INVESTMENT PROGRAMME UPDATE
IMS / TRADING UPDATE

• Revenue grows / volumes unchanged
  • Emerging markets growing strongly
  • Developed markets mixed
• Trading profits and margins improved as new capacity has come on stream
• Hide price increases have been slowing down
• Currency movements are expected to impact 2014 results by £3m – primarily yen 20% devaluation
• 2013 outlook – given the flat volumes we expect profits to be towards the lower end of market expectations
• £40m investment has now been approved to build a new factory in USA
CAPITAL INVESTMENTS

DEVRO
OUR THREE PART STRATEGY

Revenue growth
• Gut replacement in established markets
• Increased demand in emerging markets
• Pricing and value for customers

Earnings growth & improving return on capital

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

Collagen research and development
• Differentiated products
• Modern processes improve efficiency
• Creating new opportunities
### DEVRO’S RECENT CAPITAL INVESTMENT PROGRAMME

<table>
<thead>
<tr>
<th>Year</th>
<th>Czech Republic</th>
<th>USA</th>
<th>Scotland</th>
<th>Australia</th>
</tr>
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<tbody>
<tr>
<td>2006</td>
<td>New hall construction</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2007</td>
<td>New lines installed</td>
<td>-</td>
<td>-</td>
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<tr>
<td>2008</td>
<td>Food safety and environmental upgrades</td>
<td>Co-extrusion gel capacity and quality</td>
<td>Moodiesburn: Line upgrades improved yield and speed</td>
<td>-</td>
</tr>
<tr>
<td>2009</td>
<td>Additional lines installed in new hall</td>
<td>-</td>
<td>Moodiesburn: Continuing line upgrades</td>
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<tr>
<td>2010</td>
<td>Closed Korenov – added lines to Jilemnice</td>
<td>-</td>
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<td>-</td>
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<tr>
<td>2011</td>
<td>Replaced old lines for new in older hall to increase capacity and reduce costs</td>
<td>New technology development line</td>
<td>-</td>
<td>Upgrades and renewal added capacity for Select</td>
</tr>
<tr>
<td>2012</td>
<td>-</td>
<td>Bellshill: New for old replacements added capacity and products</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2013</td>
<td>-</td>
<td>Moodiesburn: Continuing line upgrades</td>
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DEVRO’S GLOBAL MANUFACTURING ASSETS

Sandy Run, South Carolina, USA
- Established 1977, acquired 1996
- Chemical-based process, unique clarity products
- Investments to improve efficiency and unit costs: 2014-2016

Moodiesburn, Glasgow, Scotland
- Established 1964 J&J/Devro process
- Fresh sausage products
- Investments 2010-2013 improve efficiency and yields

Bellshill, Glasgow, Scotland
- Established 1976 J&J/Devro process
- Porcine, Select and FINE products
- New lines partly-replaced old technology in 2011
- Further investment would continue ‘new for old’ replacements

Korenov, Czech Republic
- Established 1930’s Cutisin textile process
- Precision mechanical engineered process, edible and non-edible casings
- Non-compliant with EU, Food Safety and environmental regulations
- Closed 2009 – cost saving

Jilemnice, Czech Republic
- Established 1963. Improved technology from Korenov, Cutisin textile process
- Fine and Select products
- Investments 2005-2011: construction of new hall, additional capacity, replacement capacity for Korenov for cost savings
- Investments 2011-2013: replace all lines in old hall, additional capacity and cost reduction

Bathurst, New South Wales, Australia
- Established 1979, J&J/Devro process
- Processed and fresh sausage, Select products
- Investments 2011-2013: increase output for Select, improved efficiency and yields
JILEMNICE PLANT UPGRADE COMPLETED IN 2013

- Designed in 2009
- Complete modernisation of a manufacturing hall first built in the 1970’s
- Planning and implementation from early 2011 to September 2013
- Involved upgrade to entire building infrastructure, phased removal of old lines and replacement with modern lines, whilst maintaining output
JILEMNICE BEFORE AND AFTER
FAST PAYBACK FROM JILEMNICE PLANT UPGRADE

- Total project cost £25m
- Added capacity
  - 9% to total group capacity
  - 32% to Czech capacity
- Cost reduction
  - 25% savings on unit cost of production in new hall
- Return on project
  - 26%
- Payback 4 years

This attractive return was only possible because considerable investments in infrastructure had already been completed: waste water treatment, new boiler, water supply.
JILEMNICE - 25% UNIT COST REDUCTION IN NEW HALL

Before Investment

- Other Production Costs: 33
- Energy: 15
- Depreciation: 10
- Direct Materials: 20
- Direct Labour: 22

After Investment

- Other Production Costs: 17
- Energy: 9
- Depreciation: 16
- Direct Materials: 20
- Direct Labour: 13
INVESTING IN THE USA
AMERICAS PLANT UPGRADE 2014 - 2016

- Existing plant built in 1977, with little modernisation since and no scope for a Czech and UK style line by line replacement – all or nothing

- Complex infrastructure for chemical processes with high overhead costs

- Development line installed in 2011 and trialled throughout 2012 to ensure that the technology is feasible in the South Carolina climate – high temperature and high humidity
Devro Board has now approved capital expenditure for the full project

Starting January 2014, with full production from Q1 2016

Involves construction of new building on existing site, adjacent to current facility, and installation of all new plant & equipment

New building will have space for further phased expansion in future

Significantly reduced need for waste treatment and support processes
AMERICAS PLANT UPGRADE
AN AMERICAN PLANT FOR THE US MARKET

- Benefits of having a well-invested plant in the USA market, using local raw materials, benefitting from low gas prices, participating in renewal of USA manufacturing, and in a flexible, low cost, business-friendly state

- To be implemented by a combination of local and group engineering and project management resources

- Enhanced products to meet local requirements
LOCAL PRODUCTS
REDUCING COSTS FOR THE LONG TERM IN THE USA

- Cost reduction rather than capacity increase
- Part of manufacturing improvement programme
- Option to expand output if required
- Total project expenditure £40m over two years
- Unit cost reduction of manufactured product 30%
- Future cost savings expected to be £8m pa
- Payback 5 years
- Earnings enhancing by 2016
  - 50% of benefits expected in 2016
  - 2017 full benefits
AMERICAS - 30% UNIT COST REDUCTION

Before Investment

- Direct Labour: 22%
- Direct Materials: 35%
- Energy: 7%
- Depreciation: 5%
- Other Overheads: 31%

After Investment

- Direct Labour: 12%
- Direct Materials: 18%
- Energy: 2%
- Depreciation: 17%
- Other Overheads: 21%
FUNDING THE US INVESTMENT PROJECT

• Business can broadly fund £35m capital expenditure per annum through internally generated funds

• On going maintenance spend approximately £15m pa
INVESTING TO SUPPLY A GROWING MARKET

Capital Expenditure £m

- Upgrade, repair or replacement
- Additional capacity / cost saving
- Safety, environmental, food safety and regulatory compliance
- Depreciation

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<thead>
<tr>
<th>Year</th>
<th>Upgrade, Repair or Replacement</th>
<th>Additional Capacity / Cost Saving</th>
<th>Safety, Environmental, Food Safety and Regulatory Compliance</th>
<th>Depreciation</th>
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<td>2015</td>
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TRANSFORMING DEVRO’S MANUFACTURING ASSETS

Production volume index %

- Existing technology
- Upgraded technology
- High technology

GROWING DEMAND IN A GLOBAL MARKET

Index of global edible casing consumption

- Animal Intestines - company estimate
- Estimate Collagen Casing - trade association and company publications

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INVESTMENTS CREATE CAPACITY AND REDUCE COSTS

- Invested £70m over 3 years in upgrading technology and creating additional capacity
- Generated £8m of manufacturing efficiencies in existing capacity
- Increased total capacity by over 20%
- Demand continues to rise steadily
- US investment gives us the opportunity to reduce cost of manufacturing further

The best investment we can make is in our own technology