Chairman's Statement

"The Devro 100 programme achieved cost reductions of £7 million in the first year, ahead of the original plan, and provides a strong foundation for further improvements in manufacturing efficiency in 2018 and beyond."

Global consumption of collagen casings and related products grew by an estimated 7% in 2017, with most major markets providing opportunities for growth. Food manufacturers continue to recognise the benefits of using collagen casings, including more efficient production and greater traceability of raw materials supporting brand security and food safety.

Devro's total revenue increased 7% in 2017, with growth in sales volumes of edible collagen casings of 8%. This return to volume growth follows the substantial investments and extensive organisational change of recent years.

The group's manufacturing performance continued to improve as our global supply chain settles into more stable operations. The Devro 100 programme achieved cost reductions of £7 million in the first year, ahead of the original plan, and provides a strong foundation for further improvements in manufacturing efficiency in 2018 and beyond.

Financial highlights

Underlying EBITDA increased 9% to £64.1 million (2016: £58.8 million) as a result of volume growth, planned cost reductions, and exchange rate benefits of £4.2 million (2016: £5.3 million), partially offset by price/mix and the full costs for the new plants that started up in 2016. Underlying operating profit was in line with 2016, after higher depreciation on the new plants.

Operating profit was £33.0 million (2016: £15.4 million), with the improvement mainly due to lower exceptional items in 2017 following the completion of the new plants in 2016. A more detailed explanation of the group financial performance is set out in the Financial Review on pages 18 to 23.

With improved underlying EBITDA and strong cash generation, covenant net debt closed at £135.3 million, down by £20.9 million on prior year, reducing as envisaged in the original capital investment plan. The covenant net debt to underlying EBITDA ratio now stands at 2.1, down from 2.7 a year ago.

During December 2017 the funding review linked to the triennial valuation of the UK pension scheme was completed, with no increase in company contributions required, and with the recovery plan reducing from nine to seven years. This reflects the improved funding position of the scheme and the positive working relationship between scheme trustees and the group.

Board

In December 2017 we announced that Peter Page would be completing his tenure as Chief Executive at the end of February 2018, after more than 10 years leading the company. Peter has been instrumental in making Devro fit for the future through a programme of major capital investments and by transforming a group of regional subsidiaries into a more integrated global business. Following an extensive search process, Rutger Helbing, formerly Group Finance Director, was appointed to succeed Peter as Chief Executive. We have initiated a search for a new Group Finance Director. We are confident that Rutger will lead the company and its Devro 100 strategy forward with a strong focus on delivering value.

From 28 February 2018, Matthew Peacock assumed the role of Interim Group Finance Director. Matthew has been our Group Financial Controller since 2012.

Malcolm Swift joined the Board as Non-Executive Director in April 2017, bringing significant experience of the global food sector, particularly business-to-business sales and marketing in the strategically important Asia-Pacific region.

Paul Neep, Senior Independent Non-Executive Director, retired from the Board in April 2017 after 12 years' service for which we are extremely grateful. Paul Withers succeeded Paul Neep as Senior Independent Non-Executive Director.

Employees
All employees have contributed to the growth and development we have seen in 2017. On behalf of the whole Board, I am most grateful for their commitment and professionalism. We see increasing levels of engagement and involvement in all areas of the business to make Devro an even better global company.

Dividend
The Board is proposing a final dividend of 6.1p per share (2016: 6.1p) bringing the total for the year to 8.8p per share (2016: 8.8p). Subject to shareholder approval at the Annual General Meeting in April, the dividend will be paid on 11 May 2018, to those shareholders on the register at 3 April 2018.

Outlook
Our strategy is unchanged. In 2018, we will focus on maintaining the momentum of the Devro 100 programme to deliver revenue growth and further cost savings across our global operations. The total forecast benefits, associated exceptional costs and capital expenditure over the three year period remain unchanged, although given the accelerated cost savings achieved in 2017, the phasing will differ slightly from our original expectations.

We expect further volume growth in 2018, supported by the introduction of the new Fine Ultra product platform, and continued manufacturing efficiency improvements, in particular at our US plant. We will continue to reduce net debt, building on the good progress made in 2017.

Whilst mindful of ongoing pressures from input cost inflation and exchange rate volatility, at this early stage of the year the Board believes that Devro is well placed to make good progress in 2018.

Gerard Hoetmer
Chairman