

DEVRO plc

Annual Report &
Accounts 2004



World leader
in edible casings

Our product range,
market reach and
technology have each
contributed significantly
to improved trading

	2004	2003
Earnings per share	8.3p	7.9p
Dividends per ordinary share	4.0p	3.5p
Group turnover	£149.0m	£146.1m
Gross profit	£49.3m	£48.2m
– margin	33.1%	33.0%
Operating profit	£21.4m	£21.1m
– margin	14.3%	14.4%
Profit before taxation	£18.6m	£18.0m
Net cash from operating activities	£28.2m	£28.7m
Capital expenditure	£11.5m	£7.4m
Net debt	£25.4m	£26.7m
Gearing	34.9%	41.2%



GROUP PROFILE AND STRUCTURE

Moodiesburn, Bellshill and Hamilton, Scotland, UK –
 >Head office
 >Manufacturing
 >Technical development
 >Sales

 534

Sandy Run, South Carolina, US –
 >Manufacturing
 >Technical development
 >Sales

 366

£30.5m

Turnover –
Americas

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.

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

Hamburg, Germany –
> Sales
33

2,152
Total Group employees

£87.8m
Turnover –
Europe

Tokyo, Japan –
> Sales
6

Hong Kong –
> Sales
5

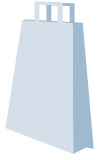
£30.7m
Turnover –
Asia/Pacific

Jilemnice, Kořenov
and Slavkov,
Czech Republic –
>Manufacturing
>Technical
development
>Sales
970

Bathurst, New South
Wales, Australia –
>Manufacturing
>Technical
development
>Sales
232

Auckland,
New Zealand –
> Sales
6

OUR PRODUCT APPLICATIONS



We can supply edible collagen casings for any sausage 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 group distributes cellulose, fibrous and plastic casings.





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Opposite

Fresh sausage: typically breakfast or dinner sausage

- 1 Chinese style dried sausage: Lap Cheong
- 2 Processed sausage: a wide category of processed smoked sausage including Frankfurter, Cabanossi
- 3 Small calibre smoked sausage: Wiener
- 4 and 5 Dried sausage: a wide category, including mini-salami, Landjaeger, Chorizo
- 6 Bratwurst: processed sausage eaten in summer, particularly in Germany and Central Europe
- 7 Larger diameter smoked sausage: a wide category of principally pork sausage
- 8 Beefstick: initially a US snack product, now popular in many markets
- 9 Collagen film: enhances production of cooked meat and poultry products

Our Brands



Coria™



CHAIRMAN'S STATEMENT



Devro has achieved another year of significant growth in the market, capitalising on the fundamental strengths of our business. The breadth of our product range, our geographic reach and our technological expertise have each contributed significantly to improved trading worldwide. This has resulted in both unit volumes and sales turnover in local currencies being comfortably ahead of prior year.

Sales volumes increased in all major product categories, with total volume ahead of prior year by 7.2%. This was partly offset by adverse price/mix of 2.0% resulting from a combination of unfavourable movements in market and product mixes and increased volume discounts at specific key accounts. In local currencies, turnover was over 5% ahead of prior year. There was an adverse translational exchange impact of £4.7 million, however, and reported sales in sterling at £149.0 million were, therefore, only 2.0% ahead.

There was a strong performance in most markets around the world, with good volume growth in both developed and developing markets. Within our more established markets, the UK and US produced a particularly good uplift, while in

the developing regions, substantial growth was achieved in Asia and Eastern Europe. These volume gains were delivered through a mix of increased conversion from gut casings to collagen, gains in market share and growth in the underlying sausage market. Our ability to capitalise on these important dynamics is underpinned by our drive to satisfy the broader needs of our customers through our ongoing programme of innovation, development and extension of both our product range and our service package.

Devro's continuing programme of improvements to both products and manufacturing processes also yielded further increases in productivity. This was partly offset, however, by disruptions to our manufacturing operations in the UK and US caused by variations in collagen arising from various regulatory issues surrounding the supply of casings using US-derived collagen. These issues resulted from the single case of BSE reported in the US in late 2003 and the consequent disruptions had an adverse impact on profit of around £0.6 million. The temporary restrictions on collagen supply, coupled with increased demand and adverse foreign exchange effects, led to a rise in collagen raw material prices for certain parts of the group's operations, with an adverse profit impact of £1.0 million.

Foreign exchange movements, due mainly to the weak US dollar and the relative strength of sterling, had a negative impact of over £1 million on profits for the year.

Our strong sales growth and productivity improvements, however, enabled Devro to overcome these various adverse effects, and operating profits increased by 1.4% from £21.1 million in 2003 to £21.4 million in 2004. Pre-tax profit was £18.6 million compared with £18.0 million in 2003, and earnings attributable to ordinary

shareholders increased to £13.4 million, resulting in earnings per share of 8.3 pence, an increase of 5.1% over 2003.

Net debt at the end of the year was £25.4 million, £1.3 million less than at December 2003. This reduction was achieved despite a marked increase in the level of capital investment, dividend payments and business activity. In addition, payments totalling £1.7 million were made in respect of the purchase of the outstanding minority shares in our Czech subsidiary, Cutisin. The improvement in net debt reflects our focus on cash management, tight controls on working capital and the group's strong operational cash flow.

During the year, we commenced an investment programme to improve and increase the group's manufacturing capacity, with the initial focus principally being on the expansion of our Czech facilities. As a result of this investment programme, capital expenditure for 2004 increased to £11.5 million (2003: £7.4 million) and we expect it to increase further to around £15 million in both 2005 and 2006 before easing back towards previous levels.

The sale of the surplus land at Moodiesburn has now been satisfactorily concluded and £7.25 million was received in February 2005. The cash will be used to support our business development activities and our capital investment programme.

In December, we announced a realignment of the BioFilm joint venture whereby Devro increased its ownership to 90% of the business. This change will allow greater flexibility in the marketing of the products and better clarity in the development of the business.

The facility at Hamilton, near Glasgow, which came on-stream towards the end of the first half,

is now capable of supplying commercial volumes of technically advanced thin-film products to a high quality standard and with a wide range of potential attributes. The technology underpinning this process is now well advanced and a number of product tests have been carried out with commercial partners which have led to several larger-scale market trials being undertaken. However, with the time taken to evaluate these commercial tests being reasonably extensive, we do not expect substantial sales in the early part of the programme. Nevertheless, we are encouraged by the level of interest generated to date.

Dividend

The Board is proposing a final dividend of 2.75 pence (2003: 2.4 pence), bringing the total for the year to 4.0 pence (2003: 3.5 pence). This will be paid on 18 May 2005 to shareholders on the register as of 15 April 2005. Our dividend policy continues to be the provision of progressive growth that is both sustainable over the longer term and consistent with the investment requirements for the further development of the business.

Board changes

As previously announced, Mr Patrick Mocatta will retire from the Board at the Annual General Meeting on 5 May 2005, after nine years as a non-executive Director. On behalf of the Board I would like to thank Patrick for his significant contribution to our company during his time on the Board.

I am delighted that, on 1 February 2005, Mr Paul Neep joined the Board as a non-executive Director. He will succeed Patrick Mocatta as Chairman of the Executive Directors' Remuneration Committee. Paul has been Chief Executive Officer of Glenmorangie plc since 2000 and brings to Devro a wide range of international marketing experience.

Employees

The foundation of our business rests on the quality, dedication and enthusiasm of our people. I would like to acknowledge and thank all Devro's employees for their hard, reliable and skilful work in helping to drive the business forward to further success.

Outlook

Our results in 2004 display further evidence of the strength of the casings market in general and our position within it in particular. Despite a number of adverse external factors, Devro was still able to improve earnings and reduce net debt.

This was achieved largely due to Devro being at the forefront of collagen casing technology, having the stability of strong market positions and a wide global presence, and constantly driving more value from operational assets. We intend to continue the strategy of investing in the development of our people, our processes, our products and our markets. With this focused commitment, I am confident that Devro will maintain and enhance the strong position which it has already achieved.

We continue to see solid growth opportunities for Devro. We envisage this growth to be largely organic, resulting from further market expansion, particularly in Asia and Eastern Europe, and from additional products which extend our range. Following the strong end to trading in 2004, 2005 has started positively and the Board is looking at the future prospects for the business with confidence.



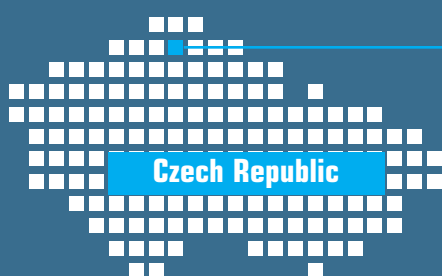
Pat Barrett OBE, Chairman

THE CUTISIN STORY



Cutisin was founded over 70 years ago. Key dates in its history are as follows:

2004	Major capital expenditure for expansion of capacity approved
2003	Devro acquired 100% of Cutisin
1996	Devro acquired Teepak together with the controlling interest in Cutisin
1994	Investment made in Slavkov with the commencement of plastic casing production
1992	Teepak acquired 25% ownership and gradually built up a controlling interest
1991	Cutisin's equity released by the Government to the public via a share issue
1988	First edible production started in Jilemnice
1963	Non-edible production started in Jilemnice
1959	Construction of a new plant in Jilemnice began
1953	First edible casing manufactured in Kořenov
1948	Cutisin was fully nationalised by the ruling Communist Party in Czechoslovakia
1946	The name Cutisin was created
1933	Equipment moved from Hamburg to Kořenov in Czechoslovakia
1932	Casing successfully made from cattle hide in Hamburg, Germany



The Jilemnice plant

Pictured: Taňa Kotykova, an employee at our Jilemnice plant

STRONG VOLUME GROWTH



We are continually looking to enhance the products and services provided to our customers.

Sales Volume Growth

Volumes in 2004 were ahead in all major product categories and in most of our key markets. Since the disposal of the Cellulose business in 2001, the group has recorded edible collagen volume growth of 1.2% in 2002, 6.2% in 2003 and 7.9% in 2004.

The majority of this volume growth has been driven by the conversion of gut to collagen. We are continually striving to enhance our product offering by developing new products to accelerate this conversion process. One recent example of this is the development of our porcine range of casings.

In addition to the volume growth achieved through gut conversion, we have also successfully gained market share by working closely with strategic customers and by continually looking to enhance the products and services provided to our customers.

While we work closely with our customers to tailor our casings for the demands of their particular products, we are also developing products that create new market segments – such as the launch this year of our P13 product.

7.9%

Volume growth
during 2004

Development of P13

Following an extensive market evaluation carried out in Germany and other European countries, an opportunity for developing a collagen casing for a small-diameter cooked sausage was identified. Most Frankfurter-type cooked sausage is in the range of diameters between 19 and 25mm. The results of our market research, however, suggested an opportunity for a casing with a smaller diameter and the idea of a 13mm Frankfurter-type sausage was born.

A multi-disciplinary project team was formed, headed by Klaus Kreibig (Director – Business Development). During the development of the sausage, we worked closely with one of our customers and found that Frankfurters of this size required some small changes to the sausage manufacturing process to accommodate:-

- a different consistency of meat emulsion
- special smoke programmes
- special smoke-sticks
- new stuffing horns and brake systems

Small-diameter sausage eats differently to sausage in larger diameters due to the different texture and taste created by the smaller portion size.

The P13 product was introduced to a large number of customers across Europe for extensive trials and consumer testing, and was successfully launched during 2004 in Germany, Austria and Switzerland, with Sweden and Japan to follow in early 2005. Having successfully developed a casing for the European market, we have started the development of a similar product for a wider range of markets.



Operating review

Devro was able to strengthen still further its financial performance during 2004. Increased sales volumes, productivity gains and tight control of operating costs resulted in a rise in profits and a reduction in net debt despite a number of adverse external factors.

Group sales, in local currency terms, increased by over 5%. For the second consecutive year we have achieved an increase which is significantly ahead of the long-term historical trend. Adverse foreign exchange movements, however, reduced this increase when the sales of our international subsidiaries were translated back into sterling. In sterling terms, sales at £149.0 million were then 2% ahead of the prior year figure of £146.1 million.

Sales volumes were 7% ahead of prior year, although this growth was partly offset by

the combination of market mix, product mix and price being 2% adverse. Global volumes in each of our product lines again showed an increase over prior year, with volumes of our collagen products ahead in most key markets.

In Europe, UK domestic sales showed the strongest growth they have achieved for several years. This growth was fairly consistent throughout the year, finishing with a particularly strong fourth quarter. As a result, UK casing volumes finished over 6% ahead of prior year. This success was due to a combination of underlying growth in the market and some small gains in market share. It was, however, partly offset by average pricing being lower than prior year as a result of increased sales to customers with higher volume discounts and some competitive pricing pressure. Despite the reduction in average price, turnover in the UK was still some 2.5% ahead of prior year.

Elsewhere, in Continental European markets, the success of improvements to the edible collagen product ranges of both Devro and Cutisin formed the basis for an overall volume increase of over 5%. The Devro range recorded an increase of almost 15%, while Cutisin achieved a further 8% uplift on what had already been a very good performance in 2003. The Devro growth was largely driven by an increase of over 25% in the volume of products being supplied into Western European markets, while Cutisin's uplift was based on a 13% increase into Eastern Europe. Our only disappointing result came from Germany, where edible collagen casing sales were adversely affected by poor summer weather which significantly reduced the level of sausage consumption. While an important market for the future, however, collagen casing in Germany still only represents a very small percentage of the group's overall turnover.

For the second consecutive year we have achieved a volume increase significantly ahead of the long-term historical trend.

In the Americas, US domestic casing volumes maintained the excellent growth pattern of recent years. A very positive increase of 20% was driven in part by continued growth in the market for snack foods and in part by market share gains. Following a slow start to the year, the second quarter saw a substantial increase in the rate of sales which was then maintained throughout the year. The improvements made to the products and processes have continued to contribute to the success of Coria in the US market and have supported the very strong and effective marketing and sales efforts put in by our US subsidiary in this important market area.

In Latin America, volumes were again very good, particularly in the first half. During the second half, there was a need to restrict supply in order to maintain adequate cover for the increasing volumes being sold into the buoyant US market. As a consequence, Latin American sales finished the year broadly in line with prior year.

Large currency movements had a major impact on the overall American turnover which, at close to £31 million, finished the year 1% behind prior year. At constant currency the turnover for the region would have been ahead by over £3 million, or 11%.

In South East Asia, in the early part of the year, a number of restrictions were applied to the use of US-derived collagen following the BSE issue in the US in 2003. However, following a major effort to reorganise our collagen sourcing and re-engineer some of our products, and with some redistribution of our supply chain logistics, we overcame these restrictions with little or no impact on our supply capability. As a result we were able to build on the sales growth which started in the second half of 2003 and achieved a steady improvement through the course of

2004, finishing with edible collagen volumes over 13% ahead of prior year. There was also a need to overcome the same type of regulatory issues in Japan. Again this was successfully accomplished, with porcine collagen, in this instance, providing the necessary vehicle for maintaining our market presence while alternative collagen sources were established. Japanese sales have been growing strongly since 2001 and we achieved a 25% increase in volume following the 15% growth achieved in 2003. These gains have been principally driven by underlying growth in the collagen market as more customers switch from the use of gut, but there have also been gains in market share. While these increases are clearly very welcome, Asian sales in total account for only slightly over 5% of group turnover and their impact on group profits is correspondingly limited. Nevertheless, the region is a large consumer of sausage products and our solid performance in these markets places Devro in a good position to take advantage of the considerable potential which this area has for future growth.

Elsewhere in the Pacific area, after a slower start, trading in Australia gradually improved as the year progressed and the year as a whole showed a modest gain over 2003. This followed an improvement in market conditions and some further gains in collagen's share of the market.

In our manufacturing operations we continued to make solid improvements to our technology base. Despite the distractions created by the regulatory issues in the early part of the year, we again placed considerable emphasis on improving the quality of the product, plant productivity and the cost of manufacture. We instigated a number of improvements during the year which either had a direct benefit

in 2004 or will provide the base for further improvements in 2005 and beyond.

These improvements in plant throughput, productivity and cost containment, which occurred at each location, helped the group to absorb significant increases in input costs arising from higher collagen and utility prices. During the first half there was also considerable disturbance to manufacturing operations in the US and UK as a result of the requirement to re-source collagen supplies and realign the manufacturing processes to accommodate the changes in raw material. These disturbances cost the group approximately £0.6 million.

A major project to expand the manufacturing facilities at our Czech subsidiary, Cutisin, was initiated during 2004 and is progressing according to plan. The building work is now well underway and the first product is expected to be commercially available during the second half of 2005, with the majority of the additional capacity coming on-stream during 2006.

Devro's commitment to research and development remains strong. We strive for new product innovations and product improvements to meet customer requirements which are becoming more complex and specifications which are becoming increasingly varied. Several enhancements were introduced throughout the year which extended or improved our product offering. These were of considerable importance in helping retain and develop our position in those markets where we are maintaining high shares or looking for good growth. We believe that our technologies form the base on which the future growth of Devro's business will depend and we intend to continue our current

focus on the group's technological development.

In 2004 Devro strengthened its position in the collagen casing business by selling more products to more customers worldwide, and we remain confident of our ability to grow in the future in the face of increasing competition.

We are constantly working to develop new products and improve existing ones to meet our customers' specific needs. We continue to see many ways of generating further improvements to our processes which will improve the consistency of production, lower the manufacturing cost and enhance the product quality.

There will be ongoing competitive pressure, but the group is in a strong position to take advantage of the opportunities for growth that will arise as the world food market becomes increasingly automated, generating increasing uses for collagen casings.

Financial review

Total sales for 2004 were £149.0 million against a prior year figure of £146.1 million.

Sales volumes were ahead of prior year by 7%, with significant increases being recorded in most of our key markets. This volume gain was partly offset by an adverse price/mix impact of 2%, arising from a combination of unfavourable movements in market and product line mixes, some competitive pricing pressure and an effective reduction in pricing due to increased volume discounts at specific key accounts. An adverse translational exchange impact of 3% then resulted in the overall sterling turnover for the group finishing 2% ahead of prior year.

The group's operating profit of £21.4 million compares with £21.1 million in 2003.

The increase in operating profit was driven by strong sales volume growth and significant improvements in productivity and manufacturing efficiency in each of our manufacturing operations. These factors generated additional profit of £7.0 million. Partially offsetting these positive factors, the adverse price/mix impact on average selling prices had a negative effect on profitability totalling £3.0 million.

In late December 2003 a single case of BSE was notified in the US. This resulted in issues relating to the sourcing of collagen, subsequently leading to a significant disruption to our manufacturing operations in both the UK and US as the processes were modified to accommodate variations in collagen supply. This had an adverse impact of around £0.6 million. Additionally, increased demand and some foreign exchange effects led to rising collagen raw material prices in certain parts of the world, with an adverse impact on profit of around £1.0 million.

Foreign exchange movements had a negative impact of £1.2 million on profits for the year. The majority of this impact related to the translation of the operating profits of our overseas subsidiaries into sterling. The transactional exchange impact was also adverse, mainly due to the weakness of the US dollar.

During the year, bad debts totalling £0.7 million were incurred relating to two UK customers. Both companies were subsequently sold by the receivers and we continue to trade with the new owners.

Considerable resources continue to be invested in product and process development, resulting in research and development expenditure in 2004 totalling £4.0 million, 2.7% of sales (2003: £4.1 million, 2.8% of sales).

Sales volumes were ahead of prior year by 7%, with significant increases being recorded in most of our key markets.

Net interest expense totalled £2.7 million in 2004 (2003: £3.0 million). The average level of debt was lower than 2003, while the full year impact of the new borrowing facility negotiated in July 2003 offset higher interest rates. Net interest cover was over 7 times.

Net debt at the year end amounted to £25.4 million, comprising gross debt of £36.4 million and cash and liquid resources of £11.0 million. Gearing was reduced to 34.9% (2003: 41.2%).

The group's borrowing facility totals £52.9 million. Two interest rate swaps totalling £15 million are in place to provide protection against potential increases in interest rates. These swaps are for nominal amounts of £5 million and £10 million and expire on 15 July 2005 and 15 July 2006 respectively. At the year end, 41% (2003: 38%) of the group's borrowings were at fixed rates after taking account of the interest rate swaps.

The financial impact of exchange rate fluctuations is minimised by a policy of hedging foreign exchange risk. All hedging is undertaken centrally by the Corporate Treasury function, based in Moodiesburn, in accordance with Board-approved policies and authorities. Specifically, policies permit forward transaction hedging to a maximum level of 75% of anticipated currency flows for up to one year ahead. They also permit the 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 group's effective tax rate for 2004 of 28.3% is slightly lower than the 2003 rate of 28.7%, due mainly to a reduction in the rate of taxation in the Czech Republic.

Net cash flow from operating activities for 2004 was £28.2 million (2003: £28.7million). Despite significantly increased sales, working capital was held broadly in line with prior year, except for an increase in prepayments due to required supplementary contributions of £2.0 million made into the US pension fund. Capital expenditure totalled £11.5 million. During the year, we commenced an investment programme to expand capacity in the Czech Republic. Expenditure on this project in 2004 totalled £2.2 million and we expect the final outlay to be £14.0 million by 2006. Dividends of £5.8 million were paid, and there were payments of £1.7 million in respect of the purchase of the outstanding minority shares in Cutisin.

Earnings attributable to ordinary shareholders have increased to £13.4 million from £12.7 million in 2003. Unadjusted earnings per share was 8.3 pence, an increase of 5.1% compared with 7.9 pence in 2003.

A final dividend of 2.75 pence per share is proposed. This, together with the interim dividend of 1.25 pence paid in October, gives a total of 4.0 pence and represents an increase of 14.3% over 2003. This level of dividend is more than twice covered by earnings.

Summary financial information for 2004 prepared under International Financial Reporting Standards will be released at the Annual General Meeting on 5 May 2005.



Graeme Alexander OBE,
Chief Executive



John Neilson, Finance Director



WHO WE ARE



1 Pat Barrett OBE (68) Chairman

Pat joined Devro in June 2001 as a Non-Executive Director and was elected Chairman in July 2001. He is Chairman of East Surrey Holdings plc, a company involved in the water and natural gas sector; Chairman of Jaycare Limited, a company involved in plastics packaging focusing on the pharmaceutical industry, Chairman of Smurfit's UK operations, which focus on paper packaging, and Chairman of M & H Plastics Limited, which is a packaging business specialising in the personal care sector. It is his responsibility to lead the Board and oversee management in its development of strategies to grow Devro's business.

Board:

- Pat Barrett
- Graeme Alexander
- Patrick Mocatta,
- Trevor Morgan
- John Napier
- Paul Neep
- John Neilson

Executive committee:

- Graeme Alexander
- Mike Cooke
- Gordon Frame
- Graham McGilchrist
- Trevor Morgan
- John Neilson
- Petr Raschik

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2 Dr Graeme Alexander OBE (55) 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 company'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 John Neilson (51) 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.

4 Trevor Morgan (48) Technical 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 (67) 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 Thomson Intermedia plc and Electrak Holdings Limited.

6 Patrick Mocatta (55) Non-Executive Director

Patrick joined Devro in June 1996 as a Non-Executive Director. Until February 2005 he was a Partner of UBS Capital, the private equity investment arm of UBS, where he spent twelve years and held a number of senior managerial positions. He is Chairman of the Executive Directors' Remuneration Committee. He intends to retire at the forthcoming Annual General Meeting.

7 Paul Neep (51) Non-Executive Director

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

8 Graham McGilchrist (54) 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. Graham's area of responsibility includes Japan and South East Asia as well as the Australian and New Zealand markets.

9 Mike Cooke (53) 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 Business Director Europe in 2002 and has responsibility for leading the group's business activities in Europe.

10 Petr Raschik (60) Business Director Cutisin

Petr joined the Cutisin organisation in 1967 and 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.

11 Gordon Frame (45) 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. In 2002, Gordon was appointed Regional Business Director Americas and has responsibility for leading the group's business activities in both North America and Latin America.

Environmental Policy

The group has always recognised that environmental protection is of fundamental importance to a successful and responsible business strategy. We take pride in our business activities and are committed to 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. These policies are available on our website (www.devro.plc.uk). 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:-

- **Scotland**

The Scottish operation has received the "ENVIROWISE 2004" award for resource efficiency by the Scottish Executive, for its extensive work in reducing water use and effluent, reduction of waste, and introduction of recycling initiatives for a range of materials. Dry waste levels have been reduced by 30% so far, with further projects planned.

The operation also continues to achieve its energy reduction targets under the climate change levy.

- **United States**

Our US operation, in a joint project with a major fertiliser manufacturer, has assisted in the recycling of a substantial amount of ammonium sulphate. Operational improvements have resulted in a reduction in solid waste sent to landfill, despite an increase in factory throughput.

Boiler upgrades, including new instrumentation and controls and improvements to the fuel delivery system, have enabled the facility to keep particulate emissions well below the permit limit and reduce the opacity of emissions by 16%.

- **Australia**

In Australia, our operating company carried out upgrades to their effluent system to achieve more reliability in treatment performance.

A project has commenced to reduce the risk of odour escaping from a primary processing plant.

- **Czech Republic**

The Czech facilities have introduced recycling initiatives with corresponding reductions in the amount of waste discharged to landfill sites. Process improvements have also resulted in a significant reduction in waste.

Energy savings in the Czech Republic have come from installation of low-energy lighting and boiler house modifications resulting in reduced gas consumption.

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, improvements in environmental performance are expected. Environmental issues will continue to be a high priority within the group.

Health and Safety

Health and safety is a very high priority within Devro. The group's policy on health and safety requires that all our companies are committed to achieving high standards within their operations.

All group companies are required to conduct regular formal safety reviews at plant level. Nominated managers and employees review policies, processes and procedures in order that risks may be properly evaluated, that events leading to accidents are examined and that appropriate remedial or avoidance action may be initiated and subsequently monitored. Formal reporting procedures are in place at each plant so that we can monitor the safety performance of each company.

Group safety performance as measured by the rate of lost working day injuries showed an improvement in 2004, with the most significant improvement being recorded in our US operation.

During 2004 our Scottish operation again received a gold award from the Royal Society for Prevention of Accidents ("RoSPA") and a national safety award from the British Safety Council. As part of its health risk management strategy, an Occupational Health Service has been introduced, and defibrillators purchased.

The Australian facility upgraded its Health and Safety Management System. In an external audit in 2004, it achieved "best practice" results in all benchmarks tested.

Regulatory compliance

With its worldwide trading, the group is conscious of the need to ensure compliance with a multiplicity of national and international legislation. In particular in 2004 we have been careful to be in full compliance with the recent European Union Collagen Decision 2003/721/EC, which has had an impact on all our operations.

The harmonization of Czech law with EU requirements has resulted in the need for some changes in our facilities and these have been carried out in agreement with the local authorities. In addition, the Czech factories are accredited to the ISO 14000 environmental standard.

We aspire to achieve high levels of food safety, and in addition to general registration to ISO 9001 by all our facilities, and routine inspection by local authorities, our Scottish facility is accredited to the EFSIS (European Food Safety Inspection Service) higher level standard.

Employees

The group aims to attract, retain, develop 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, religion, ethnic origin or other minority criteria.

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

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

Given the geographical spread of our operations, it would be inappropriate and impractical to apply uniform procedures groupwide. Each company is, therefore, responsible for achieving and maintaining appropriate consultation and communication with their employees. Examples of the employee involvement programme during 2004 included:-

- 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 committee meetings on Health and Safety; and
- Meetings were undertaken with employees and union representatives to discuss the issues affecting them.

Suppliers

We recognise that our corporate social responsibility also reflects in the way we behave towards our suppliers. We strive to be open, honest and consistent in all our dealings with suppliers. The group agrees terms and conditions with suppliers before business takes place. The group's policy is to pay agreed invoices in accordance with the terms of payment. At 31 December 2004, the amount owed to trade creditors by the group was equivalent to 25 days of purchases from suppliers.

Communities

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

Corporate ethics

All Devro employees are expected to behave ethically in their work and our expectations of them are set out in a detailed Business Conduct Policy. Annually, senior management are required to sign a certificate confirming compliance of both themselves and their staff with this policy.

Summary

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

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2004

The directors present their report and the audited financial statements for the year ended 31 December 2004.

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 31.

Post balance sheet event

On 21 February 2005, the company announced that its subsidiary, Devro (Scotland) Limited, had completed the sale of 34.5 acres of land at Moodiesburn, Scotland to Walker Holdings (Scotland) Limited for £7.25 million.

Dividends and transfers to reserves

The directors recommend a final dividend of 2.75 pence per ordinary share. If the final dividend is approved by shareholders, ordinary dividends for the year will total 4.0 pence (2003: 3.5 pence).

After providing for the dividends detailed above, the profit of £6,944,000 (2003: £7,102,000) will be transferred to group reserves.

Share capital

During the year 833,000 ordinary shares of 10 pence each were issued under the rules of the company's share option schemes, bringing the total number of ordinary shares in issue at 31 December 2004 to 161,328,760.

Share options

Details of all options granted but not exercised or lapsed at 31 December 2004 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 16 and 17. Mr P A J Neep was appointed as a non-executive director on 1 February 2005.

In accordance with the Articles of Association, Mr P J E Mocatta and Dr G Y Alexander retire by rotation. Mr P J E Mocatta has advised that he will not seek re-election, but Dr G Y Alexander being eligible offers himself for re-election at the Annual General Meeting. Dr G Y Alexander is subject to a service agreement which is terminable by either party on one year's notice. Mr P A J Neep will stand for election at the forthcoming Annual General Meeting as he was appointed since the last Annual 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 30.

Substantial shareholdings

At 11 March 2005, the company had been notified of the following material interests in the issued ordinary share capital of the company:

	Number of ordinary shares	Percentage of issued capital at date of notification
Acomita Investments Limited	22,434,052	13.91%
Schroder Investment Management Limited	20,005,537	12.40%
Legal & General Group plc	4,840,164	3.00%

Charitable and political contributions

The contributions made by the group during the year for charitable purposes amounted to £66,000 (2003: £37,000). The contributions were mainly made to charities where the group's operations are based and can be analysed as follows:

	£
Local community groups	28,000
Schools and colleges	8,000
Health care and medical research	30,000
	66,000

There were no contributions for political purposes (2003: £nil).

Employees

Details of the group's employment policies are given in the Corporate Social Responsibility Report on page 19.

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 2004, the company had no trade creditors; the amount owed to trade creditors by the group was equivalent to 25 days of purchases from suppliers (2003: 29 days).

Annual General Meeting

The Annual General Meeting of the company will be held on Thursday 5 May 2005 at 12.00 noon at The Westerwood Hotel, 1 St Andrews Drive, Cumbernauld.

Shareholders will be invited to approve the Remuneration Report set out on pages 26 to 30.

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 59, 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.

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.

Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the Annual General Meeting.

Statement of directors' responsibilities

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

The directors confirm that suitable accounting policies have been used and applied consistently and that reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 2004. 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 18 March 2005

CORPORATE GOVERNANCE

1. Statement

Devro plc is committed to high standards of corporate governance consistent with the needs of the business and the interests of shareholders. This statement, together with the Remuneration Report set out on pages 26 to 30, describes how, in respect of the financial year ended 31 December 2004, the company has applied the provisions and principles of corporate governance as set out in the revised Combined Code, following the Higgs Report ("the Code").

2. Board composition

Throughout 2004, the Board comprised Mr P A Barrett, Non-Executive Chairman; Dr G Y Alexander, Chief Executive; Mr J A Neilson, Finance Director; and Mr T F Morgan, Technical Director; along with Mr P J E Mocatta and Mr J A Napier, who are both Non-Executive Directors. Mr P A J Neep joined the Board as a Non-Executive Director on 1 February 2005, and Mr P J E Mocatta has advised that he intends to retire as a director at the forthcoming Annual General Meeting ("AGM").

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

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

The question of the Chairman's independence is relevant in connection with his continuing membership of the Audit Committee and the Executive Directors' Remuneration Committee, as this may not comply with the Code. However, as stated above, the Board is satisfied on this point and both committee chairmen welcome his continued involvement on their committees in view of his input to meetings.

Mr J A Napier was appointed to the position of "Senior Independent Director" in 2001. The Board views this essentially as a passive role, but acknowledges that there can be occasions where there may be a need for shareholders to convey concerns to the Board other than through the Chairman or Chief Executive. The company's major shareholders have been advised that Mr Napier is willing to meet with them if they wish, but none has requested such a meeting and, to the extent that no meetings have taken place, the company has not fully complied with Provision D.1.1 of the Code.

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

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

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

3. Board and Committee proceedings

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

In order to discharge these responsibilities, the Board and its Committees meet on a regular basis throughout the year. In 2004 the Board held seven full meetings with all directors present. An eighth meeting to deal with a formality was held by telephone with three directors forming the quorum. Full details of Board and Committee attendance are shown in the following table.

Board and Committee attendance of members during the year ended 31 December 2004

	P A Barrett	G Y Alexander	P J E Mocatta	T F Morgan	J A Napier	J A Neilson
Board – 8 meetings	7	8	8	7	7	8
Audit Committee – 4 meetings	4	n/a	4	n/a	4	n/a
Executive Directors' Remuneration Committee – 5 meetings	5	n/a	5	n/a	5	n/a
Non-Executive Directors' Remuneration Committee – 2 meetings	n/a	2	n/a	n/a	n/a	2
Nomination Committee – 2 meetings	2	n/a	2	n/a	2	n/a

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

The Audit, Remuneration and Nomination Committees, all appropriately resourced, met a total of thirteen times during the year. On each occasion all Committee members attended.

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 major decisions on capital expenditure. The Board conducts an annual review of the effectiveness of the company's system of internal control, following a group-wide exercise led by the Head of Risk Assurance.

Each year, the Board visits at least one of the group's operating divisions in order to meet local management and develop a deeper understanding of the business issues. In 2004 the Scottish business was chosen, and a visit to the US operation is planned for 2005.

The Chairman and the other Non-Executive Directors met informally on several occasions after Board meetings during the year, providing an opportunity to review the business conducted without the Executive Directors being present.

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

4. Directors' remuneration

Details of the level of remuneration received by the directors in 2004 are set out in the Remuneration Report on pages 26 to 30. The Board believes that the current levels of remuneration are sufficient to attract and retain the directors needed to run the company successfully, without being excessive. Base salaries for Executive Directors are reviewed annually against those paid for similar positions in comparable companies. Professional advice from independent advisers is sought each year in this regard by the Executive Directors' Remuneration Committee, which also reviews external survey data.

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

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

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

Mr P J E Mocatta chaired the Executive Directors' Remuneration Committee throughout the period in question, and the other members of the Committee were Mr P A Barrett and Mr J A Napier. This Committee met five times. The Non-Executive Directors' Remuneration Committee, which met twice in 2004, is chaired by Dr G Y Alexander with Mr J A Neilson as the other member, so no director is involved in deciding his own remuneration.

The Remuneration Report on pages 26 to 30 contains a detailed statement of the remuneration of each director for 2004, including details of the company's pension policy.

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

5. Report from the Audit Committee

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

Mr J A Napier is the Chairman of the Committee and the other members of the Committee throughout 2004 were Mr P A Barrett and Mr P J E Mocatta. The Company Secretary acts as Secretary to the Committee. The Board is satisfied that the Committee has recent and relevant financial experience.

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

At the beginning of 2004 the Board set objectives for the Committee, including the fulfilling of each aspect of its terms of reference and keeping abreast of developments in accounting best practice. During the year, four Committee meetings were held. In addition to reviewing the company's full year and interim results, the Committee (i) reviewed internal controls across the group; (ii) considered the question of reappointment of the external auditors before making a recommendation to the Board; (iii) addressed the impact of the forthcoming International Financial Reporting Standards; and (iv) considered the effectiveness of internal audit activities. The company's "whistleblowing" procedures were also reviewed during the year, with the Committee concluding that the arrangements in place would result in proportionate and independent investigation of such matters.

6. Auditor Independence

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

The fees paid to the external auditors in 2004 are set out in note 7 to the financial statements on page 38. A large proportion of the non-audit fee relates to tax advice. The Committee believes that there are sound commercial and practical reasons for this work being conducted by the auditors.

7. Relationship with shareholders

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

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

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

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

8. Directors' training and development

The Board believes that an ongoing programme of training and development is necessary to ensure that directors keep abreast of developments within the group and broader regulatory issues. To achieve this, the Board meets with local management in at least one of the group's operations annually. In addition, specific briefing sessions are held and in 2004 these included presentations from external advisers on International Financial Reporting Standards and developments in Pensions Corporate Governance.

9. Board performance evaluation

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

In 2004, the Board set business-focused objectives for itself and every director, while each of the committees was given objectives centred around its remit. The primary objective of the Chief Executive and the Executive Directors concerned the delivery of the financial plan for the year. Performance reviews were carried out at the end of the year against those objectives.

The Chairman's performance was assessed against his personal objectives by the other two Non-Executive Directors led by the Senior Non-Executive Director, as envisaged by the Code.

10. Report from the Nomination Committee

Mr P A Barrett, the Chairman of the company, is the Chairman of this Committee. The other members of the Committee throughout the year were Mr P J E Mocatta and Mr J A Napier. The Company Secretary acts as Secretary to the Committee.

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

During 2004 the Committee met on two occasions. In view of the requirement to recruit a new Non-Executive Director, the Committee evaluated the balance of skills, knowledge and experience of the remaining Board members and prepared a description of the role and capabilities required.

External independent selection consultants, free of any other ties to the company, were then retained in order to finalise the job specification and conduct searches.

Following the review of profiles of a number of candidates and subsequent interviews, the Committee then recommended Mr P A J Neep to the Board for approval. Mr Neep was duly appointed Non-Executive Director on 1 February 2005, and will stand for election at the company's forthcoming AGM.

The company's major shareholders were offered the opportunity to meet with Mr Neep as envisaged by provision A.5.1 of the Code. Mr Neep received a full formal induction on joining the Board, including plant visits and detailed briefing sessions with the Chief Executive and the Finance Director.

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

11. Financial reporting

The Board acknowledges its responsibility to present a balanced and understandable assessment of the company's position and prospects. Each Annual Report contains a Chairman's Statement and 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.

12. Internal control

An ongoing process has been established for identifying, evaluating and managing the significant risks the group faces. The process, which accords with the Turnbull guidance, has been in place for the period under review and up to the date of approval of the 2004 Annual Report and Accounts. This includes the appointment of a Head of Risk Assurance whose responsibility is to apply risk assessment procedures throughout the group and work alongside subsidiary undertakings in establishing the process. Furthermore, the programme of work performed by internal audit includes non-financial risks. The system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives.

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

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

- **Financial reporting**

There is a budgeting system in place which includes an annual budget approved by the Board. Monthly actual results are reported against budget. Revised forecasts for the year are prepared regularly. The company reports 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, who is responsible for internal audit, normally attends Audit Committee meetings and makes a formal report to the Committee annually.

- **Capital investment appraisal**

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

- **Integrity of personnel**

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

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

13. Going concern

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

14. Compliance with the Code

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

REMUNERATION REPORT

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

During the course of 2004, both committees took advice from New Bridge Street Consultants LLP, 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

Throughout the year, the members of the Non-Executive Directors' Remuneration Committee were 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 share options or any other benefits, nor is any element of their remuneration pensionable. Details of their contracts of service are set out on page 27.

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

The members of the Committee throughout the period under review were Mr P J E Mocatta (Committee Chairman), Mr P A Barrett and Mr J A Napier.

Compliance

Other than as stated in the Corporate Governance report, the constitution and operation of the Committee are in compliance with the provisions of the revised Combined Code on Corporate Governance 2003 ("the Code"). When setting its remuneration policy, the Committee gives due consideration to the provisions and principles of the Code.

Policy on Executive Directors' remuneration

Total level of remuneration

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

The main components

The main components of the policy are set out below:

i) Base salary

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

ii) Annual bonus

The Committee believes that a significant portion of Executive Directors' remuneration should be performance-related. It is therefore the practice of the Committee to incentivise the Executive Directors by setting challenging annual bonus targets which are relevant to the needs of the business in the year in question. The setting of relevant and stretching targets in line with the strategic objectives of the company is key to the effectiveness of any performance-related scheme. Cash bonuses up to a maximum of 60% of annual base salary may be achieved.

The annual bonus plan for 2004 was focused on fixed targets for profit growth, margin improvement, cash generation and sales of new products. In setting the 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 cash generation, while adding for the first time an element linked to sales of new products. During the year profit exceeded prior year, and cash generation was slightly ahead of expectations. As a result of these achievements, annual bonuses of 19% of base salary were paid for 2004. Details are set out on page 29.

The annual bonus plan for 2005 is again focused on fixed financial targets. The Committee believes that the actual targets, which are the same for all Executive Directors, are commercially sensitive and does not propose to publish precise details. The Committee will meet in early 2006 to assess whether, and to what extent, the targets have been met by reviewing the audited performance of the group against these targets.

iii) Performance Share Plan

At the Annual General Meeting in May 2003 the shareholders approved the introduction of the Devro 2003 Performance Share Plan. The plan is designed to offer a competitive long-term incentive programme which will reward growth and profitability over a three-year performance period. Awards were made to the three Executive Directors in October 2004, equivalent to 50% of their annual base salary. Details are shown on page 30. The performance conditions which the Committee applied to these particular awards are stringent, and, for full vesting, the company's Earnings Per Share ("EPS") must outstrip the Retail Prices Index ("RPI") by 30% over the three-year performance period. 30% of the award will vest if EPS exceeds RPI by 9% over that period, with straight-line vesting between these two targets. The awards will lapse if performance falls below this latter target. These conditions were chosen so as to be closely aligned with the interests of shareholders. In assessing whether the conditions have been met, the Committee will consider the audited accounts of the company.

Conditional awards under this plan will be considered annually.

Company Policy on Contracts of Service

The company's Chairman, Mr P A Barrett, is engaged for an unspecified term, with a 12-month notice period.

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 contracts of the three Executive Directors include a provision that employment may be terminated by the company on one year's notice or on payment of one year's salary. Due to the technical nature of the business, the directors' service contracts contain restrictive covenants.

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

The company's policy on the termination of contracts of service of senior executives is dictated by events, bearing in mind the circumstances of termination and the interests of the company. In the past, compensation payments have, in appropriate circumstances, been phased and linked to non-compete agreements. In 2004 the Committee reviewed the level of compensation which would be payable under the Executive Directors' service contracts in the event of termination.

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

Director	Date of contract	Date term due to expire	Notice period
P A Barrett	19 June 2001	n/a	12 months
G Y Alexander	16 June 1993	n/a	12 months
P J E Mocatta	11 December 2002	AGM 2005	n/a
T F Morgan	21 March 1995	n/a	12 months
J A Napier	11 December 2002	AGM 2006	n/a
J A Neilson	16 June 1993	n/a	12 months

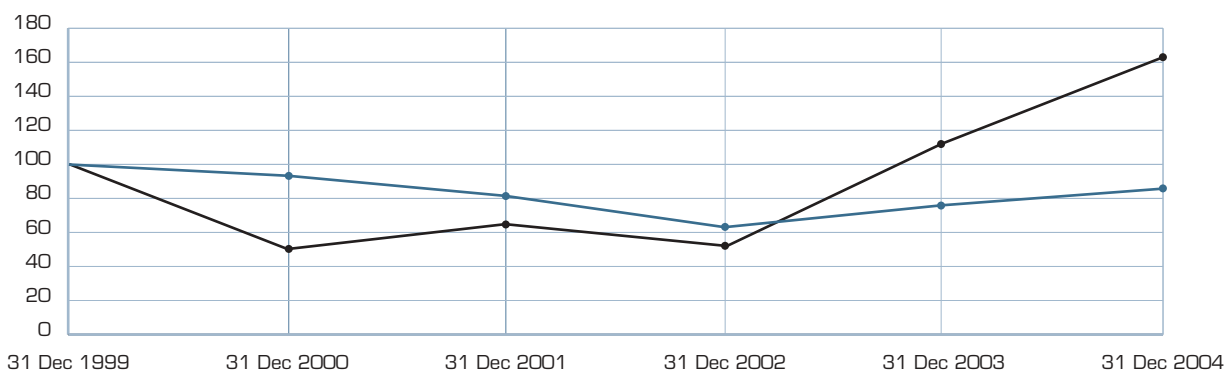
External directorships

None of the Executive Directors has any external paid directorships.

Performance Graph

Total shareholder return

Value (£)



This graph shows that £100 invested in Devro plc on 31 December 1999 would be worth £163 by the end of 2004, while £100 similarly invested in the FTSE All-Share Index would be worth £86. The other points plotted are the values at intervening financial year-ends.

— Devro plc
— FTSE All-Share Index

Source: Datastream

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.

Auditable information

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

Company pensions policy regarding Executive Directors

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 plan) for each year of pensionable service (as so defined) completed up to the normal retirement age of 65.

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

Director	Age at 31 Dec 04	Gross increase in accrued benefits earned in the year £ per annum	Increase in accrued benefits earned in the year (net of inflation) £ per annum	Accrued entitlement at 31 Dec 04 £ per annum	Transfer value at 31 Dec 04 £	Transfer value at 31 Dec 03 £	Increase in transfer value less directors' contributions £
G Y Alexander	55	9,316	5,310	138,539	1,786,366	1,506,808	263,857
T F Morgan	48	6,526	4,714	64,982	629,401	522,319	97,778
J A Neilson	51	8,419	6,058	84,574	929,925	750,317	169,686

- Accrued entitlements shown are the amounts which would be paid annually on retirement based on service to the end of the year.
- Transfer values have been calculated in accordance with version 8.1 of guidance note GN11 issued by the actuarial profession.
- Changes in the transfer values include the effect of fluctuations due to factors beyond the control of the company and directors, such as stock market movements. They are calculated after deducting the directors' contributions.
- Voluntary contributions paid by directors, transferred-in money purchase funds and resulting benefits are not shown.

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 RPI 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.

Directors' detailed emoluments

Details of directors' emoluments for those directors who served during the year ended 31 December 2004 were as follows:

Director	Basic salary		Bonuses		Fees		Benefits in kind*		Total	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000	2004 £'000	2003 £'000	2004 £'000	2003 £'000	2004 £'000	2003 £'000
P A Barrett	-	-	-	-	90	90	-	-	90	90
G Y Alexander	252	244	48	115	-	-	23	22	323	381
P J E Mocatta	-	-	-	-	30	25	-	-	30	25
T F Morgan	151	139	29	65	-	-	17	16	197	220
J A Napier	-	-	-	-	30	25	-	-	30	25
J A Neilson	161	146	30	69	-	-	18	18	209	233
Total	564	529	107	249	150	140	58	56	879	974

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

Deferred Bonus Scheme

The company operated the Devro 2001 Deferred Bonus Scheme in 2002 and 2003. Under the scheme, awards of shares were made to Executive Directors to the level of their annual bonus in the previous year. These awards will vest three years from the date of grant. No further awards have been made under this scheme since 2003.

Performance Share Plan

Awards made to Executive Directors under the Devro 2003 Performance Share Plan during 2004 were as follows:

Director	Number held at 1 Jan 04	Shares awarded on 12 Oct 04	Number of shares vested	Value vested	Number held at 31 Dec 04
G Y Alexander	151,359	112,000	–	–	263,359
T F Morgan	83,684	67,111	–	–	150,795
J A Neilson	87,322	71,444	–	–	158,766

The market price on 12 October 2004 (the date of the award) was 112.5 pence. The awards will vest in full after three years if the normalised EPS of the company outstrips RPI by 30% over the three-year performance period. 30% of the award will vest on that date if EPS exceeds RPI by 9% over that period with straight-line vesting between these two targets. The awards will lapse completely if performance falls short of the latter target. There is no provision for retesting. The same performance condition applied to the awards granted in 2003.

Directors' interests

The interests, all of which are beneficial, of the directors (and their immediate families) in the share capital of the company (ordinary shares of 10 pence each) and details of outstanding options to acquire ordinary shares and details of awards made under the 2001 Deferred Bonus Scheme and the 2003 Performance Share Plan, at the beginning and end of the financial year, are as follows:

Director	Ordinary shares 31 Dec 04	Ordinary shares 31 Dec 03	Share options 31 Dec 04	Share options 31 Dec 03	Exercise price (pence)	Earliest date for exercise	Latest date for exercise	Deferred Bonus Scheme shares 31 Dec 04	Deferred Bonus Scheme shares 31 Dec 03	Performance Share Plan 31 Dec 04	Performance Share Plan 31 Dec 03
P A Barrett	220,000	200,000	–	–	–	–	–	–	–	–	–
G Y Alexander	461,642	461,642	60,000 ²	60,000 ¹	248	14.04.97	13.04.04	227,659	227,659	263,359	151,359
P J E Mocatta	60,000	60,000	–	–	–	–	–	–	–	–	–
T F Morgan	195,051	195,051	40,000 ²	40,000 ²	251	11.12.98	10.12.05	126,012	126,012	150,795	83,684
J A Napier	47,500	47,500	–	–	–	–	–	–	–	–	–
J A Neilson	438,485	438,485	45,000 ²	45,000 ¹	248	14.04.97	13.04.04	141,354	141,354	158,766	87,322
			–	–	251	11.12.98	10.12.05	–	–	–	–

¹No performance conditions were attached to options granted in 1994. These options lapsed in 2004.

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

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 2004, amounted to 734,442 ordinary shares.

All share options were granted for nil consideration.

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

The market price of the company's shares at 31 December 2004 was 125 pence and the range of market prices during the year was 90 pence to 125 pence.

The directors' interests have not changed between 31 December 2004 and the date of this report.

On behalf of the Board

P J E Mocatta Chairman, Executive Directors' Remuneration Committee
18 March 2005

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2004

	Notes	2004 £'000	2003 £'000
Turnover (including share of joint venture)			
Continuing operations		149,168	146,155
Less: share of turnover of joint venture		(157)	(16)
Group turnover	2	149,011	146,139
Operating profit			
Continuing operations	3	21,634	21,102
Share of operating loss of joint venture		(269)	(37)
Total operating profit: group and share of joint venture		21,365	21,065
Interest (net)	6	(2,735)	(3,019)
Profit on ordinary activities before taxation	2,7	18,630	18,046
Tax on profit on ordinary activities	8	(5,270)	(5,180)
Profit on ordinary activities after taxation		13,360	12,866
Minority interests		–	(171)
Profit for the financial year	9	13,360	12,695
Dividends	10	(6,416)	(5,593)
Retained profit for the financial year	24	6,944	7,102
Earnings per share			
– basic	11	8.3p	7.9p
– diluted	11	8.3p	7.9p

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

	2004 £'000	2003 £'000
Profit for the financial year	13,360	12,695
Exchange differences (note 25)	327	961
Total gains and losses recognised for the year	13,687	13,656

BALANCE SHEETS AT 31 DECEMBER 2004

	Notes	Group		Company	
		2004 £'000	2003 £'000	2004 £'000	2003 £'000
Fixed assets					
Intangible assets	12	168	-	-	-
Tangible assets	13	92,820	89,230	97	109
Investments	14	-	-	116,084	128,074
		92,988	89,230	116,181	128,183
Current assets					
Stocks	15	19,688	18,726	-	-
Debtors: amounts falling due after more than one year	16	3,678	3,634	32,640	26
Debtors: amounts falling due within one year	16	22,347	22,068	1,085	1,306
Cash at bank and in hand		11,010	12,828	11	344
		56,723	57,256	33,736	1,676
Creditors: amounts falling due within one year	17	(27,630)	(31,477)	(14,793)	(27,418)
Net current assets/(liabilities)		29,093	25,779	18,943	(25,742)
Total assets less current liabilities		122,081	115,009	135,124	102,441
Creditors: amounts falling due after more than one year	18	(35,154)	(37,372)	(29,250)	(29,250)
Provisions for liabilities and charges:					
Joint venture:	14				
Share of gross assets		-	83	-	-
Share of gross liabilities		-	(120)	-	-
		-	(37)	-	-
Other provisions	20	(14,158)	(12,771)	-	(30)
		(49,312)	(50,180)	(29,250)	(29,280)
		72,769	64,829	105,874	73,161
Called up share capital	22	16,133	16,050	16,133	16,050
Share premium account	24	5,194	4,848	5,194	4,848
Capital redemption reserve	24	35,587	35,587	35,587	35,587
Special reserve	24	2,849	109	16,663	16,663
Profit and loss account	24	13,050	8,235	32,297	13
Total shareholders' funds	25	72,813	64,829	105,874	73,161
Minority interests – equity	26	(44)	-	-	-
		72,769	64,829	105,874	73,161

The financial statements on pages 31 to 57 were approved by the Board of Directors and signed on its behalf by:

J A Neilson Finance Director
18 March 2005

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2004

	Notes	2004 £'000	2003 £'000
Net cash inflow from operating activities	27	28,150	28,730
Returns on investments and servicing of finance	28	(3,168)	(3,143)
Taxation		(4,998)	(3,242)
Capital expenditure and financial investment	28	(11,358)	(7,290)
Acquisitions and disposals	28	(1,618)	(177)
Equity dividends paid		(5,831)	(4,951)
Cash inflow before management of liquid resources and financing		1,177	9,927
Management of liquid resources	28	2,499	(1,967)
Financing	28	(1,711)	(13,032)
Increase/(decrease) in cash in the year		1,965	(5,072)
Reconciliation of net cash flow to movement in net debt			
Increase/(decrease) in cash in the year		1,965	(5,072)
Cash outflow from decrease in debt	29	2,140	13,032
Cash (inflow)/outflow from (decrease)/increase in liquid resources	29	(2,499)	1,967
Change in net debt resulting from cash flows		1,606	9,927
Translation difference	29	(360)	(1,333)
Movement in net debt in the year		1,246	8,594
Opening net debt		(26,654)	(35,248)
Closing net debt	29	(25,408)	(26,654)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

1 Principal accounting policies

The financial statements have been prepared under the historical cost convention, in accordance with the Companies Act 1985 and applicable Accounting Standards in the United Kingdom. Financial Reporting Standard 17, Retirement Benefits, is being adopted in line with the transitional timetable laid down by the standard. A summary of the more important group accounting policies, which have been applied consistently, is set out below:

Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 31 December 2004 and its interest in a joint venture up to 17 December 2004. Intra-group sales and profits are eliminated fully on consolidation. The group accounted for the investment in the joint venture using the gross equity method. The group's share of the loss of the joint venture up to the above date, when a controlling interest was acquired, is included in the consolidated profit and loss account.

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. Goodwill previously taken to reserves is charged in the profit and loss account when the related business is sold. Goodwill arising on the acquisition since 1998 is being amortised on a straight line basis over a period of 20 years. The directors regard 20 years as a reasonable estimate for the useful life of goodwill. When it is apparent that the carrying value of goodwill exceeds estimated net present value of future cash flows less operating assets, an impairment provision is charged to the profit and loss account.

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.

Grants

Grants in respect of capital expenditure are credited to deferred revenue, from which a proportion is transferred to the profit and loss account annually over the expected useful lives of the related assets.

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 charged to the profit and loss account in the year in which it is 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 denominated in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year and the results of foreign subsidiary undertakings are translated at average rates of exchange for the year. Differences on exchange arising from the translation of the opening net assets of overseas subsidiary undertakings and from the translation of the results of those undertakings 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, and is recognised when the goods are shipped or the services are supplied to customers.

Taxation

Current and deferred taxation charges are based on the results for the year. The balance sheet includes all tax liabilities accruing to the date of the financial statements. 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.

In addition, the group operates defined contribution pension schemes. The assets of these schemes are held separately from those of the group. The amount charged to the profit and loss account represents the contributions payable to each scheme in respect of the accounting period.

Subject to certain conditions, the group provides health care benefits for retired employees in the United States. 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.

Share schemes

The group's share-based incentive plans are accounted for in accordance with Urgent Issues Task Force Abstract 17 (revised 2003), Employee Share Schemes. The fair market value of the shares at the date of the grant, less any consideration to be received from the employee, is charged to the group's profit and loss account over the period to which the employee's performance relates. Where awards are contingent upon future events (other than continued employment), an assessment of the likelihood of these conditions being achieved is made at the end of each year and appropriate provision made.

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 hedge interest rate exposures on floating rate debt. Net interest payable or receivable on the swaps is taken to the profit and loss account as an adjustment to interest expense in the year in which it arises.

- **Forward foreign currency contracts**

The group enters into forward foreign currency contracts to purchase or sell foreign currencies arising from forecast cash flows 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.

- **Currency swaps and cross currency swaps**

Currency swaps and cross currency swaps are used to manage foreign exchange exposures on borrowings by matching borrowings in currencies other than the base currency of the relevant entity with assets in the same currencies as the borrowings. These borrowings are revalued at month-end exchange rates with gains or losses taken to the profit and loss account. The corresponding swaps are also revalued at month-end rates with matching losses or gains taken to the profit and loss account. The associated interest element relating to the swaps is also taken to the profit and loss account. A hedge is maintained until the underlying borrowing has been repaid, at which time the hedge is unwound. Any gain or loss arising on the repayment of the borrowings and the matching loss or gain on the unwinding of the hedge would be recognised in the profit and loss account.

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		Net Assets	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000	2004 £'000	2003 £'000
By geographical origin (legal entity basis)						
Europe	87,952	86,385	14,699	13,833	63,352	57,728
Americas	30,501	30,761	3,650	3,875	15,783	14,904
Asia/Pacific	30,715	29,009	3,016	3,357	22,884	21,447
Group	149,011	146,139	21,634	21,102	102,019	94,116
Joint venture (Europe)	157	16	(269)	(37)	-	(37)
Total	149,168	146,155			102,019	94,079
Operating profit			21,365	21,065		
Net interest			(2,735)	(3,019)		
Group			18,910	18,083		
Joint venture			(280)	(37)		
Profit before tax			18,630	18,046		
Debt due by Devro plc					(29,250)	(29,250)
Group					72,769	64,866
Joint venture					-	(37)
Net assets					72,769	64,829

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

3 Cost of sales and other operating income and expenses

	2004 £'000	2003 £'000
Group turnover	149,011	146,139
Cost of sales	99,752	97,962
Gross profit	49,259	48,177
Selling and distribution costs	11,316	11,461
Administrative expenses	10,226	10,329
Research and development expenditure	4,041	4,068
Other expenses	2,435	1,494
	28,018	27,352
Less: Other operating income	393	277
Net operating expenses	27,625	27,075
Group operating profit	21,634	21,102

4 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 26 to 30. Details of the emoluments of the highest-paid director are as follows:

	2004 £'000	2003 £'000
Aggregate emoluments	323	381
Defined benefit pension scheme:		
Accrued pension at end of year	139	129

5 Employee information

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

	2004 Number	2003 Number
By employee category		
Operations and engineering	1,800	1,706
Sales and marketing	98	97
Distribution	30	30
Administration	118	116
Research and development	106	106
	2,152	2,055

	2004 £'000	2003 £'000
Staff costs (for the above persons):		
Wages and salaries	38,597	36,631
Social security costs	5,024	4,690
Other pension costs (note 21)	2,639	2,364
	46,260	43,685

6 Interest (net)

	2004 £'000	2003 £'000
Interest receivable and similar income	862	1,242
Interest payable and similar charges:		
On bank loans and overdrafts repayable within 5 years	(3,586)	(4,261)
Share of joint venture interest payable	(11)	–
Total interest payable	(3,597)	(4,261)
Net interest payable	(2,735)	(3,019)

7 Profit on ordinary activities before taxation

	2004 £'000	2003 £'000
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation of tangible fixed assets	8,572	8,829
Amortisation of intangible fixed assets	9	–
Research and development expenditure	4,041	4,068
Auditors' remuneration (company £60,000; 2003: £57,000)	217	199
Hire of plant and machinery – operating leases	388	362
Hire of other assets – operating leases	508	735
Loss on disposal of tangible fixed assets	108	333
Amortisation of grant income	(46)	–

Remuneration of the auditors for the year ended 31 December 2004, including remuneration for non-audit services, is analysed below:

	2004 £'000	2003 £'000
Audit services		
– Statutory audit	217	199
– Audit-related regulatory reporting	20	18
Further assurance services:		
Tax services		
– Compliance	110	47
– Advisory	104	319
Other services	122	23
	573	606

Fees paid to the auditors for non-audit services include £213,000 (2003: £221,000) payable in the UK.

8 Tax on profit on ordinary activities

	2004 £'000	2003 £'000
Current tax		
United Kingdom corporation tax at 30% (2003: 30%)	30	509
Foreign tax	4,317	3,614
	4,347	4,123
Adjustments in respect of prior years	(506)	397
Total current tax	3,841	4,520
Deferred tax		
Origination and reversal of timing differences representing:		
United Kingdom corporation tax	245	150
Foreign tax	552	603
	797	753
Adjustments in respect of prior years	728	(93)
Total deferred tax	1,525	660
Share of tax of joint venture	(96)	-
Tax on profit on ordinary activities	5,270	5,180

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

	2004 £'000	2003 £'000
Profit on ordinary activities before tax	18,630	18,046
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	5,589	5,414
Effects of:		
Adjustments to tax in respect of prior years	222	304
Adjustments in respect of foreign tax rates	(301)	(190)
Permanent differences	(240)	(348)
Tax on profit on ordinary activities	5,270	5,180
Origination and reversal of timing differences – deferred tax charge	(1,525)	(660)
Share of tax of joint venture	96	-
Current tax charge	3,841	4,520

9 Profit for the financial year

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

	2004 £'000	2003 £'000
Dealt with in the financial statements of the holding company	38,700	(3,288)
(Loss)/profit retained by subsidiary undertakings	(25,156)	16,020
Share of loss of joint venture	(184)	(37)
	13,360	12,695

10 Dividends

	2004 £'000	2003 £'000
Interim paid of 1.25 pence per share (2003: 1.1 pence)	2,006	1,765
Final proposed of 2.75 pence per share (2003: 2.4 pence)	4,437	3,852
Dividends waived (see below)	(27)	(24)
	6,416	5,593

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.

11 Earnings per share

	2004	2003
Earnings per share (pence)		
– Basic	8.3	7.9
– Diluted	8.3	7.9

Basic earnings per share for 2004 is calculated by dividing the profit for the year of £13,360,000 (2003: £12,695,000) by 160,630,593 (2003: 160,495,760) being the weighted average 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 shares at less than the average market price of the shares during the year. Shares arising from share options or the deferred bonus scheme are only treated as dilutive where the effect is to reduce earnings per share. Diluted earnings per share is calculated by dividing the profit for the year of £13,360,000 (2003: £12,695,000) by the average number of shares, including the effect of all dilutive potential shares, of 161,590,887 (2003: 161,538,053).

12 Intangible assets

The company had no intangible assets at 31 December 2004. Details of intangible assets relating to the group are as follows:

Group	£'000
Goodwill	
At date of acquisition and at 31 December 2004 (note 14)	177
Aggregate amortisation	
At date of acquisition	–
Charge for the year	9
At 31 December 2004	9
Net book value at 31 December 2004	168
Net book value at 31 December 2003	–

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 2004	49,198	108,256	2,379	4,068	163,901
Exchange differences	1,199	(765)	5	155	594
Additions	791	4,776	44	5,844	11,455
Disposals	(256)	(4,529)	(41)	(6)	(4,832)
Reclassification	682	2,975	-	(3,657)	-
At 31 December 2004	51,614	110,713	2,387	6,404	171,118
Depreciation					
At 1 January 2004	10,032	62,867	1,772	-	74,671
Exchange differences	236	(558)	4	-	(318)
Charge for year	1,246	7,175	151	-	8,572
Disposals	(182)	(4,407)	(38)	-	(4,627)
At 31 December 2004	11,332	65,077	1,889	-	78,298
Net book value					
At 31 December 2004	40,282	45,636	498	6,404	92,820
Net book value At 31 December 2003	39,166	45,389	607	4,068	89,230

Depreciation has not been charged on freehold land which is stated at historical cost of £3,828,000 (2003: £3,800,000).

Company	Plant and machinery, and motor vehicles £'000	Fixtures and fittings £'000	Total £'000
Cost			
At 1 January 2004	447	28	475
Additions	50	-	50
At 31 December 2004	497	28	525
Depreciation			
At 1 January 2004	345	21	366
Charge for year	59	3	62
At 31 December 2004	404	24	428
Net book value at 31 December 2004	93	4	97
Net book value at 31 December 2003	102	7	109

14 Investments

Group	2004 £'000	2003 £'000
Interest in joint venture		
At 1 January	(37)	-
Share of retained losses	(184)	(37)
	(221)	(37)
Acquired (see below)	177	-
Minority interest	44	-
At 31 December	-	(37)

On 17 December 2004, the group acquired, for no consideration, a further 40% of the joint venture company BioFilm Limited (formerly Breath Fresheners Limited), increasing its interest to 90%. Until that date, the losses of the joint venture were split equally between the parties. This purchase has been accounted for as an acquisition. BioFilm Limited has not made a material contribution to the group's turnover, profit before tax or operating cash flows since its acquisition.

The following table sets out the book values of the identifiable assets and liabilities acquired. There are no material differences between the book values of the assets and liabilities acquired and their fair values.

	£'000
Stocks	63
Debtors	599
Cash at bank and in hand	126
	788
Creditors due within one year	(1,230)
Net liabilities	(442)
Proportion of net liabilities acquired	(177)
Goodwill	177
Consideration	-
Company	£'000
Interest in group undertakings	
Net book value at 1 January 2004	128,074
Less: reduction in investment (see below)	(11,990)
Net book value at 31 December 2004	116,084

During the year, the group's dormant subsidiary undertaking, Devro Holdings Limited, was placed in members' voluntary liquidation. On 30 December 2004, the liquidators made a final distribution equivalent to the net book value of the investment.

The company's principal subsidiary undertakings at 31 December 2004 are shown below. The accounting dates of the subsidiary undertakings are 31 December except where stated.

Name of undertaking	Country of incorporation or registration	Nature of business	Proportion of nominal value of issued shares held by:	
			Group	Company
Devro (Scotland) Limited	Scotland	Casings		100%
Devro New Holdings Limited	Scotland	Holding		100%
Devro Acquisition Corp	USA	Holding		100%
Devro BV (accounting date – 31 October; reporting date – 31 December)	Netherlands	Holding	100%	
Devro Asia Limited	Hong Kong	Casings	100%	
Devro Pty Limited	Australia	Casings	100%	
Devro GmbH	Germany	Non-trading	100%	
Devro KK	Japan	Casings	100%	
Devro Inc	USA	Casings	100%	
Devro Investments Inc	USA	Holding	100%	
Cutisin s.r.o.	Czech Republic	Casings	100%	
BioFilm Manufacturing Limited (formerly Breath Fresheners Manufacturing Limited)	Scotland	Thin film	100%	
BioFilm Limited (formerly Breath Fresheners Limited)	Scotland	Thin film	90%	

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

15 Stocks

The company had no stocks at 31 December 2004. Details of stocks relating to the group are as follows:

Group	2004 £'000	2003 £'000
Raw materials and consumables	2,289	1,951
Work in progress	2,369	2,837
Finished goods and goods for resale	15,030	13,938
	19,688	18,726

16 Debtors

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Amounts falling due after more than one year				
Amounts owed by subsidiary undertakings	–	–	32,600	–
Deferred tax asset	–	–	40	26
Prepayments and accrued income	3,678	3,634	–	–
	3,678	3,634	32,640	26

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Amounts falling due within one year				
Trade debtors	17,544	18,807	-	-
Amounts owed by subsidiary undertakings	-	-	552	603
Amounts owed by joint venture	-	183	-	-
Other debtors	1,315	1,243	505	678
Prepayments and accrued income	3,488	1,835	28	25
	22,347	22,068	1,085	1,306

Prepayments and accrued income falling due after more than one year represents a pension cost prepayment of £3,678,000 (2003: £3,634,000) due to the application of Statement of Standard Accounting Practice 24, Accounting for Pension Costs.

17 Creditors: amounts falling due within one year

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Bank loans and overdrafts	1,621	2,315	8,382	8,713
Trade creditors	6,866	6,930	-	-
Amounts owed to subsidiary undertakings	-	-	952	13,465
Corporation tax payable	2,756	4,086	-	-
Other taxation and social security payable	1,290	1,310	44	68
Accruals and deferred income	10,349	10,846	978	1,320
Amounts owed to former Cutisin shareholders	311	2,138	-	-
Dividends payable	4,437	3,852	4,437	3,852
	27,630	31,477	14,793	27,418

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	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Bank loans (repayable between one and five years)	34,797	37,167	29,250	29,250
Accruals and deferred income	357	205	-	-
	35,154	37,372	29,250	29,250

The group has in place an unsecured floating rate loan facility comprising a committed element of £45.9 million and an uncommitted working capital element of £7.0 million. This facility is a co-ordinated, bilateral facility with three banks and expires on 15 July 2008. The amount of the undrawn facility at 31 December 2004 is shown on page 47.

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 2004, 41% (2003: 38%) of the group’s borrowings were at fixed rates after taking account of interest rate swaps.

Liquidity risk

The group has a medium-term loan facility which is regularly reviewed to ensure that it provides adequate liquidity for the group. The facility is managed on a centralised basis with appropriate local availability.

Foreign currency risk

The group has several significant overseas subsidiary undertakings 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 2004 was:

Currency	Floating rate £'000	Fixed rate £'000	Zero rate £'000	Total £'000
Sterling	14,250	15,000	–	29,250
Australian dollars	5,547	–	96	5,643
Euro	1,621	–	–	1,621
Other currencies	–	–	140	140
At 31 December 2004	21,418	15,000	236	36,654
Sterling	14,250	15,000	–	29,250
Australian dollars	7,917	–	73	7,990
Euro	2,315	–	–	2,315
Other currencies	–	–	132	132
At 31 December 2003	24,482	15,000	205	39,687

Floating rate financial liabilities bear interest at rates, based on relevant national LIBOR equivalents plus a margin as defined in the facility agreement, which are fixed in advance for periods of up to six months with the exception of the overdraft facility in Germany.

The interest rate profile of the group's fixed and zero rate financial liabilities at 31 December 2004 was:

Currency	Weighted average interest rate for fixed rate liabilities		Weighted average period for fixed rate liabilities		Weighted average period for zero rate liabilities	
	%	%	Years	Years	Years	Years
	2004	2003	2004	2003	2004	2003
Sterling	4.5	4.5	1.2	2.2	-	-
Other currencies	-	-	-	-	9.6	9.9
	4.5	4.5	1.2	2.2	9.6	9.9

- **Interest rate risk profile of financial assets**

The profile of the group's cash and deposits at 31 December 2004 was:

Currency	Cash at bank and in hand £'000	Short-term deposits £'000	Total £'000
US dollars	2,850	60	2,910
Sterling	935	-	935
Euro	553	1,331	1,884
Czech koruna	1,783	1,842	3,625
Other currencies	1,598	58	1,656
At 31 December 2004	7,719	3,291	11,010
US dollars	2,182	362	2,544
Sterling	1,528	-	1,528
Euro	879	1,018	1,897
Czech koruna	451	4,197	4,648
Other currencies	2,202	9	2,211
At 31 December 2003	7,242	5,586	12,828

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 2004 was 2.2% (2003: 2.4%).

- **Maturity profile of financial liabilities**

The maturity profile of the group's financial liabilities at 31 December 2004 was:

	Debt £'000	Other financial liabilities £'000	Total £'000
Within 1 year	1,621	-	1,621
Between 1 and 2 years	-	17	17
Between 2 and 5 years	34,797	59	34,856
Over 5 years	-	160	160
At 31 December 2004	36,418	236	36,654
Within 1 year	2,315	-	2,315
Between 1 and 2 years	-	22	22
Between 2 and 5 years	37,167	32	37,199
Over 5 years	-	151	151
At 31 December 2003	39,482	205	39,687

- **Borrowing facilities**

In addition to the facility outlined on page 44, there is a further uncommitted floating rate working capital facility of \$2 million arranged in the United States.

At 31 December 2004, the undrawn portion of the committed facility amounted to £11.1 million (2003: £13.8 million) which expires as follows:

	2004 £'000	2003 £'000
Within one year	5,100	5,100
Within one to two years	5,100	5,100
Within two to five years	903	3,633
	11,103	13,833

In addition, there was available £5.9 million (2003: £7.2 million) of undrawn, uncommitted facilities which are renewable within one year.

- **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 2004. 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.

	2004 Book value £'000	2004 Fair value £'000	2003 Book value £'000	2003 Fair value £'000
Primary financial instruments held or issued to finance the group's operations:				
Borrowings	(36,418)	(36,418)	(39,482)	(39,482)
Other financial liabilities	(236)	(183)	(205)	(161)
Short-term deposits	3,291	3,291	5,586	5,586
Cash at bank and in hand	7,719	7,719	7,242	7,242
Derivative financial instruments held to manage the currency exposures on expected future sales:				
Forward foreign currency contracts	(113)	85	-	18
Derivative financial instruments held to manage the currency exposures on intercompany loans:				
Cross currency swaps	-	-	145	132
Currency swaps	(93)	(83)	(179)	(246)
Interest rate swaps	-	206	-	322

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 swaps and currency swaps

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

- **Currency exposures**

As explained on page 45, 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 2004 were:

	Sterling £'000	US dollars £'000	Euro £'000	Australian dollars £'000	Other currencies £'000	Total £'000
Functional currency of group operations:						
Sterling	–	554	1,741	364	468	3,127
US dollars	340	–	14	453	–	807
Czech koruna	25	717	4,656	5	703	6,106
Hong Kong dollars	(117)	9,319	–	(369)	802	9,635
Other currencies	–	234	–	2	–	236
At 31 December 2004	248	10,824	6,411	455	1,973	19,911
Sterling	–	1,017	1,942	318	208	3,485
US dollars	21	–	(134)	740	–	627
Czech koruna	19	1,452	4,906	3	747	7,127
Hong Kong dollars	(277)	9,535	–	(169)	662	9,751
Other currencies	113	–	–	2	–	115
At 31 December 2003	(124)	12,004	6,714	894	1,617	21,105

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**

The group's policy is to hedge interest rate risks using interest rate swaps, currency risks on expected foreign currency sales and purchases using forward foreign exchange contracts, and foreign currency risks on intercompany borrowings using currency swaps and cross currency swaps. 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 2004 £'000	Losses 2004 £'000	Total 2004 £'000	Gains 2003 £'000	Losses 2003 £'000	Total 2003 £'000
Gains and losses on hedges at start of year	406	(146)	260	32	(258)	(226)
Gains and losses arising in previous years recognised in the year	(211)	146	(65)	(32)	258	226
Gains and losses arising in previous years that were not recognised in the year	195	–	195	–	–	–
Gains and losses arising in the year that were not recognised	219	–	219	406	(146)	260
Gains and losses on hedges at end of year	414	–	414	406	(146)	260
of which:						
Gains and losses expected to be recognised within one year	354	–	354	230	(146)	84
Gains and losses expected to be recognised after more than one year	60	–	60	176	–	176

20 Provisions for liabilities and charges

Other provisions

Group	Post-retirement employee benefits (note 21) £'000	Deferred taxation £'000	Restructuring costs £'000	Total £'000
At 1 January 2004	2,934	9,748	89	12,771
Exchange differences	(229)	184	–	(45)
Profit and loss account	78	1,525	–	1,603
Utilised in year	(82)	–	(89)	(171)
At 31 December 2004	2,701	11,457	–	14,158

Company	Restructuring costs £'000	Total £'000
At 1 January 2004	30	30
Utilised in year	(30)	(30)
At 31 December 2004	–	–

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:

	2004 £'000	2003 £'000
Accelerated capital allowances	10,623	10,302
Other timing differences	834	(554)
Deferred taxation liability	11,457	9,748

21 Pension and similar obligations

The group has continued to account for pensions in accordance with Statement of Standard Accounting Practice 24, Accounting for Pension Costs, 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 defined benefit schemes are now closed to new members and have been replaced with defined contribution schemes. The total pension cost for the group was £2,639,000 (2003: £2,364,000), of which £1,877,000 (2003: £1,317,000) related to the overseas schemes. Total outstanding contributions at 31 December 2004 were £244,000 (2003: £173,000).

The pension cost relating to the United Kingdom defined benefit 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 in line with the Retail Prices Index plus 1%, subject to a minimum of zero and a maximum of 7%, 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 12 years being the expected average remaining service lives of current employees.

Pension costs for the overseas defined benefit 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. Under the projected unit method, the current service cost will increase as the members of the schemes approach retirement.

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 £78,000 (2003: £51,000) and the liability of £2,701,000 (2003: £2,934,000) 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 11% and 13%. This rate is assumed to decrease to an ultimate rate of 5% in 2011. The weighted average discount rate used in determining the accumulated post-retirement benefit obligation at 31 December 2004 was 6.25%.

(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 2004 by qualified independent actuaries. The major assumptions used by the actuaries in the following principal countries were:

	Australia			United Kingdom			United States		
	2004 %	2003 %	2002 %	2004 %	2003 %	2002 %	2004 %	2003 %	2002 %
Discount rate	5.25	6.50	6.20	5.40	5.50	5.50	5.75	6.25	6.75
Rate of increase in salaries	4.00	4.00	3.90	3.75	4.05	3.75	3.50	3.50	3.50
General inflation	2.50	2.30	2.00	2.75	2.80	2.25	2.50	2.50	2.50
Date of last formal valuation	31 December 2003			31 March 2002			1 January 2004		

In addition, the UK scheme valuation assumed 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 in line with the Retail Prices Index plus 1%, subject to a minimum of zero and a maximum of 7%, 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 2004, the value of the insurance asset was £3.0 million (2003: £2.9 million) and the value of the liability on a Financial Reporting Standard 17 basis was £2.6 million (2003: £3.0 million).

The aggregate fair values of assets in the group's defined benefit schemes at 31 December 2004 in the following principal countries were estimated to be:

	Australia			United Kingdom			United States		
	2004 £'000	2003 £'000	2002 £'000	2004 £'000	2003 £'000	2002 £'000	2004 £'000	2003 £'000	2002 £'000
Equities	3,989	3,763	3,424	76,107	77,161	63,797	16,180	11,666	11,385
Bonds	1,126	1,300	1,179	29,988	21,875	21,966	11,604	14,895	19,075
Other	1,247	929	832	2,555	966	795	3,152	3,386	442
	6,362	5,992	5,435	108,650	100,002	86,558	30,936	29,947	30,902

The long-term rates of return expected at 31 December 2004 in the following principal countries were as follows:

	Australia			United Kingdom			United States		
	2004 %	2003 %	2002 %	2004 %	2003 %	2002 %	2004 %	2003 %	2002 %
Equities	7.30	7.30	8.25	7.30	7.30	7.00	8.50	8.50	8.50
Bonds	4.80	4.80	6.00	4.70	4.60	4.50	4.50	4.50	6.50
Other	6.00	6.00	6.00	4.55	3.25	3.50	7.50	7.50	6.50

The net pension assets and liabilities at 31 December 2004 were as follows:

	Australia			United Kingdom			United States		
	2004 £'000	2003 £'000	2002 £'000	2004 £'000	2003 £'000	2002 £'000	2004 £'000	2003 £'000	2002 £'000
Total fair value of plan assets (as above)	6,362	5,992	5,435	108,650	100,002	86,558	30,936	29,947	30,902
Present value of plan liabilities	(5,624)	(5,750)	(5,051)	(128,490)	(118,870)	(110,951)	(41,519)	(42,879)	(44,915)
Surplus/(deficit) in plans	738	242	384	(19,840)	(18,868)	(24,393)	(10,583)	(12,932)	(14,013)
Related deferred tax (liabilities)/assets	(221)	(73)	(115)	5,952	5,660	7,318	3,916	4,785	-
Net pension assets/(liabilities)	517	169	269	(13,888)	(13,208)	(17,075)	(6,667)	(8,147)	(14,013)

The deficits shown in the table above reflect the poor investment returns and falling interest rates across the world in previous years. 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 group remains committed to funding all of its benefit arrangements.

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

	Australia		United Kingdom		United States	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Analysis of amounts charged to the profit and loss account						
Current service cost	185	218	1,674	2,086	-	61
Curtailment credit	-	-	-	-	-	(1,143)
Total operating charge/(credit)	185	218	1,674	2,086	-	(1,082)
Other finance income:						
Expected return on pension scheme assets	(359)	(459)	(6,626)	(5,417)	(1,785)	(2,096)
Interest on pension scheme liabilities	358	369	6,502	6,078	2,494	2,844
Net financing (credit)/charge	(1)	(90)	(124)	661	709	748

	Australia		United Kingdom		United States	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Analysis of amounts recognised in statement of total recognised gains and losses						
Actual return less expected return on assets	816	(890)	3,341	10,073	1,550	2,502
Experience gains and losses on liabilities	(67)	479	(89)	359	428	(777)
Changes in assumptions	(89)	143	(4,332)	(3,092)	(2,495)	(2,618)
Actuarial gain/(loss) on assets and liabilities	660	(268)	(1,080)	7,340	(517)	(893)
Exchange rate (loss)/gain	(5)	62	-	-	944	1,367
Actuarial gain/(loss) recognised in sterling	655	(206)	(1,080)	7,340	427	474
Movement in surplus/(deficit) during the year						
Surplus/(deficit) in scheme at beginning of year	242	384	(18,868)	(24,393)	(12,932)	(14,013)
Movement in year:						
Employer service cost	(185)	(218)	(1,674)	(2,086)	-	(61)
Curtailment credit	-	-	-	-	-	1,143
Employer contributions	25	192	1,658	932	2,631	273
Net return on assets/(interest cost)	1	90	124	(661)	(709)	(748)
Actuarial gain/(loss)	660	(268)	(1,080)	7,340	(517)	(893)
Exchange rate (loss)/gain	(5)	62	-	-	944	1,367
Surplus/(deficit) in scheme at end of year	738	242	(19,840)	(18,868)	(10,583)	(12,932)

	Australia			United Kingdom			United States		
	2004	2003	2002	2004	2003	2002	2004	2003	2002
History of experience gains and losses in financial year ended 31 December									
Difference between expected and actual return on scheme assets:									
Amount (£'000)	816	(890)	(763)	3,341	10,073	(26,532)	1,550	2,502	(3,784)
Percentage of scheme assets	13%	(15)%	(14)%	3%	10%	(31)%	5%	8%	(12)%
Experience gains and losses on scheme liabilities:									
Amount (£'000)	(67)	479	-	(89)	359	471	428	(777)	(3,917)
Percentage of scheme liabilities	(1)%	8%	-	(0)%	0%	0%	1%	(2)%	(9)%
Total amount recognised in statement of total recognised gains and losses:									
Amount (£'000)	655	(206)	(1,100)	(1,080)	7,340	(37,159)	427	474	(8,908)
Percentage of scheme liabilities	12%	(4)%	(22)%	(1)%	6%	(33)%	1%	1%	(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 2004 by a qualified independent actuary on a Financial Reporting Standard 17 basis. The value of the liability on this basis was £1,838,000 at 31 December 2004 (2003: £2,229,000) which compares with a liability of £2,701,000 (2003: £2,934,000) 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 2004 would have been £50.3 million (2003: £44.3 million) and £(9.4) million (2003: £(12.3) million) respectively, which compares with the value of net assets of £72.8 million (2003: £64.8 million) and profit and loss account reserve of £13.1 million (2003: £8.2 million) as shown on the balance sheet on page 32.

22 Called up share capital

	2004 £'000	2003 £'000
Authorised		
225,000,000 ordinary shares of 10 pence each	22,500	22,500
Allotted, called up and fully paid		
161,328,760 (2003: 160,495,760) ordinary shares of 10 pence each	16,133	16,050

The number of ordinary shares of 10 pence each issued during the year in connection with options exercised were:

The Devro 1993 (No. 1) Executive Share Option Scheme	164,000
The Devro 1993 (No. 2) Executive Share Option Scheme	669,000
	833,000

23 Options in shares of Devro plc

Options have been granted but not yet exercised or lapsed for ordinary shares at 31 December 2004 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				
	£2.51	11/12/1998	10/12/2005	311,000
	£2.44	19/09/1999	18/09/2006	42,000
	£1.665	22/12/2001	21/12/2008	10,000
	£0.97	19/10/2002	18/10/2009	30,000
	£0.515	24/10/2004	23/10/2011	36,000
The Devro 1993 (No 2) Executive Share Option Scheme				
	£3.95	10/10/2000	09/10/2007	280,000
	£3.925	21/10/2000	20/10/2007	10,000
	£1.665	22/12/2001	21/12/2008	365,000
	£0.97	19/10/2002	18/10/2009	400,000
	£0.515	24/10/2004	23/10/2011	312,000
The Devro 2001 Deferred Bonus Scheme				
	Nil	19/03/2005	18/09/2005	204,641
	Nil	13/03/2006	12/09/2006	529,801

Details of options held by directors at 31 December 2004 are shown on page 30.

The company has established an employee share ownership plan trust ("ESOP") with an independent professional trustee. The ESOP may acquire shares for the purpose of the company's employee share schemes, 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.

24 Reserves

Group	Share premium account £'000	Capital redemption reserve £'000	Special reserve £'000	Profit and loss account £'000
At 1 January 2004	4,848	35,587	109	8,235
Exchange differences	-	-	-	327
Transfer from profit and loss account – goodwill amortisation	-	-	2,740	(2,740)
Exercise of share options	346	-	-	-
Performance share plan charge ((a) below)	-	-	-	284
Profit for the year	-	-	-	6,944
At 31 December 2004	5,194	35,587	2,849	13,050

Company	Share premium account £'000	Capital redemption reserve £'000	Special reserve £'000	Profit and loss account £'000
At 1 January 2004	4,848	35,587	16,663	13
Exercise of share options	346	-	-	-
Profit for the year	-	-	-	32,284
At 31 December 2004	5,194	35,587	16,663	32,297

(a) In accordance with Urgent Issues Task Force Abstract 17 (revised 2003), Employee Share Schemes, the credit entry for the charge to the profit and loss account in respect of the performance share plan has been included in shareholders' funds.

(b) The cumulative amount of goodwill written off to reserves at 31 December 2004 which has not subsequently been written off through the profit and loss account is £72,088,000 (2003: £72,088,000). The £72,088,000 has been debited against the special reserve (£42,456,000) and profit and loss account (£29,632,000), 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

	2004 £'000	2003 £'000
Opening shareholders' funds	64,829	56,020
Profit for the financial year	13,360	12,695
Dividends	(6,416)	(5,593)
Exchange differences	327	961
Exercise of share options	429	-
Performance share plan charge (note 24 (a))	284	83
Negative goodwill arising on acquisition of shares in Cutisin a.s.	-	663
Closing shareholders' funds	72,813	64,829

26 Minority interests

	2004 £'000	2003 £'000
At 1 January	-	2,663
Exchange differences	-	173
Acquired during the year	-	(3,007)
Acquisition of joint venture	(44)	-
Profit and loss account	-	171
	(44)	-

27 Reconciliation of operating profit to operating cash flows

	2004 £'000	2003 £'000
Continuing operations		
Operating profit	21,634	21,102
Depreciation of tangible fixed assets	8,572	8,829
Amortisation of intangible fixed assets	9	-
Loss on sale of tangible fixed assets	108	333
Decrease in provision for post-retirement benefits	(4)	(41)
Amount provided in respect of performance share plan	284	83
(Increase)/decrease in stocks	(1,061)	783
Increase in trade debtors, prepayments and other debtors	(1,248)	(1,547)
(Decrease)/increase in trade creditors, accruals and other creditors	(55)	184
Net cash inflow from continuing operations before exceptional items	28,239	29,726
Cash outflow related to exceptional provisions recognised in prior years	(89)	(996)
Net cash inflow from continuing operations	28,150	28,730

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

	2004 £'000	2003 £'000
Returns on investments and servicing of finance		
Interest received	861	1,247
Interest paid	(4,029)	(4,390)
Net cash outflow for returns on investment and servicing of finance	(3,168)	(3,143)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(11,455)	(7,389)
Sale of tangible fixed assets	97	99
Net cash outflow for capital expenditure and financial investment	(11,358)	(7,290)

	2004 £'000	2003 £'000
Acquisitions and disposals		
Payments to former minority shareholders of Cutisin a.s.	(1,744)	-
Cash balance of joint venture acquired	126	-
Acquisition of shares in Cutisin a.s.	-	(177)
Net cash outflow from acquisitions and disposals	(1,618)	(177)
Management of liquid resources*		
Net cash withdrawn from/(placed on) deposit	2,499	(1,967)
Net cash inflow/(outflow) from management of liquid resources	2,499	(1,967)
Financing		
Issue of ordinary share capital	429	-
Revolving facility:		
Net (repayment)/borrowing – debt due in more than one year	(2,140)	37,143
Term loan:		
Net repayment	-	(50,175)
Net cash outflow from financing	(1,711)	(13,032)

*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 2004 £'000	Cash flow £'000	Exchange movement £'000	At 31 December 2004 £'000
Net cash:				
Cash at bank and in hand	12,828			11,010
Less: deposits treated as liquid resources	(5,586)			(3,291)
	7,242	1,283	(806)	7,719
Overdrafts	(2,315)	682	12	(1,621)
	4,927	1,965	(794)	6,098
Liquid resources:				
Deposits included in cash	5,586	(2,499)	204	3,291
Debt:				
Revolving facility	(37,167)	2,140	230	(34,797)
Net debt	(26,654)	1,606	(360)	(25,408)

30 Capital commitments

	Group		Company	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Capital expenditure contracted for but not provided in the financial statements	4,704	600	-	-

31 United States litigation

In December 2004, Devro Inc received service of a summons on behalf of an individual alleging that he had contracted asbestosis while working for a contractor at, amongst other places, a plant formerly owned by Devro Inc. This claim is unquantified and has been served on a number of defendants, all of whom are alleged to have owned premises in which the claimant had worked.

The plant in question was sold to Teepak LLC in 2001 and the Sale and Purchase Agreement stipulated that the purchaser would be responsible for certain third party liabilities including certain environmental and property-related issues. Under the agreement, Teepak LLC has the right to defend any such claims.

In December 2004, Devro Inc's US attorneys wrote to Teepak LLC offering that company the opportunity to defend the claim and it responded by agreeing to do so.

32 Contingent liabilities

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

33 Financial commitments

Operating leases

At 31 December 2004, there were annual commitments under non-cancellable operating leases as follows:

Group	2004	2004	2003	2003
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Expiring within one year	31	180	66	119
Expiring between two and five years inclusive	271	531	255	664
Expiring after more than five years	-	2	-	36
	302	713	321	819

Company	2004	2004	2003	2003
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Expiring within one year	-	-	-	3
Expiring between two and five years inclusive	-	22	-	17
	-	22	-	20

34 Related party transactions

Sales to the joint venture company, BioFilm Limited, up to 17 December 2004 (note 14) totalled £521,000 (2003: £151,000).

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 into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the 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, the Corporate Governance Statement and the Corporate Social Responsibility Report.

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 2004 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

Chartered Accountants and Registered Auditors
Glasgow 18 March 2005

NOTICE OF MEETING

Notice is hereby given that the fourteenth Annual General Meeting ("AGM") of Devro plc ("the Company") will be held on 5 May 2005 at the Westerwood Hotel, 1 St Andrews Drive, Cumbernauld at 12 noon for the following purposes:

Ordinary Business

1. To receive the Company's accounts for the year ended 31 December 2004, together with the Directors' Report and the Auditors' Report on those accounts.
2. To declare a final dividend for the year ended 31 December 2004.
3. To re-elect as a director Dr Graeme Alexander who retires by rotation under the provisions of the Articles of Association.
4. To elect as a director Mr Paul Neep, who, having been appointed by the Board since the last annual general meeting, retires in accordance with the provisions of the Articles of Association.
5. To re-appoint PricewaterhouseCoopers LLP as the Company's auditors to hold office until the conclusion of the next annual general meeting and to authorise the Directors to fix their remuneration.
6. To consider and, if thought fit, pass the following resolution as an ordinary resolution:

THAT the Remuneration Report contained within the Company's Report and Accounts for the year ended 31 December 2004 be and is hereby approved.

Special Business

7. To consider and, if thought fit, pass the following resolution as a special resolution:

THAT the Company be and is hereby generally and unconditionally authorised for the purpose of section 166 of the Companies Act 1985 ("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 (exclusive of any expenses) which may be paid for an Ordinary Share is 10 pence being the par value;
- c) the maximum price (exclusive of any expenses) which may be paid for an Ordinary Share 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 that Ordinary Share is purchased;
- d) unless previously renewed, varied or revoked, the authority hereby conferred shall expire at the conclusion of the next annual general meeting of the Company to be held in 2006 or 15 months from the date of passing this resolution whichever shall be the earlier; and
- e) the Company may make a contract or contracts to purchase Ordinary Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority and may make a purchase of Ordinary Shares in pursuance of any such contract or contracts.

By order of the Board.

J Meredith Secretary
Moodiesburn 18 March 2005

Registered Office:
Moodiesburn, Chryston, G69 0JE

Notes

A shareholder entitled to attend and vote at the AGM 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.

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, Bridgwater Road, Bristol BS13 8FB, not later than 48 hours before the time fixed for the AGM. 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.

There will be available for inspection at the Company's Registered Office during usual business hours from the date of this Notice until the AGM, and at the place of the AGM from 11.45 am:

- a) Copies of all Service Contracts of Executive Directors;
- b) Copies of all appointment letters of Non-Executive Directors; and
- c) The Register of Directors' Share Interests.

Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, eligibility to attend and vote at the AGM will be determined by reference to entries on the relevant register of members at 6.00 pm on 3 May 2005. Changes to entries on the relevant register of members after 6.00 pm on 3 May 2005 shall be disregarded in determining the rights of any person to attend or vote at the AGM.

FINANCIAL SUMMARY

For the year ended 31 December	2004 £'million	2003 £'million	2002 £'million	2001 (as restated) £'million	2000 £'million
Group turnover	149.0	146.1	138.0	208.3	229.5
Operating profit before exceptional items	21.4	21.1	18.4	18.6	24.0
Exceptional items	-	-	(1.8)	(52.1)	(1.5)
Operating profit/(loss)	21.4	21.1	16.6	(33.5)	22.5
Profit/(loss) before tax	18.6	18.0	13.7	(37.0)	19.8
Profit/(loss) after tax	13.4	12.9	12.7	(44.1)	15.8
Net assets	72.8	64.8	58.7	77.7	96.2
Earnings per share:					
- Basic	8.3p	7.9p	7.2p	(29.1)p	8.3p
- Diluted	8.3p	7.9p	7.2p	(29.1)p	8.3p
- Before exceptional items	8.3p	7.9p	6.0p	4.8p	9.0p
Dividends per ordinary share	4.0p	3.5p	3p	2p	5p
Net assets per ordinary share	45.1p	40.4p	36.6p	48.4p	59.9p

DIRECTORS AND ADVISERS

Executive directors

Dr G Y Alexander OBE
T F Morgan
J A Neilson

Registered Auditors

PricewaterhouseCoopers LLP
Kintyre House
209 West George Street
GLASGOW
G2 2LW

Merchant Bankers

Hawkpoint Partners Limited
4 Great St Helens
LONDON
EC3A 6HA

Non-executive directors

P A Barrett OBE
P J E Mocatta
J A Napier
PAJ Neep (appointed 1 February 2005)

Solicitors

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

Stockbrokers

Investec Securities
2 Gresham Street
LONDON
EC2V 7QP

Secretary and registered office

J Meredith
Moodiesburn
CHRYSTON
G69 0JE

Registered number: 129785

Bankers

Clydesdale Bank PLC
20 Hanover Street
EDINBURGH
EH2 2QW

Registrars

Computershare Investor Services PLC
PO Box 82
The Pavillions
Bridgwater Road
BRISTOL
BS99 7NH