**For Immediate Release** **26 February 2013**

**Devro plc**

# RESULTS FOR THE YEAR ENDED 31 DECEMBER 2012

## Strong sales growth follows capacity expansion investments

**Devro plc** ("Devro" or the "group"), one of the world's leading manufacturers of collagen products for the food industry, is pleased to announce its results for the year ended 31 December 2012.

| Financial highlights (continuing operations) | 2012 Unaudited | 2011 | |
|---|---|---|---|
| • Revenue | £241.1m | £227.7m | **+5.9%** |
| • Operating profit | £43.2m | £42.7m | **+1.3%** |
| • Cash generated from operations | £48.1m | £45.1m | **+6.7%** |
| • Profit before tax excluding pension interest | £42.2m | £41.9m | **+0.8%** |
| • Basic earnings per share excluding pension interest | 20.7p | 20.2p | **+2.2%** |
| • Total dividend per share | 8.5p | 8.0p | **+6.3%** |

**Operational highlights**

- On a constant currency* basis revenue grew by 8.1% (compared with reported revenue growth of 5.9%)
- Continued strong sales growth in Japan, Europe and the Americas
- *Select* sales grew to 8.4% of total revenue (up from 4.3% in 2011)
- On a constant currency* basis operating profit grew by 5.2% (compared with reported operating profit growth of 1.3%)
- Significant ongoing capital investment programme to deliver further capacity increase in 2013/2014
- Cash generation remains strong

*Constant currency growth rates are calculated by restating 2012 figures using 2011 exchange rates.

**Other statutory financial highlights (continuing operations)**

- Profit before tax of £40.8m (2011: £43.0m)
- Basic earnings per share of 20.0p (2011: 20.8p)

**Steve Hannam, Chairman of Devro, commented**

"In 2012, Devro delivered a further year of growth in line with our strategy and, despite some challenges, we increased revenue and operating profit. At the same time we continued to invest significant capital in our production facilities to increase capacity and upgrade our technology, funded through our cash resources.

The prospects for our markets are good. Our *Select* range of products provides us with growth opportunities in developed markets whilst economic trends and growing urbanisation continue to drive sales in emerging markets.

2013 will be another busy year as we take action to mitigate rising input costs, continue our capital programme, and step up our investment in people and infrastructure. This will ensure that we are well positioned to take advantage of the market to create long term profitable growth for Devro.

With the continued positive outlook in our markets and anticipated growth from our investments the Board is recommending a final dividend of 5.85 pence per share, bringing the full year dividend to 8.5 pence per share, a 6.3% increase."


**For further information contact:**

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There will be a presentation today at 9.30am for investment analysts at the offices of Buchanan, 107 Cheapside, London, EC2V 6DN. A live audio feed will be available to those unable to attend this meeting in person. To connect to the web cast facility, please go to the following link: http://mediaserve.buchanan.uk.com/2013/devro260213/registration.asp approximately 10 minutes (9.20am) before the start of the briefing. The presentation will also be available on the company's website.

## Chairman's statement

In 2012, Devro delivered a further year of growth in line with our strategy and, despite some challenges, we increased revenue and operating profit. At the same time we continued to invest significant capital in our production facilities to increase capacity and upgrade our technology, funded through our cash resources.

The prospects for our markets are good. Our *Select* range of products provides us with growth opportunities in developed markets whilst economic trends and growing urbanisation continue to drive sales in emerging markets.

2013 will be another busy year as we take action to mitigate rising input costs, continue our capital programme, and step up our investment in people and infrastructure. This will ensure that we are well positioned to take advantage of the market to create long term profitable growth for Devro.

With the continued positive outlook in our markets and anticipated growth from our investments the Board is recommending a final dividend of 5.85 pence per share, bringing the full year dividend to 8.5 pence per share, a 6.3% increase.

## Financial highlights

Overall demand was strong during 2012 in both developed and emerging markets, with limitations in capacity and adverse exchange movements the key constraints to more rapid growth. Revenue grew by 5.9% to £241.1 million, or 8.1% on a constant currency basis.

Operating profit grew by 1.3% to £43.2 million, but was held back by increases in input costs which will be recovered by further price increases in 2013. Operating profit was also adversely impacted by exchange movements and on a constant currency basis grew by 5.2%.

Basic earnings per share excluding pension interest were 20.7p up by 2.2% compared to 20.2p in 2011.

Net debt rose by £3.4 million to £26.1 million at the end of 2012 (2011: £22.7 million), after funding £33 million of capital investments during the year, which is in line with our expectations.

## Dividend

The Board is proposing a final dividend of 5.85 pence per share (2011: 5.5p) bringing the total for the year to 8.5 pence per share (2011: 8.0p). The dividend will be paid on 3 May 2013 to those on the register on 2[*] April 2013. The increase in the dividend reflects the Board's confidence in the group and its financial strength.

The Board retains its policy of reviewing the amount distributed annually with the intent of moving dividends in line with underlying earnings, whilst taking into account the future prospects and cash requirements of the business.

## Business

### Sales

*Developed markets*

In developed markets sales of edible collagen casings increased by 8.0% during the year with some variability in demand compared to previous years. The USA and Western Europe showed increases, whilst Australasia was flat and the UK decreased.

Our main action in these markets has been to broaden our offering with our *Select* range of products. These products, launched two years ago, have been developed to replace sheep gut in premium sausages. Initial demand came from Northern Europe and Japan and this has continued to develop with Japan, in particular, showing strong growth. In the last year, sales have been building in the conservative German market with

[*] Per correction issued 26 February 2012

considerable opportunities for growth in the coming year. In 2012 sales of *Select* represented 8.4% of our total sales compared to 4.3% in 2011.
The majority of our sales (87%), and our focus, is on edible collagen products. Sales of non-edible collagen decreased in the year. Sales of collagen gel into non-competing markets in the USA showed some growth year on year with the development of new applications.

*Emerging markets*

In emerging markets, sales of edible collagen casings grew by 7.8% during the year where demand is being driven by economic expansion and the resulting increase in meat consumption, particularly in the form of processed product. There is also some conversion from gut casings to collagen in these markets.

Latin America, showed revenue growth of 30% in the year for edible collagen casings and a renewed sales approach continues to bring us further opportunities.

Eastern Europe and Russia also grew strongly with edible collagen casing volume growth of 6% helped by the additional capacity from Bellshill brought online during the year.

We continue to review our options with respect to China. It remains a large and growing, but low priced, market where we are currently developing strategic sales and customer relationships.

**Margin**

The operating margin was 17.9% (2011: 18.7%) which was adversely impacted by increased input costs and movement in exchange rates, primarily related to the weakening of the euro against sterling. Adjusted for the adverse movement in exchange rates the operating margin for 2012 was 18.2%.

Part way through the year the price of raw materials rose in line with the market and this, together with higher energy costs, increased our cost of sales by approximately £5.8 million which were not recouped through higher selling prices in the period. Raw material costs are expected to continue to rise and further selling price increases are being implemented in early 2013.

Production line upgrading and subsequent commissioning resulted in a rise in operating costs which also impacted operating margin in 2012. With a significant proportion of the work now completed the benefits of the production upgrades should begin to show through in the latter part of 2013.

**Capital investment programme**

Our on-going capital investment programme, which has been mainly aimed at replacing older lines with modern high speed lines to deliver cost savings and increased output, has been a major feature in 2012. A total of £33 million was invested during the year.

There is expected to be further investment of up to £35 million in 2013. The largest project will be the completion of the production upgrade at our facility in Jilemnice in the Czech Republic.

This capital investment programme has delivered 7% growth in output in 2012, and is expected to deliver a further 8% growth in 2013.

Return on capital employed has dipped to 19.5% in 2012 from 21.5% in 2011, and is expected to strengthen over the medium term as the full benefits of the investments flow through.

*Scotland*

Although the majority of the investment was made in 2011, the new lines were completed and commissioned during 2012. The project involved replacing some of the oldest lines in Scotland with high speed lines based on the technology used in our Czech facility. The commissioning phase took three months longer than anticipated but the lines are now running well and the output is being sold in Continental Europe.

*Australia*

The natural gas powered co-generation plant installed in our Bathurst site was successfully commissioned during the year delivering energy cost savings.

A number of lines in Australia were upgraded to produce further *Select* product for Japan. This involved modifications being carried out within an operating manufacturing plant which is a challenging task. The engineering work was completed safely and on time. The upgraded lines are now running and progress continues to be made on improving performance.

*Czech Republic*

The largest project in the year has been the conversion of the original edible casing manufacturing hall to high-speed lines. This involves replacing the old equipment with proven new technology within an existing infrastructure. Once again the facility is being upgraded whilst operational. In 2012 half the lines were upgraded and successfully commissioned. The remaining half will be converted in 2013.

*USA*

The USA facility has a different manufacturing process compared with the other plants, and there is a sizeable opportunity to improve efficiency and costs. In 2011 a line using our most recent technology was installed in the USA to trial the manufacture of products suited to the Americas market. The pilot took most of 2012 to convert local collagen into suitable products on a commercial basis and trials will continue in 2013. Further work is planned in 2013 to evaluate the opportunity and potential returns of a substantial investment to replace the existing technology.

**Safety**

Safety management continues to have a high profile throughout the company and there is regular contact between the Board Safety Committee and local teams. During the year, in order to refresh its approach, Paul Withers took over the Chairmanship of the Board Safety Committee.

The commitment across the group was rewarded during the year with employee lost time accidents reduced from 10 to 4 and lost days reduced from 287 to 156.

**Employees**

The continued growth and the changes across the group have necessitated considerable commitment from staff at all levels. It has been pleasing to see international teams working together to resolve challenges presented by the capital investment programme and to improve standards of operation.

The global team which installed the ERP system during 2011 has continued to work together to deliver the expected benefits from the system.

With the continued growth prospects of the group it is necessary to ensure that we have adequate resources available. To this end an extensive training and development plan has been implemented, supplemented where necessary by recruitment.

The Board once again gives its thanks to all employees for their efforts and commitment wherever they are in the world.

**Board appointments**

Jane Lodge joined the Board on 1 March 2012 and took over the role of Audit Committee Chair on 19 April 2012 replacing Stuart Paterson.

**Outlook**

The demand in our markets remains strong. Our *Select* range of products provides us with growth opportunities in developed markets while economic growth and increased urbanisation continue to drive sales in emerging markets. Our ongoing capital investment programme and investment in people and infrastructure means we are increasingly well positioned to take advantage of the market to create long term profitable growth for Devro.

Steve Hannam
Chairman

**Business review**

**Sales and markets**

Global demand for edible collagen casings continued to be very strong in 2012, with growth over 2011 estimated to be more than 10% in volume worldwide. China accounted for just less than 60% of this growth, and the rest of the world about 40% of the increase. Demand remains strong in many developed markets.

Devro's strategy has three parts. The first is to increase earnings by developing profitable, higher value sales. In 2012, total revenue increased 5.9%, or 8.1% on a constant currency basis. Edible collagen, which now provides 87% of all group sales, increased in value by 8.0% on volumes that increased 7.1%. Sales volumes and revenue from the unique *Select* range, developed to replicate the characteristics of top-quality sheep gut, doubled in 2012. *Select* represents 8.4% of group revenues, up from 4.3% in 2011. Close to 3 billion sausages have been manufactured in *Select* casing since its introduction in May 2010.

*Developed markets*

62% of Devro's sales of edible collagen casings come from developed markets, where sales increased by 8.0%, achieved through a long-established network of direct sales, wholly-owned sales offices and some local, privately-owned distributors. The first component of the revenue part of our strategy is to achieve growth in these markets by developing and introducing differentiated products such as *Select*, and also through sustained technical support for customers.

Germany is a very attractive market for Devro, with a long tradition of sausage manufacturing, high levels of per capita consumption, and a significant proportion of the market currently using sheep gut. In 2012, Devro sales of edible collagen casings in Germany grew 30%, led by *Select*, and a new casing for Bratwurst type sausage. German industry acceptance of non-traditional *Select* has been vindicated by the fact that three branded consumer products, manufactured using *Select*, achieved a Gold medal in assessments by DLG (Deutsche Landwirtschafts-Gesellschaft), the German organisation which monitors and maintains standards in agriculture, food and drink.

Strong sales in Japan continued, with edible collagen casing revenue increasing by 46%. Despite expansion during the year at our facility in Australia, demand for *Select* continues to exceed our production capacity. The technical and customer service team in Japan has been expanded to ensure we maintain service levels in the market. In April, over 150 delegates from 35 food manufacturers, retailers and trade organisations attended a Devro *Select* seminar in Tokyo, reflecting the extremely high level of interest in this new casing. One Japanese customer received a Gold and a Silver DLG medal for products in *Select* casing.

In the USA and Canada, sales of Devro's edible collagen casings increased 14% during the year. The Beefstick sector grew strongly in 2012, following a period of decline over the previous three years. This demand was met by Devro's Stix range of products, supplied from our factories in the Czech Republic, Scotland and South Carolina. Sales of collagen gel, used for co-extrusion by some high volume manufacturers, were successfully maintained as new customers entered the market with applications for hotdogs, which conventionally have used cellulose casings. Devro remains at the forefront of developments in co-extrusion technology in the American market.

Sales volumes in the long-established markets of Australia and New Zealand were similar to prior year, reflecting Devro's high market share in a region where collagen is already used on nearly all sausage products. With a relatively small consumer base, and increasing competition between a limited number of local retailers, we do not expect to see substantial growth here.

In Western Europe, excluding Germany, the UK and Ireland, volumes increased slightly on 2011, as customers continue to convert from gut to collagen. The reported revenues were adversely affected by exchange rate movements between the euro and sterling, but the demand for Devro's casings remains very strong in Europe, particularly for *Select* products.

A small proportion of sales (4%), predominantly in Europe, involves non-edible collagen, a form of casing used for air-dried and cured sausages such as traditional salamis. Sales in this category declined by 17% in 2012 compared to 2011, due to falling demand and competition from other suppliers of non-edible collagen and fibrous casings. Unused capacity for the manufacture of non-edible casings at our Czech plant was reallocated to edible collagen, for which there is strong demand.

Volumes of edible collagen casing sold in the UK declined 8%, due in part to continuing changes in the product mix promoted by major retailers, but also reflecting the variety of better-priced opportunities for Devro elsewhere. The UK and Ireland market is going through a phase of restructuring which will continue into 2013.

*Emerging markets*

The second component of Devro's strategy for revenue growth is to develop profitable opportunities in emerging markets, which currently account for 38% of our total sales of edible collagen casings, and which increased 7.8% in 2012. Population growth, higher disposable incomes and increasing levels of urbanisation all lead to an increase in the consumption of proteins and also of more convenient foods which require less preparation. Sausage fits this requirement very well, explaining the continuing rise in demand for casings globally.

Latin America which is supplied with product from our American and European plants, is of increasing importance to Devro, with a 30% revenue increase for edible collagen casings during 2012. Pricing in this market continues to improve, and many opportunities remain to be developed. We have recently appointed a new sales director for this region, bringing a fresh approach to some markets where we had not been so active previously. Several of the world's leading meat companies are based in Brazil, so it is important for Devro to have a strong presence in this region.

Eastern Europe and Russia account for a significant proportion of Devro's sales, and have underpinned much of the growth in volumes in emerging markets in recent years. Volumes and strong pricing were maintained in 2012, although volume growth was a little slower than previous years, reflecting a combination of the strong market position which Devro has now established and lower levels of new investment in the region's food manufacturing sector. We expect to see consolidation among customers in some markets and others are likely to experience restructuring as retailers become more active in sourcing products from across Europe and not just from local suppliers.

Demand in South East Asia continues to grow, with a broad mix of opportunities and customer requirements. Korea has traditionally been a good market for casings, and Devro has some very loyal customers here, but capacity constraints have limited sales.

China as a market continues to expand at a rapid rate. We have established a trading company with warehousing in Beijing for direct sales to local customers. Sales volumes are small, but there have been some notable successes in achieving recognition for Devro's differentiated products such as porcine and *Select*. During 2012, we continued recruitment in China, giving us a very experienced local management team able to contribute to developing our business there without exposing Devro to undue risk. The longer-term prospects for China continue to be very interesting.

*Pricing*

The third component of our strategy for revenue growth is to raise the value of our products and services, and reflect some of the benefits of this in prices. During 2012, the average price increased 2.8% per kilometre sold at constant currencies. Two thirds of the 2012 increases came as the result of changes to product mix, with one third coming as a result of price increases. Pricing will be a priority in 2013.

**Operations and manufacturing**

As reported earlier in the year, collagen raw material costs increased during 2012, adversely impacting earnings in the year. These cost increases have been attributed to a reduced supply of cattle hides in Europe and the Americas, and a higher demand for raw collagen from China, principally for gelatine manufacture. Hide costs are expected to continue to increase in 2013. We are actively seeking ways to improve the cost and quality of raw materials.

2012 is the second year of a three-year programme to expand manufacturing capacity, as part of a larger long-term programme of investment and renewal. Actual output of saleable product in 2012 was 7% higher than the prior year. With the additional capacity in place by the year-end, and further investments planned, we expect an additional 8% increase in output in 2013.

Devro's strategy is to grow earnings and improve return on capital employed (ROCE) by a combination of higher sales volumes and more efficient manufacturing. Capital investments help to achieve both objectives. From 2007 – 2012, we have invested £147 million of capital, and the ROCE has risen from 13.1% to 19.5%. For 2013 – 2015, we anticipate further significant capital investment to enable capacity expansion and efficiency gains. We aim to achieve 20% ROCE across the whole business although ROCE may dip slightly during the investment phase before the full benefits come through. A large proportion of Devro's manufacturing assets are over 35 years old and so a major programme of renewal and modernisation is underway to increase efficiency and provide capacity to meet growing demand. We expect to have completed this programme of work by 2016, after which additional capacity will come from expansion of existing sites and construction of new facilities.

**Creating capacity and controlling costs**

Since 2007, of the £147 million, we have invested £131 million of capital to create capacity and control costs in two ways. Firstly, by upgrading, enhancing and expanding our infrastructure. Recent examples of this include a larger raw materials chilled storage facility in Moodiesburn in Scotland, and new steam boiler equipment in Jilemnice in the Czech Republic. Infrastructure investments come before we see the benefits of increased sales volumes, but are essential to enable the subsequent production capacity expansion. Upgrading and expansion of infrastructure involves a significant degree of working around existing facilities, whilst maintaining production operations at the same time – quite a challenge in a food manufacturing environment.

The second stage of creating capacity through capital investment is to upgrade and renew, or to completely replace, the least efficient lines. This involves a period of transition, and often capacity is temporarily reduced in the early stages of a project as current lines are removed before the new ones are installed. The manufacturing processes are unique to Devro, so a large part of the design and specification is completed by our own engineers.

Investments contribute to cost control, as the newest lines run at speeds which are often more than double those of the lines that are being replaced, with improved yields, more consistent quality and lower maintenance requirements. All these factors add to the capacity as well as helping to control operating costs.

As the volumes produced at existing sites have increased, production overheads have been absorbed over a greater volume which has contributed to manufacturing efficiencies. Economies of scale are very important to a continuous manufacturing process with a high level of fixed costs required to support it.

**Environmental and food safety**

Since 2007, £16 million has also been invested in areas that are not directly related to capacity or costs, but which help to maintain Devro's market and competitive position. Principally this expenditure has involved raw materials handling, food hygiene enhancements, waste water processing and energy efficiencies.

Environmental issues, particularly waste water treatment, have required significant investment. This is partly expanding the capacity to meet the demands of our increased volumes of raw material preparation, and partly to meet ever-higher standards for the purity of waste water as it leaves our premises using techniques such as reverse osmosis and aerobic digestion tanks.

Reduction in energy consumption gives cost savings to the business and enables the factories to comply with local carbon emission targets. Recent investments include a gas fired combined heat and power plant at our Bathurst site in Australia, and the installation of more efficient cooling units at several sites. The most effective investments to reduce energy per unit manufactured tend to be directly related to the installation of new and upgraded lines.

**Investment by region**

Overall, Devro has made great progress through capital re-investments at existing facilities, which have added 60% more capacity since 2005. A substantial opportunity for investment remains as we continue the process of revitalising and renewing our assets.

*Jilemnice, Czech Republic*

In 2005, a new hall was constructed on the Jilemnice site and new lines were installed in stages; this was completed in 2011. This investment allowed for the closure of our oldest factory, Korenov, with equivalent output from a much lower cost-base in the new building, as well as additional capacity for the growth in sales of casings.

Since 2011, we have undertaken a programme of upgrade, renewal and replacement of infrastructure and lines in the older hall at Jilemnice. This is made more challenging by the need to work around current operations to maintain output during the transition but it is proceeding to plan and budget, with the full benefits becoming available from late 2013.

These developments, combined with recent large investments in food hygiene and waste water treatment, mean that by the end of 2013, Jilemnice will have been significantly modernised, capacity will have doubled and operating costs per unit reduced.

*Glasgow, Scotland*

Devro has two factories in Scotland.

At Moodiesburn, a capital expenditure programme from 2009 - 2013 is adding capacity and improving efficiency by retro-fitting and upgrading existing lines, to give faster speeds and higher yields. There has been a programme of relatively small projects, managed in stages, each with a good return and short pay-back period.

At Bellshill, opened in 1979, capital expenditure in 2011 was used to remove several of the original lines, and replace them with a variant of the newest technology installed at Jilemnice. This involved a £12 million spend on engineering, plant and equipment, which was well managed through 2011. A large part of the project involved the transfer of operator knowledge and development of products suitable for the Continental European market using local raw materials. Although this phase took longer than anticipated, the lines have been running well since April 2012, and all the output is being sold to customers in Continental Europe. The opportunity exists to repeat this “new lines for old” investment at Bellshill over the coming years.

*Bathurst, Australia*

From 2011 to 2014, there is a programme of retro-fitting and upgrading existing lines, combined with the need to carry out the project in the plant whilst it is in full operation, as we work to satisfy the growing demand for *Select* in Japan. Whilst the investments have added capacity, we have not yet achieved the target line speeds or efficiencies, so development work continues to gain the anticipated benefits from these investments.

*Sandy Run, USA*

The plant at Sandy Run was built in the 1970’s and acquired by Devro in 1996. It has a very different technology to the European and Australian sites, based on a more challenging chemical process. Whilst it manufacturers some excellent products, the plant overall has higher costs and lower levels of efficiency and yield than the other plants.

In 2011, an adapted version of our newest technology was installed as a single pilot line at Sandy Run. During 2012, commissioning and product development work have led to a provisional assessment of its potential. In 2013, further work is planned to evaluate the opportunity and potential returns of a substantial investment (£50-60 million), to replace much of the existing factory with more efficient and lower cost lines. Should the investment go ahead it would be implemented over 3 to 5 years and would provide opportunities for capacity expansion in subsequent years.

**Safety**

Our top priority is that Devro should be a safe place to work. I believe that a safe business is a good business, and that safety statistics are a good indication of morale and motivation.

2012 showed further significant progress in safety performance, reflecting five years of strong commitment throughout the business. In 2012, we had 4 work-related injuries that led to lost working days, compared to 25 in 2008. The severity of such incidents has also reduced. Working days lost as a result of injuries totalled 156, which is 819 fewer than 2008.

I continue to take a close personal interest in our safety management, and have been encouraged by the support given by so many colleagues. Whilst recent progress is good, there is still much scope for further improvements as we work towards our shared goal of zero incidents.

**People**

At the start of 2013, we appointed Moir Donelson as the new President for our Americas business, bringing highly relevant experience and renewed ambition. During 2013, we will complete the evaluation of plans for re-investment in the USA, aimed at cost reduction, quality improvement, and ultimately capacity expansion in future years.

We have been recruiting and developing a strong local management team for China, with good experience of building western owned food businesses in the market. As they develop plans for the future, we will start to incorporate these into our current activities, allocating sufficient volumes of product to enable them to grow brand awareness and build relationships, prior to any more substantial commitments to strengthen our local presence there.

During 2012, we appointed David Porter as Group Strategy & Marketing Director on our Executive Committee. This new appointment will help to manage business opportunities worldwide by continuing to bring together the various strands of the business, and to capitalise on our unique strengths more rapidly. Linked to this work, during 2013, we are establishing a single, global Research & Development team, with the aim of bringing new products to market more quickly and of exploring further opportunities for long-term growth. This strengthens activity in the third main area of our strategy.

**Outlook**

2013 will be a busy year for Devro, as we increase sales volumes and develop the business. There is strong demand for Devro's products and the investment in additional capacity, improved casings and technical support will enable us to demonstrate to customers the enhanced value we offer.

In the early part of 2013, we are implementing further price increases to recover the higher than expected rises in raw material costs during 2012. The outlook for raw materials in 2013 remains challenging.

During the first half of the year, investment projects in Scotland and Australia will provide additional capacity for *Select* casings. In September, renewal of our Jilemnice facility will be completed, providing significantly more volume for the European market in 2014.

We are also stepping up our investment in people and infrastructure in anticipation of the next stage of growth.

There still remains much to do, with plenty of opportunities for profitable expansion and development in the years ahead.

Peter Page
Chief Executive

## Financial review

### Revenue

Revenue for 2012 was £241.1 million (2011: £227.7 million) which reflected improved sales volumes of edible collagen partially offset by the impact of a weakened euro.

Worldwide demand for collagen casing remains strong and the growth was particularly significant in Japan and Germany, where *Select* has helped generate additional sales, as well as Eastern Europe, Russia and the Americas.

Year on year growth in revenue can be further analysed as follows:

| | **2012 vs 2011** | **2011 vs 2010** | **2010 vs 2009** |
|---|---|---|---|
| Volume | +5.3% | +3.0% | +1.4% |
| Price/mix | +2.8% | +2.2% | +4.2% |
| Exchange | -2.2% | +1.4% | +2.6% |
| **Total** | **+5.9%** | **+6.6%** | **+8.2%** |

Sales volumes increased overall, with edible collagen casing increasing by 7.1%, partially offset by a drop in non-edible collagen casing and other products.

Price/mix continues to help the growth in sales with the premium priced *Select* growing as a proportion of sales. Price increases averaged 1.0% during the period but were not enough to recover the increases in input costs experienced during the year.

Exchange negatively impacted the growth in sales by -2.2% largely reflecting the weaker euro against Sterling.

### Operating profit

The movement in operating profit between 2011 and 2012 can be analysed as follows:

| Operating profit 2011 | Price/mix | Volume | Manufacturing efficiencies | Foreign exchange | Input costs | Other costs | **Operating profit 2012** |
|---|---|---|---|---|---|---|---|
| £42.7m | +£3.5m | +£5.2m | +£1.6m | -£1.7m | -£5.8m | -£2.3m | **£43.2m** |

### Price/mix

Of the £3.5m growth in profits from price/mix, price accounts for £2.0m of this and £1.5m represents mix. As we enter 2013, the intention is to look for further selling price increases to recover the significant rises in input costs.

### Volume

Volumes continued to grow in the business which has helped contribute to an improvement in profitability.

### Manufacturing efficiencies

We continue to invest in new equipment in order to improve manufacturing efficiencies and productivity. Much of the additional volume is generated without adding to the number of employees which helps to generate manufacturing efficiencies. These investments also help reduce the energy consumed per kilometre of casing produced and contribute to improvements in yield.

The £1.6 million additional contribution in 2012 mainly reflects the benefits of the investment in our new lines in Scotland as well as improvements in manufacturing at the US plant in the first half of the year.

Contributions from the ongoing investment in the Czech Republic are expected to start to flow through towards the latter part of 2013.

### Foreign currency

Devro operates worldwide and in multiple currencies as outlined in the table below:

| % of total 2012 | Sales | Operating costs |
|---|---|---|
| Euro | 30% | 10% |
| Czech Koruna | 2% | 14% |
| Japanese Yen/Australian Dollar | 21% | 24% |
| US Dollar | 29% | 24% |
| Sterling | 12% | 28% |
| Others | 6% | - |
| **Total** | **100%** | **100%** |

A key relationship for the business is between euro and sterling and much of the exchange loss in 2012 over the prior year relates to the weakness of the euro during 2012.

The results are also impacted, but to a lesser extent, by the US and Australian dollar and by the Japanese yen where the significant growth in sales to Japan has given rise to greater exposure.

Devro, on average, hedges approximately 50% of its cash flow foreign exchange exposure for the year ahead.

### Input and other costs

Input costs rose by £5.8 million reflecting increased raw material costs of £3.3 million, and energy costs of £2.5 million.

Other costs increased by £2.3 million, which included inflation on wages and salaries as well as our continued investment in people and infrastructure in order to support the future growth in the business.

### Operating margin

The operating margin was 17.9% in 2012 compared to 18.7% in 2011. In 2012 the margin was adversely impacted by increased input costs and movements in exchange rates. The higher input costs were only partly recovered by price increases in 2012 and further price increases are planned for 2013. Adjusted for the adverse movement in exchange rates, the operating margin for 2012 was 18.2%.

### Capital investment

Capital invested in 2012 was £33 million (2011: £43 million). The most significant area of investment related to the development of one of our halls in the Czech Republic, which is on track and due for completion in late 2013. We also invested in our Australian plant in order to update a number of lines which will help provide further growth in 2013.

For 2013 we expect capital expenditure to be up to £35 million excluding any possible investment in upgrading the USA facility. Much of this relates to the completion of the Czech upgrade referred to earlier.

### Working capital

| | **2012** | | 2011 | |
|---|---|---|---|---|
| | **£m** | **No of days** | £m | No of days |
| Inventories | **28** | **41** | 28 | 54 |
| Trade and other receivables | **36** | **53** | 35 | 52 |
| Trade and other payables | **(31)** | **26** | (34) | 28 |
| **Total** | **33** | | 29 | |

Cash generation and the optimisation of working capital remain a priority for Devro.

Inventory levels of finished goods were particularly low at the year end which reflects the strong demand.

Trade and other payables reduced due to the timing of capital spend at the year end.

**Financing**

Key financial measures are as follows:

| | **2012** | 2011 |
|---|---|---|
| Net debt | **£26.1m** | £22.7m |
| Net debt/EBITDA | **0.4** | 0.4 |
| Gearing | **17.8%** | 16.2% |
| Return on capital employed (ROCE) | **19.5%** | 21.5% |

Net debt rose in 2012 in line with our expectations as a result of the capital investments made. The bank revolving facility remains at £51 million and the levels of debt during the year were well within this. Should a decision be taken to make a significant investment in the USA, the current banking covenants provide adequate headroom to facilitate further borrowing as required.

As expected, ROCE reduced from 21.5% to 19.5% as a result of the significant capital investment programme in 2012, the benefits of which will flow through in late 2013 and 2014. In particular, there will be considerable extra capacity coming on stream in late 2013 with the completion of the Czech plant's upgrade.

**Interest**

| | **2012 £m** | 2011 £m |
|---|---|---|
| Net interest cost | **(1.0)** | (0.9) |
| Net finance (cost)/income on pension assets and liabilities | **(1.4)** | 1.2 |
| **Total net interest (cost)/income** | **(2.4)** | 0.3 |

The net interest cost for 2012 was marginally higher than 2011 reflecting the slightly increased debt levels during the year.

The net finance cost/income on pensions represents the interest cost on the pension liabilities offset by the expected return on the pension assets. It does not represent the cash or economic cost to the business and from 2013 the accounting for pension interest will change. For this reason, earnings per share is also presented excluding net finance cost/income on pension assets and liabilities.

**Earnings per share**

| | **2012** | 2011 |
|---|---|---|
| Basic earnings per share | **20.0p** | 20.8p |
| Basic earnings per share excluding net finance income/cost on pension assets and liabilities | **20.7p** | 20.2p |

Basic earnings per share excluding pension income/cost rose by 2.2% which reflects the improved profits and lower tax rate.

**Tax**

The group's effective tax rate reduced from 20.5% in 2011 to 18.9% in 2012 which reflects the fact that a greater proportion of the group's profits are being made in the Czech Republic where there is a benefit from an investment incentive scheme that is due to continue until 2017.

**Dividend**

| | **2012** | 2011 | % |
|---|---|---|---|
| Dividend per share | | | |
| Interim | **2.65p** | 2.5p | +6.0% |
| Final | **5.85p** | 5.5p | +6.4% |

| | | | |
|---|---|---|---|
| Total | **8.5p** | 8.0p | +6.3% |

The Board is proposing a final dividend of 5.85 pence per share bringing the total for the year to 8.5 pence per share (2011: 8.0 pence) which reflects the progress of the business and the Board's confidence for the future.

**Pensions**

The group operates a number of defined benefit schemes around the world. All of these are closed to new entrants. The net pension liabilities of these schemes can be analysed as follows:

| | **2012**<br>**£m** | 2011<br>£m |
|---|---|---|
| Fair value of scheme assets | **203.1** | 196.6 |
| Present value of scheme liabilities | **(262.4)** | (242.8) |
| **Net pension liabilities** | **(59.3)** | (46.2) |

The increase in the net pension liability reflects the reduction in discount rates.

Options are continually under review and a plan is in place to address the deficit.

**Principal risks and uncertainties**

There are risks and uncertainties inherent in the group's operations which could have a significant impact on our business, results and financial position. The group's risk management processes identify, assess, monitor, manage and mitigate the risks involved in our operations. The more significant risks to which the group is exposed are:

- Loss of market share/profit margins due to increased competitive pressures
- Disruption to supply or increase in price of key raw materials
- Product contamination
- Foreign exchange rate movements
- Shortage of people with relevant technical expertise
- Customer credit risks
- Impact of changes in regulations affecting food production
- Increases in energy costs
- Increased funding requirements of pension schemes
- Development of non-casing technologies

These are generally consistent with those detailed in the 2011 Annual Report.

**Going concern**

The business renegotiated its banking facilities in September 2011 and has a 5 year revolving facility of £51 million. As at 31 December 2012 it was operating comfortably within the covenants related to these facilities, and we believe it has sufficient liquidity to fund the future requirements of the business.

After making enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operation for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Simon Webb
Group Finance Director

**Consolidated income statement (unaudited)**
for year ended 31 December 2012

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| **Continuing operations** | | |
| Revenue | **241,069** | 227,723 |
| Operating profit | **43,248** | 42,692 |
| Finance income | **47** | 121 |
| Finance cost | **(1,085)** | (953) |
| Net finance (cost)/income on pension assets and liabilities | **(1,389)** | 1,174 |
| Profit before tax | **40,821** | 43,034 |
| Taxation | **(7,715)** | (8,805) |
| **Profit for the year from continuing operations** | **33,106** | 34,229 |
| **Discontinued operation** | | |
| Loss for the year from discontinued operation | **-** | (37) |
| **Profit for the year attributable to owners of the parent** | **33,106** | 34,192 |
| **Earnings per share** | | |
| **Basic earnings per share** | | |
| - Continuing operations | **20.0p** | 20.8p |
| - Discontinued operation | **-** | 0.0p |
| | **20.0p** | 20.8p |
| **Diluted earnings per share** | | |
| - Continuing operations | **19.8p** | 20.5p |
| - Discontinued operation | **-** | 0.0p |
| | **19.8p** | 20.5p |

**Consolidated statement of comprehensive income (unaudited)**
for the year ended 31 December 2012

| | 2012 £000 | 2011 £000 |
|---|---|---|
| **Profit for the year** | **33,106** | 34,192 |
| **Other comprehensive income** | | |
| Cash flow hedges: | | |
| - net fair value gains | **4,415** | 111 |
| - reclassified and reported in operating profit | **(1,354)** | (980) |
| - movement in deferred tax | **(714)** | 226 |
| Group pension schemes: | | |
| - actuarial losses recognised | **(17,914)** | (38,331) |
| - movement in deferred tax | **3,391** | 8,526 |
| Net exchange adjustments | **(1,570)** | (4,997) |
| **Other comprehensive expense for the year, net of tax** | **(13,746)** | (35,445) |
| **Total comprehensive income/(expense) for the year attributable to owners of the parent** | **19,360** | (1,253) |

| | | |
|---|---|---|
| Total comprehensive income/(expense) attributable to owners of the parent arises from: | | |
| - Continuing operations | **19,360** | (1,235) |
| - Discontinued operation | **-** | (18) |
| | **19,360** | (1,253) |

## Consolidated balance sheet (unaudited)
at 31 December 2012

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| **ASSETS** | | |
| **Non-current assets** | | |
| Intangible assets | **3,336** | 3,678 |
| Property, plant and equipment | **195,862** | 180,215 |
| Deferred tax assets | **19,683** | 18,390 |
| | **218,881** | 202,283 |
| **Current assets** | | |
| Inventories | **28,108** | 27,556 |
| Current tax assets | **415** | 779 |
| Trade and other receivables | **36,280** | 34,820 |
| Derivative financial instruments | **3,209** | 572 |
| Cash and cash equivalents | **5,631** | 7,614 |
| | **73,643** | 71,341 |
| **LIABILITIES** | | |
| **Current liabilities** | | |
| Borrowings | **1,868** | 2,213 |
| Derivative financial instruments | **350** | 1,615 |
| Trade and other payables | **30,193** | 33,256 |
| Current tax liabilities | **3,606** | 3,833 |
| | **36,017** | 40,917 |
| **Net current assets** | **37,626** | 30,424 |
| **Non-current liabilities** | | |
| Borrowings | **29,846** | 28,103 |
| Deferred tax liabilities | **18,682** | 16,631 |
| Retirement benefit obligations | **59,271** | 46,158 |
| Other payables | **1,782** | 1,336 |
| | **109,581** | 92,228 |
| **Net assets** | **146,926** | 140,479 |
| **EQUITY** | | |
| **Capital and reserves attributable to owners of the parent** | | |
| Ordinary shares | **16,563** | 16,501 |
| Share premium | **8,034** | 7,642 |
| Other reserves | **80,750** | 79,917 |
| Retained earnings | **41,579** | 36,419 |
| **Total equity** | **146,926** | 140,479 |

**Consolidated statement of changes in equity (unaudited)**
for year ended 31 December 2012

| | Ordinary shares | Share premium | Other reserves | Retained earnings | Total equity attributable to owners of the parent |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Balance at 1 January 2012 | 16,501 | 7,642 | 79,917 | 36,419 | 140,479 |
| **Comprehensive income** | | | | | |
| Profit for the year | - | - | - | 33,106 | 33,106 |
| **Other comprehensive income** | | | | | |
| Cash flow hedges, net of tax | - | - | 2,347 | - | 2,347 |
| Retirement benefit obligations, net of tax | - | - | - | (14,523) | (14,523) |
| Exchange adjustments | - | - | (1,570) | - | (1,570) |
| Total other comprehensive income/(expense) | - | - | 777 | (14,523) | (13,746) |
| Total comprehensive income | - | - | 777 | 18,583 | 19,360 |
| **Transactions with owners** | | | | | |
| Performance share plan charge | - | - | 510 | - | 510 |
| Performance share plan credit in respect of shares vested | - | - | (454) | - | (454) |
| Issue of share capital | 62 | 392 | - | - | 454 |
| Dividends paid | - | - | - | (13,423) | (13,423) |
| Total transactions with owners | 62 | 392 | 56 | (13,423) | (12,913) |
| **Balance at 31 December 2012** | **16,563** | **8,034** | **80,750** | **41,579** | **146,926** |
| | | | | | |
| Balance at 1 January 2011 | 16,361 | 6,773 | 85,607 | 44,259 | 153,000 |
| **Comprehensive income** | | | | | |
| Profit for the year | - | - | - | 34,192 | 34,192 |
| **Other comprehensive income** | | | | | |
| Cash flow hedges, net of tax | - | - | (643) | - | (643) |
| Retirement benefit obligations, net of tax | - | - | - | (29,805) | (29,805) |
| Exchange adjustments | - | - | (4,997) | - | (4,997) |
| Total other comprehensive expense | - | - | (5,640) | (29,805) | (35,445) |
| Total comprehensive (expense)/income | - | - | (5,640) | 4,387 | (1,253) |
| **Transactions with owners** | | | | | |
| Performance share plan charge | - | - | 1,011 | - | 1,011 |
| Performance share plan credit in respect of shares vested | - | - | (1,061) | - | (1,061) |
| Issue of share capital | 140 | 869 | - | - | 1,009 |
| Dividends paid | - | - | - | (12,227) | (12,227) |
| Total transactions with owners | 140 | 869 | (50) | (12,227) | (11,268) |
| Balance at 31 December 2011 | 16,501 | 7,642 | 79,917 | 36,419 | 140,479 |

**Consolidated cash flow statement (unaudited)**
for year ended 31 December 2012

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Continuing operations: | | |
| - Cash generated from operations | **48,091** | 45,087 |
| - Interest received | **52** | 140 |
| - Interest paid | **(1,005)** | (998) |
| - Tax paid | **(4,351)** | (5,642) |
| Discontinued operation | **-** | 285 |
| Net cash generated from operating activities | **42,787** | 38,872 |
| **Cash flows from investing activities** | | |
| Continuing operations: | | |
| - Purchase of property, plant and equipment | **(33,756)** | (37,183) |
| - Proceeds from sale of property, plant and equipment | **107** | 24 |
| - Purchase of intangible assets | **(759)** | (1,560) |
| - Capital grants received | **528** | 544 |
| - Disposal of subsidiary net of cash disposed | **-** | 747 |
| Discontinued operation | **-** | (9) |
| Net cash used in investing activities | **(33,880)** | (37,437) |
| **Cash flows from financing activities** | | |
| Continuing operations: | | |
| - Proceeds from the issue of ordinary shares | **454** | 1,009 |
| - Net borrowing under the loan facilities | **1,983** | 12,931 |
| - Dividends paid | **(13,423)** | (12,227) |
| Net cash (used in)/generated from financing activities | **(10,986)** | 1,713 |
| **Net (decrease)/increase in cash and cash equivalents** | **(2,079)** | 3,148 |
| Net cash and cash equivalents at 1 January | **5,401** | 2,995 |
| Exchange gain/(loss) on cash and cash equivalents | **441** | (742) |
| Cash and cash equivalents | **5,631** | 7,614 |
| Bank overdrafts | **(1,868)** | (2,213) |
| **Net cash and cash equivalents at 31 December** | **3,763** | 5,401 |

## NOTES TO THE PRELIMINARY ANNOUNCEMENT OF THE FINAL RESULTS (unaudited)
for year ended 31 December 2012

### 1. Segment information

The chief operating decision maker has been identified as the Board.

Historically the Board reviewed the group's financial results on a product segment basis with three identifiable operating segments:

- Collagen casings
- Distributed products
- Other products

Following the sale in September 2011 of Devro GmbH, the German distribution business, of which approximately 80% of sales related to third party distributed products (forming the bulk of the Distributed products segment), the group was left with two product segments – Collagen casings and Other products. The "Other products" segment was deemed so small that essentially the group had one operating segment. The Board recognised that this may not fully reflect how it is now managing the business. As a consequence, the Board has reconsidered its operating segments and, in order to provide more meaningful information to users of the financial statements, there are now three operating segments based on geography. Geography was previously the secondary segmental split utilised by the Board to review the group's financial results in order to assess performance and allocate resources.

The three geographical segments, which have been identified to meet the requirements of IFRS8 and which are now reported, are:

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

The Board assesses the performance of the operating segments based on a measure of adjusted earnings before interest and tax ("Adjusted EBIT"). This measurement basis excludes the effects of exceptional income and expenditure from the operating segments of which there are none in the current or prior year.

Finance income and cost, including that arising on pension assets and liabilities, are not included in the segment results that are reviewed by the Board.

Information provided to the Board is consistent with that in the financial statements.

| | **Americas** | | **Asia - Pacific** | | **Europe** | | **Total continuing operations** | |
|---|---|---|---|---|---|---|---|---|
| | **2012** | 2011 | **2012** | **2011** | **2012** | 2011 | **2012** | 2011 |
| | **£'000** | £'000 | **£'000** | **£'000** | **£'000** | £'000 | **£'000** | £'000 |
| Revenue | **57,289** | 48,897 | **70,962** | 62,186 | **112,818** | 116,640 | **241,069** | 227,723 |
| Adjusted EBIT | **5,295** | 5,557 | **7,388** | 7,023 | **35,621** | 34,782 | **48,304** | 47,362 |
| Corporate overheads | | | | | | | **(5,056)** | (4,670) |
| Operating profit | | | | | | | **43,248** | 42,692 |
| Finance income | | | | | | | **47** | 121 |
| Finance cost | | | | | | | **(1,085)** | (953) |
| Net finance (cost)/income on pension assets and liabilities | | | | | | | **(1,389)** | 1,174 |
| Profit before tax | | | | | | | **40,821** | 43,034 |

## 2. Analysis of operating profit

| | **2012** | 2011 |
|---|---|---|
| | **£'000** | £'000 |
| **Continuing operations** | | |
| Revenue | **241,069** | 227,723 |
| Cost of sales | **154,866** | 142,865 |
| | **----------** | ---------- |
| Gross profit | **86,203** | 84,858 |
| | **----------** | ---------- |
| Selling and distribution costs | **17,262** | 16,432 |
| Administrative expenses | **16,600** | 16,554 |
| Research and development expenditure | **7,235** | 7,668 |
| Other expenses | **2,743** | 1,288 |
| | **--------** | -------- |
| | **43,840** | 41,942 |
| Other operating (income)/expense | **(885)** | 224 |
| | **--------** | -------- |
| Net operating expenses | **42,955** | 42,166 |
| | **--------** | -------- |
| Operating profit from continuing operations | **43,248** | 42,692 |
| | **=====** | ===== |

## 3. Earnings per share

| | **2012** | 2011 |
|---|---|---|
| | **£'000** | £'000 |
| **Profit attributable to equity holders** | | |
| - Continuing operations | **33,106** | 34,229 |
| - Discontinued operation | **-** | (37) |
| | **--------** | -------- |
| | **33,106** | 34,192 |
| | **--------** | -------- |
| Profit attributable to equity holders excluding net finance (cost)/income on pensions (continuing operations) | **34,232** | 33,296 |
| | **--------** | -------- |
| **Earnings per share - continuing operations** | | |
| - Basic | **20.0p** | 20.8p |
| - Basic excluding net finance cost/income on pension | **20.7p** | 20.2p |
| - Diluted | **19.8p** | 20.5p |

| | **Number of shares** | Number of shares |
|---|---|---|
| **Shares in issue** | | |
| Weighted average number of shares | **165,479,397** | 164,479,795 |
| Adjustments for: | | |
| - Performance share plan | **1,536,468** | 2,259,154 |
| | **--------------** | -------------- |
| Weighted average number of shares – diluted earnings per share | **167,015,865** | 166,738,949 |
| | **=========** | ========= |

Basic earnings per share is calculated by dividing the profit for the year attributable to owners of the parent of £33,106,000 (2011: £34,192,000) by 165,479,397 (2011: 164,479,795) shares, being the weighted average number of shares in issue throughout the year.

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 year. 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. Diluted earnings per share is calculated by dividing the profit for the year attributable to ordinary shareholders of £33,106,000 (2011: £34,192,000) by the average number of shares, including the effect of all dilutive potential shares, of 167,015,865 (2011: 166,738,949).

## 4. Analysis of net debt

| | **2012** | 2011 |
|---|---|---|
| | **£'000** | £'000 |
| Cash and cash equivalents | **5,631** | 7,614 |
| Bank overdrafts | **(1,868)** | (2,213) |
| | **--------** | -------- |
| | **3,763** | 5,401 |
| Borrowings less bank overdrafts | **(29,846)** | (28,103) |
| | **----------** | ---------- |
| | **(26,083)** | (22,702) |
| | **======** | ====== |

## 5. Retirement benefit obligations

The group operates a number of pension schemes throughout the world. The major schemes are of the defined benefit type and, with the exception of Germany where book reserves are supported by insurance policies, the assets of the schemes are held in separate trustee – administered funds. The defined benefit schemes are closed to new members.

The last formal actuarial valuations of the group's material defined benefit schemes have been updated to 31 December 2012 by qualified independent actuaries. The major assumptions used by the actuaries in the following principal countries were:

| | **Australia** | | **United Kingdom** | | **United States** | |
|---|---|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 | **2012** | 2011 |
| | **%** | % | **%** | % | **%** | % |
| Discount rate | **3.40** | 3.20 | **4.30** | 4.70 | **3.65** | 4.52 |
| Rate of increase in salaries* | **3.50** | 4.00 | **1.00** | 1.00 | **-** | - |
| General inflation | **2.50** | 2.50 | **2.90** | 3.10 | **-** | - |

* As part of the changes to the United Kingdom (UK) plan agreed in 2010, future pensionable salary increases are capped at 1% per annum. No rate of increase in salaries has been assumed in respect of the United States plan as the plan is now frozen.

The net deficit position increased significantly during the year. The value of the scheme assets increased by £6.5million, however the present value of the pension liabilities increased by £19.6million. The increased net deficit was primarily as a result of the fall in discount rate from 4.70% to 4.30% in the UK scheme, which generated £12m of additional liabilities.

Movements in the (deficit)/surplus during the year were as follows:

| | **Australia** | | **United Kingdom** | | **United States** | | **Other** | | **Total** | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 | **2012** | 2011 | **2012** | 2011 | **2012** | 2011 |
| | **£'000** | £'000 | **£'000** | £'000 | **£'000** | £'000 | **£'000** | £'000 | **£'000** | £'000 |
| (Deficit)/surplus in scheme at beginning of year | **(4,011)** | (962) | **(19,958)** | 5,038 | **(21,458)** | (16,884) | **(731)** | (597) | **(46,158)** | (13,405) |
| Movement in year: | | | | | | | | | | |
| Pension (charge)/credit | **(461)** | (452) | **(1,702)** | 1,755 | **(581)** | (690) | **(136)** | (301) | **(2,880)** | 312 |
| Employer contributions | **1,004** | 762 | **2,547** | 2,160 | **2,991** | 2,246 | **-** | - | **6,542** | 5,168 |
| Actuarial gains/(losses) | **1,262** | (3,295) | **(14,090)** | (28,911) | **(4,741)** | (5,944) | **(345)** | (181) | **(17,914)** | (38,331) |
| Sale of subsidiary | **-** | - | **-** | - | **-** | - | **-** | 183 | **-** | 183 |
| Exchange gains/(losses) | **82** | (64) | **-** | - | **896** | (186) | **161** | 165 | **1,139** | (85) |
| | **------** | ------ | **------** | ------ | **------** | ------ | **------** | ------ | **------** | ------ |
| Deficit in scheme at end of year | **(2,124)** | (4,011) | **(33,203)** | (19,958) | **(22,893)** | (21,458) | **(1,051)** | (731) | **(59,271)** | (46,158) |
| | **=====** | ===== | **======** | ====== | **======** | ====== | **====** | ==== | **======** | ====== |

### 6. Reconciliation of profit before tax to cash generated from operations

| | **2012** | 2011 |
|---|---|---|
| | **£'000** | £'000 |
| **Continuing operations** | | |
| Profit before tax | **40,821** | 43,034 |
| Adjustments for: | | |
| Finance income | **(47)** | (121) |
| Finance costs | **1,085** | 953 |
| Net finance costs/(income) on pension assets and liabilities | **1,389** | (1,174) |
| Loss on disposal of property, plant and equipment | **22** | 334 |
| Depreciation of property, plant and equipment | **14,958** | 13,414 |
| Amortisation of intangible assets | **1,027** | 471 |
| Release from capital grants reserve | **(115)** | (54) |
| Expenses associated with the disposal of the discontinued operation | **-** | (212) |
| Retirement benefit obligations | **(5,037)** | (4,622) |
| Performance share plan | **56** | (50) |
| Changes in working capital: | | |
| Increase in inventories | **(1,291)** | (2,322) |
| Increase in trade and other receivables | **(2,936)** | (4,217) |
| Decrease in trade and other payables | **(1,841)** | (347) |
| | **--------** | -------- |
| Cash generated from continuing operations | **48,091** | 45,087 |
| | **=====** | ===== |

### 7. Accounting year

For practical reasons, the company previously prepared its financial statements based on periods of 52 or 53 weeks. From 2011 onwards, however, the financial statements will be prepared for the period ending 31 December. The financial statements for 2012 reflect the period from 1 January 2012 to 31 December 2012. (2011: period from 3 January 2011 to 31 December 2011)

### 8. Statutory accounts

While the financial information included in this preliminary announcement has been computed in accordance with International Financial Reporting Standards ("IFRSs"), this announcement does not itself contain sufficient information to comply with IFRSs. The company expects to publish full financial statements that comply with IFRSs in March 2013.

The financial information set out in this announcement is unaudited and does not constitute the company's statutory financial statements for the years ended 31 December 2012 or 2011 for the purposes of section 435 of the Companies Act 2006. The financial information for year ended 31 December 2011 is derived from the statutory financial statements for that year which have been delivered to the Registrar of Companies. The auditors reported on those financial statements; their report was unqualified and did not contain a statement under sections 237(2) or (3) Companies Act 1985. The statutory financial statements for the year ended 31 December 2012 will be finalised on the basis of the financial information presented by the directors in this preliminary announcement and will be delivered to the Registrar of Companies following the company's Annual General Meeting.