For Immediate Release **4 March 2020**

Devro plc

AUDITED FULL YEAR RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

Growth in emerging markets, strong cash generation and focus on sustainable revenue growth

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 2019.

	Underlying results[i]		Statutory results	
	2019[ii]	**2018**	**2019[ii]**	**2018**
Revenue (£m)	250.0	253.4	250.0	253.4
Operating profit/(loss)	-	-	(14.0)	26.9
before non-recurring items[iii] (£m)	39.1	40.0	-	-
Operating profit margin	-	-	(5.6)%	10.6%
before non-recurring items[iii] (%)	15.6%	15.8%	-	-
Profit/(loss) before tax (£m)[iv]	33.1	32.1	(21.8)	17.5
Basic earnings per share (pence)[iv]	15.2p	14.6p	(24.8)p	7.5p
Total dividend per share (pence)	9.0p	9.0p	9.0p	9.0p

Highlights

- Volumes:
  - Strong growth in emerging markets[v], up 13% in the second half and 7% for the full year
  - Continued strong growth in North America, offset by a weak demand environment in the UK, Japan and Europe, with mature markets[v] declining 3% for the full year
  - Full year edible collagen volumes were flat, with the Group delivering volume growth of 1% in the second half
- Cost savings of £7.4 million achieved – ahead of original expectations
- Underlying operating profit £39.1 million and operating margin 15.6% marginally below 2018 with the benefit of cost savings and FX offset by less favourable country mix and sales from other products
- Underlying basic earnings per share increased by 4% to 15.2 pence
- Strong free cash flow generation with covenant net debt[vi]/ EBITDA[vii] ratio reducing to 1.9 times at 31 December 2019 (2018: 2.2 times). Improved free cash flow of £30.8 million (2018: £11.2 million)
- Statutory loss before tax includes Bellshill closure cost and a non-cash impairment charge of £45.9 million primarily related to the US and China plants
- Continued progress on building organisational capabilities to deliver:
  - Sustainable revenue growth
  - Cost effective capacity enhancements to support growth ambition
  - Further efficiency savings

Rutger Helbing, Chief Executive Officer of Devro, commented:

"We continued to focus on our growth plans throughout the year, defending and building upon our strong market positions in mature markets and targeting to increase our share in emerging markets. Once again, and in line with our strategy, we increased our sales in emerging markets as a percentage of Group volumes. Emerging markets growth for the year was 7%, markedly different from the decline of 3% in mature markets where the demand environment was weaker. After a slow start to the year, we saw modest edible collagen volume growth from the second quarter onwards, resulting in Group volumes for the year being flat.

"The 2019 progress in executing our 3Cs strategy further underpinned the Devro difference, with our focus on collagen, customer intimacy, technical expertise and as a globally integrated player. We are confident that our growth plans, combined with a continued focus on cost savings and ability to provide the capacity required for growth utilising our current footprint, further support the strong cash generative nature of the business and our attractive margins.

"In 2020 we expect to achieve good volume growth in emerging markets. In our mature markets we expect volume growth in the North American snacking market and, whilst we anticipate a continuation of the challenging market conditions in the UK and Europe (particularly in the first half), we expect Group volumes to be ahead of 2019. In addition, cost savings are expected to more than offset inflationary cost pressures. Absent any material adverse impact of Covid-19, the Board expects good progress in 2020."

Contacts

Rutger Helbing	Chief Executive Officer	020 3727 1340
Jackie Callaway	Chief Financial Officer	020 3727 1340
Richard Mountain/Nick Hasell	FTI Consulting	020 3727 1340

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/943-1289-23318/en approximately 10 minutes before the start of the briefing (8.50am). The presentation will also be available on the company's website.

---

[i] *Underlying figures are stated before exceptional items and net finance cost on pensions; see Alternative Performance Measures section of the Financial Review for definition, explanation and reconciliation to equivalent statutory measures.*

[ii] *The Group adopted IFRS 16 (Leases) on 1 January 2019, as disclosed in Note 1 to the Condensed Consolidated Financial Statements. Comparative financial measures have not been restated.*

[iii] *Non-recurring items relate to Board change costs of £nil (2018: £0.8 million); after non-recurring items underlying operating profit was £39.1 million for 2019 (2018: £39.2 million); see Alternative Performance Measures section of the Financial Review for definition and explanation.*

[iv] *Main adjusting item to statutory profit before tax is £45.9 million impairment charge (referred to in highlights above). Total adjusting items reduce basic EPS by 40.0p.*

[v] *During 2019 and in prior periods the Board has reviewed the Group's revenues and edible collagen volumes on a geographical segment basis splitting the business into three operating segments (Americas, Asia Pacific and EMEA). In the future we will analyse Group revenues and edible collagen volumes between emerging markets and mature markets as this categorisation reflects our strategy of defending and building upon our strong market positions in mature markets and targeting to increase our share in emerging markets. For segmental purposes we will continue to report on a regional basis.*
Devro emerging markets include: Latin America, Russia & East, Middle East & Africa, South East Asia and China.
Devro mature markets include: North America, Continental EU, UK & Ireland, Japan and Australia & NZ.

[vi] *Covenant Net debt is shown before the impact of IFRS 16 (2019: £0.8 million); see Alternative Performance Measures section of the Financial Review for definition and explanation.*

[vii] *EBITDA for covenant purposes is shown on underlying basis (before exceptional items) and before the impact of IFRS 16 (2019: £0.6 million); see Alternative Performance Measures section of the Financial Review for definition and explanation.*

CHAIRMAN'S STATEMENT

INTRODUCTION

Since becoming Chair in June 2019, I have visited many of our sites around the world, meeting our people and engaging with the management team and my fellow Directors. The Group has a long and proud history with people all around the world who are hardworking, talented, and enthusiastic about the Group and its prospects. I have found the Group to be well managed with a clear strategy for growth as set out in our 3Cs strategy, defending and building on its strong positions in mature markets and targeting to increase its share in emerging markets. In support of this, during the last two years, the Group has undergone a significant organisational change to build the structures, capabilities and competencies necessary to successfully execute its growth plans. This has been a major undertaking and these important building blocks are now largely in place across the Group.

FINANCIAL HIGHLIGHTS

Group volumes for the year were flat, with modest edible collagen volume growth from the second quarter onwards after a slower start to the year. Emerging markets growth for the year was strong at 7%, offset by decline in the mature markets of 3% where demand was weak.

Underlying operating profit for the year of £39.1 million was marginally below 2018, with the benefit of cost savings and FX offset by the impact of less favourable country mix and sales from other products.

Free cash flow generation for the year was strong and the net debt to EBITDA covenant ratio improved materially and finished the year at 1.9 times. Underlying basic earnings per share increased by 4% to 15.2 pence.

On a statutory basis we recorded an operating loss of £14.0 million (2018: £26.9 million profit), largely as a result of the review of the global manufacturing footprint which led to the decision to close Bellshill, and the related non-cash accounting impairment of the Group's manufacturing assets in US and China.

DIVIDEND

The Board is proposing a final dividend of 6.3p per share (2018: 6.3p) bringing the total for the year to 9.0p per share (2018: 9.0p). Subject to shareholder approval at the Annual General Meeting in April, the dividend will be paid on 7 May 2020, to those shareholders on the register at 27 March 2020.

GOVERNANCE AND BOARD

The Board leads an ongoing programme to ensure the highest standards of corporate governance and integrity across the Group. We regard this as critical to the Group's success and viability. Since I joined the Board the interactions and communication flows between Executives and Non-Executive Directors have been excellent and as a result the Board is well placed to challenge, guide and support the Executives in the delivery of the 3Cs strategy. The Board considers that it has fully applied the principles of the UK Corporate Governance Code during 2019.

During the fourth quarter of the year we conducted a Board evaluation. The result was positive. An important output from the review was a requirement to refresh the Board during 2020 given the long tenure of two Board members and to ensure that the Board has the appropriate mix of skills and experience to both challenge and support the development and execution of the Group's growth strategy. The recruitment programme is well underway.

PEOPLE

Our employees are at the heart of delivering our plans and are key to our success. In 2019 we continued to see the organisation develop. We embedded our new global commercial structure, made the changes necessary to deliver our cost savings programmes and established new ways of working, particularly associated with our new Integrated Business Planning process. All employees are contributing to making these important changes happen and to deliver our results and, on behalf of the Board, I would like to thank each and every employee for their commitment and professionalism.

SUMMARY

As the new Chair, I have inherited a Group with a clear strategy that focuses on profitable, cash generative growth. Following a period of transformation, including significant progress this year, the necessary structures, capabilities and competencies have been built, and the Group is well placed to capitalise on its strong position in the growing edible casings market with profitable revenue growth at the top of the Group's agenda.

Steve Good

Chairman

BUSINESS REVIEW

During 2019 we continued to execute our growth plans as set out in our 3Cs strategy, defending and building upon our strong market positions in mature markets and targeting to increase our share in emerging markets.

We are targeting edible collagen growth on average of 2-4% per annum, with mature markets growing on average between 0-2% per annum and emerging markets growing on average between 6-10% per annum. Our three year plan and global structure are in place and we are well positioned to deliver on this range, recognising however, that year on year growth can be impacted by specific market events.

STRATEGIC PRIORITIES (3Cs)

Our growth strategy is built around our 3Cs strategy, and good progress in the year was made in many areas.

Win with the winning CUSTOMERS

On the commercial side, the new organisation has been fully embedded and three-year commercial plans have been completed for each of the regional sales areas. These plans have been developed in the context of our category strategy which, taking into account consumer mega trends, is built around our growth pillars of snacking & convenience, yield quality & performance, and clean & sustainable. Based on these pillars and overall drivers of market growth (being in particular GDP per capita growth and urbanisation) our plans are to target an increase in our share of sales from emerging markets, as well as selected growth opportunities in mature markets, particularly in snacking and gut conversion. To deliver our growth plans, the alignment of resources behind the most significant growth opportunities remains key. Furthermore, with the implementation of our global operating model during 2019, we have been able to invest in commercial resources to strengthen our platform for growth. Additionally, innovation continues to be an important part of our growth delivery and in 2019 we launched Avem™, the first poultry collagen gel available in any market, and we fully commercialised our Fine Ultra range in Europe.

Focus on the CORE profitability drivers

We continue to focus on incremental capacity and ongoing efficiency projects at all manufacturing sites. In our US manufacturing facility we tested a reconfiguration of our modern lines to provide further capacity for growth. The project was successfully completed in the fourth quarter with initial results demonstrating performance in line with our expectations. We intend to roll this out in our other sites over the medium term, utilising current footprints to provide further capacity for growth. These projects can provide up to 25% additional capacity over the next few years and should help to further improve our cost competitiveness.

During the year we achieved cost savings of £7.4 million, of which £6.2 million relates to our Devro 100 (D100) programme and £1.2 million to operating cost savings as a result of the new global operating model. For the D100 programme we have now achieved total savings over the three year period of £17.7 million which is ahead of the original guidance of between £13.0 - £16.0 million. 2019 was the last year of our D100 programme, however, we have created a cost saving culture across the Group and will continue to look for savings opportunities that will largely mitigate inflationary cost pressures.

In the second half of the year we undertook a review of our global manufacturing footprint with the aim to pursue further efficiency improvements, as well as to align available capacity to the Group’s growth plans. As a result, we announced our intention to close our Bellshill site in Scotland, which will result in £5.0 million of annualised cost savings, and these will be fully realised in 2021.

Strengthening COMPETENCIES

In the later part of 2019, we reviewed the longer-term vision for the Group. Opportunities were identified to defend and grow the current core business, which continues to be the focus of the 3Cs strategy, but we also identified potential adjacent areas for growth and potential extensions beyond the current core business. These opportunities will be further developed in 2020 and beyond. In 2019 we also designed and piloted the Integrated Business Planning process for Devro. This is our vehicle to manage the global business more efficiently and effectively and it further underpins the delivery of our strategy. We continue to focus on improving our capabilities across the business and we appointed new postholders in 20% of the roles reporting directly into the Executive Management Team through a combination of recruitment of external talent and internal promotion.

BUSINESS PERFORMANCE

We continued to execute our growth plans throughout the year, defending and building upon our strong market positions in mature markets and targeting to increase our share in emerging markets. Once again, we increased the share of emerging markets as a percentage of our total edible collagen volumes. Emerging markets growth for the year was 7%, markedly different from the decline of 3% in mature markets where the demand environment was weaker. After a slow start to the year, we saw modest edible collagen volume growth from the second quarter onwards, resulting in Group volumes for the full year being flat. Group revenue was down 1% on 2018 impacted by less favourable country/product mix, and some declines in other product revenues that were partly offset by favourable FX.

MATURE MARKETS

In 2019 we experienced strong performance of snacking in North America where volumes were up 7%. Given the heritage of the Group we have strong positions in mature markets, notably the UK & Ireland, Western Europe and Australia & NZ. In 2019 market demand in these regions was challenging, primarily driven by an increase in pork prices due to African Swine Fever. This resulted in reduced promotional activity by our customers and, where our route to market is via distributors (as in Western Europe), we also saw some destocking by our distributor partners to reflect the lower activity levels. Consequently, we saw volume declines in UK & Ireland and Western Europe. Volumes also declined in Japan, due to the continued impact of lower sheep gut prices.

EMERGING MARKETS

In 2019 emerging markets share of Group volumes increased by two percentage points, aligned with our overall growth ambition. Whilst volumes for the year were up 7%, there was a particularly strong performance in the second half, with volumes up 13%. Sales momentum improved in most of the emerging markets and performance was particularly strong in China, with a second half volume increase of 41% and of 33% for the full year. Latin America momentum also improved with key customer wins achieved in the latter part of the year expected to contribute into 2020. In South East Asia we saw good performance in Singapore and Vietnam and modest growth for the year. Middle East and Africa had a strong year with volumes up 20%, where markets recovered from the listeria outbreak in 2018.

FINANCIAL PERFORMANCE

Underlying operating profit for the year was marginally below 2018, with positive impact of costs savings and FX offset by the impact of less favourable country mix, sales from other products delivering an underlying operating profit before non-recurring items of £39.1 million versus £40.0 million for 2018.

Underlying basic earnings per share increased by 4% to 15.2 pence.

Cash generation for the year was strong and the covenant net debt/EBITDA ratio finished the year at 1.9 times.

NON-CASH IMPAIRMENTS

In the second half of 2019 the Group undertook a review of its global manufacturing footprint with the aim to access further efficiency improvements, as well as to better align available capacity to the Group's growth plans. As a result of this review, the Group will close its Bellshill site in Scotland during 2020. Whilst this initiative improves the cash generation capability of the Group, it also triggered an impairment review which resulted in the revision of key assumptions underpinning calculations of net present value from cash flow forecasts for US and China manufacturing operations. As a consequence, in the year we made a non-cash impairment associated with those operations and the closure of the Bellshill site of £45.9 million.

SAFETY

In 2019, we continued to roll out the Hearts & Minds programme and we had our second Group-wide safety month. Whilst the Group safety performance continues to be well ahead of the average in comparable industries, we are committed to driving further improvement and the objectives continue to be to 'Think Safe, Work Safe and Go Home Safe, owning our Zero'.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Devro recognises that in combination with a strong financial performance it has a responsibility to its people, suppliers, customers, the environment and wider stakeholders. It takes these responsibilities very seriously. The Group continues to take specific actions to improve its ESG credentials. During 2020 we intend to build more detailed Group-wide ESG plans and report on these going forward on a regular basis.

CORONAVIRUS

Following the outbreak of Covid-19 in China, our main priority is the health and safety of our colleagues. We are committed to put in place all measures we can to help to contain the outbreak and support the wellbeing of our employees.

We are closely monitoring the current and potential impacts of the Covid-19 on our manufacturing and commercial operations and global supply chain. At this point in time our manufacturing location in Nantong, China, is operating at normal capacity and is not facing labour or supply shortages. We have put in place precautionary measures and are reviewing our business continuity plans for the Group.

OUTLOOK

In 2020 we expect to achieve good volume growth in emerging markets. In our mature markets we expect volume growth in the North American snacking market and, whilst we anticipate a continuation of the challenging market conditions in the UK and Europe (particularly in the first half), we expect Group volumes to be ahead of 2019. In addition, cost savings are expected to more than offset inflationary cost pressures. Absent any material adverse impact of Covid-19, the Board expects good progress in 2020.

Rutger Helbing

Chief Executive Officer

FINANCIAL REVIEW

Working capital efficiencies helped deliver strong cash generation with free cash flow of £30.8 million and the covenant net debt/EBITDA ratio reducing to 1.9 times.

During 2019 and in prior periods the Board reviewed the Group's revenues and edible collagen volumes on a geographical segment basis splitting the business into three operating segments (Americas, Asia Pacific and EMEA). In future we will analyse Group revenues and edible collagen volumes between emerging markets and mature markets as this categorisation reflects our current strategy of defending and building upon our strong market positions in mature markets and targeting to increase our share in emerging markets. For segmental purposes we will continue to report on a regional basis.

After a slower start in the first half of 2019, sales volumes in emerging markets grew 13% in the second half and 7% for the full year. Whilst volumes in North America grew 7%, this was not sufficient to offset weaker demand in Japan from lower sheep gut prices and in Europe from weak market sentiment, higher pork prices as a result of African Swine Fever and distributor destocking. As a result, in the year, sales volumes in mature markets declined 3% and Group sales volumes were flat.

The 2019 financial results delivered underlying operating profit before non-recurring items of £39.1 million versus £40.0 million for 2018. Underlying operating profit margin before non-recurring items was 15.6% (2018: 15.8%). These earnings, together with working capital efficiencies helped deliver strong cash generation with free cash flow of £30.8 million (2018: £11.2 million) and the covenant net debt/ EBITDA ratio reducing to 1.9 times at 31 December 2019, compared with 2.2 times at 31 December 2018. Underlying basic earnings per share increased by 4% to 15.2 pence (2018: 14.6 pence).

Exceptional items for the year were £53.1 million (2018: £12.3 million) of which £45.9 million was due to the closure of the Bellshill site and related non-cash impairment of the manufacturing assets in the US and China (further details are set out below).

REVENUE

	2019 £m	2018 £m	Change	Change at constant currency
Revenue	**250.0**	253.4	-1.3%	-2.6%

REVENUE BRIDGE

	2019 vs 2018	2018 vs 2017
Volume (EC*)	0.0%	0.2%
Country/product mix (EC*)	-1.5%	1.0%
Other products	-1.1%	-1.0%
Foreign exchange	1.3%	-1.6%
Total	-1.3%	-1.4%

*EC – Edible Collagen

Revenue for the year was marginally lower than 2018. Strong sales growth in China resulted in an adverse country/product mix. Revenue was also impacted by lower sales of other products, primarily co-ex gel, where in North America one of our customers moved to dual sourcing, and non-edible collagen products due to general market weakness in European sales. Foreign exchange benefited from the strengthening of the Japanese Yen and the US Dollar during the year.

EDIBLE COLLAGEN VOLUMES

As noted above Group sales volumes were flat for the year with 7% growth in emerging markets offset by a 3% decline in mature markets.

In emerging markets 2019 sales volumes grew 13% in the second half and 7% for the full year, driven by a very strong performance in China, up 33% comprising growth from existing customers and some market share gains. South East Asia and Russia & East both showed second half volume growth of 2% and 6% respectively, with full year volumes for South East Asia flat and Russia slightly down (2%) on prior year. Latin America's second half performance continued to be impacted by distributor destocking, albeit at a lower rate than the first half (H1: -30%, H2: -10%, FY: -21%). Recent contract wins in Brazil will support growth in Latin America in 2020.

In mature markets, 2019 volumes in North America grew 7% due to strong snacking growth, however, this was not enough to offset challenging market conditions in Japan (down 7%), Continental Europe (down 3%) and UK & Ireland (down 4%). Market conditions in UK & Ireland were softer due to higher pork prices and a move by some consumers towards meat-free alternatives. In Australia & NZ (down 6%) there was an isolated loss of a customer due to pricing. As a result, sales volumes in mature markets declined by 3%.

Analysis of emerging and mature markets edible collagen is set out below:

	Volume	**Price/Mix**	**Foreign exchange**
Mature	-3%	-1%	1%
Emerging	7%	-6%	2%

In volume terms (Mm) mature markets account for two thirds and emerging markets account for one third of the portfolio.

Details of changes to edible collagen by segmentation is noted as follows:

	Volume	**Price/Mix**	**Foreign exchange**
Americas	1%	-1%	5%
EMEA	-3%	0%	-1%
Asia Pacific	4%	-5%	2%

OPERATING PROFIT

Operating (loss)/profit for the year can be analysed as follows:

	2019 £m	2018 £m	Change
Underlying EBITDA before non-recurring items	65.5	65.6	-0.2%
Depreciation & amortisation	(26.4)	(25.6)	-3.1%
Underlying operating profit before non-recurring items	**39.1**	40.0	-2.3%
Non-recurring items	-	(0.8)	-
Underlying operating profit after non-recurring items	**39.1**	39.2	-0.3%
Exceptional items	(53.1)	(12.3)	
Operating (loss)/profit	**(14.0)**	26.9	

Underlying operating profit before non-recurring items of £39.1 million (2018: £40.0 million) was impacted by country/product mix and lower revenues from other products and inflationary pressure on utilities and salaries. These negative impacts were partly offset by the D100 programme and operating costs savings of £7.4 million (2018: £5.4 million) and foreign exchange benefits of £1.8million (2018: £1.2 million adverse impact).

An analysis of the overall movement in underlying operating profit is set out below:

	£m
2018 underlying profit before non-recurring items	**40.0**
Country/product mix (EC)	(3.9)
Volumes (EC)	-
Contribution from other products	(1.3)
Utility and salary inflation	(4.3)
D100 costs savings	6.2
Operating expense savings (global operating model)	1.2
Other	(0.6)
Foreign exchange	1.8
2019 underlying operating profit before non-recurring items	**39.1**

Commentary on volumes, country/product mix and other products is set out above.

As expected, utility and salary inflation largely in China and Czech Republic continued during 2019. This was more than offset by the D100 programme and operating cost savings of £7.4 million, which were ahead of plan. These savings included contributions from the sourcing of raw materials, further optimisation of operational structures at the plants, investments to improve energy efficiency and operating cost savings from implementation of the new global operating model.

Devro has operations around the world in multiple currencies. Movements in exchange rates had a positive impact on underlying operating profit of £1.8 million. Foreign exchange benefited from the strengthening of the Japanese Yen and the US Dollar during the year.

Taking account of the factors above underlying operating margin before non-recurring items decreased by 20 bps to 15.6%.

Reported operating loss for the period was £14.0 million as a result of exceptional items as set out below.

EXCEPTIONAL ITEMS

	2019 £m	2018 £m
Restructuring costs	7.2	11.4
Guaranteed Minimum Pensions (GMP) equalisation	-	0.9
Impairment of property, plant and equipment	44.9	-
Impairment of intangible assets	1.0	-
	53.1	12.3

Restructuring costs include costs associated with the closure of the Bellshill site of £5.6 million and £1.6 million (2018: £4.9million) relating to the implementation of the new global operating model. In 2018 restructuring costs also included £6.5 million related to the D100 programme.

Details on the non-cash impairment of property, plant and equipment is set out as follows:

	Value of impairment £m	Remaining assets carrying value at the end of 2019 £m
US site	(23.0)	47.8
China site	(18.0)	32.2
Bellshill site	(4.9)	7.5
	(45.9)	**87.5**

In the second half of 2019 the Group undertook a review of its global manufacturing footprint with the aim to access further efficiency improvements, as well as to align available capacity to the Group's growth ambitions. As a result of this review, the Group will close its Bellshill site in Scotland during 2020 and move the remaining operating assets to other sites. Whilst this initiative improves the cash generation capacity of the Group's asset base, it also triggered an impairment review which impacted key assumptions underpinning calculations of net present value from cash flow forecasts for US and China manufacturing operations.

As a result of the global supply chain optimisation project, plans for production of certain higher margin products historically forecast in China were reallocated to other operations. The impact of these production changes were partially offset by lower cost forecasts reflecting the Group's track record of cost savings. However, this resulted in a decrease in margins and profits leading to lower cash flow forecasts and a write down of £18.0 million (36% of book value) of the China manufacturing assets.

The global supply chain optimisation project also resulted in the decision to permanently decommission the pilot line in the US which was put in place when the facility was initially constructed. This resulted in lower absorption of plant fixed costs and consequently higher than previously forecasted production costs per unit. The impact of these production changes together with refinement of cost forecasts resulted in a decrease in margins and profits leading to lower cash flow forecasts and a write down of £23.0 million (33% of book value) of the US manufacturing assets.

As a result of the non-cash write down of assets in 2019 of £45.9 million, depreciation for 2020 is expected to be reduced by approximately £2.5 - £3.0 million.

CAPITAL INVESTMENT

	2019 **£m**	2018 £m
Capital investment	**13.9**	11.2

Capital investment was up to £13.9 million compared to £11.2 million in 2018. The main investments related to a project in our US manufacturing facility to reconfigure our modern line to provide further capacity and upgrade of a production line in Australia.

Capital investment for 2020 is expected to be approximately £18.0 million with the increase over 2019 primarily relating to the investment to transfer and upgrade assets from Bellshill to other parts of the Group.

WORKING CAPITAL

	2019 **£m**	2018 £m
Inventories	39.1	38.2
Trade and other receivables	27.9	36.0
Trade and other payables	(29.4)	(29.3)
Provisions	(5.6)	(5.2)
	32.0	39.7

Working capital decreased by £7.7 million during the year primarily due to lower receivables offset slightly by higher inventory.

In 2018, receivables were higher than normal due to changes in customer mix, some extended payment terms and the impact of transitioning activities around the Group to the newly-created finance shared services centre. 2019 closing receivables include the benefit of standardisation of the receivables practices within the new finance shared services centre.

The increase in inventory was mainly driven by stock build to support the transition of capacity from Bellshill to other sites.

CASH FLOW AND NET DEBT

Devro continues to be a highly cash generative business.

In 2019 we saw strong cash generation with the covenant net debt/EBITDA ratio reducing to 1.9 times at 31 December 2019, compared with 2.2 times at 31 December 2018. The main driver was positive working capital movements following standardisation of the payables and receivables practices within the finance shared services centre.

The covenant EBITDA/net interest payable ratio was 11.6 times at 31 December 2019 (2018: 8.5 times), meaning that both this and the covenant net debt/EBITDA ratios were well within the covenant.

Key financial measures are as follows:

	2019	2018
Net debt	£124.6m	£141.6m
Covenant net debt / EBITDA ratio	1.9 times	2.2 times
Underlying operating cash flow before pension funding deficit and exceptional items	£71.3m	£57.5m
Operating cash flow	£59.7m	£46.1m
Return on capital employed (ROCE)	13.0%	11.7%

Return on capital employed (ROCE) of 13.0% improved due to both positive working capital movements and the reduction in assets values following the impairment write downs. Excluding these impairment write downs from the calculation results in an adjusted ROCE of 12.1%.

FINANCE COSTS

	2019 **£m**	2018 £m
Net finance cost (incl. lease liabilities)	6.0	7.1
Net finance cost on pensions	1.8	2.3
Total net finance cost	**7.8**	9.4

Net finance cost for the year (excluding pensions) was £6.0 million. This represents a decrease from 2018 of £1.1 million, due to restructuring of borrowings drawn down in Chinese Renminbi to support our investment in China (in H1 2018), together with one-off costs in H1 2018 associated with the refinancing of the revolving credit facility and lower net debt balances.

Net finance costs on pensions for the year reduced by £0.5 million, due to lower brought forward net pension deficit at the start of 2019, compared with the start of 2018.

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:

	2019 **£m**	2018 £m
Fair value of scheme assets	245.2	232.8
Present value of scheme liabilities	(309.3)	(287.2)
Net pension obligations	**(64.1)**	(54.4)

The Group's net pension obligations increased by £9.7 million and this primarily related to a decrease in the discount rates used in the UK and US schemes.

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 2019 the Group made pension deficit funding contributions of £5.3 million (2018: £4.9 million). In 2020, pension deficit funding contributions are expected to increase to £7.5 million. The increase over 2019 relates to the phasing out of the legislative taper relief on US plan discount rates resulting in higher funding liabilities and consequently higher deficit funding payments for the US scheme.

Further analysis of movements in net pension liabilities is set out in Note 6 to the attached Financial Statements.

TAX

	2019 £m	2018 £m
Tax charge on underlying profit before tax	7.7	7.7
Tax charge/(credit) on exceptional items & exceptional tax charge	11.9	(2.7)
Tax charge in income statement	**19.6**	**5.0**

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 comparable to 2018.

In 2019, deferred tax assets have not been recognised on accumulated historical losses in the US and China as a result of uncertainty over the timing of recoverability. The Group’s review of its global manufacturing footprint in 2019 impacted not only impairment testing of the US and China plants, but also profits forecasts of the US and China statutory entities introducing greater uncertainty over the timing of future recoverability of accumulated losses. This led to full de-recognition of deferred tax assets on carried forward losses in the US and China. The unwind of the previously recognised deferred tax assets on losses has been recognised in exceptional tax.

EARNINGS PER SHARE

	2019	2018
Underlying basic earnings per share	15.2p	14.6p
Basic earnings per share	(24.8)p	7.5p

We have presented an adjusted underlying 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).

Underlying basic EPS increased by 0.6p, as a result of a reduction in underlying operating profit (-0.1p) offset by lower finance charges (+0.7p).

The reduction in basic EPS reflects the impairment charges in 2019, more than offsetting the factors resulting in higher underlying basic EPS.

DIVIDEND

	2019	2018
Interim per share	2.7p	2.7p
Final per share	6.3p	6.3p
Total	**9.0p**	9.0p

The Board is recommending a final dividend in line with 2018.

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’, ‘non-recurring items’, ‘earnings before interest, tax, depreciation and amortisation (EBITDA)’, ‘covenant 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 (Note 4) and net finance cost on pensions. Devro has undergone a major transformation including the D100 programme which was completed in 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. 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. In the second half of 2019 the Group undertook a review of its global manufacturing footprint, and this resulted in decision to close Bellshill site. This also triggered an impairment review which impacted key assumptions underpinning calculations of net present value from cash flow forecasts for US and China manufacturing operations.

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

	2019			
	Underlying	**Exceptional items**	**Net finance cost on pensions**	**Reported**
Operating profit before non-recurring items (£m)	**39.1**	(53.1)	-	(14.0)
Non-recurring items (£m)	-	-	-	-
Operating profit (£m)	**39.1**	(53.1)	-	(14.0)
Operating margin (%)	*15.6%*	*(21.2)%*	-	*(5.6)%*
Profit before tax (£m)	33.1	(53.1)	(1.8)	(21.8)
Basic earnings per share (p)	**15.2p**	(39.1)p	(0.9)p	(24.8)p

	2018			
	Underlying	Exceptional items	Net finance cost on pensions	Reported
Operating profit before non-recurring items (£m)	40.0	(12.3)	-	27.7
Non-recurring items (£m)	(0.8)	-	-	(0.8)
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

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 £nil in 2019 (2018: £0.8 million) 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 were incurred 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:

	2019		
	Underlying	Exceptional items	Reported
Operating profit after non-recurring items (£m)	39.1	(53.1)	(14.0)
Depreciation & amortisation (£m)	26.4	-	26.4
EBITDA (£m)	**65.5**	(53.1)	**12.4**
EBITDA margin (%)	*26.2%*		*5.0%*
Less: Impact of IFRS 16 (£m)	(0.6)		
Covenant EBITDA (£m)	**64.9**		

	2018		
	Underlying	Exceptional items	Reported
Operating profit after non-recurring items (£m)	39.2	(12.3)	26.9
Depreciation & amortisation (£m)	25.6	-	25.6
EBITDA (£m)	64.8	(12.3)	52.5
EBITDA margin (%)	*25.6%*		*20.7%*
Less: Impact of IFRS 16 (£m)	-		
Covenant EBITDA (£m)	64.8		

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:

	2019 £m	2018 £m
Current borrowings	(1.2)	(4.7)
Non-current borrowings	(148.1)	(146.8)
Total borrowings	(149.3)	(151.5)
Cash and cash equivalents	24.7	9.9
Net debt	**(124.6)**	(141.6)
Add back: impact of IFRS 16	0.8	-
Covenant net debt	**(123.8)**	(141.6)

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:

	2019 **£m**	2018 £m	2017 £m
Intangible assets	10.5	10.5	10.4
Property, plant and equipment	213.8	278.8	291.1
Inventories	39.1	38.2	32.3
Trade and other receivables	31.8	41.4	35.1
Trade and other payables	(31.9)	(32.3)	(34.5)
Total capital employed	263.3	336.6	334.4
Average capital employed*	300.0	335.5	342.3
Underlying operating profit	39.1	39.2	38.1
Return on capital employed	**13.0%**	11.7%	11.1%

** 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 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 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 STATEMENT OF PROFIT OR LOSS
for the year ended 31 December

		2019			2018		
		Underlying	**Non-underlying**	**Reported**	Underlying	Non-underlying	Reported
	Note	**£m**	**£m**	**£m**	£m	£m	£m
Revenue	2	**250.0**	**-**	**250.0**	253.4	-	253.4
Operating profit/(loss)	3, 4	**39.1**	**(53.1)**	**(14.0)**	39.2	(12.3)	26.9
Finance cost		**(6.0)**	**-**	**(6.0)**	(7.1)	-	(7.1)
Net finance cost on pensions		**-**	**(1.8)**	**(1.8)**	-	(2.3)	(2.3)
Profit/(loss) before tax		**33.1**	**(54.9)**	**(21.8)**	32.1	(14.6)	17.5
Income tax	9	**(7.7)**	**(11.9)**	**(19.6)**	(7.7)	2.7	(5.0)
Profit/(loss) for the year attributable to owners of the Company		**25.4**	**(66.8)**	**(41.4)**	24.4	(11.9)	12.5
Earnings per share							
Basic	5			**(24.8)p**			7.5p
Diluted	5			**(24.8)p**			7.4p

All results relate to continuing operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December

	2019 £m	2018 £m
(Loss)/profit for the year attributable to the owners of the Company	**(41.4)**	12.5
Other comprehensive income/(expense) for the year		
Items that will not be reclassified to profit or loss		
Pension obligations:		
- remeasurements	**(13.1)**	30.3
- movement in deferred tax	**2.3**	(3.2)
- remeasurement of an insurance and held to fund pension obligation	**(0.2)**	-
	(11.0)	27.1
Items that may or may not be reclassified subsequently to profit or loss		
Cash flow hedges:		
- net fair value gains/(losses)	**2.1**	(2.5)
- tax on fair value movements	**(0.4)**	0.4
Net investment hedges:		
- fair value gains	**3.4**	0.5
- tax on fair value movements	**-**	(0.1)
Net exchange adjustments	**(9.0)**	(4.7)
	(3.9)	(6.4)
Other comprehensive (expense)/income for the year, net of tax	**(14.9)**	20.7
Total comprehensive (expense)/income for the year attributable to owners of the Company	**(56.3)**	33.2

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December

	Note	**2019** **£m**	2018 £m
ASSETS			
Non-current assets			
Property, plant and equipment		**213.8**	278.8
Intangible assets		**10.5**	10.5
Deferred tax assets		**25.5**	34.2
Trade and other receivables		**3.9**	5.4
		253.7	328.9
Current assets			
Inventories		**39.1**	38.2
Trade and other receivables		**27.9**	36.0
Derivative financial instruments		**1.4**	0.2
Cash and cash equivalents		**24.7**	9.9
		93.1	84.3
Total assets		**346.8**	413.2
LIABILITIES			
Current liabilities			
Trade and other payables		**(29.4)**	(29.3)
Current tax liabilities		**(1.6)**	(0.3)
Borrowings		**(1.2)**	(4.7)
Derivative financial instruments		**(0.6)**	(1.6)
Provisions for other liabilities and charges		**(5.6)**	(5.2)
		(38.4)	(41.1)
Non-current liabilities			
Borrowings		**(148.1)**	(146.8)
Pension obligations	6	**(64.1)**	(54.4)
Deferred tax liabilities		**(16.0)**	(17.6)
Other payables		**(2.5)**	(3.0)
Provisions for other liabilities and charges		**(2.8)**	(3.8)
		(233.5)	(225.6)
Total liabilities		**(271.9)**	(266.7)
Net assets		**74.9**	146.5
EQUITY			
Ordinary shares		**16.7**	16.7
Share premium		**9.3**	9.3
Other reserves		**72.2**	77.1
Retained earnings		**(23.3)**	43.4
Equity attributable to owners of the Company		**74.9**	146.5

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
for the year ended 31 December

	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 expense					
Loss for the year	**-**	**-**	**-**	**(41.4)**	**(41.4)**
Other comprehensive expense	**-**	**-**	**(3.9)**	**(11.0)**	**(14.9)**
Total comprehensive expense	**-**	**-**	**(3.9)**	**(52.4)**	**(56.3)**
Transactions with owners of the Company					
Performance Share Plan credit, net of tax	**-**	**-**	**(0.4)**	**-**	**(0.4)**
Performance Share Plan credit in respect of awards lapsed	**-**	**-**	**(0.6)**	**0.6**	**-**
Dividends paid	**-**	**-**	**-**	**(15.0)**	**(15.0)**
Total transactions with owners of the Company	**-**	**-**	**(1.0)**	**(14.4)**	**(15.4)**
Balance at 31 December 2019	**16.7**	**9.3**	**72.2**	**(23.3)**	**74.9**
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 of the Company					
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 of the Company	-	-	0.1	(14.0)	(13.9)
Balance at 31 December 2018	16.7	9.3	77.1	43.4	146.5

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December

	Note	**2019 £m**	2018 £m
Cash flows from operating activities			
Cash generated from operations	7	**59.7**	46.1
Interest paid		**(5.6)**	(7.6)
Tax paid		**(9.2)**	(12.5)
Net cash generated from operating activities		**44.9**	26.0
Cash flows from investing activities			
Purchase of property, plant and equipment		**(12.5)**	(11.3)
Purchase of intangible assets		**(1.2)**	(0.9)
Proceeds from disposal of property, plant and equipment and software		**0.2**	-
Net cash used in investing activities		**(13.5)**	(12.2)
Cash flows from financing activities			
Proceeds from borrowings		**7.2**	-
Repayment of borrowings		**(3.8)**	(0.6)
Payment on settlement of derivatives		**(0.1)**	(2.6)
Payment of lease liabilities		**(0.5)**	-
Dividends paid		**(15.0)**	(14.7)
Net cash from financing activities		**(12.2)**	(17.9)
Net increase/(decrease) in cash and cash equivalents		**19.2**	(4.1)
Net cash and cash equivalents at 1 January		**5.2**	9.3
Net increase/(decrease) in cash and cash equivalents		**19.2**	(4.1)
Exchange loss on cash and cash equivalents		**(0.5)**	-
Net cash and cash equivalents at 31 December		**23.9**	5.2
Cash and cash equivalents		**24.7**	9.9
Bank overdrafts		**(0.8)**	(4.7)
Net cash and cash equivalents at 31 December		**23.9**	5.2

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Financial information

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2019 or 2018.

The consolidated Financial Statements have been prepared using consistent accounting policies with those of the previous financial year. The Group has adopted IFRS 16 (Leases) in 2019. Details of the impact on adoption are presented in the consolidated statement of changes in equity.

Statutory accounts for the year ended 31 December 2018 have been delivered to the Registrar of Companies. Statutory accounts for the year ended 31 December 2019 have been audited and will be delivered to the Registrar of Companies following the Company's Annual General Meeting. The auditor has reported for both years was (i) unqualified, (ii) did not include a reference to any matters to which the auditors 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.

These accounts were approved by the Board of Directors on 3 March 2020.

2. 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 because they require different products and marketing strategies, with three identifiable operating segments:

- Americas: includes North America and Latin America
- Asia Pacific: includes Australia & NZ, Japan, China and the rest of South East Asia
- EMEA: includes Continental EU, Russia & East, UK & Ireland and 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 products for multiple sales areas and performance cannot be allocated to operating segments; the Board reviews performance by manufacturing plant regularly and manages underlying operating profit before exceptional items and non-recurring items at a 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 these Financial Statements.

	Americas		**Asia Pacific**		**EMEA**		**Total Group**	
	2019 £m	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m
Revenue from external customers	**62.5**	60.8	**82.8**	82.9	**104.7**	109.7	**250.0**	253.4
Underlying operating profit before non-recurring items							**39.1**	40.0
Non-recurring items							**-**	(0.8)
Underlying operating profit							**39.1**	39.2
Exceptional items							**(53.1)**	(12.3)
Operating (loss)/profit							**(14.0)**	26.9
Finance cost							**(6.0)**	(7.1)
Net finance cost on pensions							**(1.8)**	(2.3)
(Loss)/profit before tax							**(21.8)**	17.5

Recognition of sales to emerging and mature markets:

	2019 £m	2018 £m
Mature	**187.3**	192.4
Emerging	**62.7**	61.0
Total	**250.0**	253.4

3. Operating profit

	2019			2018		
	Underlying £m	**Non-underlying £m**	**Reported £m**	Underlying £m	Non-underlying £m	Reported £m
Revenue	**250.0**	**-**	**250.0**	253.4	-	253.4
Cost of sales	**(162.7)**	**(49.5)**	**(212.2)**	(164.2)	(2.0)	(166.2)
Gross profit	**87.3**	**(49.5)**	**37.8**	89.2	(2.0)	87.2
Selling and distribution costs	**(18.2)**	**-**	**(18.2)**	(18.9)	(0.5)	(19.4)
Administrative expenses	**(22.3)**	**(3.6)**	**(25.9)**	(23.1)	(8.9)	(32.0)
Research & development expenditure	**(6.2)**	**-**	**(6.2)**	(6.4)	(0.9)	(7.3)
Other expenses	**(2.3)**	**-**	**(2.3)**	(2.9)	-	(2.9)
Total operating expenses	**(49.0)**	**(3.6)**	**(52.6)**	(51.3)	(10.3)	(61.6)
Other operating income	**0.8**	**-**	**0.8**	1.3	-	1.3
Net operating expenses	**(48.2)**	**(3.6)**	**(51.8)**	(50.0)	(10.3)	(60.3)
Operating profit/(loss)	**39.1**	**(53.1)**	**(14.0)**	39.2	(12.3)	26.9

An additional £1.1m (2018: £0.4m) of development expenditure has been capitalised within intangible assets.

4. Exceptional items

Exceptional charges included in operating profit were £53.1m (2018: £12.3m).

	2019 £m	2018 £m
Restructuring costs	**7.2**	11.4
GMP equalisation	**-**	0.9
Impairment of property, plant and equipment	**44.9**	-
Impairment of intangible assets	**1.0**	-
Total exceptional items	**53.1**	12.3

In the second half of 2019 the Group undertook a review of its global manufacturing footprint with the aim to access further efficiency improvements, as well as to align available capacity to the Group's growth plans. As a result of this review, the Group made a decision to close its Bellshill site in Scotland during 2020 and move the remaining operating assets to other sites. Whilst this initiative improves the cash generation capacity of the Group’s asset base, it also triggered an impairment review which impacted key assumptions underpinning calculations of net present value from cash flow forecasts for US and China manufacturing operations.

- The closure of the Bellshill site resulted in the Group recognising a restructuring provision of £4.2m, associated costs of £0.6m, a curtailment charge associated with the additional pension obligation relating to the UK pension scheme of £0.8m and an impairment charge of £4.9m.

- Plans for production of certain higher margin products historically forecast in China were reallocated to other operations. These production changes were partially offset by lower costs forecasts reflecting the Group's track record of costs savings, but resulted in a decrease in margins and profits leading to lower cash flow forecasts resulting in a write down of £18.0m (36% of book value) of the China manufacturing assets.

- The global supply chain optimisation project also resulted in the decision to permanently decommission the pilot line in the US which was put in place when the facility was initially constructed. This resulted in lower absorption of plant fixed costs and consequently higher than previously forecasted production costs per unit. These production changes together with refinement of cost forecasts resulted in a decrease in margins and profits leading to lower cash flow forecasts resulting in a write down of £23.0m (33% of book value) of the US manufacturing assets.

5. Earnings per share

	2019	2018
	£m	£m
(Loss)/profit attributable to equity holders	**(41.4)**	12.5
Profit attributable to equity holders excluding exceptional items	**25.4**	24.4
Earnings per share		
- Basic	**(24.8)p**	7.5p
- Underlying basic	**15.2p**	14.6p
- Diluted	**(24.8)p**	7.4p
- Underlying diluted	**15.2p**	14.4p
Shares in issue	**2019**	2018
Weighted average number of shares in the year	**166,949,022**	166,949,022
Adjustments for:		
- Performance Share Plan	**-**	2,096,270
Weighted average number of shares adjusted for potential dilution	**166,949,022**	169,045,292

Basic earnings per share is calculated by dividing the (loss)/profit for the year attributable to owners of the Company of £(41.4)m loss (2018: £12.5m profit) by 166,949,022 (2018: 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. Given the loss for the year, the Performance Share Plan does not have a dilutive effect on earnings per share for 2019. For 2018, diluted earnings per share is calculated by dividing the profit for the year attributable to ordinary shareholders of £12.5m by the average number of shares, including the effect of all dilutive potential shares, of 169,045,292.

Underlying earnings per share is calculated in order to eliminate the effect of exceptional items after tax in 2019 of £66.8m (2018: £11.9m) on the results. Underlying basic earnings per share is calculated by dividing the underlying profit attributable to ordinary shareholders of £25.4m (2018: £24.4m) by 166,949,022 (2018: 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 £8.0m (2018: £9.4m), of which £2.1m (2018: £3.9m) 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		UK		USA	
	2019	2018	**2019**	2018	**2019**	2018
Discount rate	**2.10**	3.30	**1.95**	2.85	**2.95**	4.05
Rate of increase in salaries*	**2.50**	3.25	**1.00**	1.00	**-**	-
General inflation	**2.50**	2.25	**3.00**	3.20	**-**	-

* As part of the changes to the UK plan agreed in 2010, future pensionable salary increases are capped at 1% per annum. No rate of increase in salaries has been assumed in respect of the USA plan as the plan is now frozen. The Australia salary assumption has been revised to be in line with general inflation.

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

	Australia		UK		USA		Other		Total	
	2019 £m	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m
Total fair value of scheme assets	**8.8**	9.6	**188.6**	178.7	**47.8**	44.5	**-**	-	**245.2**	232.8
Present value of scheme liabilities	**(8.8)**	(9.6)	**(219.8)**	(200.6)	**(77.2)**	(73.6)	**(3.5)**	(3.4)	**(309.3)**	(287.2)
Deficit	**-**	-	**(31.2)**	(21.9)	**(29.4)**	(29.1)	**(3.5)**	(3.4)	**(64.1)**	(54.4)
Related deferred tax assets	**-**	-	**5.3**	3.7	**6.3**	6.4	**0.6**	0.5	**12.2**	10.6
Net pension liabilities	**-**	**-**	**(25.9)**	(18.2)	**(23.1)**	(22.7)	**(2.9)**	(2.9)	**(51.9)**	(43.8)

Movements in the deficit during the year were as follows:

	Australia		UK		USA		Other		Total	
	2019 £m	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m
Deficit in scheme at beginning of year	**-**	-	**(21.9)**	(47.2)	**(29.1)**	(33.0)	**(3.4)**	(1.8)	**(54.4)**	(82.0)
Movement in year:										
Pension charge	**(0.4)**	(0.5)	**(2.8)**	(3.8)	**(1.8)**	(1.7)	**(0.1)**	(0.1)	**(5.1)**	(6.1)
Employer contributions	**0.3**	0.4	**4.1**	3.9	**2.7**	2.4	**0.1**	-	**7.2**	6.7
Remeasurements	**0.1**	0.1	**(10.6)**	25.2	**(2.1)**	4.6	**(0.5)**	0.4	**(13.1)**	30.3
Reclassification	**-**	-	**-**	-	**-**	-	**-**	(2.0)	**-**	(2.0)
Exchange gains/(losses)	**-**	-	**-**	-	**0.9**	(1.4)	**0.4**	0.1	**1.3**	(1.3)
Deficit in scheme at end of year	**-**	-	**(31.2)**	(21.9)	**(29.4)**	(29.1)	**(3.5)**	(3.4)	**(64.1)**	(54.4)

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

	2019 £m	2018 £m
(Loss)/profit before tax	**(21.8)**	17.5
Adjustments for:		
Finance cost	**6.0**	7.1
Profit on disposal	**0.1**	-
Net finance cost on pensions	**1.8**	2.3
Pension cost adjustment for normal contributions	**1.4**	1.1
Depreciation of property, plant and equipment	**25.3**	24.6
Impairment of property, plant and equipment	**44.9**	-
Amortisation of intangible assets	**1.1**	1.0
Impairment of intangible assets	**1.0**	-
Release from capital grants balance	**(0.2)**	(0.1)
Pension deficit funding	**(5.3)**	(4.9)
Performance Share Plan	**(0.4)**	0.8
Changes in working capital:		
Increase in inventories	**(2.0)**	(5.4)
Decrease/(increase) in trade and other receivables	**8.4**	(5.5)
(Decrease)/increase in trade and other payables	**(0.2)**	2.6
(Decrease)/increase in provisions	**(0.4)**	5.0
Cash generated from operations	**59.7**	46.1
Of which:		
Underlying operating cash flows (before pension deficit funding)	**71.3**	57.5
Pension deficit funding	**(5.3)**	(4.9)
Exceptional items	**(6.3)**	(6.5)
Cash generated from operations	**59.7**	46.1

8. Analysis of net debt

	2019 £m	2018 £m
Cash and cash equivalents	**24.7**	9.9
Bank overdrafts	**(0.8)**	(4.7)
Net cash and cash equivalents	**23.9**	5.2
Other bank borrowings	**(72.0)**	(68.7)
US dollar private placement	**(75.7)**	(78.1)
Lease obligations	**(0.8)**	-
Net debt	**(124.6)**	(141.6)

9. Tax

The Group's underlying effective tax rate on profit before exceptional items is 23.3% (2018: 24.0%).

The Group operates around the world and earns profits which are subject to tax at differing rates in different tax jurisdictions. The global nature of the Group's operations gives rise to several factors which could affect the future tax rate. These include the mix of profits, changes to statutory tax rates or tax legislation and the foreign exchange rates applicable when those profits are translated into sterling.

In 2019, £25.3m of deferred tax assets has not been recognised on losses and other timing differences in the US and China as a result of uncertainty over the timing of recoverability. The Group's review of its global manufacturing footprint in 2019 impacted not only impairment testing of US and China plants, but also profits forecasts of US and China statutory entities introducing greater uncertainty over the timing of future recoverability of accumulated losses. This led to full de-recognition of deferred tax assets on carried forward US and China losses as well as a deferred tax asset on some other timing differences in the US. The unwind of previously recognised deferred tax assets has been recognised in exceptional tax.

The quantum of tax losses unrecognised in China is £27.0m (deferred tax assets of £6.7m). The quantum of unrecognised tax losses in the US is £75.3m (deferred tax assets of £15.8m) and unrecognised other timing differences is £13.2m (deferred tax assets of £2.8m).