For Immediate Release **2 March 2022**

DEVRO

Devro plc

AUDITED FULL YEAR RESULTS FOR THE YEAR ENDED 31 DECEMBER 2021

Significant financial and strategic progress

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 2021.

	Underlying results [i]		Statutory results	
	2021	2020 (restated)	2021	2020
Revenue (£m)	252.4	247.6	252.4	247.6
Operating profit (£m)	42.0	40.8	42.7	36.2
Operating profit margin (%)	16.6%	16.5%	16.9%	14.6%
Profit before tax (£m)	36.9	34.0	37.6	29.4
Basic earnings per share (pence)	18.1p	15.8p	18.6p	13.8p
Total dividend per share (pence)	9.3p	9.0p	9.3p	9.0p

Financial Highlights

- Group revenue increased 5.5% on a constant currency basis (1.9% as reported) reflecting H2 2021 growth of 7.6%. Positive pricing achieved
- Volume of edible collagen casings rose 4.9%
  - Emerging markets up 7.1%: driven by Latin America and South East Asia, reflecting positive momentum in our targeted growth agenda
  - Mature markets up 3.7%: driven by 20% growth in North America due to strength in the snacking category and improving trends in most other markets
- Underlying operating profit of £42.0m, up 2.9% on prior year and 12.7% at constant currency
- Operating margin increased 10 bps to 16.6%, despite inflationary pressures, notably in H2, and on a constant currency basis rose 110 bps to 17.6%
- Underlying basic earnings per share up 14.6% to 18.1p (2020: 15.8p)
- Strong free cash flow generation of £35.6m leading to covenant net debt [ii] of £88.6m (2020: £109.5m), representing covenant net debt to EBITDA [iii] of 1.4x (2020: 1.8x), better than expectations
- ROCE increased to 16.9% from 15.7% in 2020
- Proposed final dividend of 6.5p. Total dividend of 9.3p, growth of 3.3% on the prior year, first increase since 2018

Strategic and Commercial Highlights – updated 3Cs strategy for continued growth

- Good customer wins in targeted growth markets
- Increased investment in new product development: new applications for collagen and alternative technologies
- Newly launched Purpose, Vision, Mission and Values: embedded internally and communicated externally
- ESG is at the heart of the Purpose: new sustainability priorities, targets and commitments outlined in September
- Transfer of production lines from Bellshill, Scotland, to our Czech site completed on time and on budget

Outlook

- The Group expects an inflation headwind, mainly driven by energy and raw material costs. To mitigate impact, in H2 2021 and early in 2022 the Group has enacted inflation-led price rises. Pricing action successful to date.

- The Group has started 2022 well and expects to make good full year progress based on current market conditions and the robust order book and pipeline. This is despite the £3.1m hedging gain from 2021 not repeating in 2022 giving a foreign exchange headwind.
- We expect another strong year of cash generation, despite higher capital investment to meet future growth.

Rutger Helbing, Chief Executive Officer, commented:

"We made significant strategic and financial progress in the year. Our improved performance was achieved despite ongoing challenging market conditions, including inflationary headwinds. We are also pleased with our free cash flow performance which provides us with increasing optionality to invest in new products, to increase manufacturing capacity and to grow the dividend.

"The Group has started the year well and, despite ongoing macro-economic headwinds including inflationary pressures and based on current exchange rates, we expect to make good progress in 2022."

Contacts

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The audiocast and presentation will be available from 7:00am on Wednesday 2 March 2022 and will be accessible using the link: https://streamstudio.world-television.com/943-1289-31812/en

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

www.devro.com

[i] *Underlying figures are stated before exceptional items (see Alternative Performance Measures section of the Financial Review for definitions, explanation, and reconciliation to equivalent statutory measures and explanation of restatement). Restatement of prior period results relates to net finance cost on pensions and associated tax, previously included within the non-underlying, now included within the underlying results.*

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

[iii] *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
I am pleased to report on our strong financial and strategic progress during 2021. In my second full year as Chair, we have benefited from and built upon the foundations for growth laid in recent years and delivered constant currency revenue growth of 5.5%, our best performance in many years.

The performance is particularly pleasing given the ongoing COVID-19 related challenges and I would again like to record my appreciation to the leadership team and all of their colleagues across the Group for their efforts to deliver this strong progress. I am particularly pleased with the focus placed in 2021 on engagement across the entire workforce and amongst other key stakeholders to refresh our corporate statement of purpose, to refine our values and to articulate new ESG priorities. These extensive consultations have enhanced unity and alignment across our organisation, around a shared vision for success not only in 2021 but for the sustainable future of the business too.

The Group's improved financial performance in 2021 was underpinned by accelerated revenue growth, reflecting better volume, price and mix, driving higher operating margins and excellent cash generation resulting in a substantial reduction in net debt. As a result, your Board has recommended an increased full year dividend for the first time since 2018, to 9.3p per share.

The financial performance reflects the efforts of many of our team over a number of years to instill new and improved processes and energies into our commercial, operational and financial functions. We are confident that these enhanced disciplines position us well for continued momentum in 2022.

Sustainability
In September we hosted a well-received ESG seminar for investors. The event provided an update on Devro's long history of sustainability, our priorities, our new targets and actions to deliver improvements as well as our progress on meeting the information requirements of the financial community and of other key stakeholders. Devro takes its responsibility to all stakeholders seriously and while good progress has been made, we recognise that meeting what we judge to be ambitious environmental and social commitments will take many years to meet in full. We are investing and dedicating resources as required to meet these commitments.

Growth strategy
The Group continues to see good opportunities for growth in its core collagen casings market. Our assessment remains that mature markets offer, on average, 0-2% volume growth while emerging markets grow at 6-10% resulting in a 2-4% volume growth range for the Group. In 2021 volumes grew 4.9%, ahead of this target, with good momentum continuing into 2022. Selling prices are also increasing as the Group responds appropriately to inflationary headwinds.

To broaden growth beyond our core drivers, we increased investment in 2021 on product development to exploit new commercial opportunities based on alternative technologies and products. The increase in spend was relatively modest in 2021 however we are optimistic about how these products will be received by the market and therefore anticipate development costs to rise incrementally in forthcoming periods. We expect to report on these activities in more depth as commercial progress is made this year.

Dividend
Based on the Group's improved financial performance and the Board's confidence in the future we are proposing a final dividend of 6.5p per share bringing the total for the year to 9.3p per share. Subject to shareholder approval at the Annual General Meeting in April, the dividend will be paid on 22 July 2022, to those shareholders on the register on 10 June 2022.

Governance and Board
The Board continues to lead 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 communications with the Executive Management Team continues to be excellent and as the financial performance has improved, and the impact of COVID-19 has lessened, we have focused more on the long-term growth agenda. We have also placed a greater emphasis on understanding how the Group and its activities and supply chains can lessen the impact on climate change. We are also pleased to report that we were TCFD compliant by the year-end, and we will extend our analysis during 2022.

The composition of the Board underwent one change in 2021 as we welcomed Rikke Mikkelsen as a non-executive director in December, following Chantal Cayuela's decision, on personal grounds, to retire as a non-executive director of the Company with effect from 30 November. Rikke's appointment brings valuable skills and insights to the Board gained from her extensive experience of successful product innovation in international food manufacturing businesses. The Board is well positioned to support the further development and execution of the Company's growth strategy.

People

The Board and I would like to register our appreciation to the whole Devro team after what has been another year in which the business has also had to deal with the ongoing impact of COVID-19 and corresponding disruption to supply chains. The team has responded extremely well to these challenges.

The Group has also achieved higher levels of employee engagement with the annual 'TellDev!' survey seeing the highest ever participation. This is an important forum for our employees to tell us about their views and the opportunities and risks they foresee, and acts as a gauge for the Board in providing insights about how the Company is perceived by an important stakeholder.

Looking Ahead

We are excited about 2022 and beyond. As a Group, Devro is performing well and increasingly confident about its future prospects. We will continue to focus on delivering and broadening our growth agenda while further building our sustainability efforts in the year ahead. We expect our actions to offer strong returns for shareholders.

BUSINESS REVIEW

2021 reflected our long term strategy in action. I am pleased with the financial and strategic performance and see room for further progress given the momentum we have created. The Group has been relentlessly focused on plans and processes to help our people to deliver sustainable growth. The results of these investments were already visible in H2 2020 but to a greater extent in 2021 with constant currency revenue and operating profit growth of 5.5% and 12.7%.

Strategically the Group delivered, with the newly launched Purpose, Vision, Mission and Values embedded internally and communicated externally, and is our guiding star as a business. The feedback has been positive and we will continue to build upon this. In September we outlined our new sustainability priorities, targets and commitments, advancing our strong ESG platform that is firmly embedded. As CEO I take the responsibility to our people and to the environment seriously and in 2022 we will drive the actions that will enable us to meet our targets and commitments. The Group has also increased investment in new product development with a particular focus on alternative technologies and the use of collagen in different applications. Our efforts are commercially sensitive at this time, but we have made good progress and intend to increase investment in 2022 as these new products approach launch.

Operationally the Group completed, on time and budget, the transfer of production lines from Bellshill, Scotland, to our Czech site. We have realised the expected cost savings, which aided our financial performance in 2021. We have an ongoing focus on continuous improvement, which is now embedded in the way we work.

Our success in 2021 would not have been possible without our people and business partners, and I would again like to put on record my gratitude for all their hard work and commitment.

BUSINESS PERFORMANCE

Overall, the performance in 2021 was strong with constant currency revenue growth of 5.5%, constant currency operating profit growth of 12.7% and reduction in covenant net debt to £88.6 million resulting in a covenant net debt/EBITDA ratio of 1.4. The strengthening of the GBP versus the USD and JPY did impact the reported numbers and reported revenue growth was 1.9% and reported operating profit was up 2.9%.

EMERGING MARKETS

Emerging markets continue to be a key source of growth for the Group and our ambition continues to deliver edible collagen volume growth in emerging markets of between 6–10% per annum. In 2021 overall edible collagen volume growth was within this range at 7.1% and constant currency revenue growth was ahead at 9.1%.

The key drivers of this performance were South-East Asia and Latin America where healthy double digit growth was achieved. Growth in Latin America was driven by the full year effect of customer gains we made in Brazil in 2020 as well as with new products in Mexico and distribution gains in Chile and Honduras. Growth in South-East Asia was driven by strong performance in both Thailand and Indonesia. Russia and East saw volumes and revenues decline due to FX headwinds.

MATURE MARKETS

Our overall edible collagen volume growth expectation for mature markets is between 0 and 2% per annum. After a challenging year in 2020 it is pleasing to see we saw a stronger performance in 2021, with edible volumes increasing 3.7% and constant currency revenue growth of 4.9%.

In the year we saw strong growth in snacking in North America with constant currency revenue growth of 18.3%. In Continental Europe and West, we saw healthy growth at 4.6%, a substantial improvement on prior years. Sales in Japan were flat in the year, whilst we continued to see some market related declines in both the UK and Ireland and Australia and New Zealand, albeit that the rate of decline in H2 narrowed.

STRATEGIC PROGRESS

In 2018 the foundations were laid for our long term sustainable growth. 2021 was the year where growth manifested itself more clearly, 2020 having been impacted by COVID-19, and encouragingly we are confident that this is the start of a multi-year journey. The growth achieved is a result of significant efforts from the whole team as well as improved plans, processes and systems in functions ranging from sales to operations, all underpinned by our 3Cs strategy.

In 2021 we launched our Purpose, which will help to guide us as we go forward:

CREATING THE ADDED LAYER OF VALUE
TOGETHER RESPONSIBLY BETTER

With our Vision to be our customers' partner delivering the Added Layer of Value with high quality edible films and coatings and our Mission to sustainably utilise differentiated technology and bio-material science-based solutions to delight our customers.

We have focused to date through our 3Cs strategy on winning with the winning CUSTOMERS, maximising the CORE Profitability Drivers and strengthening COMPETENCIES. The original 3Cs served us well, but with our new Purpose and as part of the next phase, we have updated our 3Cs strategy.

We will continue to focus on the CUSTOMER – delivering the added layer of value TOGETHER - but introduce as our new second C an emphasis on CULTURE – reflecting how we deliver the added layer of value RESPONSIBLY, and as the third C we spotlight CAPABILITIES - how we deliver the added layer of value BETTER.

A focus on our core profitability drivers will continue but given the progress we have made to date, this is now an integral part of how we manage the business through our Integrated Business Planning.

Win with the winning CUSTOMERS - TOGETHER
Our priority for the Customer element of our 3Cs strategy is to provide the leading experience and leading portfolio of edible films and coatings. Our existing research and development activities continue to be focused on expanding our category plans and country initiatives. In order to broaden and enhance our already leading product portfolio we have also started to develop alternative technologies and explore other applications for our edible collagen films and coatings outside our current core markets. These exciting initiatives will have a limited revenue impact on our 2022 results but are important for the long-term direction and scope of the business. We will provide more information on these exciting initiatives as and when appropriate.

CULTURE – Delivering the Added layer of Value – RESPONSIBLY
Within Culture our strategic priority is to be leading in ESG for the sector and to live our values to enable a culture that drives performance.

In 2021 we updated our medium and longer term ESG ambitions and we shared those at the Investor seminar in September. Thinking Circular (to recognise interrelatedness) is in Devro's DNA, as we take a waste product and make it useful, and this includes ESG being at the heart of our Purpose, and we are very motivated to continue to make significant improvements in Climate, Water and Waste as well as for our People and Communities, focusing on Wellbeing, Culture and Communities. There is more information on this in the Responsible Business section of our forthcoming 2021 Annual Report.

To be able to live our Purpose, we have, with the help of many of our colleagues, defined our new values as well. These values represent how we want to drive performance and deliver on our Purpose, Vision, Mission and strategy.

Curious – Courageous – Committed – Connected – Caring

CAPABILITIES – Delivering the Added layer of Value – BETTER
In terms of our Capabilities we focus on how we can continuously improve our performance across the business using standardised global processes, as much as possible. In 2021, our Integrated Business Process, where we look each month at a 36-month rolling outlook, to ensure delivery of our strategic and financial ambitions, became firmly established. This process helped not only to deliver the strong results in 2021, but also to enhance our ability to make informed decisions on investments to support our future growth agenda. As such, in 2021 we decided to further expand our existing capacity through line upgrades in both our Czech and Chinese plants.

In 2021, we once again increased our yield and line speeds in our factories through our focus on continuous improvement and delivered costs savings of £5.8 million.

We have a strong and clear agenda for profitable and cash generative growth.

Outlook

The Group has started the year well and, despite ongoing macro-economic headwinds including inflationary pressures and based on current exchange rates, we expect to make good progress in 2022. Longer term, we are increasingly confident that our growth strategy will drive sustainable outperformance in what remains a growing market.

FINANCIAL REVIEW

The Group delivered a significant financial improvement in 2021 reflecting our strategy in action. On a constant currency basis, we achieved revenue growth of 5.5% with operating profit growth of 12.7%. We ended the year with net debt of £90 million, a decrease of £20 million from the prior year; and covenant net debt to EBITDA down to 1.4x.

Financial highlights

- Group revenue grew 1.9% to £252.4 million, a 5.5% increase on a constant currency basis
- Total volumes grew 4.9%, with mature markets up 3.7% and emerging markets 7.1%
- Underlying operating profit of £42.0 million, an increase of 2.9% on prior year, up 12.7% at constant currency
- Underlying operating margin increased to 16.6% up 10 bps on the prior year
- Statutory operating profit of £42.7 million, an increase of 18.0% on the prior year
- Exceptional income amounted to £0.7 million, principally relating to the sale and closure of the Bellshill site
- Basic EPS of 18.1 pence, a 14.6% increase driven by the operating profit increase, lower finance costs and lower tax charges (driven in part by a one-off benefit of a change in UK tax rates)
- Total dividend for the year of 9.3 pence per share, up 3.3% year-on-year
- Free cash flow of £35.6 million was £13.1m better than prior year, mainly due to improved operating cash flow and exceptional inflow from the sale of Bellshill
- Net debt of £89.7 million, a decrease of £20.3 million from the prior year; and covenant net debt to EBITDA ratio down to 1.4x

REVENUE

	2021 £m	2020 £m	Change	Change at constant currency
Revenue	**252.4**	247.6	1.9%	5.5%

REVENUE BRIDGE

% Change	**2021 vs 2020**	2020 vs 2019
Volume (EC*)	**4.4%**	1.1%
Price/country/product mix (EC*)	**1.0%**	-1.8%
Other products	**0.0%**	-0.8%
Foreign exchange	**-3.5%**	0.5%
Total	**1.9%**	-1.0%

*EC – Edible Collagen

Revenue increased 1.9% on a reported basis and 5.5% at constant currency. The increase in revenue was driven by increased volumes of edible collagen sales and positive price/country/product mix. Other products were flat for the year. Foreign exchange rates adversely impacted revenue due to the strengthening of Sterling against the Japanese Yen and US Dollar during the year.

EDIBLE COLLAGEN VOLUMES

Overall Group volumes grew by 4.9% in the year with 7.1% recorded in emerging markets and 3.7% in mature markets.

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

	Volume	**Price/Mix**	**Foreign exchange – H1**	**Foreign exchange – H2**
Emerging	+7%	+1%	-2%	-2%
Mature	+4%	+1%	-1%	-2%

Emerging markets volume growth of 7% was driven by new business wins along with market share gains with existing customers in several target geographies. Our strongest growth in volume was achieved in Latin America, up 25% and South East Asia, up 19%, where share gains continue to drive our outperformance. China saw a moderate decline of 2% in the year due to local production capacity being diverted to higher margin geographies. Russia and East saw a volume decline of 14% in the year due to foreign exchange headwinds impacting our local competitiveness; the impact was greater in the second half of the year compared to the first half. Emerging markets contributed 31% of Group edible collagen revenues, a 77 bps increase year on year.

Mature markets volume growth of 4% was driven by North America which achieved a 20% increase in the year, driven by a mixture of new business wins and existing customer growth particularly in the snacks category. Continental Europe saw volume growth of 4%, which is a marked improvement from recent periods. UK and Ireland experienced an 8% volume decline, largely the result of a decline in the collagen market. Australia and New Zealand saw a volume decline of 4% due to external market factors whereas Japan was flat for the year in a slower growing market.

OPERATING PROFIT

Operating profit for the year can be analysed as follows:

	2021 £m	2020 £m	Change
Underlying EBITDA	**63.3**	62.4	1.4%
Depreciation & amortisation	**(21.3)**	(21.6)	1.4%
Underlying operating profit	**42.0**	40.8	2.9%
Exceptional items	**0.7**	(4.6)	
Operating profit	**42.7**	36.2	18.0%

Underlying operating profit of £42.0 million (2020: £40.8 million) was up by 2.9% on a reported basis. An increase in volumes sold, positive pricing and mix, and strong supply chain cost savings offset the impact of inflationary pressures and led to the delivery of a strong underlying operating profit performance.

Operating profit at £42.7 million (2020: £36.2 million) included £0.7 million of exceptional income largely related to profit recognised on sale of the Bellshill site.

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

	£m
Underlying profit for 2020	**40.8**
Price/country/product mix (EC*)	1.6
Volumes (EC*)	5.6
Contribution from other products	-
Manufacturing cost savings	5.8
Inflation	(4.7)
Growth and Operating expenses	(3.1)
Underlying operating profit for 2021 at constant currency	**46.0**
Foreign exchange	(4.0)
Underlying operating profit for 2021	**42.0**

*EC – Edible Collagen

The Group has a successful track record of delivering manufacturing cost savings. Manufacturing cost savings in 2021 included manufacturing efficiency initiatives, operating cost reduction programmes, including the closure of the Bellshill site, continued focus on sourcing of raw materials and optimisation of operational structures. The cost savings achieved were in line with management expectations.

Inflation was driven by higher wages, energy costs, chemicals and freight and represented a c.3% increase in the total cost to the business. The increase in operating expenses includes higher employee benefits, due to the improved financial performance, and investment into growth activities and innovation initiatives.

Devro reports in Pounds Sterling but generates revenue and costs in multiple currencies including US dollars, Euros and Japanese Yen. In the year the relative strengthening of Sterling has resulted in a net foreign exchange headwind of £4.0m. In 2022 the Group expects a further foreign exchange headwind due to the non-repeat of the 2021 hedging gain of £3.1 million.

The Group's underlying operating margin increased by 10 bps to 16.6%. Adjusting for FX the underlying operating margin would have risen by 110 bps to 17.6%.

EXCEPTIONAL ITEMS

Exceptional income included in operating profit was £0.7m (2020: charge of £4.6m) and related to profits recognised on sale of Bellshill site of £1.3m and remaining costs associated with closure of this site of £0.6m.

The 2020 restructuring costs included charges associated with the closure of the Bellshill site of £3.3 million, £0.6 million relating to the implementation of the new global operating model and £0.7 million of asset impairments related to the Bellshill site closure.

WORKING CAPITAL

Balance sheet	**2021 £m**	2020 £m
Inventories	**33.9**	37.8
Trade and other receivables	**38.0**	29.7
Trade and other payables	**(38.9)**	(32.0)
Provisions	**-**	(1.0)
	33.0	34.5

Working capital decreased by £1.5 million during the year and reflects: £3.9 million of lower inventory following strong trading at the end to the year, £8.3 million of higher receivables, following better sales in the latter part of the year and £6.9 million of higher payables. The payables movement partly reflects a standardisation of supplier terms across the Group.

CAPITAL CASH INVESTMENT

	2021 £m	2020 £m
Capital cash investment	**15.9**	14.2

Capital cash investment in 2021 increased to £15.9 million compared to £14.2 million in 2020. The key investments in the year related to finalisation of 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 non-essential projects suffered modest delays, and consequently capital investment was below our expected spend in 2021.

CASH FLOW AND NET DEBT

Devro continues to deliver positive cash flows with the covenant net debt/EBITDA ratio reducing to 1.4 times as at 31 December 2021, compared with 1.8 times as at 31 December 2020. The covenant EBITDA/net interest payable ratio was 15.0 times as at 31 December 2021 (2020: 12.2 times), and together with the covenant net debt/EBITDA ratio was well within the covenants.

Key financial measures are as follows:

	2021	2020
Net debt	**£89.7m**	£110.0m
Covenant net debt	**£88.6m**	£109.5m
Covenant net debt/EBITDA ratio	**1.4 times**	1.8 times
Underlying operating cash flow before pension funding deficit and exceptional items	**£70.0m**	£67.8m
Operating cash flow	**£62.9m**	£51.6m
Return on capital employed (ROCE)	**16.9%**	15.7%

Return on capital employed (ROCE) of 16.9% improved due to higher profitability and positive working capital movements in 2021.

FINANCE COSTS

	2021 £m	2020 £m
Finance cost	**4.3**	5.4
Finance cost on pensions	**0.8**	1.4
Total net finance cost	**5.1**	6.8

Finance costs for the year were £4.3 million. This represents a decrease from 2020 of £1.1 million and reflects lower levels of debt following repayment of $25m US Private Placement tranche in April 2021 with a higher interest rate.

Finance costs on pensions for the year reduced by £0.6 million, due to lower brought forward net pension deficit and lower discount rates at the start of 2021, compared with the start of 2020.

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:

	2021 £m	2020 £m
Fair value of scheme assets	**253.5**	256.5
Present value of scheme liabilities	**(289.7)**	(311.7)
Net pension obligations	**(36.2)**	(55.2)

The Group's net pension obligation decreased £19.0 million, primarily due to a £13.1m gain arising from an increase in the discount rates used to measure all schemes, slightly offset by increased inflation assumptions. In addition, the Group benefited from a £6.0 million return on plan assets and continued deficit funding contributions.

The net pension obligation has improved from the balance reported at half-year (£41.2 million). This improvement is mainly due to most contributions being made after half-year, with £5.0m of contributions being made in the second half.

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 2021 the Group made pension deficit funding contributions of £6.1 million (2020: £7.4 million). The decrease from 2020 relates to the US scheme, where contributions reduced by £1.3 million. Contributions for the US scheme are determined by an annual valuation based on assumptions that are fixed by the US regulatory regime. The triennial UK valuation and negotiations were completed in April 2021 with no material changes in deficit funding arising. Further analysis of the movement in net pension liabilities is set out in Note 6 to the attached Financial Statements.

TAX

	2021 £m	2020 £m (restated)
Tax charge on underlying profit before tax	**6.7**	7.6
Tax credit on exceptional items	**(0.2)**	(1.3)
Tax charge in income statement	**6.5**	6.3

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 18.2% in 2021 (2020 (restated): 22.4%), and statutory profit before tax, 17.3% (2020: 21.4%). The 2020 tax charge on underlying profit before tax and tax credit on exceptional items was restated to include £0.3 million of tax credit related to net pension finance costs within the underlying tax charge.

The underlying tax charge for the year stood at £6.7 million. This is lower than last year, driven by a one-off benefit from a change of corporation tax rates in the UK. The credit to the profit and loss statement from this one-off benefit amounts to £1.6 million.

In 2021 deferred tax assets of £27.2 million (2020: £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

	2021	2020 (restated)
Underlying basic earnings per share	**18.1p**	15.8p
Basic earnings per share	**18.6p**	13.8p

We have presented an adjusted underlying earnings per share (EPS) measure, which excludes exceptional items, to provide 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). Restatement of the 2020 results relates to net finance costs on pensions and associated tax, previously included within the non-underlying, now included within the underlying results.

Underlying basic EPS increased by 2.3 pence, as a result of an increase in underlying operating profit (+0.7 pence), decrease in finance charges (+1.0 pence) and decrease in tax charges (+0.6 pence).

The increase in basic EPS mainly reflects exceptional profits recognised in 2021 compared to exceptional losses incurred in 2020, as well as the improved trading performance.

DIVIDEND

	2021	2020
Interim per share	**2.8p**	2.7p
Recommended final per share	**6.5p**	6.3p
Total	**9.3p**	9.0p

The Board has recommended a final dividend for 2021 of 6.5 pence per share, an increase of 0.2p on the final 2020 dividend recommended in March 2021.

An increased interim dividend for 2021 has been paid in January 2022.

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’, ‘covenant net debt/EBITDA’, ‘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 to 10.

Underlying

Underlying figures are stated before exceptional items (Note 4). 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 the closure of the Bellshill site in 2020. The site was sold in January 2021, resulting in an exceptional gain on disposal. 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 site in the Czech Republic. This restructuring transfer incurred a number of costs which have been recognised as exceptional costs.

In 2018, a decision was made to disclose the pension finance costs as a non-underlying cost in the annual report and half year results. The exclusion of net finance cost on pensions followed a review which concluded that the costs were volatile, given that they are dependent upon the pension position at 31 December each year which is subject to market fluctuations. A review in 2021 concluded that whilst not driven by the performance of the business, pension finance costs are an inevitable and ongoing cost for any business with defined benefit schemes and hence are no longer treated as non-underlying. The 2020 underlying figures had excluded net finance cost on pensions and therefore were restated where applicable.

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

£m unless stated otherwise	**2021** **Underlying**	 **Exceptional items**	 **Statutory**	2020 Underlying (restated)	 Exceptional items	 Statutory
Operating profit	**42.0**	**0.7**	**42.7**	40.8	(4.6)	36.2
Operating profit margin %	**16.6%**	**0.3%**	**16.9%**	*16.5%*	*-1.9%*	*14.6%*
Finance cost	**(4.3)**	**-**	**(4.3)**	(5.4)	-	(5.4)
Net finance cost on pensions	**(0.8)**	**-**	**(0.8)**	(1.4)	-	(1.4)
Profit before tax	**36.9**	**0.7**	**37.6**	34.0	(4.6)	29.4
Income tax	**(6.7)**	**0.2**	**(6.5)**	(7.6)	1.3	(6.3)
Profit attributable to owners of the company	**30.2**	**0.9**	**31.1**	26.4	(3.3)	23.1
Basic earnings per share (p)	**18.1**	**0.5**	**18.6**	15.8	(2.0)	13.8

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 stated otherwise	**2021** Underlying	Exceptional items	Reported	2020 Underlying (restated)	Exceptional items	Reported
Operating profit	**42.0**	**0.7**	**42.7**	40.8	(4.6)	36.2
Depreciation & amortisation	**21.3**	**-**	**21.3**	21.6	-	21.6
EBITDA	**63.3**	**0.7**	**64.0**	62.4	(4.6)	57.8
EBITDA margin (%)	***25.1%***		***25.4%***	*25.2%*		*23.3%*
Less: impact of IFRS 16	**(0.4)**			(0.4)		
Covenant EBITDA	**62.9**			62.0		

EBITDA for covenant purposes is shown on underlying basis, before exceptional items and before the impact of IFRS16.

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 (2021: 166,949,022; 2020: 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 (2021: 169,446,429; 2020: 168,909,074). Shares arising from the Performance Share Plan are only treated as dilutive where the effect is to reduce earnings per share (2021: 2,497,407; 2020: 1,960,052).

	2021 Underlying	Reported	2020 Underlying (restated)	Reported
Profit attributable to owners of the company (£m)	**30.2**	**31.1**	26.4	23.1
Earnings per share				
- Basic (p)	**18.1p**	**18.6p**	15.8p	13.8p
- Diluted (p)	**17.8p**	**18.4p**	15.6p	13.7p

Net debt

Net debt is defined as the excess of total borrowings over cash and cash equivalents. 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:

£m	**2021**	2020
Current borrowings	(2.2)	(20.8)
Non-current borrowings	(111.0)	(112.9)
Total borrowings	**(113.2)**	(133.7)
Cash and cash equivalents	23.5	23.7
Net debt	**(89.7)**	(110.0)
Add back: impact of IFRS 16	1.1	0.5
Covenant net debt	**(88.6)**	(109.5)

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 to statutory figures is presented below:

£m unless stated otherwise	**2021**	2020	2019
Intangible assets	**8.9**	10.2	10.5
Property, plant and equipment	**201.7**	209.2	213.8
Assets held for sale	**-**	2.5	-
Inventories	**33.9**	37.8	39.1
Trade and other receivables	**39.5**	31.4	31.8
Trade and other payables	**(41.9)**	(35.3)	(31.9)
Total capital employed	**242.1**	255.8	263.3
Average capital employed*	**249.0**	259.6	300.0
Underlying operating profit	**42.0**	40.8	39.1
Return on capital employed	**16.9%**	15.7%	13.0%

** 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.*

Free 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 mergers and acquisitions and 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.

£m	**2021**	2020
Underlying EBITDA	63.3	62.4
Working capital/other	6.7	5.4
Underlying operating cash flow	**70.0**	67.8
Capital expenditure	(15.9)	(14.2)
Cash exceptional items	2.8	(8.8)
Pension deficit funding	(6.1)	(7.4)
Interest paid	(4.2)	(5.1)
Tax paid	(10.6)	(8.3)
Other	(0.4)	(1.5)
Free cash flow	**35.6**	22.5
Dividends paid	(15.0)	(10.5)
FX movements	(0.3)	2.6
Movement in net debt	**20.3**	14.6

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

	Note	**2021** £m	2020 £m
Revenue	2	**252.4**	247.6
Operating profit	3, 4	**42.7**	36.2
Finance cost		**(4.3)**	(5.4)
Net finance cost on pensions		**(0.8)**	(1.4)
Profit before tax		**37.6**	29.4
Income tax	9	**(6.5)**	(6.3)
Profit for the year attributable to owners of the Company		**31.1**	23.1
Earnings per share			
Basic	5	**18.6p**	13.8p
Diluted	5	**18.4p**	13.7p

All results relate to continuing operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December

	2021 £m	2020 £m
Profit for the year attributable to the owners of the Company	**31.1**	23.1
Other comprehensive income/(expense) for the year		
Items that will not be reclassified to profit or loss		
Pension obligations:		
- remeasurements	**14.7**	3.4
- movement in deferred tax	**(2.0)**	-
- remeasurement of an insurance asset held to fund pension obligation	**(0.1)**	-
	12.6	3.4
Items that may or may not be reclassified subsequently to profit or loss		
Cash flow hedges:		
- net fair value gains	**(2.3)**	1.4
- tax on fair value movements	**0.6**	(0.3)
Net investment hedges:		
- fair value (losses)/gains	**(0.5)**	2.0
- tax on fair value movements	**-**	(0.7)
Net exchange adjustments	**(1.3)**	5.3
	(3.5)	7.7
Other comprehensive income for the year, net of tax	**9.1**	11.1
Total comprehensive income for the year attributable to owners of the Company	**40.2**	34.2

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December

	Note	2021 £m	2020 £m
ASSETS			
Non-current assets			
Property, plant and equipment		**201.7**	209.2
Intangible assets		**8.9**	10.2
Deferred tax assets		**27.6**	27.3
Trade and other receivables		**1.5**	1.7
		239.7	248.4
Current assets			
Inventories		**33.9**	37.8
Trade and other receivables		**38.0**	29.7
Derivative financial instruments		**0.9**	3.2
Current tax assets		**0.8**	-
Cash and cash equivalents		**23.5**	23.7
Assets held for sale		**-**	2.5
		97.1	96.9
Total assets		**336.8**	345.3
LIABILITIES			
Current liabilities			
Trade and other payables		**(38.9)**	(32.0)
Current tax liabilities		**-**	(3.2)
Borrowings		**(2.2)**	(20.8)
Derivative financial instruments		**(0.7)**	(0.1)
Provisions for other liabilities		**-**	(1.0)
		(41.8)	(57.1)
Non-current liabilities			
Borrowings		**(111.0)**	(112.9)
Pension obligations	6	**(36.2)**	(55.2)
Deferred tax liabilities		**(16.6)**	(15.5)
Other payables		**(3.0)**	(3.3)
Provisions for other liabilities		**(3.0)**	(2.3)
		(169.8)	(189.2)
Total liabilities		**(211.6)**	(246.3)
Net assets		**125.2**	99.0
EQUITY			
Ordinary shares		**16.7**	16.7
Share premium		**9.3**	9.3
Other reserves		**77.4**	80.1
Retained earnings		**21.8**	(7.1)
Equity attributable to owners of the Company		**125.2**	99.0

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 2021	**16.7**	**9.3**	**80.1**	**(7.1)**	**99.0**
Comprehensive income					
Profit for the year	**-**	**-**	**-**	**31.1**	**31.1**
Other comprehensive income	**-**	**-**	**(3.5)**	**12.6**	**9.1**
Total comprehensive income	**-**	**-**	**(3.5)**	**43.7**	**40.2**
Transactions with owners of the Company					
Performance Share Plan charge, net of tax	**-**	**-**	**1.0**	**-**	**1.0**
Performance Share Plan credit in respect of awards lapsed	**-**	**-**	**(0.2)**	**0.2**	**-**
Dividends paid	**-**	**-**	**-**	**(15.0)**	**(15.0)**
Total transactions with owners of the Company	**-**	**-**	**0.8**	**(14.8)**	**(14.0)**
Balance at 31 December 2021	**16.7**	**9.3**	**77.4**	**21.8**	**125.2**

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 charge 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

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December

	Note	**2021** **£m**	2020 £m
Cash flows from operating activities			
Cash generated from operations	7	**62.9**	51.6
Interest paid		**(4.2)**	(5.1)
Tax paid		**(10.6)**	(8.3)
Net cash generated from operating activities		**48.1**	38.2
Cash flows from investing activities			
Purchase of property, plant and equipment		**(15.8)**	(12.8)
Purchase of intangible assets		**(0.1)**	(1.4)
Proceeds from disposal of property, plant and equipment and software		**3.8**	-
Net cash used in investing activities		**(12.1)**	(14.2)
Cash flows from financing activities			
Proceeds from borrowings		**-**	4.0
Repayment of borrowings		**(21.0)**	(18.5)
Receipt/(payment) on settlement of derivatives		**0.7**	(1.3)
Payment of lease liabilities		**(0.5)**	(0.5)
Dividends paid		**(15.0)**	(10.5)
Net cash from financing activities		**(35.8)**	(26.8)
Net increase/(decrease) in cash and cash equivalents		**0.2**	(2.8)
Net cash and cash equivalents at 1 January		**21.5**	23.9
Net increase/(decrease) in cash and cash equivalents		**0.2**	(2.8)
Exchange gain on cash and cash equivalents		**0.1**	0.4
Net cash and cash equivalents at 31 December		**21.8**	21.5
Cash and cash equivalents		**23.5**	23.7
Bank overdrafts		**(1.7)**	(2.2)
Net cash and cash equivalents at 31 December		**21.8**	21.5

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 2021 or 2020.

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 2020 have been delivered to the Registrar of Companies. Statutory accounts for the year ended 31 December 2021 have been audited and will be delivered to the Registrar of Companies following the Company's Annual General Meeting. The Auditor has reported on the accounts for both years, and their report 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 2022.

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 2021 the Group was operating within the banking covenants related to its revolving credit facility and US private placement facilities. The Group has prepared detailed financial forecasts covering a period of 12 months from the date of approval of the financial statements. These forecasts assume another year of volume growth and more significant improvements in average selling prices, while also accounting for cost increases attributable to growing inflationary pressures. Given the ongoing global economic uncertainty caused by the COVID-19 pandemic, the Directors have considered the impact of COVID-19 when preparing these forecasts, however the direct impact of the pandemic on the business is diminishing and the associated risk has reduced.

This base case forecast indicates that there is sufficient headroom in the Group's financing facilities for at least 12 months from the date of approval of this statement, and the business will continue to operate within its banking covenants during this period.

In addition to the Group's base case forecast, a 'downside' scenario has been modelled as a stress test. In this scenario, the Group's growth assumptions have been reduced by approximately 2% - 3%, and additional costs resulting from inflation, foreign exchange movements and operational incidents have been introduced. The downside scenario also includes several mitigating actions the Group could implement in response. These actions include reduced opex spend and stopping all non-essential and non-committed capex in the forecasted period. Under the downside scenario, the Group would continue to operate within its current banking covenants and retain significant headroom in its available borrowing facilities.

In both scenarios, significant liquidity headroom under our existing debt facilities remains at each month end. At 31 December 2021, the net debt position was £89.7m and our covenant net debt to EBITDA ratio was 1.4 times with a covenant EBITDA to net interest payable ratio of 15 times. Covenants are set at less than 3.0 times covenant net debt to EBITDA and more than 4.0 times covenant EBITDA to Net Interest Payable in all our lending agreements. At 31 December 2021 the Group had access to undrawn borrowing facilities of £50.2m and £23.5m of cash holdings.

As part of the going concern review, the Directors noted that the Group's revolving credit facility will expire in June 2023. The Group is anticipating to refinance this facility prior to its expiry date and as such this has not affected the Directors' assessment of going concern.

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.

2. Segment information

The chief operating decision maker has been identified as the Board. The Board reviews 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**	
	2021 £m	2020 £m	**2021 £m**	2020 £m	**2021 £m**	2020 £m
Revenue from external customers	**179.0**	177.8	**73.4**	69.8	**252.4**	247.6
Underlying operating profit					**42.0**	40.8
Exceptional items					**0.7**	(4.6)
Operating profit					**42.7**	36.2
Finance cost					**(4.3)**	(5.4)
Net finance cost on pensions					**(0.8)**	(1.4)
Profit before tax					**37.6**	29.4

3. Operating profit

	2021 £m	2020 £m
Revenue	**252.4**	247.6
Cost of sales	**(154.4)**	(158.0)
Gross profit	**98.0**	89.6
Selling and distribution	**(18.3)**	(18.4)
Administrative expenses	**(28.8)**	(26.0)
Research & development expenditure	**(6.3)**	(6.3)
Other expenses	**(3.9)**	(3.4)
Total operating expenses	**(57.3)**	(54.1)
Other operating income	**2.0**	0.7
Net operating expenses	**(55.3)**	(53.4)
Operating profit	**42.7**	36.2

An additional £0.1m (2020: £0.3m) of development expenditure has been capitalised within intangible assets.

4. Exceptional items

Exceptional income included in operating profit was £0.7m (2020: charge of £4.6m).

In 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. The site was sold in 2021 for £1.3m profit.

Exceptional charges associated with the Bellshill programme included the site closure and maintenance costs of £0.6m (2020: £3.3m).

In 2020 exceptional items also included assets impairment charge of £0.7m and the final costs of £0.6m related 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.

5. Earnings per share

	2021 £m	2020 £m
Profit attributable to equity holders	**31.1**	23.1
Earnings per share		
- Basic	**18.6p**	13.8p
- Diluted	**18.4p**	13.7p
Shares in issue		
Weighted average number of shares in the year	**166,949,022**	166,949,022
Adjustments for:		
- Performance Share Plan	**2,497,407**	1,960,052
Weighted average number of shares adjusted for potential dilution	**169,446,429**	168,909,074

Basic earnings per share is calculated by dividing the profit for the year attributable to owners of the Company of £31.1m (2020: £23.1m) by 166,949,022 (2020: 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 2021, diluted earnings per share is calculated by dividing the profit for the year attributable to ordinary shareholders of £31.1m by the average number of shares, including the effect of all dilutive potential shares, of 169,446,429.

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 £6.8m (2020: £7.5m), of which £2.9m (2020: £3.5m) 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**	
	2021	2020	**2021**	2020	**2021**	2020
Discount rate	**2.45**	1.10	**1.80**	1.30	**2.55**	2.10
Rate of increase in salaries*	**2.50**	2.50	**1.00**	1.00	**-**	-
General inflation	**2.50**	2.50	**3.45**	2.90	**-**	-

* 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	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020
	£m	£m	**£m**	£m	**£m**	£m	**£m**	£m	**£m**	£m
Total fair value of scheme assets	**7.7**	8.8	**191.1**	195.4	**54.7**	52.3	**-**	-	**253.5**	256.5
Present value of scheme liabilities	**(7.7)**	(8.9)	**(206.1)**	(221.8)	**(73.0)**	(77.6)	**(2.9)**	(3.4)	**(289.7)**	(311.7)
Deficit	**-**	(0.1)	**(15.0)**	(26.4)	**(18.3)**	(25.3)	**(2.9)**	(3.4)	**(36.2)**	(55.2)
Related deferred tax assets	**-**	-	**3.8**	5.0	**3.9**	5.4	**0.4**	0.7	**8.1**	11.1
Net pension liabilities	**-**	(0.1)	**(11.2)**	(21.4)	**(14.4)**	(19.9)	**(2.5)**	(2.7)	**(28.1)**	(44.1)

Movements in the deficit during the year were as follows:

	Australia		UK		USA		Other		Total	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020
	£m	£m	**£m**	£m	**£m**	£m	**£m**	£m	**£m**	£m
Deficit in scheme at beginning of year	**(0.1)**	-	**(26.4)**	(31.2)	**(25.3)**	(29.4)	**(3.4)**	(3.5)	**(55.2)**	(64.1)
Movement in year:										
Pension charge	**(0.4)**	(0.4)	**(2.0)**	(2.3)	**(1.2)**	(1.5)	**-**	-	**(3.6)**	(4.2)
Employer contributions	**0.3**	0.3	**3.8**	3.9	**3.6**	4.8	**-**	-	**7.7**	9.0
Remeasurements	**0.2**	-	**9.6**	3.2	**4.8**	-	**0.1**	0.2	**14.7**	3.4
Exchange gains/(losses)	**-**	-	**-**	-	**(0.2)**	0.8	**0.4**	(0.1)	**0.2**	0.7
Deficit in scheme at end of year	**-**	(0.1)	**(15.0)**	(26.4)	**(18.3)**	(25.3)	**(2.9)**	(3.4)	**(36.2)**	(55.2)

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

	2021	2020
	£m	£m
Profit before tax	**37.6**	29.4
Adjustments for:		
Finance cost	**4.3**	5.4
Profit on disposal of property, plant and equipment	**(1.2)**	-
Net finance cost on pensions	**0.8**	1.4
Pension cost adjustment for normal contributions	**1.2**	1.2
Depreciation of property, plant and equipment	**20.2**	20.5
Impairment of property, plant and equipment	**0.6**	0.7
Amortisation of intangible assets	**1.1**	1.1
Impairment of intangible assets	**-**	0.2
Release from capital grants balance	**(0.3)**	(0.1)
Pension deficit funding	**(6.1)**	(7.4)
Performance Share Plan	**1.0**	0.4
Changes in working capital:		
Decrease in inventories	**3.0**	1.5
(Increase)/decrease in trade and other receivables	**(6.9)**	0.8
Increase in trade and other payables	**7.9**	1.4
Decrease in provisions	**(0.3)**	(4.9)
Cash generated from operations	**62.9**	51.6

Of which:		
Underlying operating cash flows (before pension deficit funding)	**70.0**	67.8
Pension deficit funding	**(6.1)**	(7.4)
Exceptional items	**(1.0)**	(8.8)
Cash generated from operations	**62.9**	51.6

8. Analysis of net debt

	2021	2020
	£m	£m
Cash and cash equivalents	**23.5**	23.7
Bank overdrafts	**(1.7)**	(2.2)
Net cash and cash equivalents	**21.8**	21.5
Other bank borrowings	**(54.8)**	(57.7)
US dollar private placement	**(55.6)**	(73.3)
Lease obligations	**(1.1)**	(0.5)
Net debt	**(89.7)**	(110.0)

Included within current borrowings amounting to £2.2m (31 December 2020: £20.8m) are bank overdrafts of £1.7m (31 December 2020: £2.2m), finance leases of £0.5m (31 December 2020: £0.3m) and US dollar private placement of NIL (31 December 2020: £18.3m). The tranche of the US dollar private placement of $25m was repaid in April 2021.

9. Tax

The Group's underlying effective tax rate on profit before exceptional items is 18.2% (2020: 22.4%). The statutory effective tax rate is 17.3% (2020: 21.4%)

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 a mix of profits, changes to statutory tax rates or tax legislation and foreign exchange rates applicable when those profits are translated into sterling. In 2021 the effective tax rate was lowered by the one-off benefit of the UK tax rate change, in the future the Group expects the effective tax rate to be between 20 – 25%.

Deferred tax assets on carried forward losses in three jurisdictions are not recognised. As at 31 December 2021, a total of £26.6m in deferred tax assets in respect of tax losses incurred in US and China have not been recognised. A further £0.6m of deferred tax assets in the Netherlands have not been recognised.

The quantum of tax losses unrecognised in China is £21.6m (deferred tax assets of £5.4m). The quantum of unrecognised tax losses in the US is £84.0m (deferred tax assets of £17.6m) and unrecognised other timing differences is £17.1m (deferred tax assets of £3.6m). Tax losses unrecognised in the Netherlands are £2.4m (deferred tax assets of £0.6m).