DEVRO

This announcement contains inside information

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Devro plc

Trading Update

Devro plc ("the Group"), one of the world's leading manufacturers of collagen products for the food industry, today issues a trading update for the period 1 July 2016 to the current date ("the period").

Trading summary for the period and 2016 outlook

Sales volume trends were broadly similar to those experienced in the first half, enhanced by improvements in Russia and South East Asia, but impacted by further reductions in Latin America due to the previously highlighted issues, which are being addressed, related to the transformation of our global manufacturing footprint. Combined, these factors have had an adverse impact on margins, offset by further benefits from lower input costs and foreign exchange. As a result, the Board's full year expectations for underlying operating profit* remain unchanged.

Our new factories in the US and China are now integrated into the Group's manufacturing base, completing the transformation of our global manufacturing footprint. As expected, in the second half £8 million of exceptional costs related to these capital investment projects have been incurred, including £1 million of additional foreign exchange movements. There will be no further exceptional costs related to these capital investment projects.

2017 and beyond

Based on current trends, sales volumes in 2017 are now expected to be approximately 10% lower than previously anticipated, which will result in an under-utilisation of available capacity. Actions are being taken to rebalance the use of capacity across our global manufacturing base. The under-utilisation is expected to have a further adverse impact on margins.

The Board has decided to accelerate and implement more extensively the next stage of the Group's strategic development, focusing on growing sales through improved commercial capabilities, introducing the next generation of differentiated products, and further improving manufacturing efficiencies to reduce unit costs. This improvement project will deliver a fundamentally more competitive position. The benefits will offset the effects of the lower volumes, partially in 2017 and fully in 2018.

Consequently, the Board now expects underlying operating profit* for 2017 to be lower than previous expectations.

There will be additional costs and capital expenditure associated with the improvement project. Given the nature and scale of the planned actions, these costs will be charged as exceptional items, of which approximately £3 million is expected to be incurred in the final quarter of 2016.

Devro's markets remain attractive. With completion of the capital investment projects the Group now has an excellent manufacturing base and, with the benefits resulting from the improvement project, the Board considers the Group to be well positioned to grow revenue and profits over the long term.

** Underlying operating profit is defined as operating profit before exceptional items*

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