For Immediate Release **2 March 2021**

Devro plc

AUDITED FULL YEAR RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

Good strategic progress, improved profitability and robust cash delivery

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 2020.

	Underlying results*		**Statutory results**	
	2020	**2019**	**2020**	**2019**
Revenue (£m)	247.6	250.0	247.6	250.0
Operating profit/(loss) (£m)	40.8	39.1	36.2	(14.0)
Operating profit margin (%)	16.5%	15.6%	14.6%	(5.6)%
Profit/(loss) before tax (£m)	35.4	33.1	29.4	(21.8)
Basic earnings per share (pence)	16.5p	15.2p	13.8p	(24.8)p
Total dividend per share (pence)	9.0p	9.0p	9.0p	9.0p

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

Financial Highlights

- Volume of edible collagen casings increased 1%
  - Emerging markets up 13%: driven by Latin America, Russia and South East Asia, reflecting our targeted growth agenda
  - Mature markets down 5%: growth of 9% in North America offset by COVID-19 related decline in food services sector and distributor destocking in Europe
  - COVID-19 negative impact estimated at 2%
- Group revenue marginally lower than prior year due to adverse mix and other products declining
- Underlying operating profit of £40.8m, up 4% on prior year, and operating margin increased 90 bps to 16.5% benefiting from cost savings
- Underlying basic earnings per share up 9% to 16.5p (2019: 15.2p)
- Robust free cash flow generation leading to covenant net debt [i] of £109.5m (2019: £123.8m), representing net debt to EBITDA [ii] of 1.8x (2019: 1.9x)
- Proposed final dividend of 6.3p. Total dividend of 9.0p, flat on the prior year

Strategic Highlights - good progress on 3Cs strategy

- Structured process to identify and convert sales pipeline delivering:
  - High conversion rate achieved in 2020
  - Strong pipeline of opportunities for 2021
  - 10% increase in commercial headcount to drive growth – mainly focused on emerging markets
- Bellshill closed, delivering substantial annualised cost savings
- Continued delivery of operational cost savings through efficiencies in maintenance and automation
- ESG agenda progressing: Defined new Purpose and Sustainability agenda focused on Climate, Water, Waste and People & Our Communities. Actions to be accelerated in 2021.

Rutger Helbing, Chief Executive Officer of Devro, commented:

“I am proud that in a year where we had to deal with the impact of COVID-19 we continued to make good progress with both our trading performance and strategic priorities. This progress in such challenging circumstances highlights the considerable efforts of the whole Devro team and I would like to put on record my gratitude for this; it's been a huge effort.

“The progress we made in all areas of our 3Cs strategy in 2020 provides a strong foundation for further strategic and trading performance improvements in 2021. We also expect another year of good free cash generation.

“Encouragingly, the year has started positively, although caution remains as many of the COVID-19 related challenges experienced in 2020 are still evident. Despite this we expect to make further progress in 2021 driven by our sales pipeline actions, solid underlying demand and the ongoing benefits of operational improvements. Devro is well positioned for the future.”

Contacts

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The audiocast and presentation will be available from 7:00am on Tuesday 2 March 2021 and will be accessible using the link: https://streamstudio.world-television.com/943-1289-27124/en

The presentation will also be available on the company’s website.

www.devro.com

[i] *Covenant Net debt is shown before the impact of IFRS 16; see Alternative Performance Measures section of the Financial Review for definition and explanation.*

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

CHAIRMAN'S STATEMENT

INTRODUCTION

In 2020 Devro made positive financial and strategic progress while responding very capably to the market, operational and workplace challenges posed by COVID-19. I would like to record my appreciation to the leadership team and all their colleagues across the Group who have worked safely, flexibly and tirelessly in support of all of our stakeholders during 2020. I am also pleased to report the completion of our Board refresh. We have added important new skills and diverse experiences to the Board to support the delivery of our growth strategy.

Despite the adverse financial impacts of COVID-19, the Group delivered a robust performance in 2020. Financial progress was driven by strong growth in emerging markets, material improvements to margins, and high cash conversion resulting in a substantial reduction in net debt. It is clear that the recent changes to the organisational structure and the associated investment in capabilities have been instrumental to our 2020 delivery and we expect to be able to build on this good progress.

OUR COVID-19 RESPONSE

The Group responded rapidly to the changing circumstances at the beginning of 2020. Our response was built around three clear priorities: protecting our people and communities, maintaining our position in the food supply chain and safeguarding our financial position. Strong governance structures and enhanced communication processes were established immediately. We were able to maintain consistent production throughout the Group, ensure that our important role to service customers in the food supply chain continued during 2020, whilst keeping our employees and communities safe. The additional costs involved in implementing additional protective measures including a track and trace system, securing key raw materials and providing wellbeing support to our teams, were essential investments underpinning our successful management of the pandemic to date.

OUR SUSTAINABLE FUTURE

Devro is very aware of its responsibilities to all stakeholders. We have for many years aimed to reduce our impact on the environment, and have made good progress, as well as improving social outcomes including those of our employees. Making a positive contribution towards our environmental, social and governance responsibilities is key to our future and there is commitment throughout the organisation from the Board down on this. The Group is currently working on a major sustainability enhancement and development of how we articulate our Company Purpose, all of which will be widely communicated in 2021, covering all aspects of sustainability and taking into consideration the views and priorities of all stakeholders. Actions are already well underway and we look forward to sharing further details in due course.

DIVIDEND

We understand the importance of the dividend to all our shareholders and we are delighted to have been able to maintain our long track record of distributions. In the early stages of the pandemic, as a precautionary measure, the Board decided to postpone the payment of the proposed final 2019 dividend. The postponement allowed us time to confirm the likely ongoing impact of COVID-19 on the business and ensured that our financial position was preserved throughout this evaluation period. Given robust trading in the first half of the year, in July we were able to reinstate the final 2019 dividend, which was paid in October 2020, as well as announce the 2020 interim dividend, which was paid in January 2021.

The Board is proposing a final dividend of 6.3p per share (2019: 6.3p) bringing the total for the year to 9.0p per share (2019: 9.0p). Subject to shareholder approval at the Annual General Meeting in April, the dividend will be paid on 1 October 2021, to those shareholders on the register at 20 August 2021.

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. The Board's interactions and communication with executive management continues to be excellent and as a result, the Board is well placed to challenge, guide and support executive management in the delivery of the 3Cs strategy. Due to COVID-19, there has been a considerable increase in our interactions as a Board which have mainly taken place virtually in 2020. We look forward to more face to face meetings when conditions permit.

After announcing her resignation at the interim results in July we saw the departure of Jackie Callaway, our CFO and Board member, on the 30 November 2020. We wish to thank her for her important contribution to the Group and the Board over the last few years. Our new CFO and Board member

Rohan Cummings joined Devro on 1 December 2020 from Asahi Group Holdings and brings significant financial, commercial and growth experience which we consider to be invaluable in driving strategy execution at Devro.

The process to refresh the non-executive membership of the Board which commenced towards the end of 2019 was completed in 2020. We welcomed as Audit Committee Chair and Senior Independent Director, Lesley Jackson, ex-Group CFO for Stock Spirits PLC and Non-Executive Director Jeremy Burks, Executive Vice President at Roquette Group. We were also pleased to announce the non-executive appointment of Chantal Cayuela (with effect from the start of 2021), a Vice President of Kellogg's European business and leader of its R&D and Innovation team, thereby completing the renewal of the Board and equipping it with a wealth of skills and experience to challenge and support the development and execution of the Group's strategy. Our two long-serving Board members, Paul Withers and Jane Lodge, retired from the Board during the year. We thank them both for their invaluable service to the Board throughout their respective tenures and we wish them both well. With Paul Withers' retirement, Malcolm Swift, who has been a Non-Executive Director of the Company since 2017, took over the chairmanship of our Executive Remuneration Committee from the date of our 2020 AGM, 30 April.

I look forward to working with the newly constituted Board in delivering the Group's growth-led strategy.

PEOPLE

It's been a very difficult year for everybody as we strove to mitigate the impact of COVID-19 on our personal and working lives. Our leadership team and all their colleagues have responded very positively to these challenges, resolutely addressing short term issues whilst not losing sight of our longer-term goals. It's been a huge team effort and on behalf of the Board I'd like to thank them for their commitment and professionalism.

We have continued to work on enhancing engagement with employees, which has been particularly important during these unprecedented times. Our annual 'TellDev!' employee engagement survey highlighted an improved level of both participation and engagement which we are encouraged by. We will continue to target further progress in 2021. We also engaged extensively with our colleagues in relation to our sustainability priorities and how we articulate our Company Purpose through a series of workshops in H2 2020. The Board considers it crucial to reflect on their collective views when building our future sustainability plans.

LOOKING AHEAD

Devro is well positioned for the future and we expect that as the impact of COVID-19 lessens this should become clearer in our financial performance. In 2021 we will continue to focus on our growth agenda, in building a fully integrated sustainability plan and in further improving our financial performance and strength.

Steve Good
Chairman

BUSINESS REVIEW

2020 was a challenging but overall a positive year for Devro. The COVID-19 pandemic and our management of it quickly became our priority, which continued throughout the year and into 2021. We were also successful in leveraging recent investments in our structure, processes and competencies to make good progress on both our strategic and financial priorities.

The pandemic impacted all aspects of our lives however the Company performed well and demonstrated its robustness and flexibility in the most challenging of conditions. I am proud that we delivered on all of our COVID-19 related priorities, as well as making significant progress with both our trading performance and strategic priorities. This is testament to our people, and I would again like to put on the record my gratitude for all their selfless hard work and commitment.

COVID-19

The initial impact of the pandemic was felt during Q1 2020 in our Chinese business and manufacturing site, and we took our best practice learnings and rolled these out across the Group as necessary as the virus spread.

We immediately established three clear priorities ensuring the health and safety of our colleagues and communities; continuing to contribute in a positive way to the food supply chain and maintaining a robust financial position.

We responded to the pandemic swiftly and effectively, introducing precautionary health and safety measures which, as a minimum, were based on government guidelines but in many cases applied more stringent measures. These measures were maintained throughout the year and served us well. As a principal, we aimed to be 'ahead of the curve' in the introduction of precautionary measures and 'behind the curve' in terms of their relaxation. This approach helped us to maintain our operational performance throughout the year ensuring a good service to our customers and fulfilling our role in the food supply chain. Whilst we were successful in maintaining the continuity of our operations, this was not without challenges. In the second quarter of 2020, we faced issues securing hide supplies, a key raw material, but our close relationship with key suppliers allowed us to navigate this potential problem. We also had to manage periods where many colleagues had to self-isolate, and our teams have shown great flexibility to manage through this successfully. In the second half of the year our sites set up 'track and trace' processes which have been very effective in reducing the spread of the virus.

In some of our markets sales were impacted by COVID-19. We saw an uptick in retail driven end customer volumes (e.g. supermarkets) which contrasted to those volumes into the food service industry (e.g. hotels, educational facilities, sporting events) that were severely adversely affected. We estimate that the net impact of this, based on our geographical exposure, particularly in some important mature markets, was of circa 2% on edible casing volumes in 2020. Adjusting for this impact we would have delivered Group volume growth within our targeted long-term range of 2-4%.

BUSINESS PERFORMANCE

Despite the COVID-19 challenges, which we estimate had a net 2% adverse impact on our edible collagen (EC) volumes, total EC volumes grew 1% in the year, driven by strong growth in emerging markets (+13%) and offset by a decline in mature markets (-5%) mainly due to the COVID-19 impact and distributor de-stocking in Continental Europe. Overall Group revenue was marginally down (-1%) but underlying operating profit was up 4% driven by strong margins resulting from significant supply chain savings. Underlying basic earnings per share increased by 9% to 16.5 pence (2019: 15.2 pence) further supported by lower finance costs. Despite higher exceptional items, related to the Bellshill closure, cash generation was also strong and net debt ended the year at £110 million, an improvement of almost £15 million in the year and the covenant ratio improved to 1.8 times net debt to EBITDA. The delayed final 2019 dividend was paid in October 2020 and the 2020 interim dividend was paid in January 2021 maintaining our long-term track record of distributions.

EMERGING MARKETS

Devro's growth ambition is based on delivering growth in emerging markets of between 6–10% per annum. In H2 2019 we saw an acceleration of growth in emerging markets and this momentum continued throughout 2020. Emerging markets growth was 13% with all sales areas contributing, except for the Middle East and Africa region, where sales were adversely impacted by COVID-19. Throughout the year we saw exceptional growth in Latin America (+76%), driven by new customer gains, as well as good growth in South East Asia (+14%) and Russia and East (+16%). China sales grew moderately at

+3% partly impacted by COVID-19 but also due to a strong comparator in H2 2019. Emerging markets represented 28% of the Group revenue, a 300 bps increase year on year.

MATURE MARKETS

Devro has strong market positions in mature markets. We continue to see growth opportunities in these markets mainly through gut conversion and the snacking category with an overall expectation, on average, of growth between 0-2% per annum. In 2020 we experienced two specific challenges, namely food service declines due to COVID-19 lockdowns across several important markets and the anticipated distributor partner de-stocking in H1 2020 in Continental Europe. Overall edible casing volumes in mature markets were down 5%, but with an improvement seen in the trend during H2 2020 (-6% H1 and -3% H2). Edible casing volumes grew strongly in North America (+9%) and were in positive territory in Australia & NZ (+2%) and Japan (+1%), but this was offset by lower volumes in Continental Europe (-16%), where sales were impacted by distributor de-stocking and a more general collagen casings market weakness in the UK and Ireland (-9%). In both of these areas volumes were also impacted by COVID-19 related declines in foodservice.

STRATEGIC PROGRESS

Despite the challenges presented by COVID-19 we made very good progress on our strategic priorities in the year. After the introduction of the 3Cs strategy in 2018 considerable progress has been made to further strengthen the foundation of the business with amongst others the implementation of our global operating model and supporting processes like Integrated Business Planning and introduction of the sales cycle. The focus in 2020 shifted from building and designing those to using them to drive our growth agenda.

Win with the winning CUSTOMERS

In 2020 the focus was on delivering the first year of the three-year commercial plans for each of our sales areas. A key part of these plans is to identify of growth opportunities and manage the delivery of those growth opportunities through our sales cycle management, for the current year, as well as setting-up further growth opportunities for the following year. We had notable successes in 2020, which was reflected in strong volume growth of 13% in our emerging markets and of almost 10% in North America. We continued to cultivate our sales pipeline in 2020 which we believe bodes well for future growth.

Delivering volume growth is supported by focussed investment in both people and product. Given, our ambition to grow between 6 to 10% per annum on average in emerging markets, we invested particularly in those sales areas. Across the Group we increased our commercial headcount by approximately 10%, the majority of which are focused on emerging markets. In addition, we upgraded our capabilities in five of our key commercial roles through a mixture of internal promotions and external recruitment. Further recruitment is planned for 2021.

In 2020 we again reviewed our route to market strategy for our different sales areas to be able to deliver our growth agenda more effectively in the future.

The Group continued to focus, accelerate, and expand its product development activities. In 2020 there were three main priorities. First, supporting our near-term growth opportunities as customers take our product to market. Second, the product development team helped support the transfer of production to the Czech site from Bellshill. The third important priority to ensure our long-term success, was to drive our new category plans relating to the opportunities in gut conversion, snacking and emerging market growth, amongst other areas such as new technologies.

Focus on the CORE profitability drivers

In 2019 we announced the intention to close our Bellshill site in Scotland. This action targeted £5 million of annualised costs savings to be fully realised in 2021, and aimed to enhance the agility and flexibility of the Group's supply chain. As planned, on 30 June 2020 we closed the Bellshill site transferring some of the production lines to our largest site in Czech. The first tranche of savings were realised in H2 2020 with the 2020 cash costs well within our original guidance of £9 million. The new Czech lines will be commissioned in Q1 2021 with full year annualised savings still estimated to be £5 million. We are pleased with the delivery of the overall programme given the challenges posed by COVID-19.

Whilst 2019 was the last year of our D100 savings programme, the business continued to deliver ongoing cost savings in 2020, with a focus on efficiency gains in maintenance and automation, amongst other areas. The efforts delivered total supply chain savings (including Bellshill savings), well ahead of our original guidance, and also an improvement from the stated H1 position. The savings were partially offset by the unexpected, temporary costs due to COVID-19, including higher hide prices, as well as ongoing inflationary pressures driving net cost savings of £6.0 million[1].

To support our growth ambition we continued to focus on increasing capacity from our existing production lines, and in 2020, both overall yields and line speeds increased through our strategic capacity enhancement initiatives such as 'Stable Ops'. We have many opportunities which we can apply our cost effective capacity enhancement programme, which we piloted for the first time in 2019 in our US plant, and have incorporated it in the transferred lines from Bellshill to our Czech site. This programme allows for increased capacity within our existing footprint without the requirement for significant capital expenditure based on our medium-term growth plans.

Strengthening COMPETENCIES

In our journey from a regional to a global business the Integrated Business Planning process (IBP) has been crucial in linking our global functional organisation together and to delivering the 3Cs strategy. In 2020 after designing the process in 2019, we started to embed IBP and I am pleased with the progress we have made during the year. At the core of IBP is continuous improvement, which we will continue to focus on, but with IBP and our 36 months rolling financial forecast we already have a much better longer-term view which enables us to more effectively align our resources towards the most promising growth opportunities.

Devro takes its Environmental, Social and Governance (ESG) responsibilities seriously, and in H2 2020 we began a Group wide programme to enhance our ambition, disclosure and performance including as an initial step engaging with our stakeholders. Whilst we already have, for some years, a significant Sustainability commitment, we started to define our longer-term ambitions. With the help of our colleagues and other stakeholders we use the UN Sustainable Development Goals to review our commitments and decided to focus our ambition and resources on Climate, Water, Waste and People & Our Communities with targets and priority projects to be finalised in H1 2021. We will communicate this further in H2 2021.

Now that we are globally managed, aided by the 3Cs strategy, it is the right time to redefine Devro's **Purpose**. We engaged with our workforce to help in the process and in the later part of the year over 33% of our workforce participated in workshops and webinars. Based on this work we will redefine Devro's Purpose, Mission and Vision in H1 2021 and start 'living' and communicating this both internally and externally in 2021.

Engagement continues to be high on our agenda. As part of our 3Cs strategy in 2018 we started with our first Group wide engagement survey and in 2020 we completed our third 'TellDev!' survey. I am pleased that 73% of our colleagues participated in the survey and our overall engagement increased by 5 percentage points, with higher scores, despite all the COVID-19 related challenges we faced. One of the areas we particularly focussed on in 2020 was to significantly increase our internal communications efforts utilising our intranet. This has been well received. Our managers now have access to their team's engagement feedback and will decide, as they did in 2020, on the areas they specifically need to focus on to further increase engagement and contentment in the workforce.

OUTLOOK

The progress we have made in all areas of our 3Cs strategy in 2020 provides a strong foundation for further strategic improvements in 2021. Encouragingly, the year has started positively but many of the COVID-19 related challenges experienced in 2020 remain providing a level of caution. Despite this we expect to make further progress in 2021 driven by our sales pipeline actions, solid underlying demand and the ongoing benefits of operational improvements including the Bellshill site closure. We would also expect another year of good free cash generation. Devro is well positioned for the future.

Rutger Helbing

Chief Executive Officer

[1] *Refer to page 10 for breakdown of cost savings*

FINANCIAL REVIEW

The Group demonstrated robust trading and financial resilience in 2020 positioning it well for future profitable and cash generative growth

The Group was able to demonstrate its trading and financial robustness in 2020. The key highlights included revenue being only marginally lower, despite the impact of COVID-19, underlying operating margins improving to 16.5%, up 90 bps year-on-year, strong cash generation, leading to a substantial reduction in net debt compared to the prior year, and the maintenance of our long-term dividend track record. Our strong financial platform positions the Group well for future profitable and cash generative growth.

Edible Collagen (EC) volumes grew by 1% in the year, despite the challenges brought by COVID-19, which we estimate had an adverse net 2% impact on group volume.

Group revenue was marginally down (-1%) at £247.6 million driven by pricing investments in long term contracts, adverse product mix in EC and lower sales of other products, primarily non-edibles.

The divergent performance between our emerging and mature markets continued in H2 2020 with emerging market volumes growing 13% for the full year, above our expected range, while mature markets declined 5%. Whilst overall volumes in North America increased year on year by 9%, this was not sufficient to offset weaker trading in the UK and Europe, with COVID-19 impacting the food services sector along with distributor destocking, as previously outlined, in certain European markets.

Underlying operating profit was up 4% year on year at £40.8 million driven by improving margins supported by ongoing supply chain efficiency savings despite certain COVID-19 related costs. Consequently, the underlying operating profit margin was up by 90bps to 16.5% (2019: 15.6%).

Underlying basic earnings per share (“EPS”) increased by 9% to 16.5 pence (2019: 15.2 pence) further supported by lower finance costs.

A combination of higher operating profits, together with working capital efficiencies helped deliver robust cash generation with free cash flows of £22.5 million (2019: £30.8 million) and the covenant net debt/ EBITDA ratio reducing to 1.8 times at 31 December 2020 (1.9 times at 31 December 2019). We expect further improvement in 2021.

Income statement exceptional items for the year were £4.6 million (2019: £53.1 million) of which £4.0 million related to the closure of the Bellshill site and £0.6 million to the final stage of implementation of the new global operating model.

REVENUE

	2020 £m	2019 £m	Change	Change at constant currency
Revenue	**247.6**	250.0	-1.0%	-1.6%

REVENUE BRIDGE

	2020 vs 2019	2019 vs 2018
Volume (EC*)	**1.1%**	0.0%
Price/country/product mix (EC*)	**-1.8%**	-1.5%
Other products	**-0.8%**	-1.1%
Foreign exchange	**0.5%**	1.3%
Total	**-1.0%**	-1.3%

*EC – Edible Collagen

Revenue for the year was marginally lower than 2019, reported revenue fell by 1.0% while constant currency fell by 1.6%. This drop was mainly driven by price investment on long term contracts and adverse product mix. The decrease in other products revenue reflected ongoing general weakness in the non-edible collagen market in Europe and the negative impact of COVID-19 on biomedical. Foreign exchange rates positively impacted revenue due to the strengthening of the Japanese Yen and Euro against Sterling during the year.

EDIBLE COLLAGEN VOLUMES

Overall Group volumes grew by 1.1% in the year with 13% growth recorded in emerging markets offset by a 5% decline in mature markets.

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

	Volume	**Price/Mix**	**Foreign exchange**
Emerging	13%	-1%	1%
Mature	-5%	-1%	1%

Emerging markets volume growth of 13% was driven by new business wins along with market share gains with existing customers in several target geographies. Our strongest growth in volumes was seen in Latin America, up 76%, Russia & East, up 16%, and South East Asia, up 14%. China's moderate 3% full year growth reflected the impact of the pandemic but also reflects a strong comparator in the second half of 2019. Emerging markets contributed 30% of Group edible collagen revenues, a 300 bps increase year on year.

We saw growth in all of our **mature markets** except the UK and Ireland and Continental Europe. These markets declined due to decreased demand from food service end customers resulting from COVID-19 lockdowns coupled with distributor partner de-stocking in Continental Europe. Positively, volumes in North America grew 9% continuing the strong snacking growth seen in prior years. Australia & New Zealand and Japan saw volume uplifts of 2% and 1% respectively. Overall the declines in the UK and Continental Europe more than offset the growth in other mature markets, and overall sales volumes declined by 5%.

OPERATING PROFIT

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

	2020 £m	2019 £m	Change
Underlying EBITDA	**62.4**	65.5	-4.7%
Depreciation & amortisation	**(21.6)**	(26.4)	18.2%
Underlying operating profit	**40.8**	39.1	4.3%
Exceptional items	**(4.6)**	(53.1)	
Operating profit/(loss)	**36.2**	(14.0)	

Underlying operating profit of £40.8 million (2019: £39.1 million) was up by 4.3%. An increase in volumes and strong supply chain cost savings offset the impact of adverse revenue mix, ongoing inflationary pressures and one-off COVID-19 costs, led to the delivery of a solid operating profit performance. 2020 operating profit was also supported by lower depreciation following impairment of assets in 2019, as outlined in the prior year.

Operating profit at £36.2 million (2019: (£14.0) million loss) included £4.6 million of exceptional costs related to the closure of the Bellshill site and final stages of the implementation of the global operating model.

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

	£m
Underlying profit for 2019	**39.1**
Price/country/product mix (EC*)	(3.6)
Volumes (EC*)	0.8
Contribution from other products	(0.9)
Manufacturing cost savings	6.0
Inflation	(2.4)
COVID-19 cost	(2.2)
Fixed cost	3.7
Foreign exchange and other	0.3
Underlying operating profit for 2020	**40.8**

*EC – Edible Collagen

Manufacturing cost savings include ongoing investments into manufacturing efficiency initiatives and operating cost reduction programmes including the final implementation of the new global operating model, closure of Bellshill site, a focus on sourcing of raw materials, and optimisation of operational structures. Wage cost inflation and COVID-19 related costs, as well as a premium paid on raw materials, were mostly offset by reduction in fixed cost, which were mainly depreciation savings on impairments booked in 2019 in the US and China. The cost savings achieved were modestly ahead of management expectations at H1 2020 and included in both the manufacturing cost savings and fixed cost lines.

Devro consolidates results from operations around the world in multiple currencies. Movements in exchange rates had a positive impact on underlying operating profit. Foreign exchange rates benefitted from the strengthening of the Japanese Yen and Euro during the year.

The Group's underlying operating margin increased by 90 bps to 16.5%.

EXCEPTIONAL ITEMS

	2020 **£m**	2019 £m
Restructuring costs	**3.9**	7.2
Impairment of property, plant and equipment	**0.7**	44.9
Impairment of intangible assets	**-**	1.0
	4.6	53.1

Restructuring costs include charges associated with the closure of the Bellshill site of £3.3 million (2019: £5.6 million) and £0.6 million (2019: £1.6 million) relating to the implementation of the new global operating model. An additional £0.7 million of asset impairments were also identified as a part of the Bellshill site closure (2019: £4.9 million). 2021 will reflect the sale of the Bellshill site which completed in January 2021.

The 2019 impairment charges also included £41.0 million related to impairment of assets in the US and China CGUs following changes in sourcing strategy announced at the end of 2019.

CAPITAL INVESTMENT

	2020 **£m**	2019 £m
Capital investment	**16.2**	13.9

Capital investments in 2020 increased to £16.2 million compared to £13.9 million in 2019. The key investments in the year related to reconfiguration and upgrade of our Czech facility following the closure of Bellshill and transfer of manufacturing lines from the UK. Due to COVID-19 certain projects were modestly delayed, and the capital will be spent in 2021. Capital investments for 2021 will be lower than the depreciation and amortisation cost, with the amount depending on future growth prospects.

WORKING CAPITAL

	2020 £m	2019 £m
Inventories	**37.8**	39.1
Trade and other receivables	**29.7**	27.9
Trade and other payables	**(32.0)**	(29.4)
Provisions	**(1.0)**	(5.6)
	34.5	32.0

Working capital increased by £2.5 million during the year and reflects: £1.3 million lower inventories, £1.8 million higher receivables following better sales in the latter part of the year in comparison to the prior year, offset by £2.6 million increase in payables, mainly capital creditors. The decline in current provisions by £4.6 million mainly reflects the payment of redundancies associated with closure of Bellshill site.

CASH FLOW AND NET DEBT

Devro continues to deliver positive cash flows with the covenant net debt/ EBITDA ratio reducing to 1.8 times as at 31 December 2020, compared with 1.9 times as at 31 December 2019. The covenant EBITDA/net interest payable ratio was 12.2 times as at 31 December 2020 (2019: 11.6 times), and together with the covenant net debt/EBITDA ratio was well within the covenant.

Key financial measures are as follows:

	2020	2019
Net debt	**£110.0m**	£124.6m
Covenant net debt/EBITDA ratio	**1.8 times**	1.9 times
Underlying operating cash flow before pension funding deficit and exceptional items	**£67.8m**	£71.3m
Operating cash flow	**£51.6m**	£59.7m
Return on capital employed (ROCE)	**15.7%**	13.0%

Return on capital employed (ROCE) of 15.7% improved due to both positive working capital movements in 2020 and the reduction in asset values following the impairment write downs in 2019. Excluding prior year impairments from the calculation results in an adjusted ROCE of 12.6% (2019:12.1%).

FINANCE COSTS

	2020 £m	2019 £m
Net finance cost	**5.4**	6.0
Net finance cost on pensions	**1.4**	1.8
Total net finance cost	**6.8**	7.8

Net finance costs for the year (excluding pensions) were £5.4 million. This represents a decrease from 2019 of £0.6 million and reflects lower interest rates and levels of debt throughout the year.

Net finance costs on pensions for the year reduced by £0.4 million, due to lower interest rates compared with the start of 2019.

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:

	2020 £m	2019 £m
Fair value of scheme assets	**256.5**	245.2
Present value of scheme liabilities	**(311.7)**	(309.3)
Net pension obligations	**(55.2)**	(64.1)

The Group's net pension obligation decreased by £8.9 million and this primarily related to increased deficit funding, the return on assets and an experience gain on liabilities, offset by a decrease in discount rates.

The net pension obligation has improved significantly from the balance reported at half year (£82.2 million). This improvement is mainly related to the experience gain on liabilities being recognised in the second half of the year and majority of contributions also being made after half year. The return on plan assets also contributed to the improvement in the second half of the year and has accrued broadly equally in both halves of the year.

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 2020 the Group made pension deficit funding contributions of £7.4 million (2019: £5.3 million). The increase over 2020 relates to the phasing out of the legislative taper relief on the US plan discount rates resulting in higher funding liabilities and consequently higher deficit funding payments for the US scheme. For 2021, pension deficit funding is anticipated to remain the same for the US scheme in dollar values. The triennial UK valuation and negotiations are underway but no material increases are expected. Further analysis of the movement in net pension liabilities is set out in Note 6 to the attached Financial Statements.

TAX

	2020 £m	2019 £m
Tax charge on underlying profit before tax	**7.9**	7.7
Tax charge/(credit) on exceptional items & exceptional tax charge	**(1.6)**	11.9
Tax charge in income statement	**6.3**	19.6

The Group operates around the world and earns profits which are subject to tax at differing rates in different jurisdictions. The average tax rate charged to underlying profit before tax was 22.3% in 2020 (2019: 23.3%), and reported profit before tax, 21.4% (2019: - 89.9%).

The underlying tax charge for the year stood at £7.9 million. This is broadly in line with last year, given the similar level of underlying profit before tax.

In 2020 deferred tax assets of £27.2 million have not been recognised on losses in the US, China and other territories, due to uncertainty over the timing of future recoverability of accumulated losses.

EARNINGS PER SHARE

	2020	2019
Underlying basic earnings per share	**16.5p**	15.2p
Basic earnings per share	**13.8p**	(24.8)p

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 1.3 pence, as a result of an increase in underlying operating profit (+1.0 pence), decrease in finance charges (+0.4 pence) and increase in tax charges (-0.1 pence).

The increase in basic EPS mainly reflects the lower exceptional charges in 2020 compared to 2019, as well as the improved trading performance.

DIVIDEND

	2020	2019
Interim per share	**2.7p**	2.7p
Recommended final per share	**6.3p**	6.3p
Total	**9.0p**	9.0p

There was a change to the timing of dividend payments in 2020 versus previous years. What was recommended as our 2019 final dividend of 6.3p per share was ultimately declared as an interim dividend in July 2020 and paid on 2 October 2020. Our usual interim dividend of 2.7 pence per share was also declared in July 2020 and it was paid to shareholders in January 2021.

The Board has recommended a final dividend for 2020 of 6.3 pence per share, which is unchanged from the value of the final 2019 dividend recommended in March 2020.

BREXIT

The Group comprehensively assessed the potential impacts of Brexit prior to 1 January 2021. The key risks and potential impact identified included the potential increase in import duties, import regulations and impact on UK customers and need for increased inventory requirements to ensure adequate supply.

UK represents c.10% of group revenue. Our UK site sells c.13% of its output to affiliates within Europe and sources c.10% of its raw material requirements from outside the UK. Our products have a long shelf life (c. 24 months) and we operate a global supply chain, which has the advantage of maintaining supply continuity. Nevertheless, we continued through 2020 working on a robust plan with appropriate measures to ensure minimal disruption to our customers and supply chain, in case circumstances required it.

Post the period end, in the early part of 2021, we have not experienced any material disruption related to Brexit.

POST BALANCE SHEET EVENT

As a result of the Bellshill site closure, at the end of June 2020, a site sale process was commenced during the second half of 2020. There were several interested parties and the sale was completed on 29 January 2021 for a net £3.6 million. The proceeds will be used to reduce the Group’s net debt.

ALTERNATIVE PERFORMANCE MEASURES

In addition to statutory financial measures, management uses certain alternative performance measures (which are not defined by Adopted 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)', 'covenant EBITDA', 'net debt', 'covenant net debt', 'free cash flow' 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. Constant exchange rates are used in the Financial Review in the revenue section on pages 8 and 9.

Underlying

Underlying figures are stated before exceptional items (Note 4) and net finance cost on pensions. Exceptional items are those significant items which are incremental to normal operations and are separately disclosed by virtue of their nature or size to enable a better understanding of the Group's underlying financial performance. Devro has undergone a major transformation including implementation of a new global structure initiated in 2018 and the closure of the Bellshill site which was completed in 2020. The closure of the Bellshill site coincided with a transfer of its trade and assets to other manufacturing sites in the Group notably to the Group's sites in Czech Republic. This restructuring transfer incurred a number of costs which have been recognised as exceptional costs.

In 2020, £(3.9)m of exceptional costs were included in cost of sales (2019: £(49.5)m), £(0.6)m in administrative expenses (2019: £(3.6)m), and £(0.1)m in other expenses (2019: nil).

Net finance cost on pensions are excluded from underlying results as these costs are volatile, given that they are dependent upon the pension position at 31 December each year which is subject to market fluctuations.

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

	2020			
£m unless otherwise stated	**Underlying**	**Exceptional items**	**Net finance cost on pensions**	**Reported**
Operating profit	**40.8**	(4.6)		**36.2**
Operating margin (%)	***16.5%***	*(1.9)%*		***14.6%***
Profit before tax	**35.4**	(4.6)	(1.4)	**29.4**
Income tax	**(7.9)**	1.3	0.3	**(6.3)**
Profit attributable to owners of the company	**27.5**	(3.3)	(1.1)	**23.1**
Basic earnings per share (p)	**16.5p**	(2.0)p	(0.7)p	**13.8p**

	2019			
£m unless otherwise stated	Underlying	Exceptional items	Net finance cost on pensions	Reported
Operating profit	39.1	(53.1)		(14.0)
Operating margin (%)	*15.6%*	*(21.2%)*		*(5.6%)*
Profit before tax	33.1	(53.1)	(1.8)	(21.8)
Income tax	(7.7)	(12.3)	0.4	(19.6)
Profit/(loss) attributable to owners of the company	25.4	(65.4)	(1.4)	(41.4)
Basic earnings per share (p)	15.2p	(39.1)p	(0.9)p	(24.8)p

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.

£m unless otherwise stated	**2020**		
	Underlying	**Exceptional items**	**Reported**
Operating profit	40.8	(4.6)	36.2
Depreciation and amortisation	21.6		21.6
EBITDA	62.4	(4.6)	57.8
EBITDA margin (%)	25.2%		23.3%
Less: Impact of IFRS 16	(0.4)		
Covenant EBITDA	**62.0**		

£m unless otherwise stated	2019		
	Underlying	Exceptional items	Reported
Operating profit/(loss)	39.1	(53.1)	(14.0)
Depreciation and amortisation	26.4	-	26.4
EBITDA	65.5	(53.1)	12.4
EBITDA margin %	26.2%		5.0%
Less: Impact of IFRS 16	(0.6)		
Covenant EBITDA	64.9		

Earnings per share ('EPS')

The underlying earnings per share measure, which excludes exceptional items, is used to provide a better indication of the underlying performance of the Group. Underlying basic earnings per share is calculated by dividing the underlying profit attributable to ordinary shareholders by shares, being the weighted average number of shares in issue throughout the year (2020: 166,949,022; 2019: 166,949,022). Underlying diluted earnings per share is calculated by dividing the underlying profit for the year attributable to ordinary shareholders by the average number of shares, including the effect of all dilutive potential shares (2020: 168,909,074; 2019: 166,949,022). Shares arising from the Performance Share Plan are only treated as dilutive where the effect is to reduce earnings per share (2020: 1,960,052; 2019: nil).

	2020		2019	
	Underlying	**Reported**	Underlying	Reported
Profit/(loss) attributable to owners of the company (£m)	**27.5**	**23.1**	25.4	(41.4)
Earnings per share				
- Basic (p)	**16.5p**	**13.8p**	15.2p	(24.8)p
- Diluted (p)	**16.3p**	**13.7p**	15.2p	(24.8)p

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. Whilst net debt is calculated using balances reported under IFRS, the Group's covenants are based on net debt as accounted prior to the implementation of IFRS 16 and its impact on leases. A reconciliation from reported figures to 'covenant net debt' is presented below:

	2020 **£m**	2019 £m
Current borrowings	(20.8)	(1.2)
Non-current borrowings	(112.9)	(148.1)
Total borrowings	**(133.7)**	(149.3)
Cash and cash equivalents	23.7	24.7
Net debt	**(110.0)**	(124.6)
Add back: impact of IFRS 16	0.5	0.8
Covenant net debt	**(109.5)**	(123.8)

Return on capital employed ('ROCE')

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:

	2020 **£m**	2019 £m	2018 £m
Intangible assets	**10.2**	10.5	10.5
Property, plant and equipment	**209.2**	213.8	278.8
Assets held for sale	**2.5**	-	-
Inventories	**37.8**	39.1	38.2
Trade and other receivables	**31.4**	31.8	41.4
Trade and other payables	**(35.3)**	(31.9)	(32.3)
Total capital employed	**255.8**	263.3	336.6
Average capital employed*	**259.6**	300.0	335.5
Underlying operating profit	**40.8**	39.1	39.2
Return on capital employed	**15.7%**	13.0%	11.7%

** 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.*

Cash flow

Underlying operating cash flow and free cash flow provide management with important information, in respect with how the underlying business is performing (underlying operating cash flow) and what cash is available for dividend payments (free cash flow). The table below provides a reconciliation from underlying operating cash flow to free cash flow adjusting for items which management view are outside of their discretion.

	2020 **£m**	2019 £m
Underlying EBITDA	62.4	65.5
Working capital/other	5.4	5.8
Underlying operating cash flow	**67.8**	71.3
Capital expenditure	(14.2)	(13.7)
Cash exceptional items	(8.8)	(6.3)
Pension deficit funding	(7.4)	(5.3)
Interest paid	(5.1)	(5.6)
Tax paid	(8.3)	(9.2)
Other	(1.5)	(0.4)
Free cash flow	**22.5**	30.8
Dividends paid	(10.5)	(15.0)
FX movements	2.6	2.0
Impact of IFRS 16 (leases)	-	(0.8)
Movement in net debt	**14.6**	17.0

Rohan Cummings
Chief Financial Officer

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

	Note	**2020** £m	2019 £m
Revenue	2	**247.6**	250.0
Operating profit/(loss)	3, 4	**36.2**	(14.0)
Finance cost		**(5.4)**	(6.0)
Net finance cost on pensions		**(1.4)**	(1.8)
Profit/(loss) before tax		**29.4**	(21.8)
Income tax	9	**(6.3)**	(19.6)
Profit/(loss) for the year attributable to owners of the Company		**23.1**	(41.4)
Earnings per share			
Basic	5	**13.8p**	(24.8)p
Diluted	5	**13.7p**	(24.8)p

All results relate to continuing operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December

	2020 £m	2019 £m
Profit/(loss) for the year attributable to the owners of the Company	**23.1**	(41.4)
Other comprehensive income/(expense) for the year		
Items that will not be reclassified to profit or loss		
Pension obligations:		
- remeasurements	**3.4**	(13.1)
- movement in deferred tax	**-**	2.3
- remeasurement of an insurance asset held to fund pension obligation	**-**	(0.2)
	3.4	(11.0)
Items that may or may not be reclassified subsequently to profit or loss		
Cash flow hedges:		
- net fair value gains	**1.4**	2.1
- tax on fair value movements	**(0.3)**	(0.4)
Net investment hedges:		
- fair value gains	**2.0**	3.4
- tax on fair value movements	**(0.7)**	-
Net exchange adjustments	**5.3**	(9.0)
	7.7	(3.9)
Other comprehensive income /(expense) for the year, net of tax	**11.1**	(14.9)
Total comprehensive income/(expense) for the year attributable to owners of the Company	**34.2**	(56.3)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December

	Note	**2020 £m**	2019 £m
ASSETS			
Non-current assets			
Property, plant and equipment		**209.2**	213.8
Intangible assets		**10.2**	10.5
Deferred tax assets		**27.3**	25.5
Trade and other receivables		**1.7**	3.9
		248.4	253.7
Current assets			
Inventories		**37.8**	39.1
Trade and other receivables		**29.7**	27.9
Derivative financial instruments		**3.2**	1.4
Cash and cash equivalents		**23.7**	24.7
Assets held for sale		**2.5**	-
		96.9	93.1
Total assets		**345.3**	346.8
LIABILITIES			
Current liabilities			
Trade and other payables		**(32.0)**	(29.4)
Current tax liabilities		**(3.2)**	(1.6)
Borrowings		**(20.8)**	(1.2)
Derivative financial instruments		**(0.1)**	(0.6)
Provisions for other liabilities		**(1.0)**	(5.6)
		(57.1)	(38.4)
Non-current liabilities			
Borrowings		**(112.9)**	(148.1)
Pension obligations	6	**(55.2)**	(64.1)
Deferred tax liabilities		**(15.5)**	(16.0)
Other payables		**(3.3)**	(2.5)
Provisions for other liabilities and charges		**(2.3)**	(2.8)
		(189.2)	(233.5)
Total liabilities		**(246.3)**	(271.9)
Net assets		**99.0**	74.9
EQUITY			
Ordinary shares		**16.7**	16.7
Share premium		**9.3**	9.3
Other reserves		**80.1**	72.2
Retained earnings		**(7.1)**	(23.3)
Equity attributable to owners of the Company		**99.0**	74.9

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 2020	**16.7**	**9.3**	**72.2**	**(23.3)**	**74.9**
Comprehensive income					
Profit for the year	**-**	**-**	**-**	**23.1**	**23.1**
Other comprehensive income	**-**	**-**	**7.7**	**3.4**	**11.1**
Total comprehensive income	**-**	**-**	**7.7**	**26.5**	**34.2**
Transactions with owners of the Company					
Performance Share Plan charge, net of tax	**-**	**-**	**0.4**	**-**	**0.4**
Performance Share Plan credit in respect of awards lapsed	**-**	**-**	**(0.2)**	**0.2**	**-**
Dividends paid	**-**	**-**	**-**	**(10.5)**	**(10.5)**
Total transactions with owners of the Company	**-**	**-**	**0.2**	**(10.3)**	**(10.1)**
Balance at 31 December 2020	**16.7**	**9.3**	**80.1**	**(7.1)**	**99.0**

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

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December

	Note	**2020** **£m**	2019 £m
Cash flows from operating activities			
Cash generated from operations	7	**51.6**	59.7
Interest paid		**(5.1)**	(5.6)
Tax paid		**(8.3)**	(9.2)
Net cash generated from operating activities		**38.2**	44.9
Cash flows from investing activities			
Purchase of property, plant and equipment		**(12.8)**	(12.5)
Purchase of intangible assets		**(1.4)**	(1.2)
Proceeds from disposal of property, plant and equipment and software		**-**	0.2
Net cash used in investing activities		**(14.2)**	(13.5)
Cash flows from financing activities			
Proceeds from borrowings		**4.0**	7.2
Repayment of borrowings		**(18.5)**	(3.8)
Payment on settlement of derivatives		**(1.3)**	(0.1)
Payment of lease liabilities		**(0.5)**	(0.5)
Dividends paid		**(10.5)**	(15.0)
Net cash from financing activities		**(26.8)**	(12.2)
Net increase/(decrease) in cash and cash equivalents		**(2.8)**	19.2
Net cash and cash equivalents at 1 January		**23.9**	5.2
Net increase/(decrease) in cash and cash equivalents		**(2.8)**	19.2
Exchange gain/(loss) on cash and cash equivalents		**0.4**	(0.5)
Net cash and cash equivalents at 31 December		**21.5**	23.9
Cash and cash equivalents		**23.7**	24.7
Bank overdrafts		**(2.2)**	(0.8)
Net cash and cash equivalents at 31 December		**21.5**	23.9

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 2020 or 2019.

The consolidated Financial Statements have been prepared using consistent accounting policies with those of the previous financial year.

Statutory accounts for the year ended 31 December 2019 have been delivered to the Registrar of Companies. Statutory accounts for the year ended 31 December 2020 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 1 March 2021.

Going concern basis

The Annual Report outlines the business activities of the Group and describes the Group’s objectives and procedures for managing its capital, its financial risk management policies, details of financial instruments and exposure to market, credit and liquidity risk.

At 31 December 2020 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. 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.

In making this assessment the impact of COVID-19 has been considered in a range of possible levels of impact on revenue, profit and cash, and the offsetting effect of controllable mitigating actions over the course of at least 12 months from the date of approval of this statement. These include the length of time various levels of restrictions will be in place and the severity of the consequent impact of those restrictions on most exposed areas: raw material inflation (primarily hides), disruption to supply chain and lower food service demand.

For all of our businesses we have sensitised the revenue (circa 2% - 3% reduction in year on year revenues), profit and cash flow impact of reduced trading activity. In line with the impacts noted above, the scenarios are most sensitive to the assumptions made predominantly in food services markets. We have not assumed any uplift in our markets under any level of restrictions for the purpose of the scenario modelling.

The scenarios include an assumption of economic recession lasting until the end of 2021. This conservative view assumes slow decline in our market during this time. While COVID-19 is anticipated to impact our profits and cash generation, as the economies come out of recession, so should the profits and cash recover. As we exit both lockdown and our busiest trading periods, the forecasted COVID-19 impact should also reduce.

In our modelling, mitigating actions are all within management control, can be initiated as they relate to discretionary spend, and do not impact our ability to meet demand. These actions include reduced opex spend and stopping all non-essential and non-committed capex in the forecasted period.

We believe that the risk of enforced factory closure is low and have implemented additional health and safety measures in each of our factories to reduce the risk of a major supply disruption. Please refer to principal risks section for further details. We are assuming no significant structural changes to the business will be needed.

In all the scenarios, significant liquidity headroom under our existing debt facilities remains at each month end, including the assumption that repayment of the US dollar private placement tranche of $25.0m in April 2021 will be made out of existing facilities. At 31 December 2020, the net debt position was £110.0m and our covenant net debt to EBITDA ratio was 1.8 times with a covenant EBITDA to net interest payable ratio of 12 times. Undrawn facilities were £47.3m with £23.7m of cash holdings as at 31 December 2020. Covenants are set at less than 3.0 times Net debt to EBITDA and more than 4.0 times EBITDA to Net Interest Payable in all our lending agreements.

Under all the scenarios modelled, after taking mitigating actions as required, forecasts did not indicate breach on any of those dates.

2. Segment information

The chief operating decision maker has been identified as the Board. As reported in 2019, the Board started review of the Group's financial results on a market segment basis because they require different products and marketing strategies, with two identifiable operating segments:

- Emerging markets: Latin America, Russia & East, Middle East & Africa, South East Asia and China
- Mature markets: North America, Continental EU, UK & Ireland, Japan and Australia & New Zealand.

The Board assesses the performance of the operating segments based on revenue generated from sales to external customers. Each manufacturing site produces product for multiple sales areas and performance cannot be allocated to operating segments; the Board reviews performance by manufacturing plant regularly and manages underlying operating profit before exceptional items at the 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 reflected in these Financial Statements.

	Mature		**Emerging**		**Total Group**	
	2020 £m	2019 £m	**2020 £m**	2019 £m	**2020 £m**	2019 £m
Revenue from external customers	**177.8**	187.3	**69.8**	62.7	**247.6**	250.0
Underlying operating profit					**40.8**	39.1
Exceptional items					**(4.6)**	(53.1)
Operating profit/(loss)					**36.2**	(14.0)
Finance cost					**(5.4)**	(6.0)
Net finance cost on pensions					**(1.4)**	(1.8)
Profit/(loss) before tax					**29.4**	(21.8)

3. Operating profit

	2020 £m	2019 £m
Revenue	**247.6**	250.0
Cost of sales	**(158.0)**	(212.2)
Gross profit	**89.6**	37.8
Selling and distribution	**(18.4)**	(18.2)
Administrative expenses	**(26.0)**	(25.9)
Research & development expenditure	**(6.3)**	(6.2)
Other expenses	**(3.4)**	(2.3)
Total operating expenses	**(54.1)**	(52.6)
Other operating income	**0.7**	0.8
Net operating expenses	**(53.4)**	(51.8)
Operating profit/(loss)	**36.2**	(14.0)

An additional £0.3m (2019: £1.1m) of development expenditure has been capitalised within intangible assets.

4. Exceptional items

Exceptional charges included in operating profit were £4.6m (2019: £53.1m).

	2020 £m	2019 £m
Restructuring costs	**3.9**	7.2
Impairment of property, plant and equipment	**0.7**	44.9
Impairment of intangible assets	**-**	1.0
Total exceptional items	**4.6**	53.1

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 closed its Bellshill site in Scotland in 2020 and moved remaining operating assets to other sites.

Exceptional charges associated with the Bellshill programme included the site closure costs of £3.3m (2019: £0.6m) and assets impairment charge of £0.7m (2019: £4.9m). In 2019, costs incurred in relation to the closure of Bellshill site comprised restructuring £4.2m and a curtailment charge associated with additional pension obligation relating to the UK pension scheme of £0.8m.

The final costs of £0.6m (2019: £1.6m) were incurred in relation to the implementation of the new global operating model. This involved restructuring the business support activities into global functions to realign the cost base for operating expenses with strategic priorities.

Whilst the review of global manufacturing footprint improved the cash generation capacity of the Group's asset base, in 2019, it also triggered an impairment review that impacted key assumptions underpinning calculations of net present value from cash flow forecasts for US and China manufacturing operations. Consequently, the US CGU assets were impaired by £23.0m and China CGU assets by £18.0m.

5. Earnings per share

	2020 £m	2019 £m
Profit/(loss) attributable to equity holders	**23.1**	(41.4)
Earnings per share		
- Basic	**13.8p**	(24.8)p
- Diluted	**13.7p**	(24.8)p
Shares in issue	**2020**	2019
Weighted average number of shares in the year	**166,949,022**	166,949,022
Adjustments for:		
- Performance Share Plan	**1,960,052**	-
Weighted average number of shares adjusted for potential dilution	**168,909,074**	166,949,022

Basic earnings per share is calculated by dividing the profit/(loss) for the year attributable to owners of the Company of £23.1m (2019: £41.4m loss) by 166,949,022 (2019: 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. For 2020, diluted earnings per share is calculated by dividing the profit for the year attributable to ordinary shareholders of £23.1m by the average number of shares, including the effect of all dilutive potential shares, of 168,909,074. Given the loss for full year 2019, the Performance Share Plan does not have a dilutive effect on earnings per share for 2019.

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 £7.5m (2019: £8.0m), of which £3.5m (2019: £2.1m) 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	
	2020	2019	**2020**	2019	**2020**	2019
Discount rate	**1.10**	2.10	**1.30**	1.95	**2.10**	2.95
Rate of increase in salaries*	**2.50**	2.50	**1.00**	1.00	**-**	-
General inflation	**2.50**	2.50	**2.90**	3.00	**-**	-

* 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 is in line with general inflation.

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

	Australia		UK		USA		Other		Total	
	2020 £m	2019 £m	**2020 £m**	2019 £m	**2020 £m**	2019 £m	**2020 £m**	2019 £m	**2020 £m**	2019 £m
Total fair value of scheme assets	**8.8**	8.8	**195.4**	188.6	**52.3**	47.8	**-**	-	**256.5**	245.2
Present value of scheme liabilities	**(8.9)**	(8.8)	**(221.8)**	(219.8)	**(77.6)**	(77.2)	**(3.4)**	(3.5)	**(311.7)**	(309.3)
Deficit	**(0.1)**	-	**(26.4)**	(31.2)	**(25.3)**	(29.4)	**(3.4)**	(3.5)	**(55.2)**	(64.1)
Related deferred tax assets	**-**	-	**5.0**	5.3	**5.4**	6.3	**0.7**	0.6	**11.1**	12.2
Net pension liabilities	**(0.1)**	**-**	**(21.4)**	(25.9)	**(19.9)**	(23.1)	**(2.7)**	(2.9)	**(44.1)**	(51.9)

Movements in the deficit during the year were as follows:

	Australia		UK		USA		Other		Total	
	2020 £m	2019 £m	**2020 £m**	2019 £m	**2020 £m**	2019 £m	**2020 £m**	2019 £m	**2020 £m**	2019 £m
Deficit in scheme at beginning of year	**-**	-	**(31.2)**	(21.9)	**(29.4)**	(29.1)	**(3.5)**	(3.4)	**(64.1)**	(54.4)
Movement in year:										
Pension charge	**(0.4)**	(0.4)	**(2.3)**	(2.8)	**(1.5)**	(1.8)	**-**	(0.1)	**(4.2)**	(5.1)
Employer contributions	**0.3**	0.3	**3.9**	4.1	**4.8**	2.7	**-**	0.1	**9.0**	7.2
Remeasurements	**-**	0.1	**3.2**	(10.6)	**-**	(2.1)	**0.2**	(0.5)	**3.4**	(13.1)
Exchange gains/(losses)	**-**	-	**-**	-	**0.8**	0.9	**(0.1)**	0.4	**0.7**	1.3
Deficit in scheme at end of year	**(0.1)**	-	**(26.4)**	(31.2)	**(25.3)**	(29.4)	**(3.4)**	(3.5)	**(55.2)**	(64.1)

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

	2020	2019
	£m	£m
Profit/(loss) before tax	**29.4**	(21.8)
Adjustments for:		
Finance cost	**5.4**	6.0
Profit on disposal	**-**	0.1
Net finance cost on pensions	**1.4**	1.8
Pension cost adjustment for normal contributions	**1.2**	1.4
Depreciation of property, plant and equipment	**20.5**	25.3
Impairment of property, plant and equipment	**0.7**	44.9
Amortisation of intangible assets	**1.1**	1.1
Impairment of intangible assets	**0.2**	1.0
Release from capital grants balance	**(0.1)**	(0.2)
Pension deficit funding	**(7.4)**	(5.3)
Performance Share Plan	**0.4**	(0.4)
Changes in working capital:		
Decrease/(increase) in inventories	**1.5**	(2.0)
Decrease/(increase) in trade and other receivables	**0.8**	8.4
(Decrease)/increase in trade and other payables	**1.4**	(0.2)
(Decrease)/increase in provisions	**(4.9)**	(0.4)
Cash generated from operations	**51.6**	59.7
Of which:		
Underlying operating cash flows (before pension deficit funding)	**67.8**	71.3
Pension deficit funding	**(7.4)**	(5.3)
Exceptional items	**(8.8)**	(6.3)
Cash generated from operations	**51.6**	59.7

8. Analysis of net debt

	2020	2019
	£m	£m
Cash and cash equivalents	**23.7**	24.7
Bank overdrafts	**(2.2)**	(0.8)
Net cash and cash equivalents	**21.5**	23.9
Other bank borrowings	**(57.7)**	(72.0)
US dollar private placement	**(73.3)**	(75.7)
Lease obligations	**(0.5)**	(0.8)
Net debt	**(110.0)**	(124.6)

Included within current borrowings amounting to £20.8m (31 December 2019: £1.2m) are bank overdrafts of £2.2m (31 December 2019: £0.8m), finance leases of £0.3m (31 December 2019: £0.4m) and a tranche of US dollar private placement that expires in April 2021 of $25.0m (£18.3m).

9. Tax

The Group's underlying effective tax rate on profit before exceptional items is 22.3% (2019: 23.3%). The reported effective tax rate is 21.4% (2019: -89.9%)

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 mix of profits, changes to statutory tax rates or tax legislation and foreign exchange rates applicable when those profits are translated into sterling.

In 2020, £27.2m of deferred tax assets has not been recognised on losses and other timing differences in the US, China and other territories as a result of uncertainty over the timing of recoverability. A Group review of strategy sourcing conducted in 2019 impacted not only impairment testing of US and China plants, but also profit forecasts of US and China statutory entities, introducing greater uncertainty over future recoverability of accumulated losses. This led to full de-recognition of deferred tax assets on carried forward US and Chinese losses, as well as a deferred tax asset on other timing differences in the US in 2019.

The quantum of tax losses unrecognised in China is £28.7m (deferred tax assets of £7.2m). The quantum of unrecognised tax losses in the US is £76.6m (deferred tax assets of £16.1m) and unrecognised other timing differences is £13.9m (deferred tax assets of £2.9m). Tax losses unrecognised in other territories are £3.3m (deferred tax assets of £0.7m), with an additional £0.3m unrecognised deferred tax assets related to other timing differences.