Half Year Results

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Devro plc

HALF YEAR RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

Good progress on strategic priorities & improved profit margins

Devro plc ("Devro" or the "group"), one of the world's leading manufacturers of collagen products for the food industry, announces its half year results for the six months ended 30 June 2018.

	Underlying results*		**Statutory results**	
	HY 2018	**HY 2017**	**HY 2018**	**HY 2017**
	Unaudited	**Unaudited**	**Unaudited**	**Unaudited**
Revenue	£120.2m	£125.2m	£120.2m	£125.2m
Operating profit	£18.4m	£18.1m	£16.2m	£15.0m
Profit before tax**	£14.3m	£14.5m	£10.9m	£10.0m
Basic earnings per share**	6.6p	6.6p	4.7p	5.5p
Interim dividend per share	2.7p	2.7p	2.7p	2.7p

* *Underlying figures are stated before exceptional items and net finance cost on pensions (see Alternative Performance Measures section of the Half Year Results Update for definition, explanation and reconciliation to equivalent statutory measures)*

** *Underlying figures for HY 2017 have been restated to exclude net finance cost on pensions*

Highlights

- Good strategic progress, in particular North American plant performance continuing to improve; China average selling price increasing; Fine Ultra for Europe, Japan and SE Asia ready for commercial launch in H2.
- Revenue of edible collagen casings increased 0.3% at constant currency***
  - Volumes maintained year on year, with strong growth in Continental Europe, Russia and Latin America offset by Asia and, in particular, China where Devro discontinued imports of legacy products. Volumes excluding Asia up 3%.
  - Price/mix improvements across Europe and China, partially offset by the year-on-year impact of pricing agreements reached in 2017 to secure long-term relationships.
- Underlying operating profit up 2%, due to stronger performance on manufacturing yields and savings from the Devro 100 programme, partially offset by energy and salary inflation and FX headwinds. Statutory operating profit up by 8% due to the same factors plus lower exceptional items.
- Net debt of £147.3m (June 2017: £151.9m).

Rutger Helbing, Chief Executive Officer of Devro, commented:

"We are making good progress in a range of markets contributing towards our Devro 100 objectives of growing profitable revenue and market share, whilst reducing operating unit costs. In addition, we have significantly improved the North American plant performance, and increased the average selling price in China by 19% through migrating the customer mix towards those that value our differentiated products. Product development of the new Fine Ultra range remains a key focus and the product platform will enter commercial launch during H2 following completion of refinements to reflect local market preferences. The new product platform is an important building block of our growth ambitions, and will begin to be seen in H2 2018 and into 2019.

"We are focused on continuing to deliver Devro 100 and the Board's expectations for the full year remain unchanged."

*** *Growth at constant currency is calculated by presenting both the current and prior year local currency amounts using the prior period average exchange rates*

Contacts

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There will be a presentation today at 9.00am for investors and analysts at the offices of FTI Consulting, 200 Aldersgate, Aldersgate Street, London, EC1A 4HD. A live audio feed will be available to those unable to attend this meeting in person. To connect to the webcast facility, please go to the following link: http://view-w.tv/943-1289-20105/en approximately 10 minutes before the start of the briefing (8.50am). The presentation will also be available on the company's website.

HALF YEAR RESULTS UPDATE

REVENUE

Revenue was down 4% on the corresponding period last year. A summary of the change in revenue for edible collagen casings by geographic region is set out in the table below:

	Europe	Americas	Asia Pacific (including China)
Volume	+3.9%	+1.2%	-6.0%
Price/mix	+0.6%	-2.8%	+2.8%
Exchange	+1.6%	-7.6%	-5.5%
Total	+6.1%	-9.2%	-8.7%

The lower revenue for edible collagen casings is due to headwinds from exchange rates (-3.1%) as sterling strengthened against all key currencies with the exception of the euro and Czech koruna. On a constant currency basis, revenue for edible collagen casings increased by 0.3%, thanks to improved price/mix. Volumes of edible collagen casings were unchanged, with growth in Europe and the Americas offset by lower volumes in Asia Pacific. The strategic focus on improving pricing in China drove an improvement in the price/mix for Asia Pacific, with the reduction in volumes due to the discontinuance of legacy imported products for this market.

Whilst volumes of edible collagen casings in H1 for the group were unchanged compared with prior year, growth is expected in H2.

Europe *(45% of group revenue)*

Continental Europe volumes were significantly above H1 2017 (+8%), resulting from strong snacking growth in key markets of Germany and Poland, fresh market share gains in Italy and new customer wins.

Volumes in Russia were above H1 2017 (+8%), building on the momentum seen in H2 2017. Growth includes additional volumes from market share gains in H2 2017, supported by further development of markets where Devro had limited prior presence.

Overall, growth in H2 in Europe is expected to be weaker through a combination of strong comparatives from H2 2017 and challenging economic conditions in Russia.

Americas *(24% of group revenue)*

Whilst there has been good growth within the North American snacking market, volumes were marginally down vs H1 2017 (-2%) due to the timing of orders, which is expected to reverse in H2.

Latin America volumes have grown significantly (+11%) due to increased imports from our Nantong plant and adding new customers in the Brazilian market, following the stabilisation of the business in Q4 2017. This increased demand, combined with weaker comparatives from H2 2017, is expected to drive further growth in H2.

Asia Pacific *(31% of group revenue)*

Our business in Japan declined (-7%) in the first six months, primarily due to low sheep gut pricing resulting in some customers reducing usage of collagen casings. Sales in South East Asia declined (-5%), however this was against strong comparatives from H1 2017 when volumes increased by 40%, combined with the effect of the timing of shipments.

Following the introduction of the Fine Ultra product platform to key customers in Q4 2017, progress was made in H1 2018 on refining the product specifications for local markets, and the product platform will enter commercial launch during H2. This new product platform is an important building block of our growth ambitions, and will begin to be seen in H2 2018 and into 2019.

Volumes in Australia & New Zealand grew (+2%) thanks to market share gains with a key global customer, coupled with market growth in snacking.

China volumes declined (-15%), following the removal of legacy imported products from this market. Sales of products from our Nantong plant into China were unchanged compared with prior year. A key priority for 2018 is to focus on customers who value our differentiated products, and this strategy has seen our average selling price increase 19% in China in H1 2018.

DEVRO 100 PROGRAMME

The Devro 100 programme to accelerate revenue and profit growth continues to progress as planned.

The programme focuses on growing revenue through upgrading sales capabilities, improving manufacturing efficiencies to reduce unit costs and introducing the next generation of differentiated products. The programme will also optimise the utilisation of our global manufacturing base, increasing available capacity to further support revenue growth.

Savings of £8.5m (2017: £7.0m; H1 2018: £1.5m) have already been delivered, since initiation of the programme in H2 2016.

Fine Ultra casings were introduced to key customers in H2 2017, with commercial launch in Asia and Europe planned for H2 2018.

OPERATING PROFIT

Operating profit for the period can be analysed as follows:

	HY 2018 £'m	HY 2017 £'m	Change
Underlying EBITDA	31.1	30.8	+1.0%
Depreciation & amortisation	-12.7	-12.7	-
Underlying operating profit	**18.4**	**18.1**	**+1.7%**
Exceptional items	-2.2	-3.1	
Operating profit	**16.2**	**15.0**	**+8.0%**

Underlying operating profit was slightly ahead of H1 2017 at £18.4m, comprising a number of factors which are summarised below:

	£'m
Underlying operating profit HY 2017	18.1
Price/mix	+0.3
Contribution from other products	-0.6
Volumes - recovery of conversion costs	+0.8
Energy and salary inflation	-1.9
Devro 100 cost savings	+1.5
Foreign exchange	-0.8
Other movements	+1.0
Underlying operating profit HY 2018	**18.4**

The improved price/mix on edible collagen casings in H1 2018 is explained above. The lower contribution from other products relates to collagen gel and plastic casings.

Improved manufacturing efficiencies in H1 2018, particularly at the US plant, have resulted in higher production volumes compared with H1 2017, which has improved the recovery of conversion costs.

As expected, energy and salary cost inflation is significantly higher in H1 2018 compared with prior year as a result of economic factors. However this has been largely offset by the cost savings delivered from the Devro 100 programme, which, for the full year, are expected to be towards the top end of the previously-guided range of £3m - £4m.

The strengthening of sterling against most key currencies during 2017 (in particular the US dollar and Japanese yen) has resulted in foreign exchange headwinds in H1 2018 compared with prior year, partially offset by the weakening of sterling against the euro and Czech koruna.

Depreciation and amortisation for the period are essentially unchanged, now that depreciation from the new plants started up in 2016 are fully included in the comparatives for H1 2017.

Reported operating profit for the period was £16.2m, which represented a higher year on year growth rate than for underlying operating profit due to lower exceptional items.

EXCEPTIONAL ITEMS

Exceptional items in H1 2018 totalled £2.2m and represent the incremental external costs directly related to implementing the Devro 100 programme. Further details of exceptional items in H1 are set out in note 6 to the interim financial statements.

Full year expectations for the Devro 100 plans are unchanged from previous guidance, with anticipated exceptional costs for 2018 of £5m-£7m, incremental capital expenditure of £5m-£6m and benefits expected to be towards the top of the range of £3m-£4m in 2018, with a further £3m-£5m in 2019.

Savings for 2018 are weighted towards H2 following investments made in the first half, building on the £1.5m of savings already delivered in H1.

In addition, new opportunities have been identified to deliver incremental benefits of £2m-£4m in 2019/2020, with an associated additional upfront exceptional cost of £3m-£5m in 2018.

FOREIGN CURRENCY

Devro operates worldwide and with multiple currencies. A summary of the currency profile for revenue, covering both translational and transactional exposure but before the effects of hedging, is set out in the table below:

% of total 2017	Revenue
US dollar	25%
Euro	24%
Australian dollar	12%
Sterling	12%
Japanese yen	11%
Other	16%
Total	100%

Due to sterling being generally stronger against most key currencies in H1 2018, except the euro and Czech koruna, this gave rise to currency headwinds compared with H1 2017.

FINANCE COSTS

Finance cost for the period (excluding pensions) was £4.1m. This represents an increase from the H1 2017 cost of £3.6m, due to one-off costs associated with the refinancing of the revolving credit facility in H1 2018 and costs associated with the Chinese renminbi debt. Finance costs in H2 2018 are expected to be lower than H2 2017 having completed the restructuring of Chinese renminbi debt in H1 2018, which had given rise to higher finance charges in 2017.

Net finance cost on pensions for the period reduced slightly to £1.2m (2017: £1.4m).

TAX

The group's underlying tax charge for the period was £3.3m. The group expects a full year underlying effective tax rate of 22% - 25%.

EARNINGS PER SHARE

	Six months ended 30 June 2018	Six months ended 30 June 2017 (restated)
Underlying basic earnings per share	6.6p	6.6p
Basic earnings per share	4.7p	5.5p

Underlying basic earnings per share was 6.6 pence, with the increase in underlying operating profit compared with H1 2017 offset by slightly higher finance costs. The underlying basic earnings per share for 2017 has been restated to exclude net finance cost on pensions.

Basic earnings per share decreased due to a lower exceptional tax credit, compared with H1 2017.

CASH FLOW AND NET DEBT

In H1 2018 underlying operating cash flow before pension deficit funding was £20.5m. Compared with prior year this was lower due to increased working capital, partially offset by improved underlying EBITDA. The higher working capital was driven by inventory levels built up in anticipation of sales growth in H2 2018.

Net debt at June 2018 was £147.3m, which was a reduction from the net debt reported at June 2017 of £151.9m. The covenant net debt / underlying EBITDA ratio improved to 2.3 times at June 2018, compared with 2.4 times at June 2017. Comparisons with net debt at December 2017 are impacted by the seasonal nature of cash flows which are weighted towards H2.

It should be noted that movements in net debt during H1 2018 included adverse FX of £2.0m, compared with benefits of £4.0m during H1 2017, related to the retranslation of US dollar denominated debt.

Capital expenditure was broadly unchanged in H1 2018 compared with prior year, but is expected to increase in H2 due to investments related to delivering the Devro 100 savings. As previously guided, Devro 100 capital expenditure is expected to be £5m - £6m in 2018, which is in addition to the normal levels of maintenance spend.

Other cash outflows include pension deficit payments, which increased slightly compared with prior year. Full year pension deficit payments are expected to be approximately £5m, compared with £3m for 2017, due to increased contributions for the US scheme.

In June 2018 the company completed a refinancing of its revolving credit facility, which extended the maturity of this facility from 2019 to 2023.

Both net debt and the covenant net debt / underlying EBITDA ratio for December 2018 are expected to be in line with December 2017.

DIVIDEND

The Board is pleased to announce a maintained interim dividend of 2.7 pence (2017: 2.7 pence). The interim dividend will be paid on 5 October 2018 to shareholders on the register at 24 August 2018.

PENSIONS

The group's net pension obligations reduced significantly from £82.0m at 31 December 2017 to £57.0m at 30 June 2018. This reduction primarily reflects experience gains on the UK scheme related to updated assumptions following completion of the triennial valuation, and also an increase in discount rates in the

UK and US.

Devro plays an active role in managing its pension schemes and related liabilities, ensuring that the assets are appropriately invested and that additional contributions are made where necessary to ensure all obligations are met as they fall due.

OUTLOOK

We are making good progress in a range of markets contributing towards our Devro 100 objectives of growing profitable revenue and market share, whilst reducing operating unit costs. In addition, we have significantly improved the North American plant performance, and increased the average selling price in China by 19% through migrating the customer mix towards those that value our differentiated products. Product development of the new Fine Ultra range remains a key focus and the product platform will enter commercial launch during H2 following completion of refinements to reflect local market preferences. The new product platform is an important building block of our growth ambitions, and will begin to be seen in H2 2018 and into 2019.

We are focused on continuing to deliver Devro 100 and the Board's expectations for the full year remain unchanged.

ALTERNATIVE PERFORMANCE MEASURES

In addition to statutory financial measures, management uses certain alternative performance measures (which are not defined by IFRS) to assess the operating performance and financial position of the group. The alternative performance measures that Devro uses are 'constant exchange rates', 'underlying', 'earnings before interest, tax, depreciation and amortisation (EBITDA)', 'net debt', and 'covenant net debt'.

Constant exchange rates

The group has operations across the world in multiple currencies, and is exposed to translation risk on fluctuations in foreign exchange rates. As a result, the group's reported revenue will be impacted by movements in actual exchange rates. The group presents revenue growth on a constant currency basis in order to eliminate the effect of foreign exchange rate movements, enabling investors to better understand the operational performance of the group.

Revenue growth at constant currency is calculated by presenting both the current and prior year local currency amounts using the prior period average exchange rates.

Underlying

Underlying figures are stated before exceptional items and net finance cost on pensions. Devro is undergoing a major transformation including the construction and start-up of two new plants in China and the US which completed in 2016, a restructuring of operations in Scotland and Australia initiated in 2014 and the Devro 100 programme, the full benefits of which are expected by 2020. The incremental costs associated with this transformation are significant and non-recurring, and as a result have been classified as exceptional items.

The exclusion of net finance cost of pensions for the first time in 2018 followed a review which concluded that these costs are volatile, given that they are dependent upon the pension position at 31 December each year which is subject to market fluctuations. Prior to 2018, underlying figures had included net finance cost on pensions and therefore underlying figures for HY 2017 have been restated where applicable.

A reconciliation from the underlying figures to the equivalent reported figures is presented below:

	HY 2018			
	Underlying	Exceptional items	Net finance cost on pensions	Reported
Profit before tax (£'m)	14.3	(2.2)	(1.2)	10.9
Profit after tax (£'m)	11.0	(2.1)	(1.0)	7.9
Basic earnings per share (p)	6.6	(1.3)	(0.6)	4.7

	HY 2017			
	Underlying (restated)	Exceptional items	Net finance cost on pensions	Reported
Profit before tax (£'m)	14.5	(3.1)	(1.4)	10.0
Profit after tax (£'m)	11.1	(0.7)	(1.1)	9.3
Basic earnings per share (p)	6.6	(0.4)	(0.7)	5.5

Earnings before interest, tax, depreciation and amortisation (EBITDA)

EBITDA is defined as operating profit excluding depreciation and amortisation. This measure is used by management to assess operational efficiency and, given that it excludes non-cash depreciation and amortisation, it is a useful approximation for cash generation from operations. This measure is in common use elsewhere and a reconciliation from reported figures is shown below:

	HY 2018			HY 2017		
	Underlying	Exceptional items	Reported	Underlying	Exceptional items	Reported
Operating profit (£'m)	18.4	(2.2)	16.2	18.1	(3.1)	15.0
Depreciation & amortisation (£'m)	12.7	-	12.7	12.7	-	12.7
EBITDA (£'m)	31.1	(2.2)	28.9	30.8	(3.1)	27.7
EBITDA margin (%)	25.9%		24.0%	24.6%		22.1%

Net debt

Net debt is defined as the excess of total borrowings over cash and cash equivalents. It is a measure that provides additional information on the group's financial position and is a measure in common use elsewhere. A reconciliation from reported figures is presented below:

	June 2018	June 2017	December 2017
	£'m	£'m	£'m
Current borrowings	(4.1)	(3.2)	(1.5)
Non-current borrowings	(157.5)	(160.6)	(144.2)
Total borrowings	(161.6)	(163.8)	(145.7)
Cash and cash equivalents	14.3	11.9	10.8
Net debt	(147.3)	(151.9)	(134.9)

From June 2018, net debt (as defined above) was used to calculate one of the group's banking covenant ratios under the terms of the new revolving credit facility. Prior to June 2018, the definition of net debt used to calculate this covenant ratio also included derivative financial liabilities, as shown below.

	June 2017	December 2017
	£'m	£'m
Net debt	(151.9)	(134.9)
Derivative financial liabilities	(0.2)	(0.4)
Covenant net debt	(152.1)	(135.3)

PRINCIPAL RISKS

The group operates a structured risk management process, which identifies and evaluates risks that could impact its performance, as well as reviewing mitigation activity.

The key areas of potential risk identified in the group's 2017 Annual Report and Accounts were loss of market share/profit margins due to increased competitive pressures, disruption to the group's manufacturing capability from poor operational performance or major disruptive events, foreign exchange risk, downturn in consumer demand, IT systems/cyber risk, financial risks such as the availability of short and long-term funding, disruption to supply or increase in price of key raw materials, and political and regulatory risk. No new key risks have been identified since the Annual Report was published.

These risks are carefully monitored and managed and further details are set out on pages 24 to 27 of the 2017 Annual Report and Accounts which is available on the Devro plc website: www.devro.com

GOING CONCERN

This half year results update sets out the group's performance for the period and financial position at period end, together with factors likely to affect its future development, performance and position. The 2017 Annual Report outlines the business activities of the group and note 23 describes the group's objectives and procedures for managing its capital, its financial risk management policies, details of financial instruments and exposure to market, credit and liquidity risk.

At 30 June 2018 the group was operating within the banking covenants related to its revolving credit facility and US private placement facilities. The group's detailed financial forecasts indicate that there is sufficient headroom in the facilities for the 12 months from the date of approval of this statement and that they can be repaid in line with the expected terms.

After making enquiries, the directors have a reasonable expectation that the group has adequate resources to continue in operation for the 12 months from the date of approval of this statement. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Rutger Helbing — Chief Executive Officer

Jackie Callaway — Chief Financial Officer

1 August 2018

CONSOLIDATED INCOME STATEMENT (UNAUDITED)
for the six months ended 30 June 2018

		6 months ended 30 June 2018			6 months ended 30 June 2017		
		Underlying	**Non-underlying items**	**Reported**	Underlying*	Non-underlying items	Reported
	Note	**£'m**	**£'m**	**£'m**	£'m	£'m	£'m
Revenue	5	**120.2**	**-**	**120.2**	125.2	-	125.2
Operating profit	5	**18.4**	**(2.2)**	**16.2**	18.1	(3.1)	15.0
Finance cost		**(4.1)**	**-**	**(4.1)**	(3.6)	-	(3.6)
Net finance cost on pensions		**-**	**(1.2)**	**(1.2)**	-	(1.4)	(1.4)
Profit before tax		**14.3**	**(3.4)**	**10.9**	14.5	(4.5)	10.0
Tax	7	**(3.3)**	**0.3**	**(3.0)**	(3.4)	2.7	(0.7)
Profit for the period attributable to owners of the parent		**11.0**	**(3.1)**	**7.9**	11.1	(1.8)	9.3
Earnings per share							
Basic	8			**4.7p**			5.5p
Diluted	8			**4.7p**			5.5p

All results relate to continuing operations.

Non-underlying items include exceptional items and net finance costs on pensions and relevant tax.

* Underlying figures for the six months ended 30 June 2017 have been restated to exclude net finance costs on pensions. All relevant notes are restated accordingly.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
for the 6 months ended 30 June 2018

	6 months ended 30 June 2018	6 months ended 30 June 2017
	£'m	£'m
Profit for the period	**7.9**	9.3
Other comprehensive income/(expense) for the period		
Items that will not be reclassified to profit or loss		
Pension obligations:		
- - re-measurements	**26.3**	4.5
- - movement in deferred tax	**(2.6)**	(0.7)
	23.7	3.8
Items that may be reclassified subsequently to profit or loss		
Cash flow hedges:		
- net fair value gains/(losses)	**(2.6)**	2.5

- reclassified and reported in operating profit	**(0.5)**	(0.2)
- tax on fair value movements	**0.5**	(0.5)
Net investment hedges:		
- fair value gains/(losses)	**0.5**	(1.6)
- tax on fair value movements	**(0.1)**	0.4
Net exchange adjustments	**(3.6)**	6.7
	(5.8)	7.3
Other comprehensive income for the period, net of tax	**17.9**	11.1
Total comprehensive income for the period attributable to owners of the parent	**25.8**	20.4

INTERIM CONSOLIDATED BALANCE SHEET (UNAUDITED)
at 30 June 2018

	Note	**30 June 2018 £'m**	31 December 2017 £'m	30 June 2017 £'m
ASSETS				
Non-current assets				
Property, plant and equipment	10	**281.8**	291.1	297.6
Intangible assets		**10.3**	10.4	10.0
Deferred tax assets		**33.2**	35.3	44.0
Trade and other receivables		**4.2**	4.5	4.8
		329.5	341.3	356.4
Current assets				
Inventories		**40.3**	32.3	35.6
Trade and other receivables		**33.0**	30.6	30.2
Derivative financial instruments	4	**-**	1.8	3.0
Current tax assets		**-**	-	0.1
Cash and cash equivalents	14	**14.3**	10.8	11.9
		87.6	75.5	80.8
Total assets		**417.1**	416.8	437.2
LIABILITIES				
Current liabilities				
Trade and other payables		**(26.2)**	(31.2)	(29.7)
Current tax liabilities		**(2.4)**	(5.1)	(4.6)
Borrowings	14	**(4.1)**	(1.5)	(3.2)
Derivative financial instruments	4	**(2.4)**	(0.4)	(0.2)
Provisions for other liabilities and charges		**-**	(0.2)	(0.4)
		(35.1)	(38.4)	(38.1)
Non-current liabilities				
Borrowings	14	**(157.5)**	(144.2)	(160.6)
Pension obligations	11	**(57.0)**	(82.0)	(91.8)
Deferred tax liabilities		**(17.1)**	(18.1)	(20.3)
Other payables		**(3.1)**	(3.3)	(3.4)
Provisions for other liabilities and charges		**(3.7)**	(3.6)	(3.2)
		(238.4)	(251.2)	(279.3)
Total liabilities		**(273.5)**	(289.6)	(317.4)
Net assets		**143.6**	127.2	119.8
EQUITY				
Capital and reserves attributable to owners of the parent				
Ordinary shares		**16.7**	16.7	16.7
Share premium		**9.3**	9.3	9.3
Other reserves		**77.7**	83.4	78.7
Retained earnings		**39.9**	17.8	15.1
Total equity		**143.6**	127.2	119.8

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)
for the six months ended 30 June 2018

	Ordinary shares £'m	**Share premium £'m**	**Other reserves £'m**	**Retained earnings £'m**	**Total equity £'m**

Balance at 1 January 2018	**16.7**	**9.3**	**83.4**	**17.8**	**127.2**
Comprehensive income/(expense)					
Profit for the period	-	-	-	7.9	7.9
Other comprehensive income/(expense)	-	-	(5.8)	23.7	17.9
Total comprehensive income/(expense)	-	-	(5.8)	31.6	25.8
Transactions with owners					
Performance Share Plan charge, net of tax	-	-	0.8	-	0.8
Performance Share Plan credit in respect of awards lapsed	-	-	(0.7)	0.7	-
Dividends paid	-	-	-	(10.2)	(10.2)
Total transactions with owners	-	-	0.1	(9.5)	(9.4)
Balance at 30 June 2018	**16.7**	**9.3**	**77.7**	**39.9**	**143.6**

Balance at 1 January 2017	16.7	9.3	70.8	12.2	109.0
Comprehensive income/(expense)					
Profit for the period	-	-	-	9.3	9.3
Other comprehensive income/(expense)	-	-	7.3	3.8	11.1
Total comprehensive income/(expense)	-	-	7.3	13.1	20.4
Transactions with owners					
Performance Share Plan charge, net of tax	-	-	1.0	-	1.0
Performance Share Plan credit in respect of awards lapsed	-	-	(0.4)	-	(0.4)
Dividends paid	-	-	-	(10.2)	(10.2)
Total transactions with owners	-	-	0.6	(10.2)	(9.6)
Balance at 30 June 2017	16.7	9.3	78.7	15.1	119.8

CONSOLIDATED CASH FLOW STATEMENTS (UNAUDITED)
for the six months ended 30 June 2018

	Note	**6 months ended 2018**	6 months ended 2017
		£'m	£'m
Cash flows from operating activities			
Cash generated from operations	13	**17.4**	23.9
Interest paid		**(4.5)**	(3.3)
Tax paid		**(5.7)**	(7.8)
Net cash generated from operating activities		**7.2**	12.8
Cash flows from investing activities			
Purchase of property, plant and equipment		**(4.6)**	(4.8)
Purchase of intangible assets		**(0.4)**	(0.3)
Net cash used in investing activities		**(5.0)**	(5.1)

Cash flows from financing activities		
Proceeds from other borrowings	**10.6**	3.3
Proceeds from financial instruments	**(0.9)**	0.1
Dividends paid	**(10.2)**	(10.2)
Net cash used in financing activities	**(0.5)**	(6.8)
Net increase in cash and cash equivalents	**1.7**	0.9
Net cash and cash equivalents at 1 January	**8.7**	8.0
Net increase / (decrease) in cash and cash equivalents	**1.7**	0.9
Exchange (loss) on cash and cash equivalents	**(0.2)**	(0.2)
Net cash and cash equivalents at 30 June 2018	**10.2**	8.7
Cash and cash equivalents	**14.3**	11.9
Bank overdrafts	**(4.1)**	(3.2)
Net cash and cash equivalents at 30 June 2018	**10.2**	8.7

Notes to the condensed interim consolidated financial statements (unaudited)
for the six months ended 30 June 2018

1. **General Information**

Devro is one of the world's leading providers of collagen products for the food industry. Collagen is one of the most common forms of protein, which is transformed into strong but flexible edible casings and other related products by highly sophisticated biochemical processing technologies.

The company is a public limited 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.

These condensed interim consolidated financial statements were approved for issue on 1 August 2018.

These condensed interim consolidated financial statements do not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. The consolidated interim financial statements are unaudited but have been reviewed by our auditors and their report is set out on page 23. Statutory accounts for the year ended 31 December 2017 were approved by the Board of Directors on 14 March 2018 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 498 of the Companies Act 2006.

2. **Basis Of Preparation**

These condensed interim consolidated financial statements for the six months ended 30 June 2018 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with International Accounting Standard ("IAS") 34, "Interim financial reporting" as adopted by the European Union. The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2017 which have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

Critical Estimates And Judgments

The preparation of financial statements in conformity with IFRSs requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best assessments of amounts, events or actions, actual results ultimately may differ from those estimates. The key uncertainties that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next six months relate to accounting for the Devro 100 programme (in particular whether items should be expensed as exceptional), the carrying value of inventory, the measurement of pension obligations and tax.

Going Concern Basis

The Financial Statements Have Been Prepared On A Going Concern Basis. This Is Discussed In The Half Year Results Update On Page 9.

3. Accounting Policies

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2017, as described in those annual financial statements.

New standards, amendments to standards or interpretations

At the date of approval of these financial statements, the following amendments to standards and interpretations were in issue and have been applied in these financial statements:

	Effective date
• IFRS 9 - Financial instruments	1 January 2018
• IFRS 15 - Revenue from contracts with customers	1 January 2018

The following amendments to standards and interpretations were in issue but have not been applied in these financial statements:

• IFRS 16 - Leases	1 January 2019

It is expected that the group will adopt this standard on its effective date. The directors do not anticipate that the adoption of this standard will have a material impact on the financial statements of the group, apart from disclosure requirements.

4. Financial Risk Management

The group's activities expose it to a variety of financial risks: market risk (including interest rate risk and foreign exchange risk), credit risk and liquidity risk.

The condensed interim consolidated financial statements do not include all financial risk management information and disclosures required in annual financial statements, and should be read in conjunction with the group's annual financial statements for the year ended 31 December 2017.

Fair value of derivative financial instruments

The fair values of derivative financial instruments are as follows:

	Assets	Liabilities
	£'m	£'m
At 30 June 2018		
Forward foreign currency contracts		
- cash flow hedge	**-**	**2.3**
- net investment hedge	**-**	**0.1**
	-	**2.4**
At 30 June 2017		
Forward foreign currency contracts		
- cash flow hedge	2.8	0.2
- net investment hedge	0.2	-
	3.0	0.2

Derivative financial instruments that are measured at fair value are disclosed by level of the following fair value measurement hierarchy:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly (that is, as prices) or indirectly (that is, derived from prices)
Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

All of the group's derivative financial instruments that are measured at fair value are classified as Level 2 at 30 June 2018 (31 December 2017: Level 2) and comprise forward foreign exchange contracts as disclosed in the table above. The valuation techniques employed are consistent with the year-end annual report. There are no financial instruments measured as Level 3. The carrying value of non-derivative financial assets and liabilities, comprising cash and cash equivalents, trade and other receivables, trade and other payables and borrowings is considered to materially equate to their fair value.

5. Segment Information

The chief operating decision maker has been identified as the Board. The Board reviews the group's financial results on a geographical segment basis with three identifiable operating segments:

- Americas: includes North America and Latin America
- Asia - Pacific: includes Australia, New Zealand, Japan, China and the rest of South East Asia
- Europe: includes Continental Europe, UK, Ireland and Africa

The Board assesses the performance of the operating segments based on underlying operating profit. This measurement basis excludes the effects of exceptional income and expenditure from the operating segments. The Board assesses the operating segments based on group profit for external sales in each region, rather than statutory profit for the region which also includes profit on intercompany sales. Finance income and cost, and net finance cost on pensions, are not included in the segment results that are reviewed by the Board.

During 2017 the basis used by the Board was revised to reflect the new global organisation structure that was implemented in the last quarter of 2016, which created a single Global Supply Chain organisation and single Global Business Development organisation. Following this organisational change, the manufacturing asset base is now managed on a global basis, rather than by region. As a result the segmental information has been presented on the amended basis and the prior year figures have been restated on a consistent basis.

Profit for the geographic segments is determined as revenue less standard cost of manufacture and direct selling costs. The Global costs comprise Global Supply Chain (including any variances from standard cost of manufacture), Global Business Development (including research & development) and Global Business Services (including finance and human resources).

Segment information for the six months ended:

	Americas		**Asia-Pacific**		**Europe**		**Global**		**Total group**	
	30 June2018	30 June2017	**30 June2018**	30 June2017	**30 June2018**	30 June2017	**30 June2018**	30 June2017	**30 June2018**	30 June2017
	£'m	£'m	**£'m**	£'m	**£'m**	£'m	**£'m**	£'m	**£'m**	£'m
Revenue Sales to external customers	**28.7**	32.3	**37.9**	41.5	**53.6**	51.4	**-**	-	**120.2**	125.2
Underlying operating profit	**8.4**	12.8	**14.3**	16.0	**20.2**	20.4	**(24.5)**	(31.1)	**18.4**	18.1
Exceptional items									**(2.2)**	(3.1)
Operating profit									**16.2**	15.0
Finance cost									**(4.1)**	(3.6)
Net finance cost on pensions									**(1.2)**	(1.4)
Profit before tax									**10.9**	10.0

6. Exceptional Items

Exceptional charges included in operating profit were £2.2m (2017: £3.1m) and related to the Devro 100 programme.

Devro is undergoing a major transformation including the construction and start-up of two new plants in China and the US which completed in 2016, a restructuring of operations in Scotland and Australia initiated in 2014, and the Devro 100 programme, the full benefits of which are expected by 2020. The Devro 100 programme is focussed on accelerating revenue growth, through significantly improving sales capabilities, delivering substantial improvements in manufacturing efficiencies to reduce unit costs and introducing the next generation of differentiated products. The incremental costs associated with implementing this transformation are significant, and as a result have been classified as exceptional items.

Exceptional charges comprise of redundancy costs and other incremental external cost, including professional fees.

7. Tax

The charge for tax for the six months ended 30 June 2018 corresponds to a rate of tax of 23% on underlying profit (six months ended 30 June 2017: 24%; restated to exclude net finance cost on pensions: 23%). This reflects the anticipated effective rate on underlying profit for the year ending 31 December 2018. The tax credit on the non-underlying charge includes movements of the deferred tax asset recognised on brought forward losses. The charge for tax comprises a UK corporation tax charge of £nil (2017: £nil) and a foreign tax charge of £3.0m (2017: £0.7m).

8. Earnings Per Share

	6 months ended 30 June 2018	6 months ended 30 June 2017
	£'m	£'m
Profit attributable to equity holders	**7.9**	9.3
Underlying profit attributable to equity holders*	**11.0**	11.1
Earnings per share		
- Basic	**4.7p**	5.5p
- Underlying basic*	**6.6p**	6.6p
- Diluted	**4.7p**	5.5p
Shares in issue		
Weighted average number of shares through the period	**166,949,022**	**166,949,022**
Adjustments for:		
- Performance Share Plan	**1,220,955**	**2,255,989**
Weighted average number of shares adjusted for potential dilution	**168,169,977**	**169,205,011**

* Underlying basic earnings per share for 2017 has been restated to exclude net finance cost on pensions.

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 period. Shares arising from share options, the deferred bonus scheme or the performance share plan are only treated as dilutive where the effect is to reduce earnings per share.

9. Dividends

The final dividend of 6.1 pence per share in respect of the year ended 31 December 2017 was paid on 11 May 2018, absorbing £10.2m of equity.

The interim dividend of 2.7 pence per share, which will absorb an estimated £4.5m of equity, will be paid on 5 October 2018 to shareholders on the register at 24 August 2018. This compares with the 2017 interim dividend of 2.7 pence per share, which absorbed £4.5m of equity.

10. Property, Plant And Equipment

Movements in property, plant and equipment are summarised as follows:

	6 months ended 30 June 2018 £'m	6 months ended 30 June 2017 £'m
Opening net book value at 1 January	**291.1**	308.6
Exchange differences	**1.4**	(1.2)
Additions	**1.5**	2.4
Depreciation	**(12.2)**	(12.2)
Closing net book value at 30 June	**281.8**	297.6

11. Pension Obligations

The net pension obligations disclosed as non-current liabilities in the balance sheet are as follows:

	30 June 2018 £'m	31 December 2017 £'m	30 June 2017 £'m
Pension obligations	**57.0**	82.0	91.8

The decrease in the group's net pension obligations at 30 June 2018 compared with 31 December 2017 primarily reflects experience gains on the UK scheme related to updated assumptions following completion of the triennial valuation, and also an increase in discount rates in the UK and US.

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

	30 June 2018	31 December 2017	30 June 2017
Australia	**3.70%**	3.60%	3.75%
United Kingdom	**2.60%**	2.45%	2.60%
United States	**4.05%**	3.40%	3.60%

The net pension obligations have moved as follows:

	6 months ended 30 June 2018 £'m	6 months ended 30 June 2017 £'m
Opening net liability	**82.0**	96.0
Employer contributions	**(1.8)**	(0.9)
Service cost	**1.0**	0.9
Scheme administrative expenses	**0.3**	0.4
Net finance cost	**1.2**	1.4
Re-measurements	**(26.3)**	(4.5)
Exchange losses/(gains)	**0.6**	(1.5)
Closing net liability	**57.0**	91.8

12. Equity Securities Issued

No Ordinary Shares were issued during the half-year period ending 30 June 2018.

13. Reconciliation Of Profit Before Tax To Cash Generated From Operations

	6 months ended 30 June 2018 £'m	6 months ended 30 June 2017 £'m
Profit before tax	**10.9**	10.0

Adjustments for:		
Finance cost	**4.1**	3.6
Net finance cost on pensions	**1.2**	1.4
Pension cost adjustment for normal contributions	**0.3**	0.3
Depreciation of property, plant and equipment	**12.2**	12.2
Amortisation of intangible assets	**0.5**	0.5
Pension deficit funding	**(0.9)**	-
Performance Share Plan	**0.8**	1.0
Changes in working capital:		
Increase in inventories	**(7.6)**	(2.5)
(Increase)/decrease in trade and other receivables	**(1.6)**	0.7
Decrease in trade and other payables	**(2.6)**	(2.5)
Increase/(decrease) in provisions	**0.1**	(0.8)
Cash generated from operations	**17.4**	23.9
Of which:		
Cash generated from underlying operations before pension deficit funding	**20.5**	27.7
Pension deficit funding	**(0.9)**	-
Exceptional items	**(2.2)**	(3.8)
Cash generated from operations	**17.4**	23.9

14. Analysis Of Net Debt

	30 June 2018 £'m	31 December 2017 £'m	30 June 2017 £'m
Cash and cash equivalents	**14.3**	10.8	11.9
Bank overdrafts	**(4.1)**	(1.5)	(3.2)
	10.2	9.3	8.7
Other bank borrowings	**(81.1)**	(69.8)	(83.5)
US dollar private placement	**(76.4)**	(74.4)	(77.1)
Net debt	**(147.3)**	(134.9)	(151.9)

15. Related Party Transactions

The group had no related party transactions other than key management compensation during the six months ended 30 June 2018 and 30 June 2017.

Statement Of Directors' Responsibilities

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU;
- the interim management report includes a fair review of the information required by:

(a) DTR 4.2.7R of the Disclosure and Transparency Rules , being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

(b) DTR 4.2.8R of the Disclosure and Transparency Rules , being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so

The directors of Devro plc are as listed below:
Gerard Hoetmer
Rutger Helbing
Jackie Callaway
Paul Withers
Jane Lodge
Malcolm Swift

A list of the current directors is maintained on the company's website: www.devro.com.

By order of the Board

Rutger Helbing Chief Executive Officer 1 August 2018	Jackie Callaway Chief Financial Officer 1 August 2018

INDEPENDENT REVIEW REPORT TO DEVRO PLC

Conclusion

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 2018 which comprises the Interim consolidated income statement, Interim consolidated statement of comprehensive income, Interim consolidated balance sheet, Interim consolidated statement of changes in equity, Interim consolidated cash flow statement and the related explanatory notes.

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 2018 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

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 UK. 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. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) 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.

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 DTR of the UK FCA.

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

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.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Anthony Sykes (Senior Statutory Auditor)
for and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square
London, E14 5GL
1 August 2018

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