DEVRO PLC
INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2013
Devro: The collagen casing company

**Global Leader**
- One of the world’s leading providers of collagen casings to the food industry
- Provides technical support to food manufacturers

**Global Operations**
- Over 2,200 staff across the world
- 5 manufacturing sites in Scotland, Australia, the Czech Republic and the USA

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

**Technology**
- Significant investment in the latest processes funded from internal cash generation
- Improved manufacturing performance and increased capacity
Devro: 2013 first half highlights

- Edible sales volume growth of 1.0%, revenues up 3.1%
- Select volume grew by 4.4%, and revenues now account for 8.5% of group sales
- Operating profit of £17.9m impacted by input cost increases and temporary manufacturing issues in the USA which have now been resolved
- Czech investment roll out ahead of schedule
- A stronger outlook for the second half
# Financial highlights

For the six months ended 30 June 2013

<table>
<thead>
<tr>
<th></th>
<th>2013 1st half £m</th>
<th>2012 1st half £m (restated)</th>
<th>Increase %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>118.9</td>
<td>115.4</td>
<td>+3.1%</td>
</tr>
<tr>
<td>EBITDA</td>
<td>26.6</td>
<td>28.2</td>
<td>-5.7%</td>
</tr>
<tr>
<td>Operating profit</td>
<td>17.9</td>
<td>20.5</td>
<td>-12.8%</td>
</tr>
<tr>
<td>PBT excluding net finance cost on pensions</td>
<td>17.3</td>
<td>19.9</td>
<td>-13.1%</td>
</tr>
<tr>
<td>EPS excluding net finance cost on pensions</td>
<td>8.7p</td>
<td>9.7p</td>
<td>-10.3%</td>
</tr>
<tr>
<td>Dividend per share</td>
<td>2.70p</td>
<td>2.65p</td>
<td>1.9%</td>
</tr>
</tbody>
</table>

2012 results restated for new pension accounting rules (IAS19R)
## Income statement
For the six months ended 30 June 2013

<table>
<thead>
<tr>
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<tr>
<td>Operating profit</td>
<td>17.9</td>
<td>20.5</td>
</tr>
<tr>
<td>Operating margin %</td>
<td>15.0%</td>
<td>17.7%</td>
</tr>
<tr>
<td>Net finance cost</td>
<td>(0.6)</td>
<td>(0.6)</td>
</tr>
<tr>
<td>Net finance cost on pensions</td>
<td>(1.1)</td>
<td>(1.0)</td>
</tr>
<tr>
<td>Profit before taxation</td>
<td>16.2</td>
<td>18.9</td>
</tr>
<tr>
<td>Taxation</td>
<td>(2.6)</td>
<td>(3.7)</td>
</tr>
<tr>
<td>Profit after taxation</td>
<td>13.6</td>
<td>15.2</td>
</tr>
</tbody>
</table>

2012 results restated for new pension accounting rules (IAS19R)
## Regional sales by destination

### Six months ended 30 June 2013 (change vs. H1 2012)

<table>
<thead>
<tr>
<th>Region</th>
<th>2013 £m</th>
<th>Volume %</th>
<th>Price/mix %</th>
<th>Exchange %</th>
<th>Total %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>2.2</td>
<td>(3.5)</td>
<td>6.6</td>
<td>1.1</td>
<td>4.2</td>
</tr>
<tr>
<td>Americas</td>
<td>2.1</td>
<td>4.8</td>
<td>(0.5)</td>
<td>3.1</td>
<td>7.4</td>
</tr>
<tr>
<td>Asia/Pacific</td>
<td>(0.8)</td>
<td>1.2</td>
<td>(0.3)</td>
<td>(3.4)</td>
<td>(2.5)</td>
</tr>
</tbody>
</table>
### Operating profit bridge

**Six months ended 30 June 2013 (change vs. H1 2012)**

<table>
<thead>
<tr>
<th></th>
<th>H1 2012 (restated)</th>
<th>Volumes</th>
<th>Price</th>
<th>Manufacturing efficiencies</th>
<th>Foreign exchange</th>
<th>Mix</th>
<th>Input costs</th>
<th>Temporary USA manufacturing issues</th>
<th>Depreciation</th>
<th>Other costs</th>
<th>H1 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating profit £m</td>
<td>20.5</td>
<td>+0.5</td>
<td>+2.4</td>
<td>+1.6</td>
<td>+0.9</td>
<td>-0.6</td>
<td>-2.6</td>
<td>-1.9</td>
<td>-1.0</td>
<td>-1.9</td>
<td>17.9</td>
</tr>
</tbody>
</table>

#### Notes:
- **Volumes**: Increase in volume sold.
- **Price**: Increase in average selling price per unit.
- **Manufacturing efficiencies**: Improvement in cost efficiency in manufacturing processes.
- **Foreign exchange**: Positive impact from foreign currency gains.
- **Mix**: Mix of higher margin products sold.
- **Input costs**: Increase in raw material costs.
- **Temporary USA manufacturing issues**: Costs related to temporary issues in manufacturing facilities in the USA.
- **Depreciation**: Increase in depreciation of assets.
- **Other costs**: Other miscellaneous costs.
## Summary cash flow

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<td>Depreciation</td>
<td>8.7</td>
<td>7.7</td>
</tr>
<tr>
<td>Movement in working capital</td>
<td>(8.5)</td>
<td>(6.6)</td>
</tr>
<tr>
<td><strong>Operating cash flow before additional pension contributions</strong></td>
<td><strong>18.1</strong></td>
<td><strong>21.6</strong></td>
</tr>
<tr>
<td>Pension contributions to fund deficit</td>
<td>(2.6)</td>
<td>(2.4)</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>(19.1)</td>
<td>(16.2)</td>
</tr>
<tr>
<td>Interest/tax</td>
<td>(2.6)</td>
<td>(2.4)</td>
</tr>
<tr>
<td>Dividends</td>
<td>(9.7)</td>
<td>(9.1)</td>
</tr>
<tr>
<td>Other</td>
<td>1.1</td>
<td>(0.2)</td>
</tr>
<tr>
<td><strong>Movement in net debt</strong></td>
<td>(14.8)</td>
<td>(8.7)</td>
</tr>
<tr>
<td><strong>Net debt</strong></td>
<td>(40.9)</td>
<td>(31.4)</td>
</tr>
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</table>

2012 results restated for new pension accounting rules (IAS19R)
**Pensions**

**Group defined benefit pension schemes**

<table>
<thead>
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<th>June 2013 £m</th>
<th>Dec 2012 £m</th>
<th>June 2012 £m</th>
</tr>
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<tr>
<td>Net pension deficit</td>
<td>47.4</td>
<td>59.3</td>
<td>51.5</td>
</tr>
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</table>

- Discount rates have risen during 2013
- Continue to fund the pension deficit by £5m per year
Tax rate

- Investment allowances to continue in Czech Republic until 2017
Key performance indicators

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<td>ROCE</td>
<td>16.8%</td>
<td>20.2%</td>
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<td>Interim dividend per share</td>
<td>2.70p</td>
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2012 results restated for new pension accounting rules (IAS19R)
A stronger second half

- Sales expected to grow more strongly
- Manufacturing performance running well at all sites
- Czech Republic additional output is due to come on stream in August
- Hide costs are stabilising
Peter Page
CHIEF EXECUTIVE OFFICER
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
Sales

- Total revenues + 3.1%
- Volumes of edible collagen + 1.0%
- *Select* now 8.5% of total sales revenues and continuing to grow
- Pricing up by +2%
Select casings progressing well

- Select is designed to displace high quality sheep gut, so all sales expand the total market for collagen
- Close to 3.4 billion sausages have been manufactured in Select casing since its introduction in May 2010
Select products

Mini-Wiener
320g (2 x 160g)
mild geräuchert & extra knackig
Developed markets: edible collagen

USA & Canada
- Volume -1%
- Revenue (LC) +0%
- Growth in beefstick sector
- Increased demand for collagen gel

UK
- Volume -7%
- Revenue (LC) -2%
- Period of market restructuring
- Price increases balance volumes

Western Europe
- Volume -4%
- Revenue (LC) +3%
- Select volumes growing
- Price increases recovering higher input costs

Japan
- Volume +4%
- Revenue (LC) +4%
- Growth in both Select and snack casings

Australia & New Zealand
- Volume -10%
- Revenue (LC) -10%
- Challenging trading conditions for customers
Emerging markets: edible collagen

**Latin America**
- Volume +9%
- Revenue (LC) +7%
- Strong demand, particularly in Brazil
- Further opportunities for H2

**Eastern Europe & Russia**
- Volume +2%
- Revenue (LC) +5%
- Strong demand
- Price increases recovering higher input costs

**China**
- Low volumes
- Strong revenue growth
- Developing customer relationships
- Opportunity for growth in premium products

**South East Asia**
- Volume +14%
- Revenue (LC) +21%
- Opportunities with good margins
- Improved regional sales mix
Capital investments

Three year capacity expansion programme will be completed in 2013
- 20% additional capacity (2010-2014)
- Multimillion investments over 3 years
- Final phase with additional capacity in Czech Republic completing in second half of 2013

Embarking on new programme to reduce manufacturing cost per unit
- Evaluation of investment options for USA plant progressing well
- Design and feasibility assessments underway for manufacturing operation in China
## Outlook

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Strong demand for collagen casings in emerging markets</td>
<td>• Subdued demand in Australia and UK</td>
</tr>
<tr>
<td>• Additional capacity coming on stream in Czech Republic</td>
<td>• Recent input cost increases</td>
</tr>
<tr>
<td>• Price and product mix strengthening</td>
<td>• Investment costs of people and infrastructure ahead of future developments</td>
</tr>
<tr>
<td>• <em>Select</em> volume growth in developed markets</td>
<td></td>
</tr>
</tbody>
</table>

**Well positioned for the future**