Floating rate £'000	Fixed rate £'000	Zero rate £'000	Total £'000
Sterling	42,000	–	–	42,000
Australian dollars	7,394	–	61	7,455
Other currencies	–	–	119	119
At 31 December 2002	**49,394**	**–**	**180**	**49,574**
US dollars				
– Preference shares	–	36,067	–	36,067
Sterling	35,000	–	–	35,000
Australian dollars	8,451	–	51	8,502
Other currencies	–	–	107	107
At 31 December 2001	43,451	36,067	158	79,676

Floating rate financial liabilities bear interest at rates, based on relevant national LIBOR equivalents, which are fixed in advance for periods of up to six months.

The interest rate profile of the group's fixed and zero rated financial liabilities at 31 December 2002 was:

	Weighted average interest rate for fixed rate liabilities		Weighted average period for fixed rate liabilities		Weighted average period for zero rate liabilities	
Currency	**2002 %**	2001 %	**2002 Years**	2001 Years	**2002 Years**	2001 Years
US dollars						
– Preference shares	–	6.65	–	4.0	–	–
Other currencies	–	–	–	–	**10.2**	10.3
	–	6.65	–	4.0	**10.2**	10.3

Interest rate risk profile of financial assets

The profile of the group's cash and deposits at 31 December 2002 was:

Currency	Cash at bank and in hand £'000	Short-term deposits £'000	Total £'000
US dollars	3,533	550	4,083
Sterling	3,474	–	3,474
Euro	929	1,015	1,944
Czech koruna	866	1,887	2,753
Other currencies	1,892	–	1,892
At 31 December 2002	**10,694**	**3,452**	**14,146**
US dollars	5,808	506	6,314
Sterling	1,776	1,258	3,034
Euro	1,526	1,239	2,765
Czech koruna	216	4,603	4,819
Other currencies	1,838	–	1,838
At 31 December 2001	11,164	7,606	18,770

Cash at bank is largely held in interest-bearing current accounts or deposit accounts.

Short-term deposits include amounts which are either placed with banks with initial maturities of three months or less, or are invested in government securities with final maturities of three months or less. These funds earn interest at the prevailing market short-term rates for each of the relevant currencies. The weighted average rate of interest earned during 2002 was 2.7% (2001: 4%).

Maturity of financial liabilities

The maturity profile of the group's financial liabilities at 31 December 2002 was:

	Debt £'000	Preference shares £'000	Other financial liabilities £'000	Total £'000
Within one year	7,112	–	–	7,112
Between one and two years	8,113	–	15	8,128
Between two and five years	34,169	–	29	34,198
Over five years	–	–	136	136
At 31 December 2002	**49,394**	**–**	**180**	**49,574**
Within one year	4,056	–	–	4,056
Between one and two years	7,113	–	14	7,127
Between two and five years	32,282	36,067	23	68,372
Over five years	–	–	121	121
At 31 December 2001	43,451	36,067	158	79,676

Borrowing facilities

The group has a floating rate committed borrowing facility, which has been utilised at 31 December 2002 as follows:

	2002 £'000	2001 £'000
Facility	**70,000**	60,000
Less repaid	**(14,056)**	–
	55,944	60,000
Borrowing	**(49,394)**	(43,451)
Letter of credit guarantee	**(666)**	(2,442)
Undrawn facility – expiring between two and five years	**5,884**	14,107

Fair values of financial assets and financial liabilities

The following table provides a comparison by category of the carrying amounts and the fair values of the group's financial assets and financial liabilities at 31 December 2002. Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than a forced or liquidation sale, and excludes accrued interest. Where available, market values have been used to determine fair values. Where market values are not available, fair values have been calculated by discounting expected cash flows at prevailing interest and exchange rates.

	2002 Book value £'000	2002 Fair value £'000	2001 Book value £'000	2001 Fair value £'000
Primary financial instruments held or issued to finance the group's operations:				
Borrowings	**(49,394)**	**(49,394)**	(43,451)	(43,451)
Preference shares	**–**	**–**	(36,067)	(32,647)
Other financial liabilities	**(180)**	**(153)**	(158)	(126)
Short-term deposits	**3,452**	**3,452**	7,606	7,606
Cash at bank and in hand	**10,694**	**10,694**	11,164	11,164
Derivative financial instruments held to manage the currency exposures on expected future sales:				
Forward foreign currency contracts	**–**	**(226)**	–	–
Derivative financial instruments held to manage the currency exposures on intercompany loans:				
Cross currency interest rate swaps	**(167)**	**(167)**	392	392
Currency swaps	**(70)**	**(70)**	238	238

Summary of methods and assumptions:

Borrowings

The fair value of the group's bank loans is equivalent to the carrying value reported in the balance sheet as they are floating rate borrowings where payments are reset to market rates at intervals of up to six months.

Other financial liabilities

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

Short-term deposits

The fair value of short-term deposits is equivalent to the carrying amount because of the short maturity of these instruments.

Interest rate swaps, forward foreign currency contracts, cross currency interest rate swaps and currency swaps

The fair value of interest rate swaps, forward foreign currency contracts, cross currency interest rate swaps and currency swaps is based on market prices of comparable instruments at the balance sheet date.

Currency exposures

As explained on page 40, the group does not hedge the currency exposures arising from its net investments overseas. The tables below show the extent to which group companies have monetary assets and liabilities in currencies other than their local currency. The net foreign currency monetary assets/(liabilities) as at 31 December 2002 were:

	Sterling £'000	US dollars £'000	Euro £'000	Australian dollars £'000	Other currencies £'000	Total £'000
Functional currency of group operations:						
Sterling	–	872	1,583	266	415	3,136
US dollars	399	–	223	324	–	946
Czech koruna	58	1,569	3,396	–	671	5,694
Hong Kong dollar	(190)	8,864	–	(120)	602	9,156
Other currencies	456	40	–	2	–	498
At 31 December 2002	**723**	**11,345**	**5,202**	**472**	**1,688**	**19,430**
Sterling	–	748	1,356	337	100	2,541
US dollars	374	–	278	283	–	935
Czech koruna	8	1,888	3,592	(1)	441	5,928
Hong Kong dollar	(126)	7,940	–	(236)	545	8,123
Other currencies	118	39	–	2	1	160
At 31 December 2001	374	10,615	5,226	385	1,087	17,687

The purpose of the disclosures in the above table is to show an analysis of the currency exposures that give rise to the net currency gains and losses recognised in the profit and loss account.

Hedges

As explained on page 40, the group's policy is to hedge interest rate risks using interest rate swaps, and currency risks on expected foreign currency sales and purchases using forward foreign exchange contracts. Changes in the fair value of instruments used as hedges are not recognised in the financial records until the hedged position matures. An analysis of these unrecognised gains or losses is as follows:

	Gains £'000	Losses £'000	Total net gains/losses £'000
Gains and losses on hedges at 1 January 2002	–	–	–
Arising in previous years included in 2002 income	–	–	–
Gains and losses not included in 2002 income	32	(258)	(226)
Gains and losses on hedges at 31 December 2002 expected to be included in 2003 income	32	(258)	(226)

20 Provisions for liabilities and charges

Group	Post-retirement employee benefits £'000	Deferred tax (as restated) £'000	Restructuring costs £'000	Total (as restated) £'000
At 1 January 2002 as previously reported	3,671	1,001	135	4,807
Prior year adjustment (note 9)	–	6,661	–	6,661
At 1 January 2002 as restated	3,671	7,662	135	11,468
Exchange differences	(351)	339	–	(12)
Profit and loss account	(29)	596	1,762	2,329
Utilised in year	–	–	(579)	(579)
At 31 December 2002	**3,291**	**8,597**	**1,318**	**13,206**

Company	Deferred tax £'000	Restructuring costs £'000	Total £'000
At 1 January 2002	–	135	135
Profit and loss account	(14)	527	513
Utilised in year	–	(203)	(203)
Transferred to debtors (note 16)	14	–	14
At 31 December 2002	**–**	**459**	**459**

Deferred taxation

The amount provided for deferred taxation primarily represents timing differences caused by the excess of tax allowances over depreciation. The elements of deferred taxation are as follows:

	2002 £'000	2001 (as restated) £'000
Accelerated capital allowances	**11,135**	5,944
Other timing differences	**(2,538)**	1,718
Deferred tax liability	**8,597**	7,662

21 Pension and similar obligations

The group has continued to account for pensions in accordance with Statement of Standard Accounting Practice 24 and the disclosures given in (a) below are those required by the standard. Financial Reporting Standard 17, Retirement Benefits, is being adopted in accordance with the transitional arrangements. Additional disclosures required under the transitional arrangements are set out in (b) below.

a) Statement of Standard Accounting Practice 24, Accounting for Pension Costs

The group operates a number of pension and post-retirement health care 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 UK and Australian defined benefit schemes are now closed to new members and the US scheme is in the process of being closed to new members. The total pension cost for the group was £2,213,000 (2001: £2,728,000), of which £1,209,000 (2001: £1,763,000) related to the overseas schemes.

The pension cost relating to the United Kingdom scheme is assessed in accordance with the advice of a qualified independent actuary using the Attained Age Method. The latest actuarial valuation of the scheme was at 31 March 2002. The assumptions that have the most significant effect on the valuation are those relating to the rate of return on investments and the rate of increase in salaries and pensions. It was assumed that the investment return would be 7.25% per annum pre-retirement and 6.0% per annum post-retirement, that salary increases (including promotion) would average 4.25% per annum and that present and future pensions in excess of the guaranteed minimum would increase at the rate of 5% per annum in respect of pre-December 2001 service and at 3.75% per annum in respect of post-December 2001 service.

At the date of the latest actuarial valuation, the market value of the assets of the United Kingdom scheme was £107.3 million. The actuarial value of the assets was sufficient to cover 117% of the benefits which had accrued to members, after allowing for expected future increases in earnings. The surplus is being amortised over 14 years being the expected average remaining service lives of current employees.

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

The group also provides post-retirement health care benefits to certain groups of its retired employees in the United States. The group conforms with generally accepted accounting practice and, in particular, with the provisions of the Urgent Issues Task Force Abstract 6, Accounting for Post-Retirement Benefits other than Pensions, which requires accrual of these costs over the period during which employees become eligible for such benefits. The amount of expense recognised in the current year is £65,000 (2001: £1,218,000) and the liability of £3,291,000 (2001: £3,671,000) is included in provisions for liabilities and charges (note 20). It has been assumed that the annual per capita cost of benefits will increase by between 12% and 14%. This rate is assumed to decrease to an ultimate rate of 5% in 2012. The weighted average discount rate used in determining the accumulated post-retirement benefit obligation at 31 December 2002 was 6.75%.

b) Financial Reporting Standard 17, Retirement Benefits

The last formal actuarial valuations of the group's material defined benefit schemes have been updated, where necessary, to 31 December 2002 by qualified independent actuaries. The major assumptions used by the actuaries in the following principal countries were:

	Australia		United Kingdom		United States	
	2002 %	2001 %	**2002 %**	2001 %	**2002 %**	2001 %
Discount rate	**6.20**	6.80	**5.50**	6.00	**6.75**	7.25
Rate of increase in salaries	**3.90**	4.50	**3.75**	4.00	**3.50**	4.00
General inflation	**2.00**	2.00	**2.25**	2.50	**2.50**	2.50
Date of last formal valuation		1 July 2001		31 Mar 2002		1 Jan 2001

In addition, the UK scheme assumes that present and future pensions in excess of the guaranteed minimum would increase at a rate of 5% per annum in respect of pre-December 2001 service and 3.75% per annum in respect of post-December 2001 service.

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 2002, the value of the insurance asset was £2.6 million and the value of the liability on a Financial Reporting Standard 17 basis was £3.0 million.

The aggregate fair values of assets in the group's defined benefit schemes at 31 December 2002 in the following principal countries were estimated to be:

	Australia		United Kingdom		United States	
	2002 £'000	2001 £'000	**2002 £'000**	2001 £'000	**2002 £'000**	2001 £'000
Equities	**3,424**	3,523	**63,797**	82,824	**11,385**	15,697
Bonds	**1,179**	1,391	**21,966**	23,466	**19,075**	21,101
Other	**832**	897	**795**	1,586	**442**	8
	5,435	5,811	**86,558**	107,876	**30,902**	36,806

The long-term rates of return expected at 31 December 2002 in the following principal countries were as follows:

	Australia		United Kingdom		United States	
	2002 %	2001 %	**2002 %**	2001 %	**2002 %**	2001 %
Equities	**8.25**	9.00	**7.00**	7.50	**8.50**	10.00
Bonds	**6.00**	6.80	**4.50**	5.00	**6.50**	7.00
Other	**6.00**	6.80	**3.50**	4.00	**6.50**	7.00

The net pension assets and liabilities at 31 December 2002 were as follows:

	Australia		United Kingdom		United States	
	2002 £'000	2001 £'000	**2002 £'000**	2001 £'000	**2002 £'000**	2001 £'000
Total fair value of plan assets (as above)	**5,435**	5,811	**86,558**	107,876	**30,902**	36,806
Present value of plan liabilities	**(5,051)**	(4,723)	**(110,951)**	(95,576)	**(44,915)**	(42,427)
Surplus/(deficit) in plans	**384**	1,088	**(24,393)**	12,300	**(14,013)**	(5,621)
Related deferred tax (liabilities)/assets	**(115)**	(326)	**7,318**	(3,690)	**–**	–
Net pension assets/(liabilities)	**269**	762	**(17,075)**	8,610	**(14,013)**	(5,621)

The deficits shown in the table above reflect in part the poor investment returns across the world and in part falling interest rates. We continue to pay contributions to retirement plans in accordance with local regulatory requirements and on the advice of qualified actuaries. The actuaries continually review the funding position of the plans. The company remains committed to funding all of its benefit arrangements.

Due to the availability of significant tax losses in the United States, a deferred tax asset has not been recognised in respect of the deficit on the United States retirement plan.

Details of the amounts charged to profit and loss account and the statement of total recognised gains and losses under Financial Reporting Standard 17, in the following principal countries, would have been:

	Australia £'000	United Kingdom £'000	United States £'000
Current service cost	(72)	1,852	414
Total operating (credit)/charge	(72)	1,852	414
Other finance income:			
Expected return on pension scheme assets	(480)	(7,374)	(2,859)
Interest on pension scheme liabilities	320	5,706	2,888
Net financing (credit)/charge	(160)	(1,668)	29

	Australia £'000	United Kingdom £'000	United States £'000
Analysis of amount recognised in statement of total recognised gains and losses			
Actual return less expected return on assets	(763)	(26,532)	(3,784)
Experience gains and losses on liabilities	–	471	(3,917)
Changes in assumption	(355)	(11,098)	(2,266)
Actuarial loss on assets and liabilities	(1,118)	(37,159)	(9,967)
Exchange rate gain	18	–	1,059
Actuarial loss recognised in sterling	(1,100)	(37,159)	(8,908)
Movement in surplus/(deficit) during the year			
Surplus/(deficit) in scheme at beginning of year	1,088	12,300	(5,621)
Movement in year:			
Employer service cost	72	(1,852)	(414)
Employer contributions	164	650	959
Net return on assets/(interest cost)	160	1,668	(29)
Actuarial loss	(1,118)	(37,159)	(9,967)
Exchange rate gain	18	–	1,059
Surplus/(deficit) in scheme at end of year	384	(24,393)	(14,013)

	Australia £'000	United Kingdom £'000	United States £'000
History of experience gains and losses in financial year ended 31 December 2002			
Difference between expected and actual return on scheme assets:			
Amount	(763)	(26,532)	(3,784)
Percentage of scheme assets	(14)%	(31)%	(12)%
Experience gains and losses on scheme liabilities:			
Amount	–	471	(3,917)
Percentage of scheme liabilities	–	0%	(9)%
Total amount recognised in statement of total recognised gains and losses:			
Amount	(1,100)	(37,159)	(8,908)
Percentage of scheme liabilities	(22)%	(33)%	(20)%

The group also provides post-retirement health care benefits to certain of its retired employees in the United States. An actuarial valuation of this liability was carried out at 31 December 2002 by a qualified independent actuary on a Financial Reporting Standard 17 basis. The value of the liability on this basis was £1,906,000 at 31 December 2002 which compares with a liability of £3,291,000 on a Statement of Standard Accounting Practice 24 basis.

If Financial Reporting Standard 17 had been adopted in these financial statements in relation to pension and post-retirement benefits, the group's net assets and profit and loss account reserve at 31 December 2002 would have been £28.9 million and £(30.4) million respectively, which compares with the value of net assets of £58.7 million and profit and loss account reserve of £(0.6) million as shown on the balance sheet on page 28.

22 Called up share capital

	2002 £'000	2001 £'000
Authorised		
225,000,000 ordinary shares of 10 pence each	**22,500**	22,500
522,975 6.65% convertible cumulative redeemable preference shares of US$100 each	**32,686**	36,067
	55,186	58,567
Allotted, called up and fully paid		
160,495,760 (2001: 160,495,760) ordinary shares of 10 pence each	**16,050**	16,050
Nil (2001: 522,975) 6.65% convertible cumulative redeemable preference shares of US$100 each	**–**	36,067
	16,050	52,117

Redemption of preference shares

As approved by shareholders at the Extraordinary General Meeting held on 12 June 2002, the company redeemed 372,975 convertible cumulative redeemable preference shares of US$100 each at a total discount, after costs, of £7,860,000, having earlier in the year redeemed 150,000 convertible cumulative redeemable preference shares of US$100 each at par value. The redemption gave rise to the creation of a capital redemption reserve of £35,587,000 (note 24).

23 Options in shares of Devro plc

Options have been granted but not yet exercised or lapsed for ordinary shares at 31 December 2002 as follows:

Scheme	Price per share	Earliest date for exercise	Latest date for exercise	Number of share options
The Devro 1993 (No. 1) Executive Share Option Scheme	£2.37	27/10/1996	26/10/2003	101,000
	£2.48	14/04/1997	13/04/2004	118,500
	£2.51	11/12/1998	10/12/2005	351,500
	£2.44	19/09/1999	18/09/2006	42,000
	£1.665	22/12/2001	21/12/2008	10,000
	£1.54	21/04/2002	20/04/2009	19,480
	£0.97	19/10/2002	18/10/2009	30,000
	£0.515	24/10/2004	23/10/2011	200,000
The Devro 1993 (No. 2) Executive Share Option Scheme	£2.44	19/09/1999	18/09/2003	577,000
	£3.95	10/10/2000	09/10/2007	320,000
	£3.925	21/10/2000	20/10/2007	10,000
	£1.665	22/12/2001	21/12/2008	415,000
	£1.54	21/04/2002	20/04/2009	30,520
	£0.97	19/10/2002	18/10/2009	850,000
	£0.515	24/10/2004	23/10/2011	1,158,000
The Devro Employee Share Ownership Plan Trust ("ESOP")	£1.13	01/07/2002	01/01/2003	14,961
The Devro 1993 UK Sharesave Scheme	£1.13	01/07/2002	01/01/2003	452,086
The Devro 1998 International Sharesave Scheme	£1.13	01/07/2002	01/01/2003	251,216
The Devro 2001 Deferred Bonus Scheme	Nil	19/03/2005	18/09/2005	273,384

Details of options held by directors at 31 December 2002 are shown on page 26.

The company has established an employee share ownership plan trust with an independent professional trustee. The ESOP may acquire shares for the purpose of the company's employee share schemes, including the Devro 2001 Deferred Bonus Scheme. The ESOP will not hold more than 5% of the ordinary share capital of the company without obtaining prior approval of the shareholders.

The ESOP purchased 273,384 shares during 2002 relating to the Devro 2001 Deferred Bonus Scheme. This share purchase was funded by the company. A number of executives currently hold share options over these shares. The costs of running the ESOP are included in the profit and loss account.

24 Reserves

Group	Share premium account £'000	Capital redemption reserve (note 22) £'000	Special reserve £'000	Profit and loss account (as restated) £'000
At 1 January 2002 – as previously reported	4,848	–	3,138	21,766
Prior year adjustment (note 9)	–	–	–	(6,661)
At 1 January 2002 – as restated	4,848	–	3,138	15,105
Exchange differences	–	–	–	2,289
Transfer from profit and loss account – goodwill amortisation	–	–	2,740	(2,740)
Transfer from profit and loss account – redemption of preference shares	–	35,587	–	(35,587)
Redemption of preference shares – discount	–	–	–	7,860
Transfer to profit and loss account ((a) below)	–	–	(5,750)	5,750
Negative goodwill arising on acquisition of shares in Cutisin	–	–	–	43
Profit for the year	–	–	–	6,687
At 31 December 2002	**4,848**	**35,587**	**128**	**(593)**

Company	Share premium account £'000	Capital redemption reserve (note 22) £'000	Special reserve £'000	Profit and loss account £'000
At 1 January 2002	4,848	–	52,172	9,219
Exchange differences	–	–	–	480
Transfer from profit and loss account – redemption of preference shares	–	35,587	–	(35,587)
Redemption of preference shares – discount	–	–	–	7,860
Transfer to profit and loss account ((a) below)	–	–	(27,500)	27,500
Loss for the year	–	–	–	(8,587)
At 31 December 2002	**4,848**	**35,587**	**24,672**	**885**

(a) The company has previously received approval from the Court of Session for a reduction of the share premium account and the creation of a special reserve. As all undertakings have been satisfied, £27,500,000 has been transferred from the special reserve to the profit and loss account reserve. In the group accounts a further transfer of £21,750,000 has been made from the profit and loss account reserve to the special reserve to ensure the balance on the special reserve at 31 December 2002 is a credit balance in compliance with Financial Reporting Standard 10, Goodwill and Intangible Assets.

(b) The cumulative amount of goodwill written off to reserves at 31 December 2002 which has not subsequently been written off through the profit and loss account is £72,751,000 (2001: £72,794,000). The £72,751,000 has been debited against the special reserve (£47,936,000) and profit and loss account (£24,815,000), and consists of three elements, namely intangible assets reclassified as goodwill at the time of the management buyout in 1991, together with goodwill arising on the acquisitions of Teepak International, Inc. and shares in Cutisin a.s.

25 Reconciliation of movements in shareholders' funds

	2002 £'000	2001 (as restated) £'000
Opening shareholders' funds – as previously reported	**75,208**	93,858
Prior year adjustment (note 9)	**–**	(6,278)
Opening shareholders' funds – as restated	**75,208**	87,580
Profit/(loss) for the financial year	**12,540**	(44,235)
Dividends	**(5,853)**	(5,642)
Exchange differences	**1,809**	2,761
Redemption of preference shares (note 22)	**(27,727)**	–
Negative goodwill arising on acquisition of shares in Cutisin a.s.	**43**	85
Goodwill written back on disposal of the cellulose business	**–**	34,659
Closing shareholders' funds	**56,020**	75,208

26 Minority interests

	2002 £'000	2001 £'000
At 1 January	**2,503**	2,357
Exchange differences	**62**	159
Acquired during the year	**(83)**	(147)
Profit and loss account	**181**	134
At 31 December	**2,663**	2,503

27 Reconciliation of operating profit to operating cash flows

	2002 £'000	2001 £'000
Continuing operations		
Operating profit before exceptional items	**18,356**	19,393
Depreciation of tangible fixed assets	**8,753**	8,992
Profit on sale of tangible fixed assets	**(3)**	(21)
(Decrease)/increase in provision for post-retirement benefits	**(29)**	182
Decrease/(increase) in stocks	**3,326**	(463)
Decrease/(increase) in trade debtors, prepayments and other debtors	**367**	(146)
(Decrease)/increase in trade creditors, accruals and other creditors	**(991)**	5,060
Net cash inflow from continuing operations before exceptional items	**29,779**	32,997
Cash outflow related to exceptional items	**(474)**	(32)
Net cash inflow from continuing operations	**29,305**	32,965

	2002 £'000	2001 £'000
Discontinued operations		
Operating loss before exceptional items	–	(802)
Depreciation of tangible fixed assets	–	2,437
Loss on sale of tangible fixed assets	–	51
Increase in provision for post-retirement benefits	–	263
Increase in stocks	–	(2,110)
Decrease in trade debtors, prepayments and other debtors	–	883
Decrease in trade creditors, accruals and other creditors	–	(1,079)
Net cash outflow from discontinued operations before exceptional items	–	(357)
Cash outflow related to exceptional items	–	(1,482)
Net cash outflow from discontinued operations	–	(1,839)
Total net cash inflow from operating activities	**29,305**	31,126

28 Analysis of cash flows for headings netted in the cash flow statement

	2002 £'000	2001 £'000
Returns on investments and servicing of finance		
Interest received	**1,616**	1,086
Interest paid	**(4,644)**	(4,390)
Preference dividends paid	**(2,243)**	(2,400)
Net cash outflow for returns on investment and servicing of finance	**(5,271)**	(5,704)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	**(5,865)**	(7,939)
Sale of tangible fixed assets	**283**	177
Net cash outflow for capital expenditure and financial investment	**(5,582)**	(7,762)
Acquisitions and disposals		
Acquisition of shares in Cutisin a.s.	**(40)**	(62)
Disposal of cellulose business	**(1,150)**	(1,775)
Net cash outflow from acquisitions and disposals	**(1,190)**	(1,837)
Management of liquid resources*		
Net cash withdrawn from deposit	**4,657**	10,922
Net cash inflow from management of liquid resources	**4,657**	10,922
Financing		
Redemption of convertible cumulative preference shares	**(27,727)**	–
Revolving facility:		
Net repayment – debt due in more than one year	–	(58,831)
Term loan:		
Changes in net borrowing – debt due within one year	**3,083**	4,064
– debt due in more than one year	**2,834**	39,447
Net cash outflow from financing	**(21,810)**	(15,320)

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

29 Analysis of net debt

	At 1 January 2002 £'000	Cash flow £'000	Exchange movement £'000	At 31 December 2002 £'000
Net cash:				
Cash at bank and in hand	18,770			**14,146**
Less: deposits treated as liquid resources	(7,606)			**(3,452)**
	11,164	(1,320)	850	**10,694**
Liquid resources:				
Deposits included in cash	7,606	(4,657)	503	**3,452**
Debt – term loan:				
Due within one year	(4,056)	(3,083)	27	**(7,112)**
Due after one year	(39,395)	(2,834)	(53)	**(42,282)**
	(43,451)	(5,917)	(26)	**(49,394)**
Net debt	(24,681)	(11,894)	1,327	**(35,248)**

30 Capital commitments

	Group		Company	
	2002 £'000	2001 £'000	**2002 £'000**	2001 £'000
Capital expenditure contracted for but not provided in the financial statements	**999**	717	**–**	–

31 United States regulatory issues

a) Since March 1997, Devro Inc (formerly Devro-Teepak Inc) had been involved with the United States Department of Justice in an ongoing investigation relating to the competitive situation in the United States sausage casing industry. In October 2002, the company received notification that the US Department of Justice had closed its investigation. The investigation resulted in no legal action by the Department.

b) A number of civil suits have been filed against the company, and other group companies, as well as against competitors, by customers and competitors' customers. The lawsuits allege unspecified anti-competitive practices and claim triple damages for alleged losses. The original suits have now been consolidated into a single class action case, though no class has been certified to date. The directors believe that there is no foundation to these claims, and, based on the available facts and legal advice, the directors consider that no provision is required at 31 December 2002. All claims will be vigorously defended.

32 Contingent liabilities

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

33 Financial commitments

Operating leases

At 31 December 2002, there were annual commitments under non-cancellable operating leases as follows:

Group	2002 Land and buildings £'000	2002 Other £'000	2001 Land and buildings £'000	2001 Other £'000
Expiring within one year	**43**	**84**	76	41
Expiring between two and five years inclusive	**278**	**623**	227	524
Expiring after more than five years	**–**	**58**	–	82
	321	**765**	303	647

Company	2002 Land and buildings £'000	2002 Other £'000	2001 Land and buildings £'000	2001 Other £'000
Expiring between two and five years inclusive	**–**	**18**	–	18

Independent auditors' report to the members of Devro plc

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies. We have also audited the disclosures required by Part 3 of Schedule 7A of the Companies Act 1985 contained in the directors' Remuneration Report ("the auditable part").

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the directors' Remuneration Report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the directors' Remuneration Report have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Directors' Report, the unaudited part of the directors' Remuneration Report, the Chairman's Statement, the Operating and Financial Review and the Corporate Governance Statement.

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the company and the group at 31 December 2002 and of the profit and cash flows of the group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the directors' Remuneration Report required by Part 3 of Schedule 7A of the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
Glasgow 26 March 2003

Notice of meeting

Notice is hereby given that the twelfth Annual General Meeting ("AGM") of Devro plc ("the Company") will be held on 8 May 2003 at the Westerwood Hotel, 1 St Andrews Drive, Cumbernauld at 11.00 am to deal with the following matters, all of which will be proposed as ordinary resolutions, *apart from items 10, 11 and 12 which will be proposed as special resolutions:*

Ordinary Business

1 To receive the Company's accounts for the year ended 31 December 2002, together with the Directors' Report and the Auditors' Report on those accounts.

2 To declare a final dividend for the year ended 31 December 2002.

3 To re-elect as a director Mr John Napier who retires by rotation under the provisions of the Articles of Association.

4 To re-elect as a director Mr John Neilson who retires by rotation under the provisions of the Articles of Association.

Special Business

5 To consider and, if thought fit, pass the following resolution, special notice having been received of the intention to propose the resolution:

THAT PricewaterhouseCoopers LLP be reappointed auditors of the Company (having previously been appointed by the Board to fill the casual vacancy arising by reason of the resignation of PricewaterhouseCoopers), to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and that their remuneration be fixed by the Directors.

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

Ordinary Resolutions

6 THAT the Directors' Remuneration Report contained within the Company's accounts for the year ended 31 December 2002 be and is hereby approved.

7 THAT the Devro 2003 Performance Share Plan, the principal features of which are summarised in the Appendix to this Notice on page 58, be and it is hereby approved and adopted, and the Board be and is hereby authorised to do all acts and things which it may consider necessary or desirable to carry the same into effect and to make such changes as it may consider appropriate for that purpose.

8 THAT the Company (which expression, for the purposes of this resolution, shall include its subsidiary Devro (Scotland) Limited) be and is hereby generally and unconditionally authorised for the purposes of Part XA of the Companies Act 1985 (as amended by the Political Parties, Elections and Referendums Act 2000) (the "Act") to make donations to EU political organisations and to incur EU political expenditure (as such terms are defined in section 347A of the Act) provided that:

a) the maximum sum which may be donated to EU political organisations and incurred in respect of EU political expenditure shall not exceed (in aggregate) £50,000 in the period from one annual general meeting of the Company to the next following annual general meeting of the Company;

b) this authority shall expire on 7 May 2007 unless previously renewed, varied or revoked by the Company in general meeting; and

c) the Company may enter into a contract or undertaking under this authority prior to its expiry, which contract or undertaking would or might be performed wholly or partly after such expiry, and may make donations to EU political organisations and incur EU political expenditure in pursuance of such contract or undertaking.

9 THAT the Directors be and are hereby generally and unconditionally authorised pursuant to section 80 of the Act to exercise all the powers of the Company to allot relevant securities (within the meaning of that section) up to an aggregate nominal amount of £5,200,000 (being less than 33% of the issued ordinary share capital of the Company at the date of this resolution) for a period expiring (unless previously renewed, varied or revoked by the Company in general meeting) five years after the date of the passing of this resolution but the Company shall be entitled to make an offer or enter into an agreement which would or might require relevant securities to be allotted after expiry of this authority and the Directors may allot relevant securities in pursuance of that offer or agreement as if the power conferred hereby had not expired.

Special Resolutions

10 THAT, subject to the passing of Resolution No 9, the Directors be and are hereby empowered pursuant to section 95 of the Act to allot equity securities (within the meaning of section 94(2) of the Act) pursuant to the authority conferred by Resolution No 9 as if section 89(1) of the Act did not apply to such allotment. This power:

a) expires five years after the date of the passing of this resolution but the Company shall be entitled to make an offer or agreement which would or might require equity securities to be allotted after expiry of this authority and the Directors may allot equity securities in pursuance of that offer or agreement as if the power conferred hereby had not expired; and

b) is limited to:

i) allotments of equity securities where such securities have been offered (whether by way of a rights issue, open offer or otherwise) to holders of ordinary shares in the capital of the Company and to holders of any other equity securities in the capital of the Company who are entitled to be offered them in proportion (as nearly as may be) to their existing holdings of ordinary shares or (as the case may be) other equity securities (so that any offer to holders of other equity securities is on the basis of their rights to receive such offer or, failing which, is on the basis that their holdings have been converted into or that they have subscribed for ordinary shares on the basis then applicable) but subject to the Directors having a right to make such exclusions or other arrangements in conjunction with the offer as they deem necessary or expedient:

a) to deal with equity securities representing fractional entitlements; and

b) to deal with legal or practical problems under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in any territory; and

ii) allotments of equity securities for cash otherwise than pursuant to paragraph (i) above up to an aggregate nominal amount equal to £795,000 (representing less than five per cent of the nominal value of the issued ordinary share capital of the Company as shown in the Company's accounts for the year ended 31 December 2002 as received at this AGM).

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

a) the maximum aggregate number of Ordinary Shares hereby authorised to be purchased is 16,000,000 (representing less than 10% of the Company's issued ordinary share capital);

b) *the minimum price which may be paid for an Ordinary Share is 10 pence being the par value (exclusive of any expenses);*

c) the maximum price (exclusive of any expenses) which may be paid for an Ordinary Share shall be 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 the Ordinary Share is purchased;

d) unless previously renewed, varied or revoked, the authority hereby conferred shall expire at the conclusion of the AGM of the Company to be held in 2004 or 12 months from the date of passing this resolution whichever shall be the earlier; and

e) the Company may make a contract or contracts to purchase Ordinary Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority and may make a purchase of Ordinary Shares in pursuance of any such contract or contracts.

12 THAT the Articles of Association contained in the printed document submitted to this meeting (and signed by the Chairman for the purposes of identification) are hereby adopted as Articles of Association of the Company in substitution for and to the exclusion of the Company's existing Articles of Association.

By order of the Board

J Meredith Secretary
Moodiesburn 26 March 2003

Registered Office:
Moodiesburn, Chryston, G69 0JE

Notes

1 A shareholder entitled to attend and vote at the meeting is also entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a shareholder of the Company.

2 To be valid, the instrument appointing a proxy, together with the power of attorney or other authority, if any, under which it is signed (or a notarially certified copy of such power or authority) must be deposited at the Company's Registrars, Computershare Investor Services PLC, The Pavilions Bridgewater Road, Bristol, BS13 8FB, not later than 48 hours before the time fixed for the meeting. A form of proxy is enclosed with this Notice. Completion and return of the form of proxy will not preclude shareholders from attending or voting in person at the meeting, if they wish.

3 There will be available for inspection at the Company's Registered Office during usual business hours from the date of this Notice until the meeting, and at the place of the meeting from 10.30 am:

a) Copies of all Service Contracts of Directors;

b) The Register of Directors' Share Interests;

c) The Rules of the Devro 2003 Performance Share Plan; and

d) A schedule setting out the main effects of the proposed alterations to the Articles of Association of the Company and a full text of both the existing and the proposed Articles of Association (which will be marked up to show the proposed alterations).

4 Eligibility to attend and vote at the meeting will be determined by reference to entries on the register of members at 6.00 pm on 6 May 2003.

APPENDIX TO NOTICE OF MEETING

Item 7: The Devro 2003 Performance Share Plan

Summary of the rules of the Devro 2003 Performance Share Plan (the "Plan"):

1 Administration

The Plan will operate in conjunction with the Devro Employee Share Ownership Plan Trust (the "ESOP").

2 Eligibility

The Board of the Company, with the approval of the Executive Directors' Remuneration Committee, may invite any senior executive or any employee of the Company or any of its subsidiaries (together the "Group") to participate.

3 Awards

An award takes the form of a deferred right to acquire a maximum number of shares at no cost to the participant. The award can either be structured as a conditional right or a conditional option to receive shares on the terms specified in the Plan. Awards will be subject to the performance condition outlined in paragraph 4 below and to the limits set out in paragraphs 6 and 7 below.

Awards may be made during the six weeks following the approval of the Plan by shareholders and thereafter during the period of six weeks from the announcement by the Company of its results for any period (and at other times in exceptional circumstances). No awards may be made more than ten years after the Plan is adopted. Awards are personal to the participant and, except on the death of a participant, may not be transferred.

4 Performance condition

The Board, with the approval of the Executive Directors' Remuneration Committee, will set appropriate performance conditions each time that awards are made under the Plan. The conditions which apply to the awards will be disclosed in the Company's Annual Report and Accounts for the year concerned.

For group-based employees, the first awards following the Plan's adoption will be subject to an earnings per share ("EPS") growth target applied over a period of three years. 30% of shares under award can be acquired if the Company's EPS has increased by an average of at least RPI plus 3% per year over that period, and the shares under award can only be acquired in full if such increase is at least an average of RPI plus 6% per year over three years. The proportion of shares under award which may be transferred to participants for EPS growth between these levels will be calculated on a straight line basis. For regional-based employees, an equivalent target based on growth in regional profits will be set for the first awards.

The Board (with the written consent of the auditors) may amend the performance condition applying to outstanding awards if this is considered justifiable.

5 Vesting of awards

An award vests at the end of a three-year performance period, but only to the extent that the performance condition has been met.

Normally a participant must remain employed by the Group to receive his shares. However, if his employment ceases in certain circumstances, such as ill-health, injury, disability, retirement at normal contractual age, redundancy, the sale of the relevant subsidiary company or the transfer of the business in which the participant is employed, he may receive his shares to the extent that the performance condition is met up to the date of termination of employment, but with the number of shares then being scaled back on a time basis.

If a participant dies, his personal representative may receive shares at the discretion of the Board.

The Board also has the discretion to determine that a participant should receive cash in substitution for his right to receive shares or that a participant's award should be expressed to be a right to acquire a cash sum calculated by reference to a specified number of shares.

6 Limits on issue of shares

The ESOP may subscribe for or purchase shares for the Plan. The Board does not intend to issue shares to the ESOP at a price which is less than the middle market quotation for a share on the dealing day (or the average on up to five dealing days) before they are issued or if an option is granted to the ESOP to subscribe for shares, the dealing day (or the average on up to five dealing days) before the grant of the option. In addition, the following limits apply to the Plan:

(a) in any ten year period, the number of shares which may be issued or be placed under option under the Plan and any discretionary share scheme established by the Company may not exceed 5% of the issued share capital of the Company from time to time; and

(b) in any ten year period, the number of shares which may be issued or be placed under option under the Plan and any employees' share scheme established by the Company may not exceed 10% of the issued share capital of the Company from time to time.

7 Individual limits

The value of shares awarded under the Plan in any financial year to any individual may not exceed 100% of their annual salary (excluding benefits in kind). However, this limit may be exceeded in a recruitment situation.

8 Change of control

If there is a change of control, scheme of reconstruction or amalgamation or winding-up of the Company, participants may receive their shares subject to the consent of the Board, taking account of the extent to which the performance condition has been satisfied at that time and any other relevant criteria.

9 Pension rights

Awards of shares under the Plan will not form part of pensionable earnings.

10 Variation of capital

If the share capital of the Company is increased or varied, the Board may adjust the number of shares which a participant may acquire and the performance condition to which an award is subject.

11 Amendments

The Board may amend the Plan at any time. However, the prior approval of the Company in general meeting will be required for amendments to the advantage of participants relating to eligibility, individual and overall limits, rights to exercise awards and variations of capital, except for minor amendments to benefit the administration of the Plan, to take account of changes in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or for any member of the Group.

Item 12: New Articles of Association

The following notes provide details on the principal amendments that are proposed to the articles. References to individual articles are to articles as they are to be numbered in the new proposed articles unless stated otherwise. Consequential amendments will be made to the numbering of the articles and to cross-referencing as appropriate.

1 Changes to accommodate CREST

The Company's ordinary shares are currently eligible to be held in and transferred through CREST, the London Stock Exchange plc's automatic settlement system. The Board now proposes that the articles are updated to provide for the holding of ordinary shares in CREST. The principal changes that this requires are as follows:

Interpretation – (article 1)	The definitions and interpretation clause has been updated to include defined terms relevant to CREST.
Uncertificated shares – (article 10)	Empowers the Board to determine whether a class of shares is to become a participating security and to require a member to change a holding from an uncertificated share (that is, in CREST) to a certificated share (not in CREST). The article also empowers the Company to refuse to convert a certificated share to an uncertificated share.
Form of transfer – (article 28)	*Authorises the transfer of uncertificated shares in accordance with the Uncertificated Securities Regulations.*
Refusal to register transfers and closing of transfer books – (article 29)	Addresses the ability of the Board to refuse to register shares held in uncertificated form.
Suspension of registration and closing of register – (article 31)	Addresses the ability of the Board to close the register in accordance with the Uncertificated Securities Regulations.
Transmission of shares – (article 33)	This article amends current article 33 to take account of uncertificated shares where a person elects to have another person registered as a member on transmission.
Length and form of notice – (article 42), Notice of adjourned meeting – (article 50)	Provides that only those members entered on the register as at the date established by the Board (which in any event shall be no more than 21 days prior to the notice posting date) shall be entitled to receive notice of such meeting. The notice may specify a time (being no more than 48 hours prior to the meeting) by which a person may be entered on the register in order to be entitled to attend and vote at such meeting.

2 Changes to accommodate the coming into force of the Companies Act 1985 (Electronic Communications) Order 2000

Companies are now allowed (where a shareholder agrees) to send certain documents to a shareholder electronically and to place documents on a website and to send the shareholder a notice that these documents are available rather than using traditional methods of notification.

Interpretation – (article 1)	The definitions and interpretation clause has been updated to include defined terms relevant to electronic communications between the Company and its shareholders.
Length of notice – (article 42(G))	Where notice of a meeting is published on a website, the notice shall remain on the same website until after the conclusion of the meeting.
Voting by proxy – (article 58)	Sets out the different forms of appointment of a proxy which the Board is entitled to accept. In particular, it permits the Board to accept proxies appointed in an electronic communication.
Notice – (article 99)	Allows for notice of a meeting to be served by electronic communication.
Accounts – (article 126)	Permits accounts to be sent (where a shareholder agrees) to a member in an electronic communication, *or by being posted on a website or using any other means authorised in writing by the member.*
Notice, how served – (article 128)	Permits notice to be served (where a member agrees) on a member in an electronic communication, or by being posted on a website or using any other means authorised in writing by the member.
Evidence of notice – (article 130)	Provides that: (i) proof of service is established if an electronic notice is sent in accordance with the guidance given by the Institute of Chartered Secretaries and Administrators; and (ii) an electronic notice is deemed to have been served 24 hours after it was sent.

3 General meeting notices procedures

Additional item of ordinary business – (article 44 (ii))	The government has enacted legislation which requires the Company to put the amount of directors' remuneration to a separate vote at each annual general meeting. Accordingly, the Board proposes that this resolution becomes "ordinary business" for the purposes of the annual general meeting notice and changes have been made to the articles to reflect this.
Security – (article 52(B))	Permits the Board to make provision to ensure the security of a meeting. In particular, the Board can refuse entry to, or eject a person who causes the proceedings to become disorderly.
No shareholding qualification – (article 48(B))	Permits a person who is not a member to attend and speak at a meeting provided the Chairman of the meeting deems that the person is equipped with knowledge or experience of the Company's business so that they can assist with the matters being considered.

4 Board administration

Number of directors – (article 67)	Increases the maximum number of directors from nine to eleven.
Retirement of directors by rotation (article 73)	The UKLA requires that each director must seek reappointment not less than once in every three years or once in any four annual general meetings.
Directors' fees – (article 80)	Increases the limit on directors' fees to £350,000 per year (from £150,000).

5 Legislative changes and updating

Interpretation – definition of "London Stock Exchange" (article 1)	Following the transfer of some of its powers to the United Kingdom Listing Authority, "The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited" changed its name to: "London Stock Exchange plc".
United Kingdom Listing Authority ("UKLA")	As a result of regulatory changes, many of the supervisory powers of the London Stock Exchange were transferred to the United Kingdom Listing Authority. A number of references in the articles have been updated *to reflect the change.*
Financial Services and Markets Act 2000 ("FSMA")	Following the replacement of the Financial Services Act 1986 by FSMA, a number of references in the articles have been updated to reflect the change.
Convertible preference shares – (article 3B)	Following their redemption by the Company last year, there are no longer any convertible preference shares in issue and the articles have been updated to remove references to those shares.

Five year financial summary

for the year ended 31 December	2002 £million	2001 (as restated) £million	2000 £million	1999 £million	1998 £million
Turnover	**138.0**	208.3	229.5	241.6	263.9
Operating profit before exceptional items	**18.4**	18.6	24.0	28.8	42.3
Exceptional items	**(1.8)**	(52.1)	(1.5)	(50.9)	(4.1)
Operating profit/(loss)	**16.6**	(33.5)	22.5	(22.1)	38.2
Profit/(loss) before tax	**13.7**	(37.0)	19.8	(24.3)	36.1
Profit/(loss) after tax	**12.7**	(44.1)	15.8	(28.9)	25.3
Net assets	**58.7**	77.7	96.2	89.6	136.3
Earnings per ordinary share:					
– Basic	**7.2p**	(29.1)p	8.3p	(19.5)p	14.4p
– Diluted	**7.2p**	(29.1)p	8.3p	(19.5)p	14.3p
– Before exceptional items	**6.0p**	4.8p	9.0p	11.2p	16.2p
Dividends per ordinary share	**3p**	2p	5p	5p	9.5p
Net assets per ordinary share	**36.6p**	48.4p	59.9p	55.8p	84.9p

Directors and advisers

Executive Directors
Dr G Y Alexander OBE
T F Morgan
J A Neilson

Non-Executive Directors
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P J E Mocatta
J A Napier

Secretary and registered office
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CHRYSTON G69 0JE

Registered number: 129785

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Kintyre House
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GLASGOW G2 2LW

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Bankers
Clydesdale Bank PLC
20 Hanover Street
EDINBURGH EH2 2QW

Merchant Bankers
Hawkpoint Partners Limited
4 Great St Helens
LONDON EC3A 6HA

Stockbrokers
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2 Gresham Street
LONDON EC2V 7QP

Registrars
Computershare Investor Services PLC
PO Box 435
Owen House
8 Bankhead Crossway North
EDINBURGH EH11 4BR

Shareholder information

Financial calendar

8 May 2003	– Annual General Meeting
21 May 2003	– Final dividend paid
September 2003	*– Half year results and interim dividend announced*
October 2003	– Interim dividend paid
31 December 2003	– Financial year end
March 2004	– 2003 results and proposed final dividend announced

Dividends
The final dividend will be paid on 21 May 2003 to shareholders on the register at close of business on 11 April 2003.

Dividend mandates
Shareholders wishing dividends to be paid directly into a bank or building society account should contact the Registrar for a dividend mandate form at the address below. Dividends paid in this way will be paid through the Bankers Automated Clearing System (BACS).

Shareholder enquiries
For all share registration and dividend mandate enquiries contact:

The Registrar
Computershare Investor Services PLC
PO Box 435
Owen House
8 Bankhead Crossway North
Edinburgh
EH11 4BR
Telephone 0870 702 0010

For other shareholder enquiries contact:

Company Secretary
Devro plc
Gartferry Road
Moodiesburn
Chryston
G69 0JE

Telephone 01236 879191

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

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