



**Devro plc**

**Interim Results for the six months ended 30 June 2008**

**Devro plc** (the “Group”), the world’s leading manufacturer of collagen products for the food industry, is pleased to announce its interim results for the six months ended 30 June 2008.

- Excellent trading results on a like for like basis before exceptional items:
  - Sales up 13% to £82.7m (2007: £72.9m)
  - Operating profit up 16% to £9.2m (2007: £7.9m)
  - Operating margin up to 11.1%
  - EPS up 14% to 3.3p (2007: 2.9p)
- £3.1m exceptional non-cash asset write-down in relation to the proposed closure of the Kořenov manufacturing plant in 2009. This will generate £2m of savings per annum from 2010.
- Trading results on a like for like basis after exceptional items:
  - Operating profit at £6.3m (2007: £7.9m)
  - EPS at 1.9p (2007: 2.8p)
- Net debt at 30 June 2008 £34.5m (2007: £36.7m).
- Dividend maintained at 1.425p.
- Strong growth in major markets.

**Pat Barrett OBE, Chairman, commented:**

“I am pleased to report that in the first six months of 2008, the Group achieved significant increases in sales volumes, sales revenues and operating profit before exceptional items, compared with the corresponding period in 2007. For the second half of 2008, the business will be affected by higher input costs, including energy, which will make it difficult to improve margins. Despite this, we expect that the momentum gained over the last 12 months will continue into the second half of the year as a result of continued growth in our markets and as management actions take further effect.”

**Forward-looking statements**

*Certain statements in this half-yearly report are forward-looking. Although the Group believes that the expectations reflected in these forward-looking statements are reasonable, we can give no assurance that these expectations will prove to have been correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements. We do not undertake to update any forward-looking statements whether as a result of new information, future events or otherwise.*

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## **Chairman's statement**

I am pleased to report that in the six months to 30 June 2008 the group achieved significant increases in sales volumes, sales revenues and operating profit before exceptional items, compared with the corresponding period in 2007.

### **Business review**

Operating profit from continuing operations before exceptional items increased by 16% to £9.2 million compared with £7.9 million in the prior year, with the related margin increasing from 10.8% to 11.1%. Earnings per share from continuing operations before exceptional items increased from 2.9 pence to 3.3 pence.

During the period, the global market for collagen casings continued to grow, driven by increased sausage consumption in developed economies and by continuing economic growth and increased meat consumption in emerging markets. An increase in the cost of gut during the past year has also contributed to a switch to collagen casings.

Sales revenue for the period was £82.7 million, which compares with prior year sales for the continuing business of £72.9 million, an increase of 13%. On a constant currency basis, sales revenue was up 5% to £76.5 million. Total sales volumes for all products were ahead of prior year by 3%, within which edible collagen volumes finished the period 4% ahead. Volume increases were particularly strong in the emerging markets of China, Eastern Europe and Latin America, and there was also a recovery in some of our more mature markets.

As previously indicated in the operational review, the achievement of better margins through pricing management is a priority for the business. Price increases during the period resulted in a 2% uplift in revenue, and while we have more work to do to achieve sustainable pricing for the business, management considers that the increases achieved are an important step towards that goal.

### **Europe**

UK sales continued the recovery which started in the second half of 2007, due in part to new and improved products developed in our Scottish operation, as well as a general recovery in the level of retail sales of collagen-cased sausages. We are particularly encouraged by the 25% increase in sales from our successful development of porcine casings. Volumes in Eastern Europe were 9% ahead of last year as a result of a strong sales drive into countries such as Ukraine and other emerging markets.

Part of the Czech manufacturing capacity is an old plant located in Kořenov, some distance from the main production unit at Jilemnice. This has been kept running over the last few years as it provided valuable additional capacity for the Cutisin business. However continuing to run this plant has become increasingly expensive in terms of manufacturing costs, energy efficiency and maintenance. The Board has therefore decided to close Kořenov and invest approximately £5 million in new lines in Jilemnice to replace this production capacity. Closure will take place in 2009 and phased to maintain production volumes.

These changes will generate annual savings of approximately £2 million for the same volume of output, while enhancing product quality. In addition, carbon dioxide emissions of the Czech business will be reduced by 6,000 tonnes per year, and water usage by 80,000 cubic metres.

The accounting for the closure of the plant will be in two phases. An exceptional non-cash charge of £3.1 million was provided for in the accounts to June, to reflect the impairment of Kořenov. In addition, a provision of £0.6 million will be made in the second half of 2008, also to be treated as exceptional, to cover the anticipated costs of the closure.

The impairment charge was partly offset by £0.2 million of additional income received in the period in respect of the sale of land at Moodiesburn in 2005, giving a net exceptional charge of £2.9 million in these accounts.

### **Americas**

As expected, edible collagen casing sales in the Americas were lower than prior year, due to one of our major customers in the US converting to co-extrusion technology in the second half of 2007. However, there were additional sales of collagen gel and increased casing volumes in the rest of the domestic US market. Strong sales growth was achieved in Latin America, with volumes up 15% on 2007, partly due to gut conversion. Overall sales revenues in the Americas region were ahead of 2007 by 5%.

### **Asia/Pacific**

In the Asia/Pacific region, volumes have again increased significantly. This continues to be driven principally by growth in the Chinese market, where Western-style sausage is becoming increasingly popular. These sales are at lower than average prices for our sales globally, but prices are being increased at a higher than average rate. Other South East Asian markets are also showing significant volume increases.

### **Foreign currency**

The international nature of the Devro business reduces exposure to changes in the economic conditions of any one country, but means that currency movements are always likely to have a significant impact on results, and the first half of 2008 was no exception. The weakness of the pound resulted in an increase in sales revenues of over £8 million compared with last year on translation of local currency sales. However, the strength of the Czech koruna against both the euro and the US dollar had a significant adverse impact, in excess of £2 million, on our Czech subsidiary's export sales revenues. The net overall impact of exchange on sales revenue was an increase of £6.2 million.

Group profit was affected by exchange rate movements, both positive and negative, across all our operations. The net effect of these movements, both transactional and translational, was an adverse impact of £0.3 million on operating profits for the period.

### **Productivity improvements**

There were general improvements in productivity, in particular from the new Australian capacity installed in the second half of 2007, which is operating at very high levels of efficiency. These more than offset pressures associated with increased energy costs, which were approximately £0.4 million higher than the same period in 2007. The manufacturing performance issues which were a factor in the 2007 results have been progressively tackled, and there has been a steady improvement since last year in this area. There are still more gains to be made in Scottish productivity.

### **Input prices**

Energy prices continue to rise and, while we have active energy conservation programmes in place in each of our manufacturing facilities, we expect further significant increases in utility costs in the second half of the year.

Overall raw material prices were approximately the same as in 2007. There is some uncertainty regarding the price of hides for the rest of 2008 because of the downturn in motor car manufacturing, which will have a significant effect on the tanning industry.

## **Finance**

Net interest expense in the period was £1.3 million, in line with last year. The group's tax charge for the period was £1.9 million (2007: £2.0 million), an effective tax rate of 39.0% (2007: 30.4%). This reflects an anticipated effective rate of 31.3% on profits excluding exceptional items for the year ending 31 December 2008, adjusted for the tax impact of the exceptional items. Earnings attributable to shareholders have decreased to £3.0 million from £4.6 million in 2007. Earnings per share before exceptional items has increased to 3.3 pence (2007: 2.9 pence).

Net debt of £34.5 million at 30 June 2008 compares with £36.7 million at 30 June 2007. Net cash inflow from continuing operations was £2.6 million ahead of the corresponding period last year, with higher operating profits excluding the non-cash impairment charge and a lower level of supplementary contributions to the group's retirement benefit schemes. Cash outflow in respect of capital expenditure was £5.9 million (2007: £5.2 million). The group's financial gearing was 36% at 30 June 2008 (2007: 43%).

## **Pensions**

The group's retirement benefit obligations of £21.6 million have increased from £8.8 million reported at 31 December 2007. This is due mainly to falls in equity markets, since a significant proportion of the group's pension fund assets are invested in equities.

## **Dividend**

The Board has declared an interim dividend of 1.425 pence per share (2007: 1.425 pence). It will be paid on 17 October 2008 to shareholders on the register at 19 September 2008.

## **Principal risks**

Each of our operations considers their risk profile and identifies actions to mitigate those risks. These risk profiles are updated at least annually. The group's principal risks and uncertainties are largely unchanged from those set out in detail in our last Annual Report. The risks considered particularly relevant to the remaining six months of this financial year, however, are increases in energy costs, foreign exchange rate movements and customer credit risk.

Significant additional costs will be incurred as a result of increases in energy prices, while a continuation or reversal of the recent trend of large movements in certain exchange rates could have a significant impact on group profits. While we have seen little evidence in the first half of 2008 that the difficult economic climate around the world is affecting the financial stability of our major customers, credit risk could adversely affect the group's business or results in the second half.

## **Board changes**

As previously announced, John Neilson, who had been Finance Director since 1993, retired on 1 May 2008. John was integral to the development of our business and we are most grateful for his contribution throughout his time with us.

Peter Williams, who succeeded John as Finance Director, joined Devro on 1 May 2008. Peter was previously Chief Financial Officer of Cermaq ASA, the Oslo-listed industrial aquaculture feed manufacturer and salmon farming company.

I will complete eight years as Chairman by the Annual General Meeting in May 2009. The Board has recently been restructured and is confident that Devro now has the right management team to deliver the future success of the business. Along with the recovery in operational performance reported above, the Board believes that significant opportunities exist to further develop our business over the next few years, which we will announce to the market when appropriate. One of these is reported in this statement, namely further investment to

optimise production in our successful Czech operation. I believe the company should identify a new Chairman to ensure continuity and ongoing commitment to Devro's emerging strategy. The Board will embark on this process without delay. I will step down as Chairman in May 2009.

**Outlook**

We expect to see continuing strong growth in most of our markets, strengthening Devro's position as a leading global supplier of edible collagen. The actions being taken by management to improve margins and increase sales are beginning to have an impact on the business, and their effect will be more clearly visible in 2009, subject to the potential effect of input cost increases, particularly energy.

The improvement in the first half to an extent reflected the difficult market conditions generally, and the difficulties in Scottish manufacturing in particular, in the same period in 2007. For the second half of 2008, the business will be affected by higher input costs, including energy, which will make it difficult to improve margins. Despite these challenges, I expect that the momentum gained over the last 12 months will continue into the second half of the year as a result of continued growth in our markets and as management actions take further effect.

Pat Barrett OBE  
Chairman  
28 August 2008

## Consolidated income statement

for the six months ended 30 June 2008

	<b>6 months ended 30 June 2008 (unaudited) £'000</b>	6 months ended 30 June 2007 (unaudited) (as restated) £'000	12 months ended 31 December 2007 (unaudited) £'000
<b>Continuing operations:</b>			
Revenue (note 4)	82,706	72,931	156,252
Operating profit before exceptional items	9,158	7,893	18,277
Exceptional items (note 5)	(2,893)	21	651
Operating profit	6,265	7,914	18,928
Finance income	137	140	338
Finance expense	(1,409)	(1,406)	(3,048)
Profit before tax	4,993	6,648	16,218
Taxation (note 6)	(1,946)	(2,019)	(4,200)
<b>Profit for the period – continuing operations</b>	<b>3,047</b>	<b>4,629</b>	<b>12,018</b>
<b>Discontinued operation:</b>			
Loss before tax	-	(203)	(734)
Taxation	-	79	159
Loss for the period – discontinued operation	-	(124)	(575)
Profit for the period	3,047	4,505	11,443
<b>Earnings per share – continuing operations (note 8)</b>			
- Basic	1.9p	2.8p	7.4p
- Diluted	1.9p	2.8p	7.4p
- Basic before exceptional items	3.3p	2.9p	7.2p

## Consolidated balance sheet

at 30 June 2008

	At 30 June 2008 (unaudited) £'000	At 30 June 2007 (unaudited) £'000	At 31 December 2007 (audited) £'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Goodwill	-	177	-
Other intangible assets	1,938	1,512	1,562
Property, plant and equipment (note 9)	123,844	104,743	115,076
Deferred tax assets	8,996	3,028	5,349
Other receivables	86	104	99
	<u>134,864</u>	<u>109,564</u>	<u>122,086</u>
<b>Current assets</b>			
Inventories	27,629	23,634	22,311
Current tax assets	-	2,147	32
Trade and other receivables	24,243	20,652	22,872
Derivative financial instruments	1,865	7	746
Cash and cash equivalents	13,682	8,622	9,635
	<u>67,419</u>	<u>55,062</u>	<u>55,596</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Financial liabilities			
- Borrowings	4,567	2,401	768
- Derivative financial instruments	380	337	214
Trade and other payables	20,820	17,150	21,620
Current tax liabilities	2,913	4,440	4,064
	<u>28,680</u>	<u>24,328</u>	<u>26,666</u>
<b>Net current assets</b>	<u>38,739</u>	<u>30,734</u>	<u>28,930</u>
<b>Non-current liabilities</b>			
Financial liabilities			
- Borrowings	43,615	42,941	36,119
Deferred tax liabilities	11,605	11,756	10,892
Retirement benefit obligations (note 10)	21,608	843	8,772
Other non-current liabilities	197	140	173
	<u>77,025</u>	<u>55,680</u>	<u>55,956</u>
<b>Net assets</b>	<u>96,578</u>	<u>84,618</u>	<u>95,060</u>
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders</b>			
Ordinary shares	16,287	16,286	16,287
Share premium	6,097	6,090	6,097
Other reserves	72,249	45,880	57,836
Retained earnings	1,945	16,362	14,840
<b>Total equity</b>	<u>96,578</u>	<u>84,618</u>	<u>95,060</u>

The notes on pages 11 to 17 are an integral part of these consolidated interim financial statements.

## Consolidated cash flow statement

for the six months ended 30 June 2008

	<b>6 months ended 30 June 2008 (unaudited) £'000</b>	6 months ended 30 June 2007 (unaudited) £'000	12 months ended 31 December 2007 (audited) £'000
<b>Continuing operations:</b>			
<b>Cash flows from operating activities</b>			
Cash generated from operations (note 11)	7,674	5,063	23,435
Interest received	137	140	325
Interest paid	(1,520)	(1,355)	(3,075)
Tax paid	(2,734)	(2,481)	(3,845)
Net cash from operating activities	<u>3,557</u>	<u>1,367</u>	<u>16,840</u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	(5,864)	(5,194)	(10,469)
Proceeds from sale of property, plant and equipment	45	49	30
Purchase of intangible assets	(162)	(140)	(298)
Payments to former minority shareholders of Cutisin a.s.	(1)	(2)	(3)
Net cash used in investing activities	<u>(5,982)</u>	<u>(5,287)</u>	<u>(10,740)</u>
<b>Cash flows from financing activities</b>			
Proceeds from the issue of ordinary share capital	-	23	31
Net borrowing under the loan facilities	7,495	8,232	689
Dividends paid to shareholders	(4,927)	(4,926)	(7,245)
Net cash from/(used in) financing activities	<u>2,568</u>	<u>3,329</u>	<u>(6,525)</u>
<b>Net increase /(decrease) in cash and cash equivalents - continuing operations</b>	<u>143</u>	<u>(591)</u>	<u>(425)</u>
<b>Discontinued operation:</b>			
<b>Cash flows from operating activities</b>			
Cash used in operations (note 11)	-	(255)	(412)
Tax received	-	-	123
<b>Net decrease in cash and cash equivalents - discontinued operation</b>	<u>-</u>	<u>(255)</u>	<u>(289)</u>
<b>Net increase /(decrease) in cash and cash equivalents</b>	143	(846)	(714)
Cash and cash equivalents at beginning of period	9,495	8,232	8,232
Exchange gains/(losses) on cash and cash equivalents	992	(209)	1,977
Cash and cash equivalents	13,682	8,622	9,635
Bank overdrafts	(3,052)	(1,445)	(140)
<b>Net cash and cash equivalents at end of period</b>	<u>10,630</u>	<u>7,177</u>	<u>9,495</u>

## Consolidated statement of recognised income and expense

for the six months ended 30 June 2008

	<b>6 months ended 30 June 2008 (unaudited) £'000</b>	6 months ended 30 June 2007 (unaudited) £'000	12 months ended 31 December 2007 (audited) £'000
Cash flow hedges:			
- net fair value gains/(losses), net of tax	1,207	(255)	428
- reclassified and reported in operating profit	(676)	82	(219)
Retirement benefit obligations, net of tax	(11,015)	14,309	8,168
Net exchange adjustments	13,867	(2,319)	9,289
<b>Net income recognised directly in equity</b>	<b>3,383</b>	<b>11,817</b>	<b>17,666</b>
Profit for the period	3,047	4,505	11,443
<b>Total recognised income for the period</b>	<b>6,430</b>	<b>16,322</b>	<b>29,109</b>

## Notes to the condensed consolidated interim financial statements

for the six months ended 30 June 2008 (unaudited)

### 1. General information

The company is a limited liability company incorporated and domiciled in the UK. The address of its registered office is Moodiesburn, Chryston, Scotland, G69 0JE.

The company is listed on the London Stock Exchange.

This condensed consolidated interim financial information was approved for issue on 28 August 2008.

These interim financial results do not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. These interim financial results are unaudited but have been reviewed by our auditors and their report is set out on page 19 of this document. Statutory accounts for the year ended 31 December 2007 were approved by the Board of Directors on 17 March 2008 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under Section 237 of the Companies Act 1985.

### 2. Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2008 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with International Accounting Standard (“IAS”) 34, “Interim financial reporting” as adopted by the European Union. The interim condensed consolidated financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2007 which have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) as adopted by the European Union.

### 3. Accounting policies

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2007, as described in those annual financial statements.

The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial year beginning 1 January 2008, but are not currently relevant for the group.

- IFRIC 11 - IFRS2 - Group and treasury share transactions
- IFRIC 12 - Service concession arrangements

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning 1 January 2008 and have not been early adopted:

	Effective Date
• IAS 23 (amendment) - Borrowing costs	1 January 2009
• IFRS 8 - Operating segments	1 January 2009
• IFRS 2 (amendment) - Share based payment	1 January 2009
• IFRS 3 (amendment) - Business combinations	1 July 2009
• IAS 1 (amendment) - Presentation of financial statements	1 January 2009
• IAS 32 (amendment) - Financial instruments: presentation	1 January 2009
• IFRIC 13 - Customer loyalty programmes	1 July 2008

Upon adoption of IFRS 8, the group will need to change the disclosure in relation to segmental analysis. The adoption of this standard is not expected to impact the group's profit or net assets. In addition, the directors do not anticipate that the

adoption of any of the other standards or interpretations listed above will have a material impact on the group's financial statements in the period of initial application.

#### 4. Segmental information

##### Primary reporting format – Business segments

The business segments shown below are as follows:

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

	Collagen casings		Distributed products		Other products		Unallocated		Group	
	30 June 2008 £'000	30 June 2007 (as restated) £'000	30 June 2008 £'000	30 June 2007 £'000	30 June 2008 £'000	30 June 2007 £'000	30 June 2008 £'000	30 June 2007 £'000	30 June 2008 £'000	30 June 2007 (as restated) £'000
<b>Group</b>										
<b>Continuing operations</b>										
<b>Revenue</b>										
Sales to external customers	64,902	58,399	10,181	8,560	7,623	5,972	-	-	82,706	72,931
<b>Results</b>										
Segment results before exceptional items	8,433	7,288	158	(2)	2,348	2,181	(1,781)	(1,574)	9,158	7,893
Exceptional items	(2,893)	370	-	-	-	-	-	(349)	(2,893)	21
Segment results	5,540	7,658	158	(2)	2,348	2,181	(1,781)	(1,923)	6,265	7,914
Finance income									137	140
Finance expense									(1,409)	(1,406)
Profit before tax									4,993	6,648
Taxation									(1,946)	(2,019)
<b>Profit for the period – continuing operations</b>									<u>3,047</u>	<u>4,629</u>
<b>Discontinued operation</b>										
<b>Revenue</b>										
Sales to external customers	-	-	-	-	-	347	-	-	-	347
<b>Results</b>										
Segment results	-	-	-	-	-	(203)	-	-	-	(203)
Taxation									-	79
<b>Loss for the period – discontinued operation</b>									-	(124)
<b>Profit for the period</b>									<u>3,047</u>	<u>4,505</u>

## 5. Exceptional items

The following exceptional items are included in the operating profit of £6,265,000 (2007: £7,914,000):

	<b>6 months ended 30 June 2008 £'000</b>	6 months ended 30 June 2007 £'000
Provision for impairment of fixed assets (a) below	(3,131)	-
Proceeds from the sale of land (b) below	238	370
Charge in respect of bid approach costs (c) below	-	(349)
	<u>(2,893)</u>	<u>21</u>

- (a) An operational review of the Korenov plant in the Czech Republic was undertaken to assess the carrying value of the assets of that facility. In general, the Korenov assets are older than those of the other plants in the Czech Republic, and would require considerable capital expenditure to bring them up to forthcoming environmental and safety standards. They are also significantly less energy efficient. Management has determined that the future cash flow from this plant no longer justifies the carrying value of the assets. As a result, an impairment charge of £3,131,000 (£2,539,000 after tax) has been recorded in the income statement for the six months ended 30 June 2008.
- (b) Under the terms of the contract for the sale of the land at Moodiesburn in 2005, additional income of £238,000 (£170,000 after tax) arose during the six months ended 30 June 2008 and £370,000 (£259,000 after tax) arose during the six months ended 30 June 2007.
- (c) During the six months ended 30 June 2007, there was a charge of £349,000 in respect of bid approach costs.

The proceeds from the sale of land during the six months ended 30 June 2007 were previously included in miscellaneous income within operating profit. This, however, has now been restated as an exceptional item. The restated operating profit before exceptional items for the continuing operations is as follows:

	6 months ended 30 June 2007 £'000
Operating profit before exceptional items as previously stated	8,060
Adjustment to eliminate losses incurred by the discontinued operation	203
Adjustment to treat the proceeds from the sale of land as exceptional income	(370)
Operating profit before exceptional items on a continuing basis, as restated	<u>7,893</u>

## 6. Taxation

The charge for taxation for the six months ended 30 June 2008 corresponds to a rate of tax of 39.0% on the profit for the period (2007: on continuing operations 30.4%). The rate reflects an anticipated effective rate of 31.3% on profits excluding exceptional items for the year ending 31 December 2008, adjusted for the tax impact of the exceptional items. The charge for taxation comprises a UK corporation tax credit of £46,000 (2007: credit of £509,000) and a foreign tax charge of £1,992,000 (2007: £2,449,000).

## 7. Dividends

The interim dividend of 1.425 pence per share, which will absorb an estimated £2,321,000 of shareholders' funds, will be paid on 17 October 2008 to shareholders on the register at 19 September 2008. This compares with the interim dividend of 1.425 pence and a full year dividend of 4.45 pence in respect of 2007, which absorbed shareholders' funds of £2,321,000 and £7,245,000 respectively.

## 8. Earnings per share

	<b>6 months ended 30 June 2008 £'000</b>	6 months ended 30 June 2007 (as restated) £'000
Profit for the period attributable to equity holders – continuing and discontinued operations	3,047	4,505
Adjustment for the loss in the period from the discontinued operation	-	124
Profit for the period attributable to equity holders – continuing operations	3,047	4,629
Adjustment for exceptional items after tax	2,369	90
Profit for the period before exceptional items attributable to equity holders – continuing operations	5,416	4,719
Adjustment for the loss in the period from the discontinued operation	-	(124)
Profit for the period before exceptional items attributable to equity holders – continuing and discontinued operations	5,416	4,595
	<b>Pence</b>	Pence
<b>Earnings per share from continuing and discontinued operations</b>		
Basic	1.9	2.8
Diluted	1.9	2.8
Basic before exceptional items	3.3	2.8
<b>Earnings per share from continuing operations</b>		
Basic	1.9	2.8
Diluted	1.9	2.8
Basic before exceptional items	3.3	2.9

Basic earnings per share for the six months ended 30 June 2008 was calculated by dividing the profit for the period attributable to equity shareholders by 162,866,277 (2007: 162,844,562) shares, being the weighted average number of shares in issue throughout the period.

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 performance share plan are only treated as dilutive where the effect is to reduce earnings per share. Diluted earnings per share was calculated by dividing the profit for the period attributable to equity shareholders by the average number of shares, including the effect of all dilutive potential shares, of 163,798,782 (2007: 163,793,573).

Earnings per share before exceptional items was calculated in order to eliminate the effect of the exceptional items after tax in 2008, being a charge of £2,369,000 (2007: as restated, charge of £90,000) on the results. Basic earnings per share before exceptional items was calculated by dividing the profit attributable to equity shareholders before exceptional items, after attributable tax, by 162,866,277 (2007: 162,844,562 shares), being the weighted average number of shares in issue throughout the period.

## 9. Property, plant and equipment

Details of the movements in the group's property, plant and equipment are summarised as follows:-

	<b>6 months ended 30 June 2008 £'000</b>	6 months ended 30 June 2007 £'000
Opening net book value at 1 January	115,076	106,470
Exchange differences	12,605	(1,381)
Additions	4,619	4,580
Disposals	(7)	(100)
Depreciation	(5,318)	(4,826)
Provision for impairment (note 5)	(3,131)	-
Closing net book value at 30 June	<u>123,844</u>	<u>104,743</u>
	<b>30 June 2008 £'000</b>	30 June 2007 £'000
Contracts placed for future capital expenditure not provided in the financial statements	<u>3,858</u>	<u>2,680</u>

## 10. Retirement benefit obligations

The retirement benefit obligations disclosed as non-current liabilities in the balance sheet are as follows:

	<b>30 June 2008 £'000</b>	30 June 2007 £'000	31 December 2007 £'000
Retirement benefit obligations	<u>21,608</u>	<u>843</u>	<u>8,772</u>

The significant increase in the group's retirement benefit obligations at 30 June 2008 compared with 31 December 2007 was principally due to falls in equity markets across the world during the period.

A summary of the discount rates used in the principal countries is:-

	30 June 2008	30 June 2007	31 December 2007
Australia	5.80%	5.30%	5.30%
United Kingdom	6.10%	5.80%	5.70%
United States	6.75%	6.20%	6.40%

## 11. Cash flows from operating activities

	<b>6 months ended 30 June 2008 £'000</b>	6 months ended 30 June 2007 £'000	12 months ended 31 December 2007 £'000
<b>Continuing operations</b>			
Net profit	3,047	4,629	12,018
Adjustments for:			
Taxation	1,946	2,019	4,200
Finance income	(137)	(140)	(338)
Finance expense	1,409	1,406	3,048
(Gain)/loss on disposal of property, plant and equipment	(13)	76	124
Provision for impairment (note 5)	3,131	-	-
Depreciation of property, plant and equipment	5,318	4,688	9,601
Amortisation of intangible assets	203	163	338
Performance share plan	15	38	(9)
Retirement benefit obligations	(2,768)	(3,787)	(4,609)
Changes in working capital:			
Increase in inventories	(3,575)	(3,974)	(1,738)
Decrease in trade and other receivables	297	1,920	472
(Decrease)/increase in trade and other payables	(1,199)	(1,975)	328
<b>Cash generated from continuing operations</b>	<b>7,674</b>	<b>5,063</b>	<b>23,435</b>
<b>Discontinued operation</b>			
Net loss	-	(124)	(575)
Adjustments for:			
Taxation	-	(79)	(159)
Depreciation of property, plant and equipment	-	138	165
Goodwill written off	-	-	177
Loss on disposal	-	-	6
Changes in working capital:			
(Increase)/decrease in inventories	-	(155)	9
(Increase)/decrease in trade and other receivables	-	(42)	2
Decrease/(increase) in trade and other payables	-	7	(37)
<b>Cash used in discontinued operation</b>	<b>-</b>	<b>(255)</b>	<b>(412)</b>

## 12. Analysis of net debt

	<b>30 June 2008 £'000</b>	30 June 2007 £'000	31 December 2007 £'000
Cash and cash equivalents	13,682	8,622	9,635
Bank overdrafts	(3,052)	(1,445)	(140)
Net cash and cash equivalents	10,630	7,177	9,495
Borrowings less bank overdraft	(45,130)	(43,897)	(36,747)
	<b>(34,500)</b>	<b>(36,720)</b>	<b>(27,252)</b>

### **13. Post balance sheet event**

In August 2008, the Board decided to close the manufacturing facility at Korenov in the Czech Republic. This factory is now more than 100 years old, and forthcoming changes to food safety and other regulations, together with the stronger Czech currency, will make it increasingly difficult for Korenov to continue to operate profitably. The plant will be closed during 2009, regrettably leading to the loss of 118 jobs. Two new edible casing lines will be installed in the main Jilemnice plant in 2009, allowing production of non-edible collagen casings to be transferred from Korenov to existing edible lines at Jilemnice. These changes will generate annual savings of approximately £2 million for the same volume of output, with enhanced product quality. Closure of the Korenov plant will also save £1.5 million of capital expenditure which would otherwise have been required. A provision of £0.6 million will be made in the second half of 2008 to cover the anticipated costs of the closure and transfer. This is in addition to the non-cash impairment charge of £3.1 million which has already been reflected in the accounts for the period.

## **Statement of directors' responsibilities**

The directors confirm that their condensed set of financial statements has been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim financial reporting", as adopted by the European Union, and that the interim management report herein includes a fair review of the information required by the Disclosure and Transparency Rules ("DTR") 4.2.7 and 4.2.8.

The directors of Devro plc are as listed in the Annual Report for the year ended 31 December 2007, with the exception of the following changes in the period:

At the Annual General Meeting on 1 May 2008, Mr J A Neilson retired as Finance Director. On the same day, Mr P C Williams joined the company as his replacement. A list of the current directors is maintained on the website: [www.devro.plc.uk](http://www.devro.plc.uk).

By order of the Board

Peter Page  
Chief Executive  
28 August 2008

## **Independent Review Report to Devro plc**

### **Introduction**

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2008, which comprises the consolidated balance sheet as at 30 June 2008 and the related statements of consolidated income, cash flows and recognised income and expense for the six months then ended and related notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

### **Directors' responsibilities**

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As discussed in note 2, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

### **Our responsibility**

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of the Disclosure and Transparency Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### **Scope of review**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2008 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

PricewaterhouseCoopers LLP

Chartered Accountants

Glasgow, 28 August 2008

### **Notes**

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

## SHAREHOLDER INFORMATION

### Dividend mandates

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

The Registrar  
Computershare Investor Services PLC  
P O Box 82  
The Pavilions  
Bridgwater Road  
Bristol  
BS99 7NH

Telephone: 0870 702 0010

Copies of the interim results are being sent to all registered shareholders. Further copies can be obtained from the company's registered office at Moodiesburn, Chryston, Scotland, G69 0JE (Telephone: 01236 879191).

### Website

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