For Immediate Release **26 February 2019**

Devro plc

FULL YEAR RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

Significant progress on strategic priorities & improved profit margin

Devro plc ("Devro" or the "group"), one of the world's leading manufacturers of collagen products for the food industry, announces its results for the year ended 31 December 2018.

	Underlying results*		**Statutory results**	
	2018 Unaudited	**2017**	**2018 Unaudited**	**2017**
Revenue	£253.4m	£256.9m	£253.4m	£256.9m
Operating profit	-	-	£26.9m	£33.0m
before non-recurring items**	£40.0m	£38.1m	-	-
Operating profit margin	-	-	10.6%	12.8%
before non-recurring items**	15.8%	14.8%	-	-
Profit before tax***	£32.1m	£29.5m	£17.5m	£21.6m
Basic earnings per share***	14.6p	14.2p	7.5p	9.3p
Total dividend per share	9.0p	8.8p	9.0p	8.8p

* *Underlying figures are stated before exceptional items of £12.3m (2017: £5.1m), related to the Devro 100 programme and restructuring to implement the new global operating model, and net finance cost on pensions (see Alternative Performance Measures section of the Financial Review for definition, explanation and reconciliation to equivalent statutory measures)*

** *Non-recurring items relate to Board change costs which totalled £0.8m (2017: £nil); after non-recurring items underlying operating profit was £39.2m for 2018 (2017: £38.1m); see Alternative Performance Measures section of the Financial Review for definition and explanation*

*** *Underlying figures for 2017 have been restated to exclude net finance cost on pensions*

Highlights

- Significant strategic progress, in particular substantially improved North American plant operations; China average selling price up 16%; Fine Ultra product platform successfully launched in Europe, Japan and SE Asia
- Revenue of edible collagen casings increased 2% at constant currency****
  - Volumes maintained year on year, with strong growth in North America (up 8%), Latin America (up 9%) and SE Asia (up 6%)
  - Market challenges in Russia (down 12%) and Japan (down 7%)
  - China (down 8%) fully related to Devro discontinuing imports of legacy products; excluding the import of legacy products in 2017, China up 5%
  - Solid price/mix improvements across Europe and China
- Underlying operating profit before non-recurring items up 5%, due to savings from the Devro 100 programme and disciplined cost control in operating expenses more than offsetting energy and salary inflation and foreign exchange headwinds
- Underlying operating profit margin (before non-recurring items) up 100bps
- Operating profit down 18%, due to higher exceptional items in 2018 of £12.3m (2017: £5.1m) together with non-recurring items related to the 2018 Board changes
- Increase in proposed total dividend to 9.0p (2017: 8.8p)

Rutger Helbing, Chief Executive Officer of Devro, commented:

"We continued to make significant progress on our strategic priorities in 2018, delivering manufacturing efficiency improvements, in particular at our US plant, driving average selling price improvements in China and establishing the building blocks for future growth supported by our new Fine Ultra product platform. We over-delivered on our Devro 100 cost savings programme and, in addition, we increased margins.

"Looking ahead, we expect to grow revenue (weighted towards the second half) supported by an overall growing market and the continued rollout of the Fine Ultra product across a number of markets; to leverage our leading position in the fast growing protein sticks market; and to continue to convert customers from gut to collagen. We will also focus on delivering margin expansion and generating cash to reduce net debt.

"Despite ongoing pressures from input cost inflation, principally salary and utility costs and exchange rate volatility, at this early stage of the year the Board believes that Devro is well placed to make good progress in 2019."

***** Growth at constant currency is calculated by presenting both the current and prior year local currency amounts using the prior period average exchange rates*

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/943-1289-21121/en approximately 10 minutes before the start of the briefing (8.50am). The presentation will also be available on the company's website.

CHAIRMAN'S STATEMENT

Devro made significant progress on its strategic priorities in 2018 and, in tandem, improved its underlying profit margins. Operational improvements were made across all our manufacturing sites.

Progress at our US plant was particularly good, with production yields now amongst the highest across the group. The focus into 2019 is on increasing production line speeds to further improve output from the plant.

Our key focus in 2018 for China was on improving the average selling price and, in this regard, we achieved double digit percentage growth in the year.

Following a period of commercial testing, the launch of the new Fine Ultra product platform for Continental Europe, Japan and South East Asia delivered modest sales volumes in the second half of 2018. We anticipate a marked increase in volumes in 2019 and this will be a key driver for growth going forward.

Devro's edible collagen revenue grew 2% on a constant currency basis with positive pricing/mix, particularly in China, and flat volumes. This reflected strong volume growth in North America, Latin America and South East Asia, offset by declines in Russia (due to weakening of the rouble against the euro) and in Japan (due to ongoing challenging market conditions).

The group's manufacturing performance continued to improve as we implemented best practice across all our sites. The Devro 100 programme achieved cost reductions ahead of plan of £4.5 million and this, combined with our discipline around operating costs, more than offset the ongoing inflationary pressures on the group.

FINANCIAL HIGHLIGHTS

Underlying operating profit before non-recurring items was £40.0 million (2017: £38.1 million), due to the impact of positive price/mix on the average selling price, Devro 100 cost savings and tight cost management, partly offset by inflationary pressure on utilities costs and wages and adverse foreign exchange.

Operating profit was £26.9 million (2017: £33.0 million), impacted primarily by non-recurring items related to the 2018 Board changes of £0.8 million (2017: £nil) and higher exceptional items of £12.3 million (2017: £5.1 million) relating to the Devro 100 programme and restructuring as part of the alignment of the operating cost base to the new global model. From 2019 no further exceptional items will be recognised in relation to the Devro 100 programme (although approximately £6.0 million relating to 2018 will be paid out in cash in H1 2019). A more detailed explanation of the group's financial performance is set out in the Financial Review below.

In 2018 several factors caused a modest increase in net debt to £141.6 million (2017: £134.9 million). The main driver was lower underlying operating cash flow, but there were also increased pension deficit contributions and adverse movements in foreign exchange. Reducing the levels of net debt back to historic levels continues to be an area of strategic focus.

The group's net pension obligations reduced significantly from £82.0 million at 31 December 2017 to £54.4 million at 31 December 2018. This reduction primarily reflects gains on the UK scheme related to updated assumptions following completion of the triennial valuation, and also an increase in discount rates in the UK and US.

BOARD

At the end of February 2018, Rutger Helbing (previously the Group Finance Director) succeeded Peter Page as Chief Executive Officer of the group. Since his appointment, Rutger has accelerated the group's transition away from operating on a regional basis towards operating as a fully integrated global business. The final steps of this process were completed with the appointment of a single Global Commercial Director and restructuring of the group's operating cost base to better align with its global footprint. Rutger has also refocused the group's mid-term strategy on 3Cs – win with the winning Customers; focusing on the Core profitability drivers; and strengthening Competencies.

On 1 May 2018, the Board was further strengthened with the appointment of Jackie Callaway as Group Chief Financial Officer. Jackie was most recently Group Financial Controller of Brambles

Limited, the ASX top 20 supply chain logistics company, where she led Brambles' global finance transformation programme. Jackie brings broad financial, business and international experience.

EMPLOYEES

In 2018, as part of the implementation of the new global operating model, changes were made at all levels of the organisation, and in all locations, affecting many of our colleagues. Through this evolution we have seen increasing levels of engagement and involvement from our people in all areas of the business. All employees have contributed to the 2018 results and on behalf of the whole Board, I am most grateful for their commitment and professionalism.

DIVIDEND

The Board is proposing an increased final dividend of 6.3p per share (2017: 6.1p) bringing the total for the year to 9.0p per share (2017: 8.8p). Subject to shareholder approval at the Annual General Meeting in April, the dividend will be paid on 10 May 2019, to those shareholders on the register at 29 March 2019.

RETIREMENT

In November 2018, I announced my intention to retire as Chairman and Director at the conclusion of the Annual General Meeting on 25 April 2019. I joined the Board as a Director in July 2013 and became Chairman in May 2014. Having overseen the implementation of the recent capital investment programme, recruitment of a new senior management team and the establishment of a new global organisational structure, I believe it is the right time for a new Chair to oversee the next stage of Devro's development.

I would like to take this opportunity to thank everyone I have worked with over the last six years and wish the Board, management team and employees every success in the future.

OUTLOOK

We continued to make significant progress on our strategic priorities in 2018, delivering manufacturing efficiency improvements, in particular at our US plant, driving average selling price improvements in China and establishing the building blocks for future growth supported by our new Fine Ultra product platform. We over-delivered on our Devro 100 cost savings programme and, in addition, we increased margins.

Looking ahead, we expect to grow revenue (weighted towards the second half) supported by an overall growing market and the continued rollout of the Fine Ultra product across a number of markets; to leverage our leading position in the fast growing protein sticks market; and to continue to convert customers from gut to collagen. We will also focus on delivering margin expansion and generating cash to reduce net debt.

Despite ongoing pressures from input cost inflation, principally salary and utility costs and exchange rate volatility, at this early stage of the year the Board believes that Devro is well placed to make good progress in 2019.

Gerard Hoetmer
Chairman

BUSINESS REVIEW

My first year as CEO has been insightful and has only served to increase my appreciation of the opportunity ahead. In addition to the strategic priorities as set out at the start of the year it has been my priority to provide clear focus on delivery of profitable growth and to create a culture and mind-set of a global business. The business has many positive attributes, but after the major transformation programme, needed a more focused approach. Detailed plans, built around the 3Cs strategy, on how to grow the business sustainably in a cost effective way have been developed and the implementation started. We will provide more details on these plans and progress at our Capital Markets Event on the 19 March 2019.

Also during the year I have personally visited all of our sites to communicate our key messages directly with the workforce. The response to this has been positive and we will continue to engage with the workforce through regular communications, town halls and an annual engagement survey, which we kicked off in 2018.

In order to deliver our plans successfully a strengthening and streamlining of the senior management team was required, which includes the appointment of Jackie Callaway as the new CFO and a new Global Commercial Director, Peter Whitmore, who joined in November from Amcor. The executive leadership team now consists of 7 members, and 5 of those have joined from 2016 onwards and they bring a range of relevant 'blue chip' experience to the team.

Overall I am pleased about the progress we have made in putting in place the building blocks for success, but as ever, more remains to be done to make sure Devro is to achieve what it is capable of. The new executive team under my leadership is excited and fully committed to continue to work on that in 2019 and beyond.

STRATEGIC PRIORITIES

In 2018 we focused on significantly improving the efficiency of our US plant. This was achieved, with production yields at Sandy Run now amongst the highest in the group. This supported our growth ambitions in the North American markets, where we grew volumes by 8% in the year.

Our Fine Ultra product platform was further rolled out in our target markets of Japan, South East Asia and in selected European markets in the second half of the year. Although sales volumes were modest, in the year we tested and qualified our products with selected customers and we believe this platform will be a key driver for growth in 2019 and beyond.

Our Devro 100 savings programme delivered £4.5 million of savings in 2018 and £11.5 million over the two years since we started. We are now on track to deliver £16 million versus our original estimate of £13-16 million over the three year period to 2019.

In 2018 we also further defined our roadmap towards our mid-term ambition and longer-term vision. This is now based on our 3Cs strategy:

- win with the winning Customers – to drive profitable revenue growth;
- focus on Core profitability – to drive margin improvements; and
- strengthen Competencies – to underpin long-term competitiveness.

We made good progress with the 3Cs strategy by defining and applying a new customer and market segmentation; by developing plans to increase capacity to support the mid-term growth ambition cost effectively within the current infrastructure; and by defining and implementing a new global operating model to deliver cost savings and fund growth investments.

Finally, in 2018, we implemented the last step towards creating a global organisation with the appointment of a new Global Commercial Director to span all sales areas. This finalises the plan started in 2016 to move from a regional to a global organisation and will be instrumental in delivering our 3Cs strategy and realising our ambition and vision.

BUSINESS PERFORMANCE

Devro's total sales volumes of edible collagen casings, which represent over 85% of the group's sales, were broadly flat for the year, with strong growth in North America, Latin America and South East Asia offset by market challenges in Russia and Japan.

Sales volumes in North America increased 8%, with a continued strong snacking market. Sales volumes in Latin America grew 9%, mainly due to strong sales into Brazil, including significant growth in sales of products from our China plant.

Overall sales volumes in Continental Europe grew 4%. We saw a slowdown, as anticipated, in the second half due to stronger comparatives. Full year growth was particularly strong in Germany (11%). Sales volumes into the Middle East and Africa recovered in the second half after the impact of a listeria outbreak in South Africa during the first half and volumes in the year grew 4%.

In South East Asia we continued to see growth. After an increase of 29% in 2017, we saw volumes in 2018 grow 6%, with a strong performance in the second half which was supported by initial sales of our new Fine Ultra products. China reported volumes for the year were down 8%, but adjusting for the impact of the discontinued imported product, underlying volumes were 5% ahead of the prior year. Aligned with our strategy, the average selling price was up 16%, benefiting from an improved customer mix.

Sales volumes in the mature markets in UK and Australia were broadly flat in the year, with a modest decline in UK, offset by modest growth in Australia.

In Russia and surrounding countries sales volumes have historically been volatile and impacted by movements in the Russian rouble. In 2018 we saw a weakening of the rouble versus the euro and, as anticipated, we saw the impact of that in the second half of the year. Overall volumes in the year were down 12%. In Japan sales of collagen cased sausages declined in the year due to higher promotional activity of sausages in sheep gut, with increased export volumes from China. After many years of continued growth in Japan we saw volumes decline 7% in the year.

Despite overall flat sales volumes, underlying operating profit before non-recurring items grew 5%, due to the impact of positive mix on the average selling price, Devro 100 costs savings and tight cost management, partly offset by inflationary pressure on utilities costs and wages, and adverse foreign exchange.

SAFETY

Safety is a core value and there was a year-on-year improvement in our performance. In 2018 we have implemented global safety standards as we strive for consistency and best practice across each site. We have introduced the ‘hearts and minds’ behavioural programme with the objective that we all ‘Think Safe, Work Safe and Go Home Safe’ each and every day.

Rutger Helbing
Chief Executive Officer

FINANCIAL REVIEW

The 2018 financial results delivered solid underlying operating profit growth and underlying operating profit margin improvement despite overall flat sales volumes. Underlying operating profit before non-recurring items grew 5% and underlying operating profit margin before non-recurring items increased to 15.8% from 14.8% in 2017, as the result of positive price/mix on the average selling price, Devro 100 costs savings and disciplined cost management, partly offset by inflationary pressure on utilities costs and wages and adverse foreign exchange.

Exceptional items for the year were £12.3 million (2017: £5.1 million) and include costs relating to the Devro 100 programme, which delivered further savings of £4.5 million in 2018, and restructuring costs as part of the alignment of the operating cost base to the new global model. The implementation of the new global operating model will result in a net reduction in operating costs after reinvestment of resources to match our growth ambition. From 2019 no further exceptional items will be recognised in relation to the Devro 100 programme (although approximately £6.0 million relating to 2018 will be paid out in cash in H1 2019).

Operating profit was £26.9 million (2017: £33.0 million), with the reduction driven by the higher exceptional items, together with non-recurring items of £0.8 million (2017: £nil) related to the 2018 Board changes.

During 2018 the net debt / underlying EBITDA ratio remained relatively flat and was 2.2 times at 31 December 2018, compared with 2.1 times at 31 December 2017. The main driver was a modest increase in net debt to £141.6 million (2017: £134.9 million) as the result of lower underlying operating cash flow, but there were also increased pension deficit contributions and adverse movements in foreign exchange on the retranslation of US dollar denominated debt.

With the focus in 2019 on volume growth and margin expansion delivering strong and improving underlying cash generation from the business, we expect the net debt / underlying EBITDA ratio to reduce during 2019.

REVENUE

	2018 £m	2017 £m	Change	Change at constant currency
Revenue	253.4	256.9	-1.4%	+0.2%

Reported revenue for the year was lower than 2017, primarily due to foreign exchange headwinds. Excluding the effects of exchange rate movements, revenue of edible collagen casings grew by 1.5%, partially offset by reduced revenue from other products. Year-on-year revenue growth for edible collagen casings can be analysed as follows:

	2018 vs 2017	2017 vs 2016
Volume	+0.3%	+8.3%
Price/mix	+1.2%	-5.1%
Foreign exchange	-1.6%	+4.2%
Total	**-0.1%**	**+7.4%**

Sales volumes benefited from strong volume growth in North America (+8%) and South East Asia (+6%), underpinned by robust local market growth. Volume in Latin America also grew strongly (+9%) with increased imports from our Nantong plant and the acquisition of new customers in the Brazilian market. Continental Europe volume growth remained solid (+4%), through a combination of successful gut conversion, new customers and market growth. By comparison, sales volumes declined in Russia (-12%), which was impacted by market challenges, including a weak rouble. Asian volumes were impacted by market challenges in Japan (-7%), where lower sheep gut pricing resulted in some customers promoting products in sheep gut as opposed to those in collagen casings. In China, volumes declined (-8%), due to one-off events in 2017 with the removal of legacy imported products from this market. However adjusting for the impact of the discontinued imported product, sales volumes in China increased (+5%).

Approximately half of the favourable price/mix impact was due to improved average pricing within sales areas, in particular in China where the improved customer mix, through focussing on customers who value our differentiated products, resulted in a 16% increase in the average selling price. The remaining favourable price/mix related to sales area mix.

The lower revenue from other products primarily related to coex gel where in North America one of our customers moved to dual sourcing, and in Europe we took the decision to exit a low margin customer. Overall there was a reduction in the utilisation of coex gel facilities in 2018 as manufacturers responded to market developments.

OPERATING PROFIT

Operating profit for the year can be analysed as follows:

	2018 £m	2017 £m	Change
Underlying EBITDA before non-recurring items	65.6	64.1	+2.3%
Underlying depreciation & amortisation	(25.6)	(26.0)	-1.5%
Underlying operating profit before non-recurring items	**40.0**	**38.1**	**+5.0%**
Non-recurring items	(0.8)	-	
Underlying operating profit after non-recurring items	**39.2**	**38.1**	**+2.9%**
Exceptional items	(12.3)	(5.1)	
Operating profit	**26.9**	**33.0**	**-18.5%**

Underlying operating profit before non-recurring items increased 5% compared with 2017, with the headwinds from energy and salary inflation and exchange rate movements being more than offset by the benefits of improvements in price/mix and significant cost savings (Devro 100 and disciplined cost control in operating expenses). An analysis of the overall movement in set out below:

	£m
Underlying operating profit 2017	38.1
Price/mix	+2.7
Volumes	+0.5
Contribution from other products	-1.0
Energy and salary inflation	-4.5
Devro 100 cost savings	+4.5
Operating expense savings	+0.9
Foreign exchange	-1.2
Underlying operating profit 2018 (before non-recurring items)	**40.0**
Non-recurring items	-0.8
Underlying operating profit 2018 (after non-recurring items)	**39.2**

The improved price/mix is explained above. Volumes included increased production volumes, in particular at our US plant where efficiencies have improved significantly, which resulted in a higher recovery of conversion costs.

As expected, energy and salary cost inflation was significantly higher in 2018 compared with prior year, as a result of economic factors. However this was largely offset by the cost savings delivered from the Devro 100 programme of £4.5 million, which were ahead of plan. These savings related to areas such as sourcing of raw materials, further optimisation of operational structures at the plants and investments to improve energy efficiency.

Devro has operations around the world in multiple currencies. Movements in exchange rates had an adverse impact on underlying operating profit of £1.2 million. This largely reflected the strengthening of sterling against most key currencies in H2 2017 (in particular the US dollar and Japanese yen), partially offset by the weakening of sterling against the euro and Czech koruna.

Underlying operating profit also included non-recurring costs of £0.8 million associated with the Board changes in 2018, with the parallel costs associated with the Chief Executive Officer transition and recruitment of a new Chief Financial Officer.

Depreciation and amortisation for the period were largely unchanged, now that depreciation from the new plants started up in 2016 are fully included in the comparatives for 2017.

Reported operating profit for the period was £26.9 million, which was lower than 2017 with the increased underlying operating profit being more than offset by the higher exceptional items.

Exceptional items

	2018 £m	2017 £m
Devro 100 programme	6.5	5.1
New global operating model	4.9	-
GMP equalisation	0.9	-
Total exceptional items	**12.3**	**5.1**

The costs associated with the Devro 100 programme delivered further savings of £4.5 million in 2018. Implementation of the new global operating model, developed in H2 2018, will result in a net reduction in operating costs after reinvestment of resources to match our growth ambition. Together these business transformation costs were within the range previously guided. The Devro 100 programme is expected to deliver further savings of £4 million - £5 million in 2019.

On 26 October 2018 the High Court ruled that UK pension schemes must equalise their guaranteed minimum pensions (GMP), which has given rise to an additional pension obligation estimated at £0.9 million for Devro. Given the one-off nature of this additional obligation, the associated charge has been reported as an exceptional item.

Further details of exceptional items are set out in note 4 to the financial statements.

OPERATING MARGIN

	2018	2017
Underlying operating margin before non-recurring items	15.8%	14.8%
Operating margin	10.6%	12.8%

The underlying operating margin before non-recurring items for the year improved 100bps, reflecting the improved price/mix, progress made during the year on improving productivity, especially at our US plant, and also the cost savings from the Devro 100 programme and disciplined cost control in operating expenses that more than offset the high levels of salary and energy inflation.

The operating margin reduced due to the higher exceptional items, together with the non-recurring items related to the Board changes in 2018.

CAPITAL INVESTMENT

	2018 £m	2017 £m
Capital investment	11.2	10.4

Capital investment in 2018 included £1.7 million related to the Devro 100 programme, which delivered £4.5 million savings in 2018. Excluding the Devro 100 capital expenditure, maintenance capital expenditure was £9.5 million, which was below 2017.

WORKING CAPITAL

	2018		2017	
	£m	Number of days	£m	Number of days
Inventories*	38	63	32	50
Trade and other receivables	36	45	31	38
Trade and other payables	(29)	30	(31)	35
Provisions	(5)		-	
	40		**32**	

* *Inventories days are calculated by dividing finished goods and goods for resale at the end of the reporting period by the value of cost of goods sold in the period multiplied by the number of days in the period*

Working capital increased by £8 million during the year, primarily related to higher inventories and receivables. The movements in inventories reflected the improved productivity achieved during 2018, enabling the group to rebuild inventory levels to optimum levels, compared with the slightly depleted levels at the end of 2017 following the strong sales volume growth in that year. Inventories also increased due to pre-building some European inventory as part of Brexit contingency planning. The higher receivables largely reflect changes in customer mix and some extension of payments terms.

CASH FLOW AND NET DEBT

Devro continues to be a highly cash generative business. In order to fund the significant investments made as part of the expansion and upgrade of the manufacturing footprint, new long-term facilities were put in place in 2014 to supplement the shorter-term bank facilities.

Reducing the levels of net debt back below two times net debt / underlying EBITDA continues to be a key focus. In 2018 several factors caused a modest increase in net debt to £141.6 million, compared with the significant reduction in 2017. The main driver was increased working capital, but in addition there were higher pension deficit contributions and adverse movements in foreign exchange.

Key financial measures are as follows:

	2018	2017
Net debt	£141.6m	£134.9m
Covenant net debt / underlying EBITDA ratio	2.2 times	2.1 times
Underlying operating cash flow	£57.5m	£66.9m
Operating cash flow	£46.1m	£58.2m
Return on capital employed (ROCE)	11.7%	11.1%

Underlying operating cash flow (before pension deficit funding) was £57.5 million for 2018 (2017: £66.9 million). The year-on-year reduction was due to increased working capital and the payment of a bonus for 2017, partially offset by improved underlying EBITDA. The higher working capital was primarily the result of building inventory levels back to optimal operational levels, enabled by the improved productivity in 2018 in particular at our US plant, and pre-building some European inventory as part of Brexit contingency planning, together with increased receivables following changes in customer mix and some extension of payments terms.

The covenant net debt / underlying EBITDA ratio was 2.2 times at 31 December 2018, compared with 2.1 times at 31 December 2017. It should be noted that movements in net debt during 2018 included adverse foreign exchange movements of £3.2 million, compared with a benefit of £7.4 million during 2017, related to the retranslation of US dollar denominated debt. Excluding the adverse movement in 2018, the covenant net debt / underlying EBITDA ratio would be 2.1 times at 31 December 2018.

The underlying EBITDA / net interest payable ratio was 8.5 times at 31 December 2018 (2017: 7.7 times), meaning that both ratios were well within the covenant.

Cash outflow from exceptional items was £6.5 million (2017: £5.7 million) and pension deficit funding increased to £4.9 million (2017: £3.0 million), contributing to the reduced operating cash flow of £46.1 million (2017: £58.2 million). The increase in pension deficit funding related to higher contributions to the US scheme.

Capital expenditure of £12.2 million was slightly higher in 2018 compared with prior year, due to investments related to delivering the Devro 100 savings.

In June 2018 the company completed a refinancing of its revolving credit facility, which extended the maturity of this facility from 2019 to 2023.

The improvement in ROCE reflects the increased underlying operating profit in 2018.

FINANCE COSTS

	2018 £m	2017 £m
Net finance cost	7.1	8.6
Net finance cost on pensions	2.3	2.8
Total net finance cost	**9.4**	**11.4**

The net finance cost for the year was lower than 2017 primarily due to the restructuring of borrowings drawn down in Chinese renminbi to support our investment in China, partially offset by higher UK interest rates and fees associated with refinancing of the revolving credit facility.

The decrease in net finance cost on pensions over 2017 reflects the lower discount rates assumed at the start of 2018 compared with the year before.

PENSION SCHEMES

Devro operates a number of defined benefit schemes around the group, although all of these are now closed to new entrants. The net pension obligations of these schemes can be analysed as follows:

	2018 £m	2017 £m
Fair value of scheme assets	232.8	247.6
Present value of scheme liabilities	(287.2)	(329.6)
Net pension obligations	**(54.4)**	**(82.0)**

The group's net pension obligations reduced significantly from £82.0 million at 31 December 2017 to £54.4 million at 31 December 2018. This reduction primarily reflects gains on the UK scheme related to updated assumptions following completion of the triennial valuation, and also an increase 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. In 2018 the company made pension deficit funding contributions of £4.9 million (2017: £3.0 million).

Further analysis of the movement in net pension liabilities is set out in note 6 to the attached financial statements.

TAX

	2018 £m	2017 £m
Tax charge on underlying profit before tax	7.7	5.8
Tax charge/(credit) on exceptional items & exceptional tax charge	(2.7)	0.2
Tax charge in income statement	**5.0**	**6.0**

The group operates around the world and earns profits which are subject to tax at differing rates in different tax jurisdictions.

The underlying tax charge for the year was higher than 2017 primarily due to the benefit in 2017 from the recognition of deferred tax assets on previously unrecognised losses. To the extent that movements in deferred tax assets relate to losses previously charged to exceptional items, the associated tax charge or credit is also reported as an exceptional item.

EARNINGS PER SHARE

	2018	2017 Restated
Underlying basic earnings per share	14.6p	14.2p
Basic earnings per share	7.5p	9.3p

We have presented an adjusted earnings per share (EPS) measure, which excludes exceptional items and net finance cost on pensions, to provide a better indication of the underlying performance of the group (see the Alternative Performance Measures section below for definitions, explanation and reconciliation to the equivalent statutory measures). The underlying measure was revised in 2018 to also exclude net finance cost on pensions, and the 2017 comparative information has been restated accordingly.

Underlying basic EPS increased by 0.4p, as a result of the improved underlying operating profit (+0.6p), and lower finance charges (+0.9p), partially offset by the higher underlying effective tax rate (-1.1p).

The reduction in basic EPS reflects higher exceptional costs in 2018, more than offsetting the factors resulting in higher underlying basic EPS.

DIVIDEND

	2018	2017
Interim per share	2.7p	2.7p
Final per share	6.3p	6.1p
Total	9.0p	8.8p

In line with the increase in underlying basic EPS, the Board is recommending an increased dividend in 2018 from 8.8p to 9.0p.

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 'constant exchange rates', 'underlying', 'earnings before interest, tax, depreciation and amortisation (EBITDA)', 'net debt', 'covenant net debt' and 'return on capital employed (ROCE)'.

Constant exchange rates

The group has operations across the world in multiple currencies, and is exposed to risk on fluctuations in foreign exchange rates. As a result the group's reported revenue will be impacted by movements in actual exchange rates. The group presents revenue growth on a constant currency basis in order to eliminate the effect of foreign exchange rate movements, enabling investors to better understand the operational performance of the group.

Revenue growth at constant currency is calculated by presenting both the current and prior year local currency amounts using the prior period average exchange rates.

Underlying

Underlying figures are stated before exceptional items and net finance cost on pensions. Devro is 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 2020. 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. In 2018 an additional pension obligation arose in relation to equalising pay for guaranteed minimum pensions (GMP), following the High Court ruling in October 2018 which impacted pension schemes in the UK. The incremental costs associated with the transformation and GMP are significant and non-recurring, and as a result have been classified as exceptional items.

The exclusion of net finance cost on pensions for the first time in 2018 followed a review which concluded 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. Prior to 2018, underlying figures had included net finance cost on pensions and therefore underlying figures for 2017 have been restated where applicable.

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

	2018			
	Underlying	Exceptional items	Net finance cost on pensions	Reported
Operating profit (£m)	39.2	(12.3)		26.9
Operating margin (%)	15.5%	(4.9%)		10.6%
Profit before tax (£m)	32.1	(12.3)	(2.3)	17.5
Basic earnings per share (p)	14.6p	(5.8)p	(1.3)p	7.5p
	2017			
	Underlying	Exceptional items	Net finance cost on pensions	Reported
Operating profit (£m)	38.1	(5.1)		33.0
Operating margin (%)	14.8%	(2.0%)		12.8%
Profit before tax (£m)	29.5	(5.1)	(2.8)	21.6
Basic earnings per share (p)	14.2p	(3.2)p	(1.7)p	9.3p

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 £0.8 million in 2018 (2017: £nil) 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. Equivalent costs are not expected to occur in 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:

	2018			2017		
	Underlying	Exceptional items	Reported	Underlying	Exceptional items	Reported
Operating profit (£m)	39.2	(12.3)	26.9	38.1	(5.1)	33.0
Depreciation & amortisation (£m)	25.6	-	25.6	26.0	-	26.0
EBITDA (£m)	64.8	(12.3)	52.5	64.1	(5.1)	59.0
EBITDA margin (%)	25.6%		20.7%	25.0%		23.0%

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:

	2018 £m	2017 £m
Current borrowings	(4.7)	(1.5)
Non-current borrowings	(146.8)	(144.2)
Total borrowings	(151.5)	(145.7)
Cash and cash equivalents	9.9	10.8
Net debt	(141.6)	(134.9)

From June 2018, net debt (as defined above) was used to calculate one of the group's banking covenant ratios under the terms of the new revolving credit facility. Prior to June 2018, the definition of net debt used to calculate this covenant ratio also included derivative financial liabilities, as shown below:

	2017 £m
Net debt	(134.9)
Derivative financial liabilities	(0.4)
Covenant net debt	(135.3)

Return on capital employed

Return on capital employed (ROCE) is used as a measure of how well the group is utilising its available capital, and is a measure in common use elsewhere. ROCE is calculated by presenting underlying operating profit as a proportion of average capital employed.

Capital employed for this purpose is defined as net assets excluding interest-bearing assets and liabilities, derivative financial instruments, current and deferred tax balances, pension obligations and provisions for liabilities and other charges.

A reconciliation from reported figures is presented below:

	2018 £m	2017 £m	2016 £m
Intangible assets	10.5	10.4	10.4
Property, plant and equipment	278.8	291.1	308.6
Inventories	38.2	32.3	33.8
Trade and other receivables	41.4	35.1	35.2
Trade and other payables	(32.3)	(34.5)	(37.8)
Total capital employed	336.6	334.4	350.2
Average capital employed*	335.5	342.3	331.4
Underlying operating profit	39.2	38.1	38.1
Return on capital employed	**11.7%**	**11.1%**	**11.5%**

** Average capital employed is calculated as the average between the balances as at the start of the year and as at the end of the year.*

GOING CONCERN

At 31 December 2018 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 at least 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 at least 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.

Jackie Callaway
Chief Financial Officer

CONSOLIDATED INCOME STATEMENT (UNAUDITED)
for the year ended 31 December

	Note	**2018 Underlying £'m**	**2018 Non-underlying £'m**	**2018 Reported £'m**	2017 Underlying £'m	2017 Non-underlying £'m	2017 Reported £'m
Revenue	2	**253.4**	**-**	**253.4**	256.9	-	256.9
Operating profit	3, 4	**39.2**	**(12.3)**	**26.9**	38.1	(5.1)	33.0
Finance cost		**(7.1)**	**-**	**(7.1)**	(8.6)	-	(8.6)
Net finance cost on pensions		**-**	**(2.3)**	**(2.3)**	-	(2.8)	(2.8)
Profit before tax		**32.1**	**(14.6)**	**17.5**	29.5	(7.9)	21.6
Tax		**(7.7)**	**2.7**	**(5.0)**	(5.8)	(0.2)	(6.0)
Profit for the year attributable to owners of the parent		**24.4**	**(11.9)**	**12.5**	23.7	(8.1)	15.6
Earnings per share							
Basic	5			**7.5p**			9.3p
Diluted	5			**7.4p**			9.3p

All results relate to continuing operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
for the year ended 31 December

	2018 **£'m**	2017 £'m
Profit for the year	**12.5**	15.6
Other comprehensive income/(expense) for the year		
Items that will not be reclassified to profit or loss		
Pension obligations:		
- re-measurements	**30.3**	12.7
- movement in deferred tax	**(3.2)**	(8.4)
	27.1	4.3
Items that may be reclassified subsequently to profit or loss		
Cash flow hedges:		
- net fair value gains/(losses)	**(2.5)**	2.2
- tax on fair value movements	**0.4**	(0.4)
Net investment hedges:		
- fair value gains/(losses)	**0.5**	(2.2)
- tax on fair value movements	**(0.1)**	0.4
Net exchange adjustments	**(4.7)**	12.5
	(6.4)	12.5
Other comprehensive income for the year, net of tax	**20.7**	16.8
Total comprehensive income for the year attributable to owners of the parent	**33.2**	32.4

CONSOLIDATED BALANCE SHEET (UNAUDITED)
at 31 December

	Note	**2018** **£'m**	2017 £'m
ASSETS			
Non-current assets			
Property, plant and equipment		**278.8**	291.1
Intangible assets		**10.5**	10.4
Deferred tax assets		**34.2**	35.3
Trade and other receivables		**5.4**	4.5
		328.9	341.3
Current assets			
Inventories		**38.2**	32.3
Trade and other receivables		**36.0**	30.6
Derivative financial instruments		**0.2**	1.8
Cash and cash equivalents		**9.9**	10.8
		84.3	75.5
Total assets		**413.2**	416.8
LIABILITIES			
Current liabilities			
Trade and other payables		**(29.3)**	(31.2)
Current tax liabilities		**(0.3)**	(5.1)
Borrowings		**(4.7)**	(1.5)
Derivative financial instruments		**(1.6)**	(0.4)
Provisions for other liabilities and charges		**(5.2)**	(0.2)
		(41.1)	(38.4)
Non-current liabilities			
Borrowings		**(146.8)**	(144.2)
Pension obligations	6	**(54.4)**	(82.0)
Deferred tax liabilities		**(17.6)**	(18.1)
Other payables		**(3.0)**	(3.3)
Provisions for other liabilities and charges		**(3.8)**	(3.6)
		(225.6)	(251.2)
Total liabilities		**(266.7)**	(289.6)
Net assets		**146.5**	127.2
EQUITY			
Capital and reserves attributable to owners of the parent			
Ordinary shares		**16.7**	16.7
Share premium		**9.3**	9.3
Other reserves		**77.1**	83.4
Retained earnings		**43.4**	17.8
Total equity		**146.5**	127.2

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

	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 year	-	-	-	12.5	12.5
Other comprehensive income/(expense)	-	-	(6.4)	27.1	20.7
Total comprehensive income/(expense)	-	-	(6.4)	39.6	33.2
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	-	-	-	(14.7)	(14.7)
Total transactions with owners	-	-	0.1	(14.0)	(13.9)
Balance at 31 December 2018	**16.7**	**9.3**	**77.1**	**43.4**	**146.5**

	Ordinary shares £'m	Share premium £'m	Other reserves £'m	Retained earnings £'m	Total equity £'m
Balance at 1 January 2017	**16.7**	**9.3**	**70.8**	**12.2**	**109.0**
Comprehensive income/(expense)					
Profit for the year	-	-	-	15.6	15.6
Other comprehensive income/(expense)	-	-	12.5	4.3	16.8
Total comprehensive income/(expense)	-	-	12.5	19.9	32.4
Transactions with owners					
Performance Share Plan charge, net of tax	-	-	0.5	-	0.5
Performance Share Plan credit in respect of awards lapsed	-	-	(0.4)	0.4	-
Dividends paid	-	-	-	(14.7)	(14.7)
Total transactions with owners	-	-	0.1	(14.3)	(14.2)
Balance at 31 December 2017	**16.7**	**9.3**	**83.4**	**17.8**	**127.2**

CONSOLIDATED CASH FLOW STATEMENTS (UNAUDITED)
For the year ended 31 December

	Note	**2018** **£'m**	2017 £'m
Cash flows from operating activities			
Cash generated from operations	7	**46.1**	58.2
Interest paid		**(7.6)**	(8.3)
Tax paid		**(12.5)**	(11.9)
Net cash generated from operating activities		**26.0**	38.0
Cash flows from investing activities			
Purchase of property, plant and equipment		**(11.3)**	(11.2)
Purchase of intangible assets		**(0.9)**	(1.3)
Net cash used in investing activities		**(12.2)**	(12.5)
Cash flows from financing activities			
Borrowing under the loan facilities		**(0.6)**	(9.8)
Proceeds from financial instruments		**(2.6)**	0.3
Dividends paid		**(14.7)**	(14.7)
Net cash used in financing activities		**(17.9)**	(24.2)
Net increase/(decrease) in cash and cash equivalents		**(4.1)**	**1.3**
Net cash and cash equivalents at 1 January		**9.3**	8.0
Net increase / (decrease) in cash and cash equivalents		**(4.1)**	1.3
Net cash and cash equivalents at 31 December		**5.2**	9.3
Cash and cash equivalents		**9.9**	10.8
Bank overdrafts		**(4.7)**	(1.5)
Net cash and cash equivalents at 31 December		**5.2**	9.3

1. Financial information

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 December 2018 or 2017.

The financial information for 2017 is derived from the statutory accounts for 2017 which have been delivered to the registrar of companies. The auditor has reported on the 2017 accounts; their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The statutory accounts for 2018 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 in due course.

2. Segment information

The chief operating decision maker has been identified as the Board. The Board reviews the group's revenue 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
- Europe: includes Continental Europe, UK, Ireland and Africa

The Board assesses performance of the operating segments based on revenue generated from sales to external customers. Each manufacturing site produces products 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 a group level. Finance income and cost, and net finance cost on 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.

	Americas		**Asia Pacific**		**Europe**		**Total group**	
	2018 £'m	2017 £'m	**2018 £'m**	2017 £'m	**2018 £'m**	2017 £'m	**2018 £'m**	2017 £'m
Revenue								
Sales to external customers	**60.8**	61.6	**82.9**	85.3	**109.7**	110.0	**253.4**	256.9
Underlying operating profit before non-recurring items							**40.0**	38.1
Non-recurring items							**(0.8)**	-
Underlying operating profit							**39.2**	38.1
Exceptional items							**(12.3)**	(5.1)
Operating profit							**26.9**	33.0
Finance cost							**(7.1)**	(8.6)
Net finance cost on pensions							**(2.3)**	(2.8)
Profit before tax							**17.5**	21.6

3. Operating profit

	2018 Underlying £'m	2018 Non-underlying £'m	2018 Reported £'m	2017 Underlying £'m	2017 Non-underlying £'m	2017 Reported £'m
Revenue	**253.4**	**-**	**253.4**	256.9	-	256.9
Cost of sales	**(164.2)**	**(2.0)**	**(166.2)**	(166.3)	-	(166.3)
Gross profit	**89.2**	**(2.0)**	**87.2**	90.6	-	90.6
Selling and distribution costs	**(18.9)**	**(0.5)**	**(19.4)**	(19.6)	-	(19.6)
Administrative expenses	**(23.1)**	**(8.9)**	**(32.0)**	(23.6)	(5.1)	(28.7)
Research & development expenditure	**(6.4)**	**(0.9)**	**(7.3)**	(7.3)	-	(7.3)
Other expenses	**(2.9)**	**-**	**(2.9)**	(2.7)	-	(2.7)
Total operating expenses	**(51.3)**	**(10.3)**	**(61.6)**	(53.2)	(5.1)	(58.3)
Other operating income	**1.3**	**-**	**1.3**	0.7	-	0.7
Net operating expenses	**(50.0)**	**(10.3)**	**(60.3)**	(52.5)	(5.1)	(57.6)
Operating profit/(expense)	**39.2**	**(12.3)**	**26.9**	38.1	(5.1)	33.0

An additional £0.4m (2017: £1.2m) of development expenditure has been capitalised within intangible assets.

4. Exceptional items

Exceptional charges included in operating profit were £12.3m (2017: £5.1m).

	2018 £'m	2017 £'m
Devro 100 programme (i)	**6.5**	5.1
New global operating model (ii)	**4.9**	-
GMP equalisation (iii)	**0.9**	-
Total exceptional items	**12.3**	5.1

(i) The Devro 100 programme is 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 this transformation are significant and as a result have been classified as exceptional items.

(ii) Implementation of the new global operating model involved restructuring the business support activities into global functions, to realign the cost base for operating expenses with strategic priorities. These costs relate to redundancy and other incremental external costs, including professional fees.

(iii) The charge associated with the additional pension obligation that arose in relation to equalising pay for guaranteed minimum pensions (GMP), following the High Court ruling in October 2018 which impacted pension schemes in the UK.

5. Earnings per share

	2018 **£'m**	2017 £'m
Profit attributable to equity holders	**12.5**	15.6
Underlying profit attributable to equity holders*	**24.4**	23.7
Earnings per share		
- Basic	**7.5p**	9.3p
- Underlying basic*	**14.6p**	14.2p
- Diluted	**7.4p**	9.3p
- Underlying diluted*	**14.4p**	14.1p
Shares in issue	**2018**	2017
Weighted average number of shares in the year	**166,949,022**	166,949,022
Adjustments for:		
- Performance Share Plan	**2,096,270**	1,691,003
Weighted average number of shares adjusted for potential dilution	**169,045,292**	168,640,025

* Underlying basic earnings per share for 2017 has been restated to exclude net finance cost on pensions.

Basic earnings per share is calculated by dividing the profit for the year attributable to owners of the parent of £12.5m (2017: £15.6m) by 166,949,022 (2017: 166,949,022) shares, being the weighted average number of shares in issue throughout the year.

Shares arising from 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 £12.5m (2017: £15.6m) by the average number of shares, including the effect of all dilutive potential shares, of 169,045,292 (2017: 168,640,025).

Underlying earnings per share is calculated in order to eliminate the effect of exceptional items after tax in 2018 of £11.9m (2017: £8.1m) and net finance cost on pensions on the results. Underlying basic earnings per share is calculated by dividing the underlying profit attributable to ordinary shareholders of £24.4m (2017: £23.7m) by 166,949,022 (2017: 166,949,022) shares, being the weighted average number of shares in issue throughout the year.

6. Pension 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 entrants. The total pension obligation cost for the group was £9.4m (2017: £9.1m), of which £3.9m (2017: £4.2m) related to the overseas schemes.

The major assumptions used by the actuaries in calculating the IAS 19 valuation for the following principal countries were:

%	**Australia**		**United Kingdom**		**USA**	
	2018	2017	**2018**	2017	**2018**	2017
Discount rate	**3.3**	3.6	**2.9**	2.5	**4.1**	3.4
Rate of increase in salaries*	**3.3**	3.3	**1.0**	1.0	**-**	-
General inflation	**2.3**	2.3	**3.2**	3.1	**-**	-

* As part of the changes to the United Kingdom 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 USA plan as the plan is now frozen.

Net pension assets and liabilities at 31 December were as follows:

	Australia		United Kingdom		USA		Other		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
	£'m	£'m	**£'m**	£'m	**£'m**	£'m	**£'m**	£'m	**£'m**	£'m
Total fair value of scheme assets	**9.6**	10.1	**178.7**	188.1	**44.5**	47.4	**-**	2.0	**232.8**	247.6
Present value of scheme liabilities	**(9.6)**	(10.1)	**(200.6)**	(235.3)	**(73.6)**	(80.4)	**(3.4)**	(3.8)	**(287.2)**	(329.6)
Deficit	**-**	-	**(21.9)**	(47.2)	**(29.1)**	(33.0)	**(3.4)**	(1.8)	**(54.4)**	(82.0)
Related deferred tax assets	**-**	-	**3.7**	5.8	**6.4**	7.3	**0.5**	0.7	**10.6**	13.8
Net pension liabilities	**-**	**-**	**(18.2)**	(41.4)	**(22.7)**	(25.7)	**(2.9)**	(1.1)	**(43.8)**	(68.2)

Movements in the deficit during the year were as follows:

	Australia		United Kingdom		USA		Other		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
	£'m	£'m	**£'m**	£'m	**£'m**	£'m	**£'m**	£'m	**£'m**	£'m
Deficit in scheme at beginning of year	**-**	-	**(47.2)**	(61.1)	**(33.0)**	(33.1)	**(1.8)**	(1.8)	**(82.0)**	(96.0)
Movement in year:										
Pension charge	**(0.5)**	(0.7)	**(3.8)**	(3.3)	**(1.7)**	(1.9)	**(0.1)**	(0.1)	**(6.1)**	(6.0)
Employer contributions	**0.4**	0.4	**3.9**	3.6	**2.4**	0.4	**-**	-	**6.7**	4.4
Re-measurements	**0.1**	0.3	**25.2**	13.6	**4.6**	(1.3)	**0.4**	0.1	**30.3**	12.7
Reclassification	**-**	-	**-**	-	**-**	-	**(2.0)**	-	**(2.0)**	-
Exchange (losses)/ gains	**-**	-	**-**	-	**(1.4)**	2.9	**0.1**	-	**(1.3)**	2.9
Deficit in scheme at end of year	**-**	-	**(21.9)**	(47.2)	**(29.1)**	(33.0)	**(3.4)**	(1.8)	**(54.4)**	(82.0)

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

	2018 £'m	2017 £'m
Profit before tax	**17.5**	21.6
Adjustments for:		
Finance cost	**7.1**	8.6
Net finance cost on pensions	**2.3**	2.8
Pension cost adjustment for normal contributions	**1.1**	1.8
Depreciation of property, plant and equipment	**24.6**	25.0
Amortisation of intangible assets	**1.0**	1.0
Release from capital grants balance	**(0.1)**	(0.2)
Pension deficit funding	**(4.9)**	(3.0)
Performance Share Plan	**0.8**	0.5
Changes in working capital:		
(Increase)/decrease in inventories	**(5.4)**	0.9
(Increase)/decrease in trade and other receivables	**(5.5)**	0.4
Increase/(decrease) in trade and other payables	**2.6**	(0.9)
Increase/(decrease) in provisions	**5.0**	(0.3)
Cash generated from operations	**46.1**	58.2
Of which:		
Cash generated from underlying operations before pension deficit funding	**57.5**	66.9
Pension deficit funding	**(4.9)**	(3.0)
Exceptional items	**(6.5)**	(5.7)
Cash generated from operations	**46.1**	58.2

8. Analysis of net debt

	2018 £'m	2017 £'m
Cash and cash equivalents	**9.9**	10.8
Bank overdrafts	**(4.7)**	(1.5)
	5.2	9.3
Other bank borrowings	**(68.7)**	(69.8)
US dollar private placement	**(78.1)**	(74.4)
Net debt	**(141.6)**	(134.9)