HALF YEAR RESULTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017
THE COLLAGEN CASING COMPANY

Global Leader
- One of the world’s leading providers of collagen casings for the processed meats sector
- Supplies 1,000 customers in 100 countries worldwide
- Provides technical support to food manufacturers

Global Operations
2,000+ staff across the world
6 manufacturing operations in Scotland, Australia, the Czech Republic, the USA, the Netherlands and China

Collagen
- Main raw material taken from the hide of carefully selected animals certified for food use
- A complex naturally-occurring polymer with unique characteristics
- Dedicated food grade sourcing arrangements

Technology
- Differentiation through product development
- Enhanced manufacturing performance and increased capacity
- Close matching of product design to customer needs and market requirements
OVERVIEW

Financial Results

- Underlying operating profit in line with prior year
  ➢ Reflects strong progress in underlying business
- Sales volumes increased 7%
  ➢ Most notably in China, SE Asia and Russia
- Strong operating cash flow*
  ➢ Up £7.6m on 2016
- Improved covenant ratio**
  ➢ Now 2.4 times
- Interim dividend maintained
  ➢ At 2.7p per share

Devro 100

- Programme to accelerate profit growth initiated in H2 2016 progressing well
- Sales volume growth achieved in a range of markets during H1 2017
- £3 million cost savings realised in H1 2017

Outlook

- Global market continues to grow at long-term average rate of 2-4% per year
- Good opportunities for Devro to increase revenue from new manufacturing plants
- Continued progress in reducing unit costs within the business
- New product introductions during H2 2017 will support longer-term growth ambitions

* Before pension deficit funding  ** Covenant ratio = net debt (including derivative liabilities) / underlying EBITDA
PETER PAGE

COMMERCIAL REVIEW
REVENUE: EUROPE

**UK & Ireland**
- Volumes: +6%
- Increased market share for Devro and long-established customers
- Continued progress with Select F premium products

**Continental EU**
- Volumes: unchanged
- Share gains in 2017 have recovered losses from 2016
- Devro returning to a stronger commercial position

**Russia & East**
- Volumes: +19%
- Share gains and increased output by key customers
- Expanded product range for the region
REVENUE: AMERICAS

North America
- Volumes: unchanged
- Market consolidating with competitive pressure on leading brands
- Successful development of growth opportunities in gel continues

Latin America
- Volumes: -35% following change in sourcing of products in 2016
- Product design and development with customers will continue to be a key area of focus in H2
REVENUE: ASIA / PACIFIC

**China**
- Volumes: +125% (HY 2016: -51%)
- Casings from new plant performing well
- Demand growing, but market oversupplied

**South East Asia**
- Volumes: +40%
- Strong growth in consumption across all categories

**Japan**
- Volumes: +5%
- Continued growth in savoury snack products
- Growth in non-meat food categories

**Australia & NZ**
- Volumes: -3%
- Mature market
- Overall consumption lower
MARKET DYNAMICS

Regional mix
- Devro continues to hold share in mature markets with historic high market shares, particularly UK, Australia & New Zealand
- Retained volume in Europe and USA where markets are consolidating with pressure on leading brands
- Regained share in important markets of Russia and SE Asia
- Gained share in China during a period of local oversupply
- Latin America decline due to change in Devro’s product sourcing

Pricing
- Devro remains price leader in most markets and accounts
- Increasing number of price-driven tenders following acquisitions, and consolidation among customers, impacting market dynamics
- New business and regained share achieved in a number of markets
- Holding price in many markets and accounts where Devro is long-established and fully valued as a partner

Short-term / medium-term
- Global demand growth anticipated at 2-4% p.a.
- Global industry capacity expected to come into balance
- Devro has greater capacity available at lower unit cost following major capital investment programme
- Devro continues to seek revenue growth in all areas with an emphasis on growing market share in developing economies
# Financial Summary

## Revenue
- Increased 11% year-on-year to £125.2m
- Volume gains of 7% plus further 10% from FX benefits
- Partially offset by -6% price/mix, including increased volumes in China

## Profit
- Underlying operating profit of £18.1m; in line with prior year
  - Volume gains, cost savings and FX, offset by full costs from new plants
- Reported operating profit of £15.0m; higher than prior year due to reduced exceptional items

## Exceptional items
- Related to Devro 100 programme
- Total of £3.1m for H1 2017
  - In line with expectations

## Cash Flow
- Continued strong cash generation, with operating cash flow* of £23.9m
  - Improved EBITDA
  - Lower capital expenditure and exceptional spend

## Covenant Ratio
- Key covenant ratio** improved to 2.4 times, as planned
  - Due to increased underlying EBITDA and slightly lower net debt

## Dividend
- Interim dividend maintained at 2.7p per share, in line with prior year

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*Shown before pension deficit funding  **Covenant ratio = net debt (including derivative liabilities) / underlying EBITDA
GROUP REVENUE

<table>
<thead>
<tr>
<th>Volumes</th>
<th>Price/mix</th>
<th>FX</th>
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<tbody>
<tr>
<td>Increased 7% yoy</td>
<td>Adverse by 6%</td>
<td>Benefit of 10% for H1 2017</td>
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<tr>
<td></td>
<td>Country mix (e.g. China)</td>
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</tbody>
</table>

- **Volumes**
  - Increased 7% year on year

- **Price/mix**
  - Adverse by 6%
  - Country mix (e.g. China)

- **FX**
  - Benefit of 10% for H1 2017
**Revenue Development**

**Europe**
- Volume: +4%
- Price/Mix: -2%
- FX: +7%
- Total: +9%

**Americas**
- Volume: -11%
- Price/Mix: 0%
- FX: +10%
- Total: -1%

**Asia/Pacific**
- Volume: +25%
- Price/Mix: +13%
- FX: +24%
- Total: -14%

**Revenue**
- Volume: growth in Russia and UK/Ireland, with Continental Europe stabilised
- FX: sterling weaker vs euro

**Revenue**
- Volume: as expected Latin America below prior year for H1; North America in line with prior year
- FX: sterling weaker vs US dollar

**Revenue**
- Volume: increase in China sourced from new plant; significant growth in SE Asia
- Price/mix: mainly country mix from China
- FX: sterling weaker against several key currencies
**Volume**
- Higher sales volumes contributed gross margin and overheads recovery, offset by price/mix

**Cost savings**
- Result of actions taken as part of the Devro 100 programme

**New plants**
- Remaining savings from replacement of old US plant, less remaining costs for new China plant

**Start-up period**
- Start-up period** of new plants in 2016 (when capacity not available) lowered costs in 2016

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**EBIT* MOVEMENT**

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<td>£m</td>
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<td>15.9%</td>
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<td></td>
<td>14.5%</td>
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<tr>
<td>23.4%</td>
<td></td>
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<td></td>
<td></td>
<td>24.6%</td>
</tr>
</tbody>
</table>

*Shown on underlying basis (before exceptional items)  ** Incremental costs included in exceptional items
EXCEPTIONAL ITEMS

<table>
<thead>
<tr>
<th></th>
<th>HY 2017 £m</th>
<th>HY 2016 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Devro 100</td>
<td>3.1</td>
<td>-</td>
</tr>
<tr>
<td>Investment projects</td>
<td>-</td>
<td>13.4</td>
</tr>
<tr>
<td>Total exceptional items</td>
<td>3.1</td>
<td>13.4</td>
</tr>
</tbody>
</table>

Devro 100
- Final stage of six year transformation of business
- Major programme focussed on:
  - Acceleration of revenue growth
  - Substantial improvement in manufacturing efficiencies
  - Introduction of next generation of differentiated products

Investment projects
- Completed in 2016
- No further exceptional items in 2017
Effective tax rate*

- Broadly in line with 2016
- Reflects mix of profits in different tax jurisdictions across the group

* Shown on underlying basis (before exceptional items)
## INCOME STATEMENT

<table>
<thead>
<tr>
<th></th>
<th>HY 2017 £m</th>
<th>HY 2016 £m</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDA*</td>
<td>30.8</td>
<td>26.4</td>
<td>+17%</td>
</tr>
<tr>
<td>EBIT*</td>
<td>18.1</td>
<td>18.0</td>
<td>+1%</td>
</tr>
<tr>
<td>Profit after tax*</td>
<td>10.0</td>
<td>10.6</td>
<td>-6%</td>
</tr>
<tr>
<td>EPS*</td>
<td>6.0p</td>
<td>6.3p</td>
<td>-5%</td>
</tr>
</tbody>
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<tr>
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</thead>
<tbody>
<tr>
<td>Reported profit after tax</td>
<td>9.3</td>
<td>(1.2)</td>
<td></td>
</tr>
<tr>
<td>Reported EPS</td>
<td>5.5p</td>
<td>(0.7p)</td>
<td></td>
</tr>
</tbody>
</table>

### Depreciation & amortisation

- Underlying depreciation & amortisation increased £4.3m year-on-year, reflecting start up on new plants in 2016

### EPS (year-on-year change)

- EBIT* per share +0.1p
- Finance cost per share -0.4p
- Tax* per share -
- EPS* -0.3p

* Shown on underlying basis (before exceptional items)
CASH FLOW HY 2017

£m

<table>
<thead>
<tr>
<th>EBITDA*</th>
<th>Working capital &amp; other movements*</th>
<th>Operating cash flow**</th>
<th>Capex</th>
<th>Cash exceptions</th>
<th>Operating cash flow after capex</th>
<th>Pension deficit funding</th>
<th>Interest</th>
<th>Tax</th>
<th>FX &amp; other</th>
<th>Dividends</th>
<th>Movement net debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>30.8</td>
<td>-3.1</td>
<td>27.7</td>
<td>-5.1</td>
<td>-3.8</td>
<td>18.8</td>
<td>-3.3</td>
<td>-7.8</td>
<td>+4.2</td>
<td>-10.2</td>
<td>1.7</td>
<td></td>
</tr>
</tbody>
</table>

HY 2016: 26.4 +2.4 28.8 -11.0 -12.5 5.3 -2.5 -3.5 -3.0 -7.6 10.2 -21.5

**Operating cash flow after capex**
- Strong growth due to improved EBITDA, and lower capex and exceptional spend

**Movement net debt**
- Dividend maintained
- Strengthening of sterling reduced net debt by £4m
- Higher tax payments related to increased tax rate in 2016

* Shown on underlying basis (before exceptional items) ** Shown on underlying basis and before pension deficit funding
NET DEBT AND KEY BANKING COVENANTS

<table>
<thead>
<tr>
<th></th>
<th>Jun 2017</th>
<th>Dec 2016</th>
<th>Jun 2016</th>
<th>Current covenant</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net debt</strong></td>
<td>£151.9</td>
<td>£153.6</td>
<td>£147.0</td>
<td></td>
</tr>
<tr>
<td><strong>Net debt</strong>*/ EBITDA* ratio</td>
<td>2.4 times</td>
<td>2.7 times</td>
<td>2.9 times</td>
<td>&lt;3 times</td>
</tr>
<tr>
<td>EBITDA*/ Net finance costs ratio</td>
<td>9 times</td>
<td>8 times</td>
<td>9 times</td>
<td>&gt;4 times</td>
</tr>
</tbody>
</table>

* Shown on underlying basis (before exceptional items)  ** Includes derivative liabilities of £0.2m (Dec 2016: £2.6m; Jun 2016: £5.9m)
PENSIONS

Net pension deficit

- Decrease due to inflation rate in UK and FX
- Partially offset by discount rate in US

<table>
<thead>
<tr>
<th></th>
<th>Dec 2016 £m</th>
<th>Jun 2017 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net pension deficit</td>
<td>96.0</td>
<td>91.8</td>
</tr>
</tbody>
</table>

UK discount rate

- 2.60% in Dec 2016
- 2.60% in Jun 2017

US discount rate

- 3.85% in Dec 2016
- 3.60% in Jun 2017
FINANCIAL SUMMARY

Results
- Revenue increased 11%
- Underlying EBITDA increased by 17%; underlying EBIT in line with H1 2016
- Underlying EPS down due to higher finance costs
- Dividend maintained
- Net debt ratios improved since December 2016

Full year expectations remain unchanged

Devro 100 cost savings
- Expected to be around £6m of savings for the year

Exceptional items
- Expected to be around £7m of costs for the year

Effective tax rate
- Expected to be around 24% for the year
DEVRO 100

OUR PLAN FOR GROWTH
DEVRO’S THREE PART STRATEGY

ACCELERATING DELIVERY THROUGH...

**Revenue growth**
- Gut replacement in developed markets
- Increased demand in emerging markets
- Pricing and value for customers

**Manufacturing efficiency**
**Reduce cost**
- Maximise productivity of existing assets
- New capacity in lowest unit cost technology
- Reducing costs

**Collagen research and development**
**Innovate & invent**
- Differentiated products
- Modern processes improve efficiency
- Creating new opportunities

Earnings growth & improving return on capital
...THE DEVRO 100 PROGRAMME

Revenue growth
- Focus on improved sales capabilities

Next generation of differentiated products
- To deliver a step change in product attributes and performance

Improving manufacturing efficiency
- Using single global supply chain organisation to:
  - Maximise productivity of existing assets
  - Reduce unit cost
Actions & achievements in H1 2017

- Volume growth of 7%
- Focus on target markets and customers
- Extension of sales capability training
- Co-ordinated global tendering and pricing at all accounts
# NEXT GENERATION OF DIFFERENTIATED PRODUCTS

## FINE ULTRA

- **To be introduced in several variants in H2 2017**, designed for market requirements.

## For consumers:
- Improved pan and deep frying

## For manufacturers:
- Increased robustness during filling

## Targeting major markets for processed sausages in Europe and Asia

## Long-term aim for 10-15% of group revenue
**Actions & achievements in H1 2017**

- New supplier contracts agreed based on global purchase requirements
- *Global Best Practice* teams established for each stage of production process
- Standardised operations blueprint implemented with conversion cost reduction following redundancies
- Operating cost savings achieved through standardisation and simplification of organisation structure and processes

<table>
<thead>
<tr>
<th></th>
<th>HY 2017 savings</th>
<th>Total 2019 benefit range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Material costs</td>
<td>£0.8m</td>
<td>£3.5m - £4m</td>
</tr>
<tr>
<td>Conversion costs</td>
<td>£2.2m</td>
<td>£7.5m - £9m</td>
</tr>
<tr>
<td>Production costs</td>
<td>£3.0m</td>
<td>£11m - £13m</td>
</tr>
<tr>
<td>Operating costs</td>
<td>£0.2m</td>
<td>£2m - £3m</td>
</tr>
<tr>
<td><strong>Total costs</strong></td>
<td><strong>£3.2m</strong></td>
<td><strong>£13m - £16m</strong></td>
</tr>
</tbody>
</table>
Global demand growth projections 2-4% pa

Devro 100 programme underpins the 3-part strategy
  • Improved sales capability
  • Next generation of differentiated products
  • Unit cost reduction savings of £13m-£16m

Devro has a modern asset base
  • With capacity to support growth

Targeting year-on-year growth with attractive financial returns