For Immediate Release **31 July 2019**

Devro plc

HALF YEAR RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

H1 results in line with Board's expectations, good progress on strategic priorities and full year outlook unchanged

Devro plc ("Devro" or the "group"), one of the world's leading manufacturers of collagen products for the food industry, announces its half year results for the six months ended 30 June 2019.

	Underlying results*		**Statutory results**	
	H1 2019 Unaudited**	**H1 2018 Unaudited**	**H1 2019** Unaudited**	**H1 2018 Unaudited**
Revenue	£119.2m	£120.2m	£119.2m	£120.2m
Operating profit	-	-	£17.4m	£16.2m
before non-recurring items***	£17.8m	£18.8m	-	-
Operating profit margin	-	-	14.6%	13.5%
before non-recurring items***	14.9%	15.6%	-	-
Profit before tax	£14.9m	£14.3m	£13.6m	£10.9m
Basic earnings per share	7.0p	6.6p	6.5p	4.7p
Interim dividend per share	2.7p	2.7p	2.7p	2.7p

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

** *The group adopted IFRS 16 (leases) on 1 January 2019, as disclosed in note 3 to the condensed interim consolidated financial statements and comparative financial measures have not been restated.*

*** *Non-recurring items relate to Board change costs of £nil (H1 2018: £0.4m); after non-recurring items underlying operating profit was £17.8m for H1 2019 (H1 2018: £18.4m); see Alternative Performance Measures section of the Half Year Results Update for definition and explanation.*

Highlights

- H1 results in line with Board's expectations:
  - Volumes of edible collagen casings decreased by 1% impacted by a slow start to the year, however gaining momentum with growth (+1%) for the remainder of the first half (February to June)
  - Strong volume growth in China (+19%) and North America (+10%) offset by expected weaker performances in Japan (-3%), Russia & East (-9%) and Latin America (-30%)
  - Revenue from edible collagen casings flat (impacted by volume and mix offset by FX); group revenue impacted by lower revenue from other products
  - Underlying operating profit before non-recurring items of £17.8m (H1 2018: £18.8m)
  - Underlying profit before tax up 4% to £14.9m (H1 2018: £14.3m) and underlying basic earnings per share increased to 7.0p (H1 2018: 6.6p).
  - Statutory profit before tax up 25% to £13.6m (H1 2018: £10.9m)
  - Improved free cash flow generation £4.3m (H1 2018: £-0.2m)
- Good progress on strategic priorities:
  - US plant speed improvement
  - Pilot project for phased capacity increases in North America on track
  - Fine Ultra product platform rollout progressing well
- Full year outlook unchanged

Rutger Helbing, Chief Executive Officer of Devro, commented:

"We continued to make good progress on our strategic priorities in the first half. We delivered manufacturing efficiency improvements, in particular with increased speeds at our US plant. Our commercial and product development teams continue to establish the building blocks to accelerate future growth through the rollout of our new Fine Ultra product platform and developing new categories in China.

"For the full year, we continue to expect volume and revenue growth to be weighted towards the second half, supported by a number of commercial initiatives to accelerate growth and the continued rollout of our Fine Ultra product platform. We also now expect our total cost savings programme to exceed our previously stated target. At current FX rates operating profit will benefit from foreign exchange gains in the second half.

"Despite weaker market sentiment in some mature markets and ongoing pressures from input cost inflation, the Board believes that Devro continues to be well placed to make good progress in 2019 and the full year outlook remains unchanged."

Contacts

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There will be a presentation today at 9.00am for investors and analysts at the offices of FTI Consulting, 200 Aldersgate, Aldersgate Street, London, EC1A 4HD. A live audio feed will be available to those unable to attend this meeting in person. To connect to the webcast facility, please go to the following link: http://view-w.tv/943-1289-22020/en approximately 10 minutes before the start of the briefing (8.50am). The presentation will also be available on the company's website.

HALF YEAR RESULTS UPDATE

REVENUE

Revenue was down 1% on the corresponding period last year, with revenue from edible collagen casings remaining unchanged and group revenue impacted by lower revenue from other products. A summary of the change in revenue for edible collagen casings by geographic region is set out in the table below:

	EMEA	Americas	Asia Pacific (including China)
Volume	-2.6%	-1.0%	+0.4%
Price/mix	-%	-1.1%	-1.7%
Foreign exchange	-0.3%	+6.6%	+2.5%
Total	-2.9%	+4.5%	+1.2%

Total revenue for edible collagen casings comprised lower volumes (-1.3%) and slightly adverse price/mix (-0.7%), which was offset by favourable foreign exchange (+2.2%). Volumes of edible collagen casings were lower in EMEA and the Americas, partially offset by increased volumes in Asia Pacific, with further details set out below. Volumes of edible collagen casings were impacted by a slow start to the year, however, volumes have gained momentum with growth (+1%) for the remainder of the first half (February to June 2019). The adverse price/mix relates to a combination of country mix, with higher volumes in China where prices are currently lower than the global average, and product mix, with a higher proportion of sales of smaller calibre casings. The favourable foreign exchange is primarily due to the weakening of sterling against the US dollar.

As previously guided, whilst volumes of edible collagen casings for the group were slightly down in H1 2019 compared with prior year, growth is expected in H2 2019 supported by a number of commercial initiatives to accelerate growth and the continued rollout of our Fine Ultra product platform.

EMEA *(44% of group revenue)*

The volumes for Continental EU, combined with Middle East & Africa, were unchanged compared with H1 2018. In Continental EU, a successful launch of the Fine Ultra product platform was offset by a backdrop of weaker market sentiment, with lower promotional activity due to higher pork prices, some de-stocking of Brexit inventory builds and poor weather in May. Volumes in Middle East & Africa increased, following recovery from the impact of a listeria outbreak in South Africa during H1 2018.

As expected, volumes in Russia & East were below H1 2018 (-9%). In H2 2018 we saw a reduction in volumes following the weakening of the rouble. Market conditions stabilised into H1 2019, however, strong comparatives in H1 2018 impacted reported volume growth.

The UK & Ireland is a mature market and volumes were lower than H1 2018 (-3%), driven by weaker market sentiment, combined with some customers losing business to their competitors that are serviced by other casing suppliers, and poor weather in May 2019.

Overall, modest growth is expected in H2 in EMEA, with delivery of selected growth projects, likely to be offset by weaker market sentiment, particularly in Continental EU and UK & Ireland.

Americas *(24% of group revenue)*

Whilst there has been good growth within the North American snacking market with volumes up 10%, overall volumes in the Americas were marginally down compared with H1 2018 (-1%) due to the volatility of orders in Latin America (in particular Brazil and Chile).

The growth in North America relates to continued market growth driven by protein snacking trends, combined with product development initiatives.

Latin America volumes were adversely impacted in Brazil and Chile by distributors de-stocking. A return to growth is expected in H2, underpinned by new business opportunities in Brazil and opportunities resulting from product development work with customers.

Asia Pacific *(32% of group revenue)*

China volumes increased (+19%), driven by new customer wins. We continue to work with key customers on building new product categories, which are expected to drive future growth, both in volume and pricing.

Our business in Japan declined (-3%) in the first six months, primarily due to continued low sheep gut pricing which impacted Q1 but stabilised compared with prior year in Q2. Sales in South East Asia declined (-2%), however, this is expected to reverse in H2 given that it largely related to the timing of quarterly shipments.

Volumes in Australia & New Zealand reduced (-7%) related to the isolated loss of a customer due to pricing.

Accelerated growth is expected in H2, with continued growth in China combined with increasing penetration of the new Fine Ultra product platform in Japan and South East Asia.

OPERATING PROFIT

	H1 2019 £'m	H1 2018 £'m	Change
Underlying operating profit before non-recurring items	**17.8**	**18.8**	**-5.3%**
Non-recurring items	-	(0.4)	
Underlying operating profit after non-recurring items	**17.8**	**18.4**	**-3.3%**
Exceptional items	(0.4)	(2.2)	
Operating profit	**17.4**	**16.2**	**+7.4%**

Underlying operating profit before non-recurring items of £17.8m was slightly below H1 2018, comprising a number of factors which are summarised below:

	£'m
Underlying operating profit before non-recurring HY 2018	18.8
Volume (edible collagen casings)	-1.0
Price/mix (edible collagen casings)	-0.8
Other products	-0.7
Cost savings	+3.1
Energy and salary inflation	-2.5
Operating expenses / other	+0.9
Foreign exchange	-
Underlying operating profit H1 2019	**17.8**

The lower volume and price/mix on edible collagen casings in H1 2019 is explained above. There was a lower contribution from the sale of other products, primarily collagen gel and non-edible casings.

As expected, inflation caused energy and salary costs to be significantly higher in H1 2019 compared with the prior year. However, this was more than offset by the cost savings delivered from the Devro 100 programme. Devro 100 cost savings for the full year are on track for over delivery at approximately £5.5m, compared with the previous guidance of £4.5m. Devro 100 cost savings, combined with a reduction in operating expenses as a result of implementation of the new global operating model of approximately £1.5m, are expected to contribute a total of approximately £7.0m to 2019 underlying operating profit.

The weakening of sterling against key currencies during H1 2019 (in particular the US dollar) has resulted in foreign exchange tailwinds compared with the prior year, but these have been fully offset by the year-on-year impacts of hedging.

Depreciation and amortisation for the period are essentially unchanged.

The non-recurring items in H1 2018 relate to the incremental costs incurred associated with the Board changes that were reported separately at FY 2018. No equivalent costs have been incurred in H1 2019.

Reported statutory operating profit for the period was £17.4m (H1 2018: £16.2m), which represented a higher year-on-year growth rate than for underlying operating profit due to lower exceptional items.

EXCEPTIONAL ITEMS

Exceptional items in H1 2019 totalled £0.4m and represent the incremental external costs directly related to implementing the new global operating model (H1 2018: £2.2m relating to the Devro 100 programme). Further details of exceptional items in H1 are set out in note 6 to these interim financial statements.

As previously guided, exceptional items related to the Devro 100 programme ceased during FY 2018. The exceptional items in H1 2019 relate solely to final stages of implementing the new global operating model which was launched in H2 2018.

FOREIGN CURRENCY

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

% of total for full year 2018	Revenue
US dollar	24%
Euro	25%
Australian dollar	11%
Sterling	12%
Japanese yen	11%
Other	17%
Total	100%

Due to sterling being generally weaker against key currencies in H1 2019 (in particular the US dollar), this gave rise to currency tailwinds compared with H1 2018 before the effects of hedging.

FINANCE COSTS

The net finance cost for the period (excluding pensions) was £2.9m. This represents a decrease from the H1 2018 cost of £4.1m, due to the restructuring of borrowings (in H1 2018) drawn down in Chinese renminbi to support our investment in China, together with one-off costs in H1 2018 associated with the refinancing of the revolving credit facility. Finance costs in H2 2019 are expected to be in line with H2 2018.

Net finance cost on pensions for the period reduced to £0.9m (H1 2018: £1.2m), due to the lower brought forward net pension deficit at the start of 2019, compared with the start of 2018.

TAX

The group's underlying tax charge for the period was £3.2m. The group expects a full year underlying effective tax rate of between 22% and 25%.

EARNINGS PER SHARE

Underlying earnings per share excludes exceptional items and net finance costs on pensions, to provide a better indication of the underlying performance of the group.

	H1 2019	H1 2018
Underlying basic earnings per share	7.0p	6.6p
Basic earnings per share	6.5p	4.7p

Underlying basic earnings per share were 7.0 pence, with the decrease in finance costs compared with H1 2018 partially offset by lower underlying operating profit.

Basic earnings per share increased to a larger extent due to lower exceptional items and lower net finance cost on pensions, as noted above.

CASH FLOW AND NET DEBT

In H1 2019 underlying operating cash flow before pension deficit funding was £23.7m (H1 2018: £20.5m), primarily as a result of lower working capital cash outflows. The H1 2019 increase in working capital relates to a level of seasonality associated with inventory levels built up in anticipation of sales growth in H2, combined with some further build as part of a risk mitigation plan related to Brexit.

Capital expenditure increased in H1 2019 compared with prior year, but mainly due to timing of payments relating to investments made in H2 2018 to deliver the Devro 100 savings.

Pension deficit payments increased slightly compared with prior year, related to the US scheme. As previously guided, full year pension deficit payments are expected to be approximately £5m for 2019.

Interest payments decreased for the period, reflecting the lower finance charges noted above, following the restructuring of Chinese renminbi borrowings.

Net debt at June 2019 was £149.2m, which was an increase from the net debt reported at June 2018 of £147.3m partly due to the adoption of IFRS 16 (leases), which added £1.0m to net debt. The covenant net debt / covenant EBITDA ratio, which excludes the impact of IFRS 16 (leases), remained unchanged at 2.3x at June 2019 compared with at June 2018. Comparisons with net debt at December 2018 are impacted by the seasonal nature of cash flows which are weighted towards H2.

Covenant net debt / covenant EBITDA ratio for December 2019 is expected to be c.2.0x, consistent with previous guidance.

DIVIDEND

The Board announces a maintained interim dividend of 2.7 pence (2018: 2.7 pence). The interim dividend will be paid on 4 October 2019 to shareholders on the register at 23 August 2019.

PENSIONS

The group's net pension obligations increased to £60.5m at 30 June 2019, from £54.4m at 31 December 2018. This primarily related to a decrease in discount rates in the UK and US.

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

SUMMARY & OUTLOOK

We continued to make good progress on our strategic priorities in the first half. We delivered manufacturing efficiency improvements, in particular with increased speeds at our US plant. Our commercial and product development teams continue to establish the building blocks to accelerate future growth through the rollout of our new Fine Ultra product platform and developing new categories in China.

For the full year, we continue to expect volume and revenue growth to be weighted towards the second half, supported by a number of commercial initiatives to accelerate growth and the continued rollout of our Fine Ultra product platform. We also now expect our total cost savings programme to exceed our previously stated target. At current FX rates operating profit will benefit from foreign exchange gains in the second half.

Despite weaker market sentiment in some mature markets and ongoing pressures from input cost inflation, the Board believes that Devro continues to be well placed to make good progress in 2019 and the full year outlook remains unchanged.

ALTERNATIVE PERFORMANCE MEASURES

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

Underlying

Underlying figures are stated before exceptional items and net finance cost on pensions. Devro has been undergoing a major transformation including the construction and start-up of two new plants in China and the US which completed in 2016, a restructuring of operations in Scotland and Australia initiated in 2014 and the Devro 100 programme, the full benefits of which are expected by 2019. In addition, a further restructuring was initiated in 2018 to implement the new global operating model to align the operating cost base with the global structure. The costs associated with this transformation are significant and incremental to on-going business, and as a result have been classified as exceptional items.

Net finance cost of pensions have been excluded on the basis that these costs are volatile, given that they are dependent upon the pension position at 31 December each year which is subject to market fluctuations.

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

	H1 2019			
	Underlying	Exceptional items	Net finance cost on pensions	Reported
Operating profit (£'m)	17.8	(0.4)	-	17.4
Operating profit margin	14.9%	(0.3)%	-	14.6%
Profit before tax (£'m)	14.9	(0.4)	(0.9)	13.6
Profit after tax (£'m)	11.7	(0.3)	(0.6)	10.8
Basic earnings per share (p)	7.0	(0.1)	(0.4)	6.5
	H1 2018			
	Underlying	Exceptional items	Net finance cost on pensions	Reported
Operating profit before non-recurring items (£'m)	18.8			
Non-recurring items (£'m)	(0.4)			
Operating profit (£'m)	18.4	(2.2)	-	16.2
Operating profit margin	15.3%	(1.8)%	-	13.5%
Profit before tax (£'m)	14.3	(2.2)	(1.2)	10.9
Profit after tax (£'m)	11.0	(2.1)	(1.0)	7.9
Basic earnings per share (p)	6.6	(1.3)	(0.6)	4.7

Non-recurring items

Non-recurring items relate to the incremental costs incurred in 2018 associated with the Board changes, following the retirement of the previous Chief Executive (after 10 years in the role), the succession of the previous Group Finance Director to the Chief Executive Officer role and recruitment of a new Chief Financial Officer. These costs totalled £0.4m in H1 2018 and have been disclosed separately due to their size and nature in relation to the group's operating cost base. These costs are relevant as Board changes of this scale have not occurred in recent years and, due to their size, inclusion of these costs distorts year-on-year comparisons. No equivalent costs have been incurred in H1 2019.

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

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

	H1 2019			H1 2018		
	Underlying	Exceptional items	Reported	Underlying	Exceptional items	Reported
Operating profit (£'m)	17.8	(0.4)	17.4	18.4	(2.2)	16.2
Depreciation & amortisation (£'m)	12.8	-	12.8	12.7	-	12.7
EBITDA (£'m)	30.6	(0.4)	30.2	31.1	(2.2)	28.9
EBITDA margin (%)	25.7%		25.3%	25.9%		24.0%

The group has adopted IFRS 16 (leases) from 1 January 2019. The impact of IFRS 16 on EBITDA is explained in the accounting policy section. For the purposes of calculating the covenant ratio, the impact of adoption of IFRS 16 (leases) must be excluded from both EBITDA and net debt, resulting in the additional alternative performance measures of covenant EBITDA and covenant net debt. A reconciliation between underlying EBITDA and covenant EBITDA is shown below:

	H1 2019 £'m	H1 2018 £'m
Underlying EBITDA	30.6	31.1
Less: impact of IFRS 16	(0.3)	-
Covenant EBITDA	30.3	31.1

Net debt

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

	June 2019 £'m	December 2018 £'m	June 2018 £'m
Current borrowings	(5.3)	(4.7)	(4.1)
Non-current borrowings	(157.9)	(146.8)	(157.5)
Total borrowings	(163.2)	(151.5)	(161.6)
Cash and cash equivalents	14.0	9.9	14.3
Net debt	(149.2)	(141.6)	(147.3)

As noted above, calculation of the covenant ratio requires the impact of adopting IFRS 16 to be excluded from net debt, resulting in the additional alternative performance measure of covenant net debt. A reconciliation between net debt and covenant net debt is shown below:

	June 2019 £'m	June 2018 £'m
Net debt	(149.2)	(147.3)
Add back: impact of IFRS 16	1.0	-
Covenant net debt	(148.2)	(147.3)

PRINCIPAL RISKS

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

The principal risks identified in the group's 2018 Annual Report and Accounts were loss of market share/profit margins due to increased competitive pressures, foreign exchange risk, downturn in consumer demand, IT systems/cyber risk, political and regulatory risk, financial risks such as the availability of short and long-term funding, disruption to the group's manufacturing capability from poor operational performance or major disruptive events, disruption to supply or increase in price of key raw materials, development of non-casing technologies, shortage of people with relevant expertise, increased funding requirements of pension schemes and product contamination. No new key risks have been identified since the Annual Report was published.

These risks are carefully monitored and managed and further details are set out on pages 28 to 31 of the 2018 Annual Report and Accounts which is available on the Devro plc website: www.devro.com

GOING CONCERN

This Half Year Results Update sets out the group's performance for the period and financial position at period end, together with factors likely to affect its future development, performance and position. The 2018 Annual Report outlines the business activities of the group and note 23 describes the group's objectives and procedures for managing its capital, its financial risk management policies, details of financial instruments and exposure to market, credit and liquidity risk.

At 30 June 2019 the group was operating within the banking covenants related to its revolving credit facility and US private placement facilities. The group's detailed financial forecasts indicate that there is sufficient headroom in the facilities for the 12 months from the date of approval of this statement and that they can be repaid in line with the expected terms.

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

Rutger Helbing
Chief Executive Officer

Jackie Callaway
Chief Financial Officer

31 July 2019

INTERIM CONSOLIDATED INCOME STATEMENT (UNAUDITED)
for the six months ended 30 June 2019

		6 months ended 30 June 2019			6 months ended 30 June 2018		
		Underlying	**Non-underlying items**	**Reported**	Underlying	Non-underlying items	Reported
	Note	**£'m**	**£'m**	**£'m**	£'m	£'m	£'m
Revenue	5	**119.2**	**-**	**119.2**	120.2	-	120.2
Operating profit	5	**17.8**	**(0.4)**	**17.4**	18.4	(2.2)	16.2
Finance cost		**(2.9)**	**-**	**(2.9)**	(4.1)	-	(4.1)
Net finance cost on pensions		**-**	**(0.9)**	**(0.9)**	-	(1.2)	(1.2)
Profit before tax		**14.9**	**(1.3)**	**13.6**	14.3	(3.4)	10.9
Tax	7	**(3.2)**	**0.4**	**(2.8)**	(3.3)	0.3	(3.0)
Profit for the period attributable to owners of the parent		**11.7**	**(0.9)**	**10.8**	11.0	(3.1)	7.9
Earnings per share							
Basic	8			**6.5p**			4.7p
Diluted	8			**6.4p**			4.7p

All results relate to continuing operations.

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

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
for the 6 months ended 30 June 2019

	6 months ended 30 June 2019 £'m	6 months ended 30 June 2018 £'m
Profit for the period attributable to the owners of the company	**10.8**	7.9
Other comprehensive income/(expense) for the period		
Items that will not be reclassified to the Consolidated Income Statement		
Pension obligations:		
- re-measurements	**(6.1)**	26.3
- movement in related deferred tax on the above	**1.1**	(2.6)
	(5.0)	23.7
Items that are or may be reclassified subsequently to the Consolidated Income Statement		
Cash flow hedges:		
- net fair value gains/(losses)	**0.7**	(2.6)
- reclassified and reported in operating profit	**0.2**	(0.5)
- tax on fair value movements	**(0.1)**	0.5
Net investment hedges:		
- fair value gains	**0.6**	0.5
- tax on fair value movements	**(0.1)**	(0.1)
Net exchange adjustments	**1.2**	(3.6)
	2.5	(5.8)
Other comprehensive (loss)/income for the period, net of tax	**(2.5)**	17.9
Total comprehensive income for the period attributable to the owners of the company	**8.3**	25.8

INTERIM CONSOLIDATED BALANCE SHEET (UNAUDITED)
as at 30 June 2019

	Note	**30 June 2019 £'m**	31 December 2018 £'m	30 June 2018 £'m
ASSETS				
Non-current assets				
Property, plant and equipment	10	**272.9**	278.8	281.8
Intangible assets		**10.5**	10.5	10.3
Deferred tax assets		**37.6**	34.2	33.2
Trade and other receivables		**5.2**	5.4	4.2
		326.2	328.9	329.5
Current assets				
Inventories		**45.5**	38.2	40.3
Trade and other receivables		**34.4**	36.0	33.0
Derivative financial instruments	4	**0.5**	0.2	-
Current tax assets		**0.7**	-	-
Cash and cash equivalents	14	**14.0**	9.9	14.3
		95.1	84.3	87.6
Total assets		**421.3**	413.2	417.1
LIABILITIES				
Current liabilities				
Trade and other payables		**(25.1)**	(29.3)	(26.2)
Current tax liabilities		**-**	(0.3)	(2.4)
Borrowings	14	**(5.3)**	(4.7)	(4.1)
Derivative financial instruments	4	**(0.8)**	(1.6)	(2.4)
Provisions for other liabilities and charges		**(1.6)**	(5.2)	-
		(32.8)	(41.1)	(35.1)
Non-current liabilities				
Borrowings	14	**(157.9)**	(146.8)	(157.5)
Pension obligations	11	**(60.5)**	(54.4)	(57.0)
Deferred tax liabilities		**(18.8)**	(17.6)	(17.1)
Other payables		**(3.1)**	(3.0)	(3.1)
Provisions for other liabilities and charges		**(3.7)**	(3.8)	(3.7)
		(244.0)	(225.6)	(238.4)
Total liabilities		**(276.8)**	(266.7)	(273.5)
Net assets		**144.5**	146.5	143.6
EQUITY				
Ordinary shares		**16.7**	16.7	16.7
Share premium		**9.3**	9.3	9.3
Other reserves		**79.1**	77.1	77.7
Retained earnings		**39.4**	43.4	39.9
Total equity attributable to the owners of the company		**144.5**	146.5	143.6

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)
for the six months ended 30 June 2019

	Ordinary shares £'m	Share premium £'m	Other reserves £'m	Retained earnings £'m	Total equity £'m
Balance at 1 January 2019	**16.7**	**9.3**	**77.1**	**43.4**	**146.5**
Adjustment on initial application of IFRS 16 (net of tax)	**-**	**-**	**-**	**0.1**	**0.1**
Adjusted balance at 1 January 2019	**16.7**	**9.3**	**77.1**	**43.5**	**146.6**
Comprehensive income/(expense)					
Profit for the period	-	-	-	10.8	10.8
Other comprehensive income/(expense)	-	-	2.5	(5.0)	(2.5)
Total comprehensive income	-	-	2.5	5.8	8.3
Transactions with owners of the company					
Performance Share Plan charge, net of tax	-	-	0.1	-	0.1
Performance Share Plan credit in respect of awards lapsed	-	-	(0.6)	0.6	-
Dividends paid	-	-	-	(10.5)	(10.5)
Total transactions with owners	-	-	(0.5)	(9.9)	(10.4)
Balance at 30 June 2019	**16.7**	**9.3**	**79.1**	**39.4**	**144.5**

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

INTERIM CONSOLIDATED CASH FLOW STATEMENTS (UNAUDITED)
for the six months ended 30 June 2019

	Note	**6 months ended 30 June 2019 £'m**	6 months ended 30 June 2018 £'m
Cash flows from operating activities			
Cash generated from operating activities	13	**18.6**	17.4
Interest paid		**(2.7)**	(4.5)
Tax paid		**(5.0)**	(5.7)
Net cash generated from operating activities		**10.9**	7.2
Cash flows from investing activities			
Purchase of property, plant and equipment		**(5.4)**	(4.6)
Purchase of intangible assets		**(0.5)**	(0.4)
Net cash used in investing activities		**(5.9)**	(5.0)
Cash flows from financing activities			
Proceeds from other borrowings		**10.1**	10.6
Settlement of financial instruments		**(0.5)**	(1.5)
Payment of lease liabilities		**(0.3)**	-
Dividends paid		**(10.5)**	(10.2)
Net cash used in financing activities		**(1.2)**	(1.1)
Net increase in cash and cash equivalents		**3.8**	1.1
Net cash and cash equivalents at 1 January		**5.2**	9.3
Net increase in cash and cash equivalents		**3.8**	1.1
Exchange gain/(loss) on cash and cash equivalents		**0.1**	(0.2)
Net cash and cash equivalents at 30 June		**9.1**	10.2
Cash and cash equivalents		**14.0**	14.3
Bank overdrafts		**(4.9)**	(4.1)
Net cash and cash equivalents at 30 June		**9.1**	10.2

Notes to the condensed interim consolidated financial statements (unaudited)
for the six months ended 30 June 2019

1. General Information

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

The company is a public limited company incorporated and domiciled in the UK. The address of its registered office is Moodiesburn, Chryston, Scotland, G69 0JE.

The company is listed on the London Stock Exchange.

These condensed interim consolidated financial statements were approved for issue on 31 July 2019.

These condensed interim consolidated financial statements do not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. The condensed interim consolidated financial statements are unaudited but have been reviewed by our auditors and their report is set out on page 24. Statutory accounts for the year ended 31 December 2018 were approved by the Board of Directors on 15 March 2019 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under Section 498 of the Companies Act 2006.

This is the first set of the group's financial statements in which IFRS 16 has been applied. Changes to significant accounting policies are described in Note 3.

2. Basis of Preparation

These condensed interim consolidated financial statements for the six months ended 30 June 2019 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with International Accounting Standard ("IAS") 34, "Interim financial reporting" as adopted by the European Union. The condensed interim consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2018 which have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

Critical estimates and judgments

The preparation of financial statements in conformity with IFRSs requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best assessments of amounts, events or actions, actual results ultimately may differ from those estimates. The key uncertainties that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next six months relate to accounting for the carrying value of property, plant and equipment and tax.

Going concern basis

The financial statements have been prepared on a going concern basis. This is discussed in the Half Year Results Update on page 9.

3. Accounting Policies

Except as described below, the accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2018, as described in those annual financial statements.

The changes to accounting policies are also expected to be reflected in the group's consolidated financial statements as at and for the year ending 31 December 2019.

The group has adopted IFRS 16 – Leases from 1 January 2019. A number of other new standards are effective from 1 January 2019 but they do not have a material effect on the group's financial statements.

The group leases only a few assets, including properties, production equipment and IT equipment. As a leasee, the group previously classified these leases as operating leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the group recognises right-to-use assets and lease liabilities for most leases. Previously, these leases were off-balance sheet.

Under IFRS 16, the previous operating lease charge has been replaced by the depreciation of the right of use asset and interest on the lease liability.

The group has applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. The details of the changes in accounting policies are described below.

As a practical expedient, the group has elected not to recognise right-to-use assets and lease liabilities for low-value assets and short-term leases (i.e. < 12 months). The group recognises the lease payments on these leases as an expense on a straight-line basis over the lease term.

Significant accounting policies

The group recognises a right-to-use asset and lease liability at the lease commencement date. The right-to-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses and adjusted for certain re-measurement of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounting using the interest rate implicit in the lease, or, if that rate cannot be readily determined as is often the case, the group's incremental borrowing rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, a change in estimate of the amount expected to be payable under residual guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

Impact on the Financial Statements on transition	1 January 2019 £'m
Right-to-use assets presented in 'property, plant and equipment'	1.2
Lease liabilities presented in 'loans and other borrowings'	(1.1)
Net increase in retained earnings	**0.1**

When measuring lease liabilities for leases that were classified as operating leases, the group discounted lease payments using incremental borrowing rate at 1 January 2019. The weighted average rate applied is approximately 4%.

Reconciliation of operating lease commitment to recognition of lease liability

	1 January 2019 £'m
Operating lease commitment at 31 December 2018 as disclosed in the group's consolidated financial statements	1.7
Discounted using incremental borrowing rate at 1 January 2019	1.6
Recognition exception for leases of low value, with less than 12 months of lease term at transition or cancellable on short notice	(0.5)
Lease liability recognised at 1 January 2019	**1.1**

Impact on the Interim Consolidated Income Statement and EBITDA	6 months ended 30 June 2019 £'m
Operating lease payments	0.3
Depreciation on right-to-use assets	(0.2)
Net increase on profit before and after tax	**0.1**
Add back:	
Depreciation on right-to-use assets	0.2
Increase in EBITDA	**0.3**

4. Financial risk management

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

The condensed interim consolidated financial statements do not include all financial risk management information and disclosures required in annual financial statements, and should be read in conjunction with the group's annual financial statements for the year ended 31 December 2018.

Fair value of derivative financial instruments

The fair values of derivative financial instruments are as follows:

	Assets £'m	Liabilities £'m
At 30 June 2019		
Forward foreign currency contracts		
- cash flow hedge	**0.4**	**(0.8)**
- net investment hedge	**0.1**	**-**
	0.5	**(0.8)**

	Assets £'m	Liabilities £'m
At 30 June 2018		
Forward foreign currency contracts		
- cash flow hedge	-	(2.3)
- net investment hedge	-	(0.1)
	-	(2.4)

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

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

All of the group's derivative financial instruments that are measured at fair value are classified as Level 2 at 30 June 2019 (31 December 2018: Level 2) and comprise forward foreign exchange contracts as disclosed in the table above. The valuation techniques employed are consistent with the year-end annual report. There are no financial instruments measured as Level 3. The carrying value of non-derivative financial assets and liabilities, comprising cash and cash equivalents, trade and other receivables, trade and other payables and borrowings is considered to materially equate to their fair value.

5. Segment information

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

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

The Board assesses the performance of the operating segments based on revenue generated from sales to external customers. Each manufacturing site produces product for multiple sales areas and performance cannot be allocated to operating segments; the Board reviews performance by manufacturing plant regularly. The Board manages underlying operating profit before exceptional items and non-recurring items at group level. Finance income and cost, and net finance cost of pensions, 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.

Segment information for the six months ended:

	Americas		Asia Pacific		EMEA		Total group	
	30 June 2019 £'m	30 June 2018 £'m	**30 June 2019 £'m**	30 June 2018 £'m	**30 June 2019 £'m**	30 June 2018 £'m	**30 June 2019 £'m**	30 June 2018 £'m
Revenue								
Sales to external customers	**29.1**	28.7	**38.4**	37.9	**51.7**	53.6	**119.2**	120.2
Underlying operating profit							**17.8**	18.4
Exceptional items							**(0.4)**	(2.2)
Operating profit							**17.4**	16.2
Finance cost							**(2.9)**	(4.1)
Net finance cost on pensions							**(0.9)**	(1.2)
Profit before tax							**13.6**	10.9

6. Exceptional items

Exceptional charges included in operating profit for the six months ended 30 June 2019 were £0.4m (six months ended 30 June 2018: £2.2m). The 2019 costs relate to implementation of the new global operating model involving restructuring the business support activities into global functions, to realign the cost base for operating expenses with strategic priorities. The 2018 half year costs relate to the Devro 100 programme, which was focused on accelerating revenue growth through significantly improving sales capabilities, delivering substantial improvements in manufacturing efficiencies to reduce unit costs, and introducing the next generation of differentiated products.

The incremental costs associated with implementing these transformation programmes are significant, and as a result have been classified as exceptional items. Exceptional charges comprise redundancy costs and other incremental external cost, including professional fees.

7. Tax

The charge for tax for the six months ended 30 June 2019 corresponds to a rate of tax of 22% on underlying profit (six months ended 30 June 2018: 23%). This reflects the anticipated effective rate on underlying profit for the year ending 31 December 2019. The tax credit on the non-underlying charge includes movements of the deferred tax asset recognised on brought forward losses. The charge for tax comprises a UK corporation tax charge for six months ended 30 June 2019 of £nil (six months ended 30 June 2018: £nil) and a foreign tax charge for six months ended 30 June 2019 of £2.8m (six months ended 30 June 2018: £3.0m).

8. Earnings per share

	6 months ended 30 June 2019 £'m	6 months ended 30 June 2018 £'m
Profit attributable to equity holders	**10.8**	7.9
Underlying profit attributable to equity holders	**11.7**	11.0
Earnings per share		
- Basic	**6.5p**	4.7p
- Underlying basic	**7.0p**	6.6p
- Diluted	**6.4p**	4.7p
Shares in issue		
Weighted average number of shares through the period (millions)	**166.9**	166.9
Adjustments for:		
- Performance Share Plan (millions)	**0.9**	1.3
Weighted average number of shares adjusted for potential dilution (millions)	**167.8**	168.2

Share options are only treated as dilutive in the calculation of diluted earnings per share if their exercise would result in the issue of shares at less than the average market price of the shares during the period. Shares arising from share options, the deferred bonus scheme or the performance share plan are only treated as dilutive where the effect is to reduce earnings per share.

9. Dividends

The final dividend of 6.3 pence per share in respect of the year ended 31 December 2018 was paid on 10 May 2019 and amounted to £10.5m.

The interim dividend of 2.7p per share (2018 interim dividend: 2.7p) will be payable on 4 October 2019 to ordinary shareholders on the register at the close of business on 23 August 2019. The ex-dividend date is 22 August 2019.

The estimated interim dividend to be paid is £4.5m and has not been recognised in these accounts.

10. Property, plant and equipment

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

	6 months ended 30 June 2019 £'m	6 months ended 30 June 2018 £'m
Opening net book value at 1 January	**278.8**	291.1
Adjustment on initial application of IFRS 16	**1.2**	-
Adjusted net book value at 1 January	**280.0**	291.1
Additions – right-to-use assets	**0.1**	-
Additions – other	**3.7**	1.5
Depreciation	**(12.3)**	(12.2)
Exchange differences	**1.4**	1.4
Closing net book value at 30 June	**272.9**	281.8

11. Pension obligations

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

	30 June 2019 £'m	31December 2018 £'m	30 June 2018 £'m
Pension obligations	**60.5**	54.4	57.0

The increase in the group's net pension obligations at 30 June 2019 compared with 31 December 2018 primarily reflects the changes in financial conditions in the period resulting in changes to actuarial assumptions, including a decrease in discount rates in the UK and US.

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

	30 June 2019	31 December 2018	30 June 2018
United Kingdom	**2.20%**	2.85%	2.60%
United States	**3.25%**	4.05%	4.05%

The net pension obligations have moved as follows:

	6 months ended 30 June 2019 £'m	6 months ended 30 June 2018 £'m
Opening net liability	**54.4**	82.0
Employer contributions	**(2.5)**	(1.8)
Service cost	**0.6**	1.0
Scheme administrative expenses	**0.8**	0.3
Net finance cost	**0.9**	1.2
Re-measurements	**6.1**	(26.3)
Exchange losses	**0.2**	0.6
Closing net liability	**60.5**	57.0

12. Equity securities issued

No Ordinary Shares were issued during the half year period ending 30 June 2019.

13. Reconciliation of profit before tax to cash generated from operations

	6 months ended 30 June 2019 £'m	6 months ended 30 June 2018 £'m
Profit before tax	**13.6**	10.9
Adjustments for:		
Finance cost	**2.9**	4.1
Net finance cost on pensions	**0.9**	1.2
Pension cost adjustment for normal contributions	**-**	0.3
Depreciation of property, plant and equipment	**12.3**	12.2
Amortisation of intangible assets	**0.5**	0.5
Pension deficit funding	**(1.1)**	(0.9)
Performance Share Plan	**0.1**	0.8
Changes in working capital:		
Increase in inventories	**(6.7)**	(7.6)
Decrease/(increase) in trade and other receivables	**2.2**	(1.6)
Decrease in trade and other payables	**(2.5)**	(2.6)
(Decrease)/increase in provisions	**(3.6)**	0.1
Cash generated from operations	**18.6**	17.4
Cash generated from underlying operations before pension deficit funding	**23.7**	20.5
Pension deficit funding	**(1.1)**	(0.9)
Exceptional items	**(4.0)**	(2.2)
Cash generated from operations	**18.6**	17.4

14. Analysis of net debt

	30 June 2019 £'m	**31 December 2018 £'m**	**30 June 2018 £'m**
Current borrowings			
Bank overdrafts	**(4.9)**	(4.7)	(4.1)
Leases	**(0.4)**	-	-
Total current borrowings	**(5.3)**	(4.7)	(4.1)
Non-current borrowings			
Other bank borrowings	**(78.6)**	(68.7)	(81.1)
US dollar private placement	**(78.7)**	(78.1)	(76.4)
Leases	**(0.6)**	-	-
Total non-current borrowings	**(157.9)**	(146.8)	(157.5)
Total current and non-current borrowings	**(163.2)**	(151.5)	(161.6)
Net debt	**(149.2)**	(141.6)	(147.3)

15. Related party transactions

The group had no related party transactions other than key management compensation during the six months ended 30 June 2019 and 30 June 2018.

Statement of directors' responsibilities

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU;

- the interim management report includes a fair review of the information required by:

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

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

The directors of Devro plc are as listed below:
Gerard Hoetmer (resigned 25 April 2019)
Steve Good (appointed 1 June 2019)
Rutger Helbing
Jackie Callaway
Paul Withers
Jane Lodge
Malcolm Swift

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

By order of the Board

Rutger Helbing	Jackie Callaway
Chief Executive Officer	Chief Financial Officer
31 July 2019	31 July 2019

INDEPENDENT REVIEW REPORT TO DEVRO PLC

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2019 which comprises Interim Consolidated Income Statement, Interim Consolidated Balance Sheet, Interim Consolidated Statements Of Changes In Equity, Interim Consolidated Cash Flow Statements and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2019 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

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

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

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

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

Anthony Sykes
for and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL
31 July 2019