



Delivering long-term profitable growth

Annual Report 2019

Our purpose is to provide the parts, products and services our customers need to succeed as businesses



See more online
essentraplc.com



Customer-focused Operational review from page 49



Being part of a sustainable solution from page 27



Q&A with Mary Reilly Non-Executive Director on page 76

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Essentra at a glance

Specialist Components
This division was dissolved in Q3 2019 following a strategic review and the sale of four of its six businesses.

Made up of three global divisions, Essentra is a leading provider of essential components and solutions. Every day we produce and distribute millions of small but essential products



See Our progress towards sustainable growth on page 12

See Operational review from page 49

Components

A leading global manufacturer and distributor of a comprehensive range of components, used in diverse industrial applications and end-markets.

Revenue

£283.3m

(2018: £279.8m)

Adjusted operating profit¹

£60.3m

(2018: £61.0m)

2019 summary

- Throughout a year of macroeconomic uncertainty, the business continued to deliver "hassle-free" service provision, with a record Net Promoter Score ("NPS") of 41
- Overall performance was boosted by continued market share gains from access hardware product ranges
- The Reid Supply business was reintegrated into the division
- Continued investment in digital capabilities; new website platform now deployed in ten countries
- Continued benefit from Micro Plastics and Hertila integration synergies. Integration of Innovative Components on track
- Continued pipeline development to support future inorganic growth opportunities
- First-year milestones of the BPR programme delivered to plan

Packaging

One of very few multi-continental suppliers of a full range of secondary packaging to the pharmaceutical, personal care and beauty sectors.

Revenue

£352.7m

(2018: £342.3m)

Adjusted operating profit¹

£15.1m

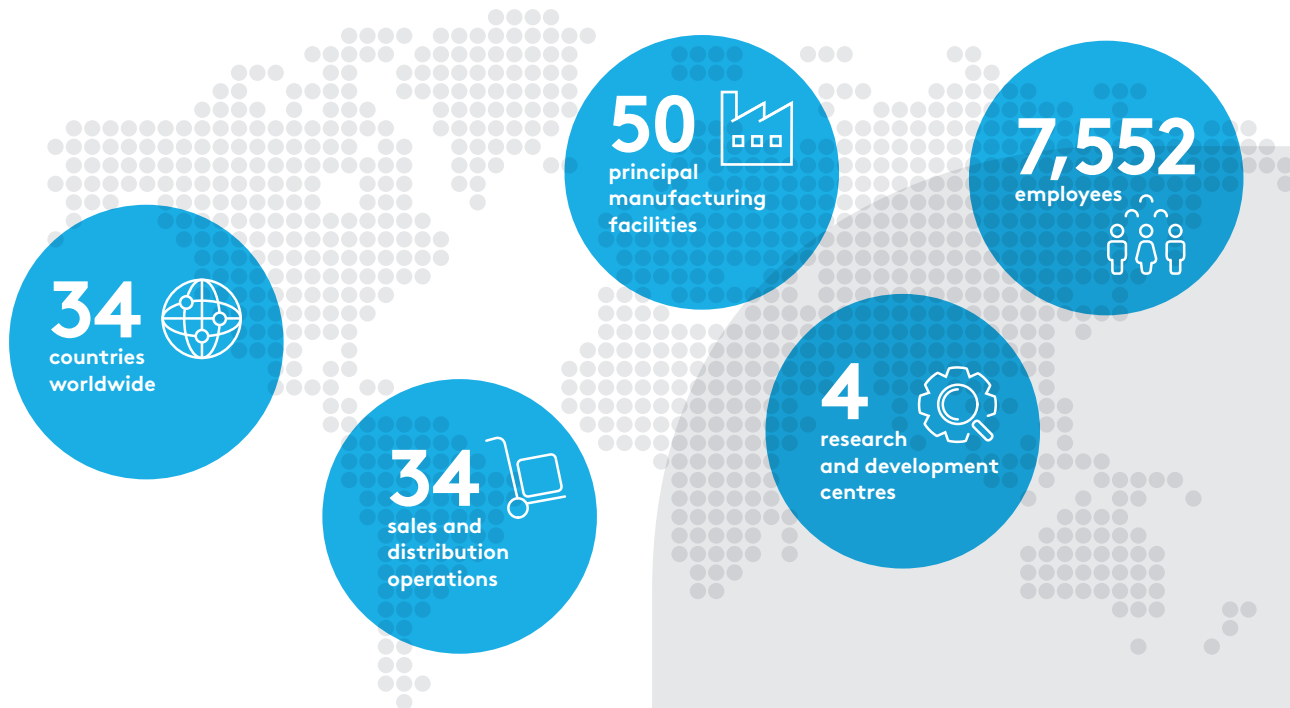
(2018: £5.4m)

2019 summary

- 2019 was Packaging's best financial and operational performance since 2015
- Revenue growth well above industry growth rates
- Encouraging business wins and continued improvement in customer dialogue, underpinned by ongoing stability, key service metrics and organisational improvements
- Expansion of the Design Hub in both the UK and USA, and dedicated customer project management to support projects
- Ongoing product pipeline development, to meet industry trends and customer needs
- Board's confidence in division demonstrated through acquisition of Nekicesa Packaging, the integration of which is on track
- Continued investment targeted at capacity build and efficiency improvement

¹ Excluding amortisation of acquired intangible assets and exceptional and other adjusting items.

Our international network



Filters

The only global independent provider of filters and related solutions to the tobacco industry.

Revenue **Adjusted operating profit¹**
£303.6m **£36.2m**
 (2018: £299.4m) (2018: £35.1m)

2019 summary

- The business outperformed the broader tobacco market and is well positioned for medium- to long-term growth
- Operational KPIs continue to improve to ensure world-class service provided to our customers
- Deeper understanding of customer needs through implementation of key account management
- Refocus of Filters innovations teams to provide greater category focus and roll out of structured pipeline processes
- Integration of the Tear Tapes (TT) business into the division, upping the operational performance of TT, whilst further penetrating end-markets such as food and beverage and consumer
- Joint Venture agreement signed with four Chinese partners for manufacturing and development facilities based in China
- Significant outsourcing opportunity agreed with multinational partner
- Four patent applications filed for next generation product applications

Financial highlights

	FY 2019 After applying IFRS 16	FY 2019 Before applying IFRS 16	FY 2018 ¹	% change Actual FX ²	% change Constant FX ²
Revenue	£974m	£974m	£1,026m	-5	-6
Adjusted ³ operating profit	£88m	£85m	£91m	-4	-5
Adjusted ³ pre-tax profit	£73m	£73m	£80m	-9	-10
Adjusted ³ net income ⁴	£59m	£59m	£64m	-9	-11
Adjusted ³ basic earnings per share	21.3p	21.2p	23.1p	-8	-10
Dividend per share	20.7p	20.7p	20.7p	-	n/a
Net debt	£284.4m	£233.7m	£240.1m	+18	n/a
Net debt to EBITDA	2.0x	1.9x	1.8x	n/a	n/a
Free cash flow ⁵	£40.7m	£28.6m	£50.2m	n/a	n/a
Reported operating profit	£80m	£78m	£47m	+69	+66
Reported pre-tax profit	£66m	£66m	£36m	+80	+76
Reported net income ⁴	£41m	£41m	£28m	+47	+46
Reported basic earnings per share	14.7p	14.6p	9.3p	+58	+58

- 1 FY 2018 results are unadjusted for IFRS 16 (see Basis of Preparation)
- 2 Year-on-year changes are calculated by comparing data for FY 2019 after applying IFRS 16 with data for FY 2018 (which is unadjusted for IFRS 16)
- 3 Before amortisation of acquired intangible assets and exceptional and other adjusting items
- 4 Net income is defined as profit after tax, before minority interests
- 5 A reconciliation of free cash flow is set out in the Financial review on page 31

How we have performed this year

Revenue

£974.1m

(2018: £1,025.6m)

Adjusted operating profit

£87.5m

(2018: £90.7m)

Adjusted operating margin

9.0%

(2018: 8.8%)

Reported operating profit

£80.0m

(2018: £47.2m)

Adjusted earnings per share

21.3p

(2018: 23.1p)

Reported earnings per share

14.7p

(2018: 9.3p)

Dividend per share

20.7p

(2018: 20.7p)

Cash conversion

82%

(2018: 85%)

Operational highlights

- Stable revenue base, with underlying growth of 1.5%
- Momentum in financial recovery continues, with underlying growth of 2% in adjusted operating profit
- Maintenance of strong operating cash conversion at 82%
- Balance sheet gearing retained within target range, notwithstanding significant business investment
- All divisions on track against strategic milestones
- Stability agenda continues with progress on all metrics across the Group
- Business Process Redesign (BPR) project progressing well
- Well set for similar progress in 2020, strategically and financially

 [See Financial review on page 30](#)

Cautionary forward-looking statement

This Annual Report contains forward-looking statements based on current expectations and assumptions. Various known and unknown risks, uncertainties and other factors may cause actual results to differ from any future results or developments expressed or implied by the forward-looking statement. Each forward-looking statement speaks only as of the date of this Annual Report. The Company accepts no obligations to revise or update publicly these forward-looking statements or adjust them to future events or developments, whether as a result of new information, future events or otherwise, except to the extent legally required.

Adjusted measures

Adjusted results exclude certain items because, if included, these items could distort the understanding of Essentra's performance for the year and the comparability between periods.

In management's view, such adjusted performance measures ("APMs") reflect the underlying performance of the business and provide a more meaningful comparison of how the business is managed and measured on a periodic basis. Our APMs and KPIs are aligned to our strategy and business segments, and are used to measure the performance of the Company and form the basis of the performance measures for remuneration. See page 16 for KPIs and page 32 for APMs.

Energised to deliver our purpose

Culture and values

In 2019 the Board continued to deepen its understanding of Essentra's working culture and witnessed the Six Principles become further embedded.



See How we do business from page 20

In last year's Annual Report I was able to provide details of the successful stabilisation of the organisation across a number of levels. During 2019 progress continued to be made in the delivery of our strategic objectives and Essentra is starting to demonstrate sustainable growth – the third chapter in Essentra's roadmap.

A particular highlight of the year has been the refining of the business portfolio. The four disposals which took place were in line with the Company's strategy and were necessary to enable more focus on the growth businesses, both in terms of resource and investment allocation, improving the long-term sustainable value of the Company. The Board considered the disposal proposals for each, carefully taking into consideration the future prospects of each business and concluded that they were better placed to progress and remain successful if placed with new owners who had the resources and capability to grow these businesses, which would be beneficial to their stakeholders, and our employees.

The acquisition within the Components division – Innovative Components – has enabled the division to expand into a new territory, Costa Rica, along with its increasing presence in the USA. The Board was also pleased to approve the acquisition of Nekicesa Packaging in Spain which clearly reinforces the turnaround of the Packaging division since 2017. It is pleasing to see both businesses performing well.

Another exciting opportunity, from the Board's perspective, is that the Company is about to embark upon the manufacture of filters in China working alongside our Joint Venture partners. The Agreement, signed towards the end of 2019, cements a number of changes within the division during the year, including the acquisition of the minority stake of the business in Dubai and the announcement of a material multi-year outsourcing contract.

During the year I have personally travelled to a number of Essentra sites, in the UK, Europe, Asia and the USA, as have my Non-Executive Director colleagues; in total we have visited 11 sites. I enjoy meeting employees to discuss their thoughts and views and experience first hand the culture of the businesses, which is of utmost importance to the Board. This is particularly pertinent as we encourage our Voice of the Employee programme – discussed further in the Corporate Governance Report.

Our global Future Leaders programme continues to expand and we have recruited some very talented people. On a recent trip to Greensboro I was able to spend half a day with these future leaders, as part of their training and development week, and so informally met them all to discuss the programme and their views on Essentra; I was very impressed with their confidence and grasp on the attributes of good management skills.



Make it Work awards page 26

In early 2019 all Non-Executive Directors attended the Leadership Conference in Barcelona, Spain, which was attended by 100 of the Company's senior managers. During the conference we took part in the discussion on the continuation of work around the strategic objectives. We also visited the two separate facilities based in Barcelona, namely Packaging and Components and participated in a panel discussion with a Q&A session. The lively debate and contribution from Essentra's senior managers continues to be hugely encouraging. One of the most positive elements of the conference that myself and my Board colleagues experienced was the Make it Work Awards and meeting the recipients of the Awards.



Paul Lester, CBE
Chairman

“The Board is pleased to support the Voice of the Employee activity and looks forward to hearing more employee thoughts during 2020”



The Board regularly discusses the make-up of the Group’s workforce, from management succession and talent plans to the employee engagement survey. It was good to see that the 2019 engagement levels have continued to increase from prior years. The details of the results and subsequent actions plans – with follow-ups – are a regular agenda item for the Board.

The commitment to our employees is further demonstrated by the appointment of a new Human Resources Director in early 2019, who has successfully invigorated this Enabling Function and introduced a new HR strategy which is aligned with the Essentra business strategy. It has a balance of culture and process initiatives, structured around the employees to ensure the best possible experience can be gained by working for Essentra.

Nicki Demby joined the Board as a Non-Executive Director, Chairman designate for the Remuneration Committee, in June 2019, and is already making a strong contribution. Lorraine Trainer will be retiring as a Non-Executive Director from Essentra after the 2020 AGM. Lorraine will have served on the Essentra Board for seven years and in addition to good counsel on the commercial aspects of the Company, Lorraine has also overseen a number of changes to the Company’s Remuneration Policy and been instrumental in ensuring employee culture remains high on the Board’s priorities and agenda, and we wish her well.

In January Mary Reilly was appointed as the Board Employee Champion and in this role she has visited a number of sites in order to meet employees and bring back to the Board their thoughts and questions. In recognition of the number of global sites within the Group, we found that Mary has needed some support and Ralf Wunderlich was appointed as the second Board Employee Champion, from 1 November. Ralf will join Mary and provide additional resource for this important Board activity.

Towards the end of 2019 a new Board Sustainability Committee was formed which elevates the previous Group Sustainability Committee to Board level and underscores the increasing importance that both the Board and the Company’s stakeholders are placing on this issue. Ralf has been appointed to the Chair of this Committee which held its first meeting in December 2019 where it formalised its purpose and objectives and I look forward to reporting on its work and progress during 2020.

The Board continues to be committed to achieving and maintaining the highest standards of occupational health, safety and environmental protection. When Board members visit Essentra sites they are required to undertake a health and safety “walk” around the site to focus on these important matters. The Board fully endorses the priority which these critical workplace practices are given under Paul Forman’s leadership.

Section 172 Director Duties

The Directors continue to have regard to the interests of the Company employees and other stakeholders, including the impact of its activities on the community, environment and the Company’s reputation, when making decisions. The Directors, acting fairly, between members and acting in good faith, consider what is most likely to promote the success of the Company for its members and stakeholders in the long-term.

Please see further information on how the Directors had regard to the matters set out in relation to S172 and the principal decisions made by the Board can be found from page 70.

The continued focus on the growth businesses within the Group, strengthening of the management team’s capability and our global footprint positions Essentra well for the foreseeable future.

Paul Lester, CBE
Chairman
28 February 2020

Delivering long-term profitable growth

2019 marked the start of the third chapter of our journey; with stability and clear strategies restored, we have worked to create three global business divisions focused on long-term growth while continuing to build a winning, engaged and diverse team and delighting our customers.

Protecting and enhancing our licence to operate

While the focus of the first chapter of our journey, stability has remained a priority as we have moved forward; indeed it is the foundation on which our progress is built.

Delivering operational stability for our customers is fundamental to our purpose – to provide the parts, products and services our customers need to succeed as businesses.

Our ability to deliver products On Time and In Full ("OTIF") remains a key customer measure as does decreasing product quality incidents, and we continue to make excellent progress against both measures. Thanks to continued investment we have also seen the reduction in major IT incidents and lost business hours as a result of IT issues. As IT can be a source of frustration for our people, this development is not only helping to increase employee engagement but also allowing our IT team to focus on other issues that are crucial to our future, such as our preparedness against cyber attack as well as proactive commercial projects, such as the roll-out of the Component's website.

During the year we continued to invest in health and safety capability, continuing training and communications as well as upgrading our machine guarding. As a result we have seen a further reduction in Lost Time Incidents, lost hours and severity versus 2018. As an organisation we continue to make safety a non-negotiable priority. In early December we held our

Adjusted earnings per share

21.3p

(2018: 23.1p)

Employee engagement
Up to

78%

(75% in 2018)

Paul Forman
Chief Executive



first global Safety Week which was an opportunity to reinforce every employee's role in taking responsibility for driving improvements and embedding a safety culture throughout the business.

We have also continued to focus on improved risk management, governance and financial controls. During 2019, the Group fully cooperated with an investigation into some sanctioned market compliance failures in the Filters business. Essentra is committed to doing business the right way in order to maintain and earn the trust of all its stakeholders. As such, during the year we began a process to refresh our compliance programme, focusing on creating a strong compliance culture and this will be rolled out throughout the Company in 2020. In order to further embed future stability and reduce operational risk, in January 2019 we launched a five-year Business Process Redesign ("BPR") programme which combines business model redesign and Enterprise Resource Planning. While a significant investment for the Company, the quantifiable benefits of the BPR programme are estimated to offset the cost, and we remain focused on risk mitigation throughout the project.

Aligning the shape of the organisation to our ambition

In 2019 all our divisions continued to make progress against the strategies set out in 2017, but the most visible strategic development for Essentra in 2019 was the simplification of our corporate structure; moving from nine businesses across four divisions into three global divisions. This followed the sale of four of the six businesses that made up the Specialist Components division and the transfer of Reid Supply and Tear Tapes into the Components and Filters divisions respectively. The decision to sell Pipe Protection Technologies, Extrusion, Speciality Tapes and Card Solutions has ensured that we are able to focus our resource on the areas of the business that create the best value for customers and shareholders and has provided these businesses with a strong platform for future growth.

In 2019 we also added to our portfolio with some significant value-creating acquisitions aligned with our new focused structure. These acquisitions build on the successful integration of Micro Plastics and Hertila in 2018, which are both performing in line with expectations. In June we announced the purchase of Innovative Components in the USA, which builds on the Components division product offering in the USA, providing range opportunities in Europe and Asia and manufacturing capability in Costa Rica. This was followed in September with the purchase of Nekicesa in our Packaging division helping to establish us as a leading player in Spain, an attractive packaging market. In November we announced a new Filters Joint Venture in China, the world's largest tobacco market, this followed the purchase of the remaining 49% minority interest of our Joint Venture in Dubai earlier in the year. As we look forward to 2020 we continue to ensure we are well placed for inorganic opportunities, where they can move our business into complementary product categories or end-markets, or further our geographic distribution capability.

Three steps to long-term success



Chapter 3

Mid-2019 onwards

Chapter 2

Mid-2018 onwards

Chapter 1

Early 2017 onwards



Details on Our progress towards sustainable growth can be found on page 12

2019 priorities

- Restoration of revenue and profit growth
- Creation of more focused portfolio of business
- Embedding our purpose to provide the parts, products and services our customers need to succeed as businesses
- Continue to build a winning, engaged and diverse team with a shared sense of purpose
- Increase market share and roll-out of new website in Components
- Turnaround in the Packaging division, stabilising the business in terms of service, quality and safety and restoring revenue and profit growth
- Development in each of the three stated "game changers" in Filters

Key highlights 2019



Building a winning, engaged and diverse team

Our people continue to be at the heart of our journey and our success in 2019 would not have been possible without their commitment, passion and energy. The arrival of a new Group Human Resources Director in January instigated the development of a powerful HR strategy which is already having a huge positive impact on the organisation. The appointment of Mary Reilly and most recently Ralf Wunderlich as Board Employee Champions is also helping to ensure the voice of the Employee is heard around the Board table, enabling all of us to better understand the impact that Board-level decisions can have on the workforce.

Inevitably the changes we made to the shape of our business during the year resulted in some of our people moving to a new employer and some new employees joining Essentra. For those leaving, we believe that they will, along with businesses we sold, be better developed by new owners and continue to thrive under new leadership. For those joining, we believe they are doing so at an exciting time in our development and we are drawing on their expertise and fresh perspectives as we integrate them into the Essentra family.

In 2019 we also continued to make progress on the diversity and inclusion agenda, one to which I, the Board and Group Management Committee are passionately committed. In September we held our first Group-wide Inclusion Week with a range of co-ordinated activities across our global sites, building on a number of initiatives throughout the year.

I am delighted that these efforts have contributed to a further uplift in our employee engagement from 75% in 2018 to 78% in 2019 and an almost 10 percentage point increase from 2017 (69%). This score puts us ahead of the global and manufacturing industry averages, a first for Essentra. Furthermore, we maintained our market-leading participation rate (90%) and at a Group-wide level we improved our result against all questions in the survey; no areas decreased.

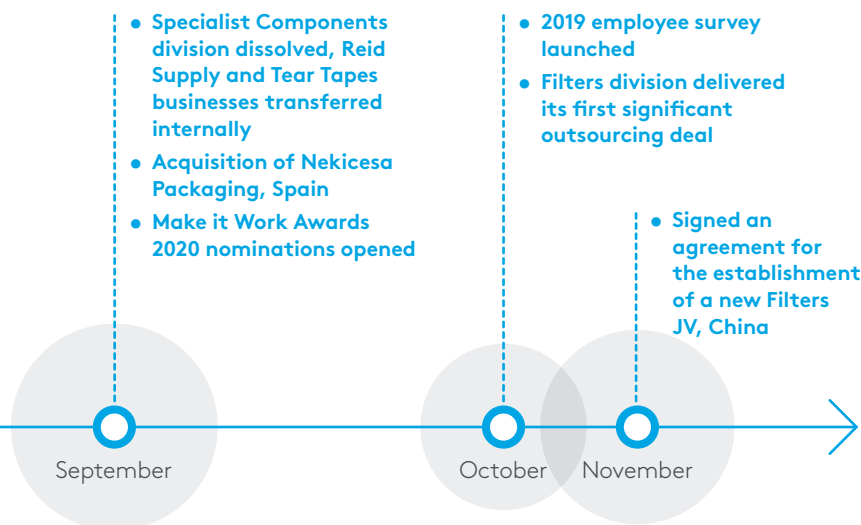
Creating a more sustainable world for future generations

Essentra's global reach spans thousands of employees, clients and suppliers. This scale represents both commercial opportunity as well as responsibility; a responsibility to our people, the communities in which we operate and the wider environment. Environmental and Social Governance ("ESG") is crucial to our ability to maintain stability, deliver our strategies and ensure growth. Good management of this topic is therefore critical to meeting the increasing expectations of all our stakeholders including employees, customers and investors.



"We are proactively working across all divisions to offer our customers products that serve their requirements whilst minimising the impact on the environment"

 See page 27 for details on sustainability



In 2019 we further developed the sustainability strategy established in 2018 around four pillars: People & Communities; Energy & Climate Change; Responsible Material Usage; and Responsible Supply Chain. During the year we communicated this strategy internally under the concept of “small changes – big impact”, underlining and encouraging everyone’s role in contributing to the sustainability agenda. We also recognised ESG as a Principal Risk, encompassing the issues of waste management, our carbon footprint, single-use plastics and climate change. To further underscore the importance the Board places in this topic, the Group Sustainability Committee created in 2018 was elevated to a Board committee in 2019.

Furthermore, we are proactively working across all divisions to offer our customers products that serve their requirements whilst minimising the impact on the environment. We are considering the greenhouse gas emissions (“GHG”) associated with products as well as the waste created throughout the product’s life cycle. From the raw materials we buy, throughout the process of transformation and end of life of the final product, there are opportunities for improvement in each stage of the product lifecycle.



See Operational review from page 49

Our third chapter brought to life

Over 2019 Essentra continued to make meaningful strategic, financial and operational progress; delivering sustained underlying revenue and operating margin growth despite challenging trading conditions. The 2019 result for the Group was robust, notwithstanding significant portfolio rationalisation activities undertaken during the year which have had a significant impact on year-on-year comparisons and KPIs. In Components revenue and margins were held steady despite market declines and a record NPS of 41 was delivered alongside the roll-out of a new website platform in ten countries. 2019 was Packaging’s best overall performance since 2015. The division’s first acquisition, Nekicesa, performed well and the year saw further development of value-added services and progress in key service metrics. The Filters division is well set for short and long-term growth given success against all three “game changers”, such as the establishment of the China Joint Venture and a six-year outsourcing opportunity.

Looking forward with strength and ambition

Despite this solid performance, 2019 was not without its challenges. Brexit and a more uncertain broader macroeconomic environment has required us to undertake regular reviews and introduce some mitigating actions. As we enter 2020 the environment continues to look uncertain. However, we begin the year a more stable and focused business, ready and well-equipped to face the challenges and opportunities ahead. In 2020 we will continue to invest in our business and support growth in all three divisions through acquisitions and continued investments such as IT stability and our people agenda.

In 2020 we will also be focusing on ensuring that we are living our purpose – to provide the parts, products and services our customers need to succeed as businesses – in every part of the organisation as well as nurturing and growing our talent so that we are better able to do so. I remain incredibly proud of the progress we are making to instil focus, embed our purpose, build our team and create growth, and am hugely confident as we move onwards on our journey.

Paul Forman
Chief Executive
 28 February 2020



Group Management Committee

It was an honour to lead a more balanced and diverse Group Management Committee in 2019. During the year the team has worked together well: meeting challenges head-on and making the most of opportunities (Read their biographies on page 62.)

Investment case



Our key strengths...



Balanced and focused portfolio

Following portfolio rationalisation in 2019, the Group is a more focused portfolio having been reduced from nine to three businesses, serving multiple end-markets with a broad differentiated range of products and services.

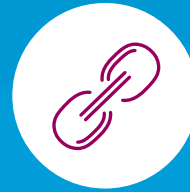
The variety of end-markets served along with the mixture of cyclical and non-cyclical industries in which our businesses operate, combine to form a balanced growth portfolio with strategic opportunities both for our businesses individually and the Essentra Group.



Execution of clearly defined growth strategy

We have a clear, market-driven strategy for each of our divisions. They operate in sizeable end-markets that present opportunities for future growth, and in which we are fundamentally well-positioned to drive long-term growth and margin expansion.

The execution capability of our management team and businesses ensures we are well positioned to deliver on our divisional strategies capitalising on both organic and inorganic growth opportunities, continuing to deliver on the potential of our Packaging division in terms of both revenue and margin expansion, robust organic and inorganic growth in Components and further developing opportunities with Filters division's stated "game changers".



Customers at the centre of what we do

Our market-leading positions help us to develop and maintain a close relationship with a wide portfolio of blue-chip customers, who are successful leaders in their respective markets.

Our customer-focused proposition combined with high standards of service and supply demanded by such customers help to drive continuous improvement across Essentra.

Our dynamic operating models and hassle-free customer proposition enable us to partner and add value to customers of all sizes.

Our manufacturing and distribution expertise add value in response to customer demands, and our innovative capabilities drive collaboration and joint development of new products and services with key strategic partners.



In order to create sustainable long-term value, we seek to responsibly, effectively and efficiently manage our portfolio of global leading and diverse businesses, with a clearly articulated role for the Group underpinned by robust financial and capital allocation policies.



Proven sustainable business model

We have a well-invested and flexible international sourcing, supply chain and production infrastructure and remain committed to investing in scalable processes. This provides businesses across Essentra the opportunity to use existing infrastructure and management to exploit new opportunities efficiently and cost-effectively.

Our extensive international manufacturing and distribution network ensures the delivery of cost-competitive and high-quality products in response to customers' requirements. High levels of service and broad geographic reach are an important competitive differentiator.

Our people are highly engaged and talented. With investment already made in key systems, ensuring operational stability, our stable operating environment and committed, engaged workforce are key enablers in the delivery of our future growth strategy.



Investment in innovation capabilities

The continued successful launch and commercialisation of new products and services is a key driver of our growth.

Investment in research and development, supported by the identification of additional product sourcing opportunities and range development, enhance our competitive positions.

Working together with our customers to innovate, solve problems and drive solutions is core to what we do; central to this is providing solutions through innovation to meet an increasing demand for environmentally responsible products.

Robust quality systems maintained to internationally accredited standards assist the fulfilment of customers' demands.



Strong financial position with robust balance sheet

Our strategy calls for a significant focus on cash flow generation, which is evidenced in well-defined financial and capital allocation policies and a strong, robust balance sheet.

Our business model

Our purpose is to provide the parts, products and services our customers need to succeed as businesses

What we do

We manufacture

Whether it is a tiny but critical component or a bespoke solution to a complex need, we have the skills and capability to manufacture a wide range of products.

We partner

We take a long-term partnership approach with suppliers and customers so we can deliver what our customers need, when they need it.

We distribute

Our global scale and market knowledge mean that we are able to anticipate and meet the needs of our customers, whether large or small, in a wide variety of end-markets and geographies.



See Operational review from page 49

How we do it

Our products and services are delivered by a team of thousands, framed by our values; our Six Principles.

A winning, engaged team

Freedom to operate
(within a framework)

Delivery
(keep our promises)

Openness, honesty and integrity

Safety, respect and diversity

Energy for change



See How we do business from page 20

Our competitive advantage

We are well positioned to responsibly and effectively manage our portfolio of global leading, diverse activities in order to create sustainable long-term value.



Strength of customer relationships

Deep customer relationships and expert customer service is at the heart of what we do. Ensuring we anticipate and deliver on our customer needs is crucial to our success as a business.



Market-leading positions

We have market-leading positions in the majority of our served markets providing us with the scale and expertise necessary to deliver for our customers.



Diverse and market-leading product and service ranges

We invest in product research and robust quality systems in order to deliver product innovation and range development.



Passion and skill of our employees

Our people are our greatest asset. We take personal ownership of what we do each day and pride in what we help to achieve as a team.



Global footprint with local execution

Our comprehensive international production and distribution footprint can be flexed to respond to customers' needs, whether they be product, service, cost or supply chain driven.

Who we serve

- Automotive
- Equipment manufacturing
- Fabrication
- Electronics
- Construction
- Pharmaceutical
- Personal Care and Beauty
- Tobacco
- Retail POP/Paper and Board
- Food and Beverage

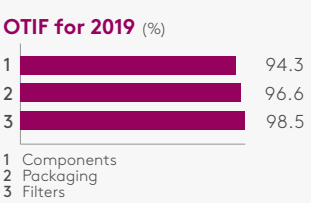
Creating value for our stakeholders

Essentra is built on diversity. Of parts, products and services. Of customers, partners and markets. Of people, perspectives and ideas.



Our customers

We put our customers first, partnering with them and delivering On Time and In Full ("OTIF").



Our people

We prioritise safety, employee engagement, diversity and inclusion, creating an environment where our people feel respected with space to learn and grow.

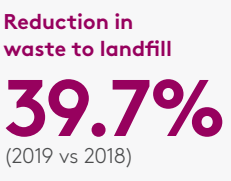


Our suppliers

We partner with a range of suppliers so that we can provide our customers with a range of products across each of our divisions.

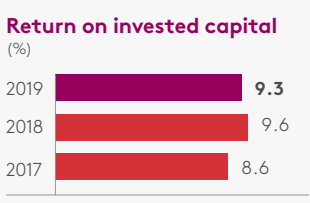
Our communities

We get behind local good causes while minimising our environmental impact on the wider world around us.



Our shareholders

We deliver shareholder value through the strength of our balance sheet, customer relationships and market positions.



Governments and regulators

Wherever we operate we are committed to conducting business in line with the appropriate laws and regulations.

Our progress towards sustainable growth

Stability



What we said we would do

- Continue employee engagement surveys and act on the feedback
- Continue to drive and enhance talent management and development programmes
- Drive ongoing improvements in diversity and inclusion
- Continue to improve risk management towards best practice levels
- Embed new Health, Safety and Environment information management system
- Maintain key quality and service metrics at least at industry-level standards
- Drive strategic investment in Business Process Redesign (“BPR”)
- Continue to focus on cash generation

Progress in 2019

- Employee survey undertaken with market-leading response rate maintained and uplift in engagement from 75% to 78%
- Arrival of a new Human Resources (“HR”) Director, creation of new people strategy and investment in a new HR system
- Ongoing improvements in diversity and inclusion, evidenced in engagement scores
- Continued focus on safety culture and further improvement in KPIs
- Continued improvement in all key quality and service metrics
- Launch of the BPR programme
- Good progress on IT stability and upgrade/rebuild capability

Main challenge in 2019

- Maintaining and improving engagement during a year of organisational change

Priorities in 2020

- We will deliver continued improvement in all key quality and service metrics
- We will continue to build a winning, engaged and diverse team with a strong focus on safety
- We will further strengthen and embed a robust compliance framework and processes, as well as a strong compliance culture
- The BPR programme will start to impact the day-to-day experience of both our employees and customers
- We will continue to invest in IT stability, machine upgrades and our talent

Key performance indicators we use

- On Time and In Full (“OTIF”)
- Employee engagement
- Lost-Time incidents (“LTIs”) and number of days lost
- Operating cash flow

Strategy

What we said we would do

- Continue to drive deeper customer relationships across the Group
- Identify and develop value-adding innovation opportunities, for both products and services
- Make further improvement in innovation focus and new product pipeline management
- Continue to develop our commercial capabilities
- Continue to embed and refine Sales and Operations Planning processes
- Further refine Continuous Improvement and other operational improvement initiatives
- Continue to invest in upgrading equipment, especially in Packaging and IT

Progress in 2019

- Significantly progressed key strategic initiatives in each of the three divisions
- Divestment of Pipe Protection Technologies, Extrusion, Speciality Tapes and Card Solutions
- Specialist Components division dissolved and transfer of Tear Tapes and Reid Supply to Filters and Components, respectively
- Group Sustainability Committee uplifted to a Board Committee underscoring importance attached to Environmental and Social Governance
- Continued to develop key account management, sales effectiveness and pricing programmes

Main challenge in 2019

- Pace and volume of our divestment programme

Priorities in 2020

- We will remain focused on our purpose to provide the parts, products and services our customers need to succeed as businesses
- We will continue to drive our divisional commercial strategies to serve our customers effectively
- Diversity and Inclusion Steering Group will continue to develop improvements in our policies and culture
- We will invest in research, development and innovation, in particular with a view to minimising the impact our processes and products have on the environment

Key performance indicators we use

- Net Promoter Score
- Customer complaints
- Quality incident rates





See Our journey to a more focused divisional structure from page 14, Key Performance Indicators from page 16 and Operational reviews from page 49

Growth



What we said we would do

- Successfully integrate Micro Plastics and Hertila
- Continue to grow and develop talent across Essentra
- Identify further skill gaps, and attract appropriate talent to meet future strategic requirements
- Focus on key business capabilities and continue to progress towards best-in-class levels
- Continue to develop pipeline of potential bolt-on acquisition opportunities in Components
- Facilitate and challenge the next stage of divisional strategies
- Continue to enhance our enabling function support to deliver the strategy

Progress in 2019

- Acquisition of Innovative Components in the Components division
- Acquisition of Nekicesa Packaging in the Packaging division
- Acquisition of the remaining 49% interest in the Filters Joint Venture in Dubai
- Establishment of new Filters Joint Venture in China
- Significant multi-year outsourcing contract in Filters
- Successfully integrated the acquisitions of Micro Plastics and Hertila
- Launch of a people strategy, with large focus on talent attraction and development
- Invested further in research, development and innovation capabilities

Main challenge in 2019

- Challenging and uncertain macroeconomic environment

Priorities in 2020

- We will continue to ensure we are well placed for inorganic opportunities
- We will be well-prepared for continued macroeconomic uncertainty
- We will continue to act as a responsible corporate citizen, embedding the right culture as well as processes and policies
- We will focus on attracting, retaining and developing talent

Key performance indicators we use

- Revenue growth
- Operating profit

Transforming for the future: Business Process Redesign

As Essentra has grown, so has the number of systems and processes our business uses. This has added complexity which has curtailed our efficiency, increased cost and prevented us from serving our customers as well as we would like.

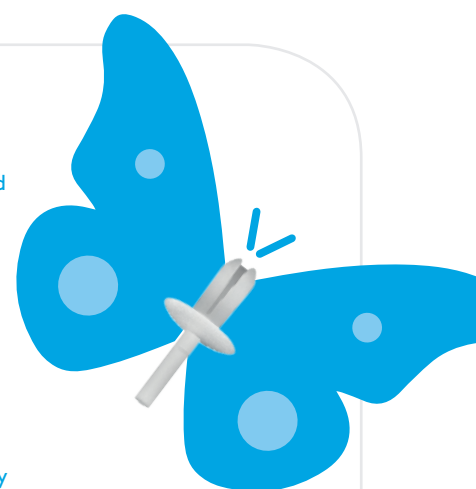
The Business Process Redesign programme is all about transformation – embracing the latest thinking and up-to-date technology to simplify and standardise the way we operate.

Our systems re-engineered
With the introduction of fast, modern integrated core technology systems including Microsoft Dynamics 365.

Our processes realigned.
With upgraded and standardised best practices across Finance, Procurement and Operations, underpinned by a single common process template.

Our business redefined
Through reduced system maintenance costs, better financial controls, enhanced data and insights, and the ability to on-board new acquisitions rapidly.

Our future refreshed
For a more efficient and empowered employee experience that liberates our people's talents – and a hassle-free customer journey that will build a truly world-class reputation.



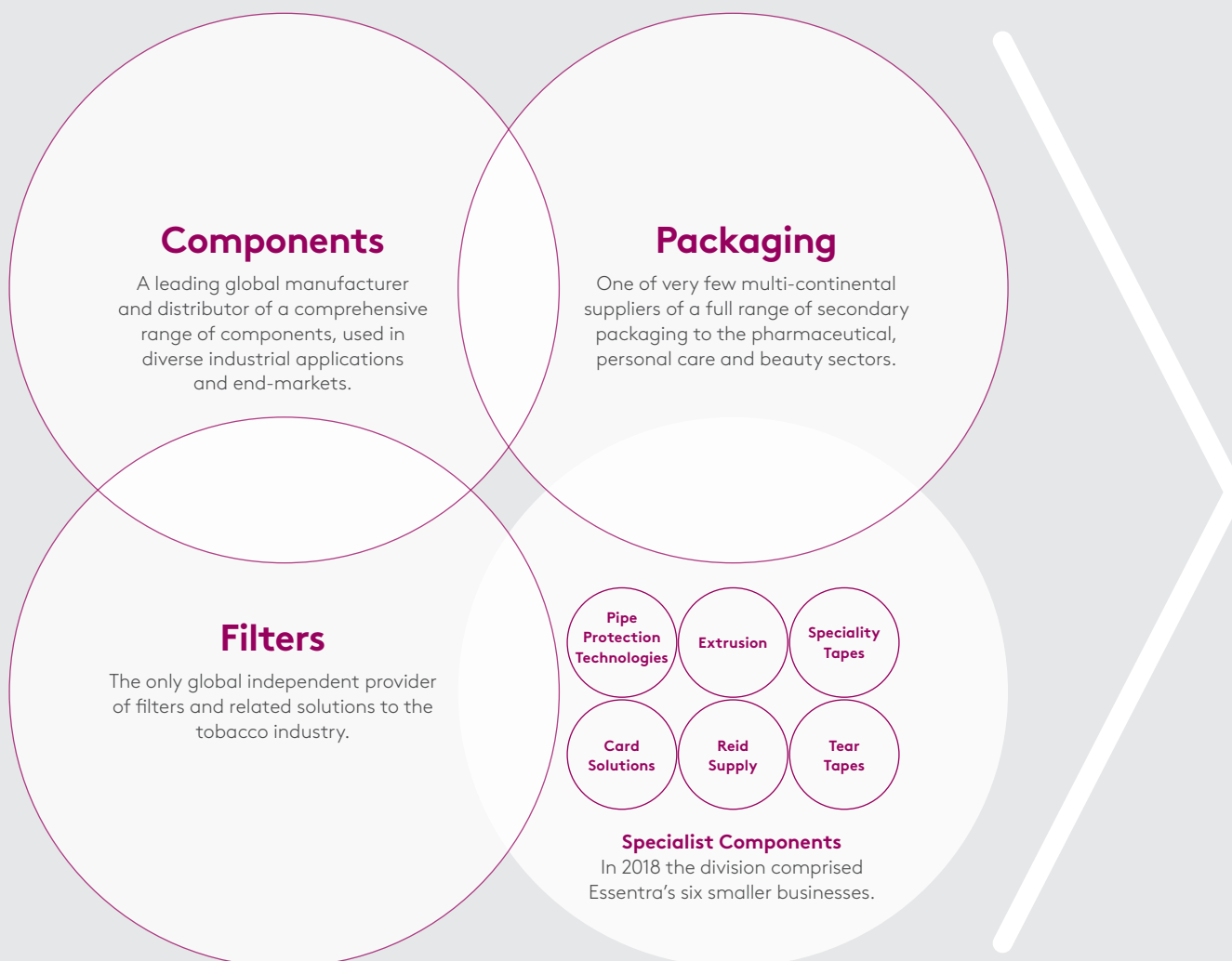
Our journey to a more focused divisional structure

2019 provided a strategic opportunity to simplify our portfolio of businesses.



From nine businesses...

These businesses served multiple end-markets with a very broad and differentiated range of products and services:



...to three focused global divisions

In Q3 2019 we dissolved the Specialist Components division, leaving us with three focused global divisions each with a strong platform for future growth:

Components

Including Reid Supply

Packaging

Filters

Including Tear Tapes

Our new structure provides clarity and focus for our people and wider stakeholders

The sale during 2019 of four of the six businesses that made up the Specialist Components division was the result of a strategic review of the division, ensuring that we were focusing our resources on the areas that create the best value for customers and shareholders.

While the decision to sell was right for those businesses, what the review also showed was that Tear Tapes and Reid Supply (formerly referred to as Industrial Supply), the two remaining businesses in Specialist Components, hold real value for Essentra. Therefore, these businesses remain part of the Essentra Group but now report into Filters (Tear Tapes) and Components (Reid Supply).

In the case of Tear Tapes, the business has strategic strength in the tobacco industry and is now able to benefit from the sector expertise and customer relationships already formed in the Filters division.

Reid Supply was part of Essentra Components before the creation of the Specialist Components division. At that time we tried to integrate the Reid Supply business too fully into the Components business model. We have learnt from the past and will focus on back office synergies which will enable the Reid Supply business to thrive and grow within the Essentra Group.

In 2019 we also added to our portfolio with the acquisition of Innovative Components, Nekicesa Packaging and the remaining stake in our Filters Joint Venture.



See Operational review from page 49

Key Performance Indicators

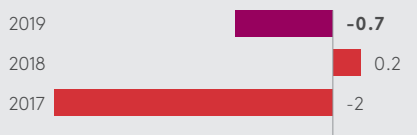
The delivery of Essentra's strategic priorities is underpinned by a focus on Key Performance Indicators ("KPIs") which measure Essentra's progress in the delivery of value.

Alignment of KPIs to executive remuneration

- Performance measures for the executive Annual Bonus Plan
- Performance measures for the executive Long-Term Incentive Plan



Like-for-like revenue growth (%) ●



How we measure it

Revenue at constant exchange rates, excluding acquisitions and disposals

Why this is important

Measures the ability of the Company to grow sales by operating in selected geographies and categories, and offering differentiated, cost-competitive products and services

Adjusted operating profit¹ (£m) ●



How we measure it

Operating profit at constant exchange rates, excluding the impact of amortisation of acquired intangible assets and exceptional and other adjusting items

Why this is important

Measures the profitability of the Company

Adjusted earnings per share¹ (p) ●



How we measure it

Earnings per share at constant exchange rates, excluding the impact of amortisation of acquired intangible assets and exceptional and other adjusting items

Why this is important

Measures the benefits generated for shareholders from the Company's overall performance

Net working capital² ratio (%) ●



How we measure it

Average net working capital² per month, as a % of revenue

Why this is important

Measures the ability of the Company to finance its expansion and release cash from working capital

Adjusted operating cash flow³ (£m) ●

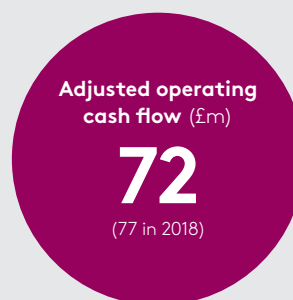


How we measure it

Adjusted operating profit less non-cash/ other items, net working capital and net capital expenditure

Why this is important

Measures the cash generation capability of the Company



Total Shareholder Return (%)
33.5
(-32.3% in 2018)

Cash conversion (%)**How we measure it**

Adjusted operating cash flow³ as a percentage of adjusted operating profit²

Why this is important

Measures how the Company converts its profit into cash/quality of the Company's earnings

Dividend per share (p)**How we measure it**

Total dividends paid divided by the number of relevant shares in issue

Why this is important

Measures the amount of cash per share which the Company returns to shareholders

Dividend per share (p)
20.7
(20.7 in 2018)

Return on Capital Employed (%)**How we measure it**

Adjusted operating profit¹ divided by (tangible fixed assets and net working capital)

Why this is important

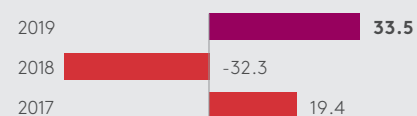
Measures how effectively the Company uses its operational assets

Return on Invested Capital (%)**How we measure it**

Adjusted operating profit¹ after tax divided by (capital employed plus intangible assets)

Why this is important

Measures the Company's ability to effectively deploy capital

Total Shareholder Return (%) ●**How we measure it**

Total annual increase in value. Based on the increase in share price and the dividend paid to shareholders

Why this is important

Measures the Company's ability to generate long-term value

1 Excluding impact of amortisation of acquired intangible assets and exceptional and other adjusting items.

2 As defined in the Financial review on page 30.

3 As defined in the Alternative Performance Measures on page 32.

Non-Financial Key Performance Indicators

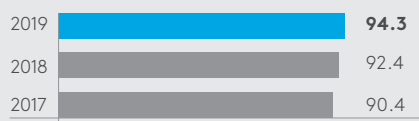
Equally important to the delivery of Essentra's strategic priorities is a focus on KPIs which measure our progress against stated priorities in terms of our customers, communities and people.



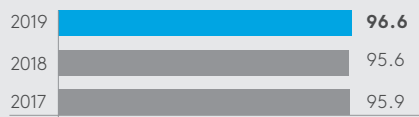
Customers

On Time and In Full (%)

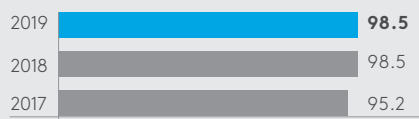
Components



Packaging



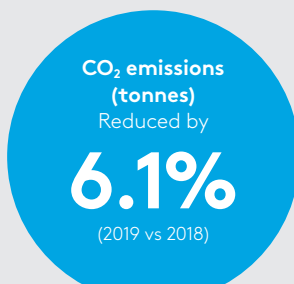
Filters



Why this is important

Our purpose is to provide the parts, products and services our customers need to succeed as businesses. Our ability to deliver quality products on time and in full has been a key focus for 2019.

Environment



Why this is important

We recognise that we have a role, and interest, in environmental stewardship. This is not just a duty we owe to our neighbours, but to future generations. We know that the way we manage our environmental impacts forms an important element of our reputation and is a measure of the quality of Essentra's businesses.

Safety



Why this is important

Our overriding commitment in the workplace is the health, safety and welfare of our employees and all those who visit Essentra's operations. Our aim is to be in the top quartile of manufacturing companies for the lowest Incident Frequency Rates.



Why this is important

This is a measure used to quantify the severity of LTIs. Where incidents do result in Lost Time, we work hard to minimise the amount and to support the injured person in their recovery by offering restricted or light duties, and through a structured return to work programme.



Employee engagement
Increased by
4%
(2019 vs 2018)

People

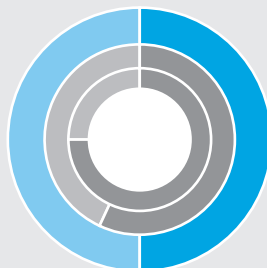
Employee engagement (%)



Why this is important

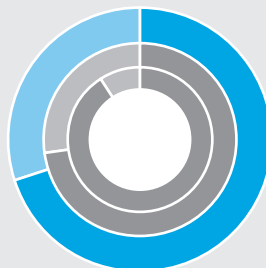
The happiness and fulfilment of our people is a key priority. Having more engaged employees reduces staff turnover, improves productivity and helps us serve and retain our customers.

Board gender diversity (%)



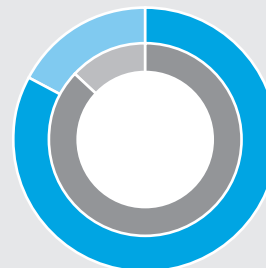
2019
● Men: 50% (4)
● Women: 50% (4)
2018
● Men: 57% (4)
● Women: 43% (3)
2017
● Men: 75% (6)
● Women: 25% (2)

Group Management Committee gender diversity (%)



2019
● Men: 70% (7)
● Women: 30% (3)
2018
● Men: 73% (8)
● Women: 27% (3)
2017
● Men: 91% (10)
● Women: 9% (1)

Management (Levels 6-8) gender diversity (%)



2019
● Men: 83% (80)
● Women: 17% (16)
2018
● Men: 87% (82)
● Women: 13% (12)

N.B. Different data sources used. 2018 data from employee survey respondents, 2019 data from HR system.

Why this is important

The Board is committed to providing all employees with an equal opportunity to develop and advance, and for everyone to feel safe, respected, valued and able to thrive as part of a winning, engaged and diverse team.

Non-Financial information table

This table follows the requirements of Companies Act 2016 Sections 414C(7), 414CA and 414CB and is intended to help stakeholders understand our position on key non-financial matters. We have a number of Group policies and standards which govern our approach to these matters. These are detailed in this report in the sections shown.

Reporting requirement	Where to read more in this report
Environmental matters: How we do business	27
Employees: How we do business	20
Health and safety: How we do business	26
Human rights: How we do business	24
Social matters: How we do business	24
Anti-Bribery & Corruption: How we do business	24
Business model: Our business model	10
Principal risks: Risk management report	34

How we do business



Our people

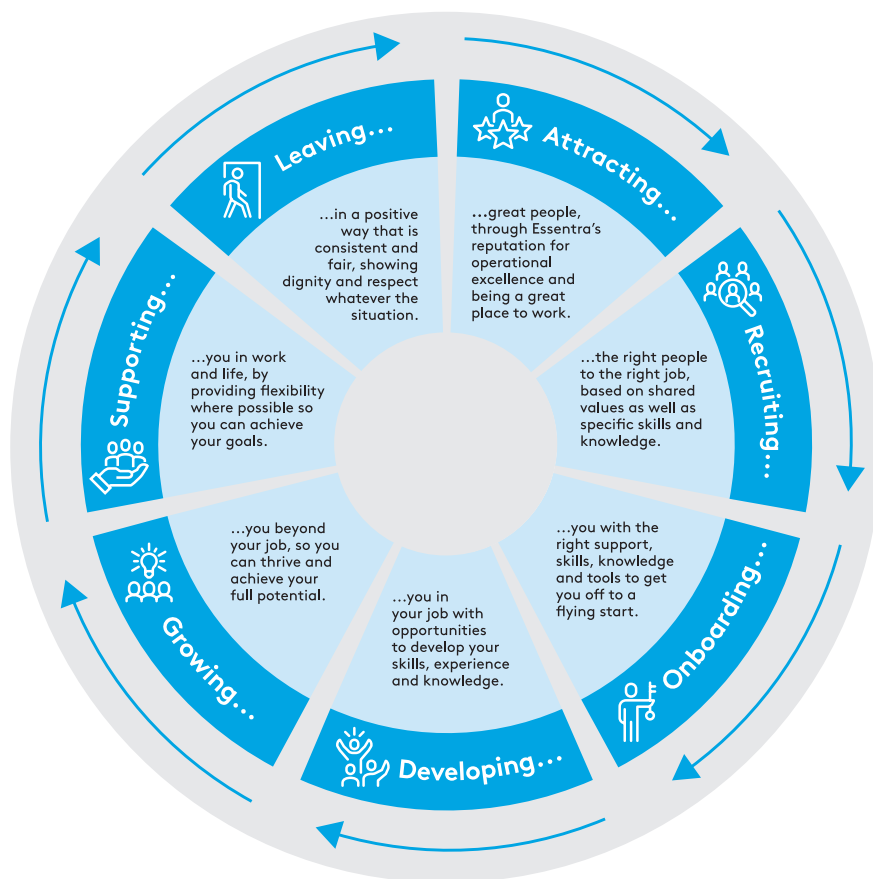
Essentra's people are at the heart of our strategic change journey. We continue to make their safety a non-negotiable priority at all our sites and are working hard to improve diversity, talent development and engagement.

Our ambition is for Essentra to be a great place to work and this is the reason we created a set of values – the Six Principles – which were developed and rolled out during 2017. Our employees are vital in ensuring we provide quality products and services to our customers and operate our business activities effectively and efficiently. Indeed, their talent and commitment drive the innovation that allows Essentra to provide added value to our customers, enhance supply chain logistics and reduce the environmental impact of operations.

Essentra Apprenticeship Programme (UK)

Apprenticeships are currently used for people joining Essentra directly from school and to upskill current employees, and are supported by both national and local providers. The programmes are completed whilst candidates are in a real job and allow for behaviours, knowledge and skills to be developed to prepare them for progression within Essentra. There are currently ten school leavers on apprenticeships (all male) enrolled on Print,

Engineering, IT, Toolmaking and Production Technician Apprenticeships. There are currently 60 people on upskill apprenticeships (43 male/17 female) enrolled on Print, Management, Warehousing, Project Management, Sales, Customer Services, Data Science, CIMA, ACCA, Commercial Procurement & Supply, Product Designer & Development, HR, Business Administration and Credit Controller.



Helping our people achieve their full potential

The next steps are about developing our people in their current jobs with opportunities to strengthen their skills, experience and knowledge and growing them beyond their current roles, so they can thrive and achieve their potential. Talent is at the top of our agenda and we are investing at all levels of the organisation. We are currently revising our leadership competencies which will underpin all our management and leadership skills programmes. In 2020 we will be taking the first steps in delivering more learning using digital and online solutions.

During 2019 we welcomed a new HR Director under whose leadership a refreshed people strategy has been created. This strategy is designed around an employee lifecycle – a model that identifies the ways in which an individual engages with Essentra and helps us shape that journey into a positive experience for everyone.



Attracting great people

The first step in our lifecycle is about attracting great people through our reputation for operational excellence and being a great place to work. The failure to attract and retain the required talent necessary to evolve our business has been identified as a Principal Risk for our business. In mid-2019 a new role of Talent Acquisition Director was created to drive this critical agenda. The initial focus has been on developing a narrative to enable more effective conversations with potential candidates. In 2020 we will look to better communicate why Essentra is a great place to work alongside further development of our employer brand, for example through the development of an external careers site.

The next step is about recruiting the right people to the right job, without discrimination and based on our shared values as well as specific skills and knowledge. Our focus in 2019 has been on developing a consistent approach to how we use external suppliers in the search for talent and our approach to direct hiring. In 2020 we will be using new and consistent tools in terms of assessing candidates.



Getting off to a flying start

The next step on the employee lifecycle is about onboarding our people with the right support, skills, knowledge and tools. In 2019 a project team reviewed our current onboarding practices across Essentra and looked at best practice in the wider industry. In 2020 we will be piloting a digital solution to onboarding that keeps the employee at the centre of the process but applies a consistent and manager-led approach. This work has also addressed "offboarding" which relates to the final part of the employee lifecycle which is about helping people leave Essentra in a positive way that is consistent, fair and in which people are treated with dignity and respect whatever the situation.

The Essentra Future Leaders Programme

The programme, rebranded from the Essentra Graduate Programme, is a structured three-year course delivered while the Future Leader ("FL") undertakes a real job from day one. The FLs are given the opportunity to learn about the Essentra business and are developed in four key areas: behaviours; business skills; leadership; and elements specific to their role.

In the last six months of the programme, the FLs work in groups on a business-focused project and present their findings to senior leaders of the business. In 2019 12 FLs joined the scheme (ten male/two female) originating from Europe (nine), the Americas (two) and Asia (one). They joined the 20 graduates already on the Essentra two-year Graduate Programme having joined in 2018 (eight male/12 female). In 2019 16 graduates completed the programme (eight male/eight female).

How we do business continued



Driving our Diversity and Inclusion agenda

Next in the employee lifecycle is supporting our people in work and life, by providing flexibility where possible so they can achieve their goals. In 2019 we continued our focus on diversity and inclusion, launching a global Diversity and Inclusion Policy and refreshing membership of the global Steering Group to include a greater mix of employees of all levels and background. The Steering Group's purpose is to build an inclusive culture in Essentra where diversity is embraced by everyone, ensuring we get the full business benefit while making Essentra a rewarding and successful place to work for our colleagues. In 2019 we expanded the focus of the work to include explicit work-streams on disability, mental health and LGBTQ+ alongside the previous work-streams looking at gender, age and multiculturalism.

We continued the partnerships begun in 2019 with everywoman and Business in the Community ("BITC"). In 2019 we have continued to roll-out everywoman's e-learning platform delivered online and via an app, giving access to a variety of online self-development resources such as workbooks, online seminars, articles and podcasts. In 2019 we joined BITCs, Cross-Organisational Mentoring Circles for the second year and as part of the scheme ten Essentra UK-based employees will be participating from January 2020. The Circles aim to support the progression

and impact of Black, Asian and Minority Ethnic ("BAME") employees and address their current under-representation at senior levels. We also remain a proud signatory of the Race at Work Charter developed by BITC in partnership with the UK Government in 2018.

In 2019 we extended our partnerships to include #WorkWithMe, a joint initiative from Scope and Virgin Media to establish a growing community of businesses committed to thinking and acting differently about disability. The community is set up to allow members to share information, advice and insights in a safe, open and honest environment. We remain committed to providing all employees with the opportunity to develop and advance, which includes giving full and fair consideration to employment applications from disabled people. In the event of employees becoming disabled, we make every effort to ensure that the training, career development and promotion opportunities available are as far as possible identical to those of non-disabled employees.

In 2019 we continued to take time to celebrate and mark several global events across our sites, including International Women's Day in March and International Men's Day in November. We launched our first Group-wide Inclusion Week in September 2019. The week was an opportunity to celebrate diversity and inclusion within Essentra and also further communicate our Diversity and Inclusion Charter, which underlines Essentra's commitment to building an inclusive culture and the plans we have in place to deliver against this commitment.

"In 2019 we continued to build an inclusive culture where diversity is embraced by everyone, ensuring we get the full business benefit while making Essentra a rewarding and successful place to work for our colleagues"



LEAP – Leadership Essentials in Action Programme

In 2019 we introduced LEAP, our development programme aimed at supervisors. The programme was piloted in Flippin, USA and Kidlington, UK in mid-2019 and will be further rolled out in 2020. The programme has a modular design and is available in multiple languages so it can be tailored to the needs of local sites. The training focuses on people leadership and interpersonal skills, covering issues such as self-awareness, managing performance, communication skills and behaviours to improve your personal effectiveness.





Disability programme in Poland

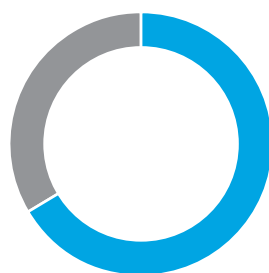
In 2017 our Packaging site in Lublin, Poland began a partnership with a local Foundation called "Heros" which helps members of the community who are excluded or facing discrimination. As part of the relationship, Essentra facilitated eight three-month internships for disabled members of the community in 2017 and 2018.

After three of these internships completed, local management decided to offer the individuals permanent roles; two in the Prepress Department and one supporting administrative processes at the Raw Material Warehouse.

By partnering with Heros, our employees and customers can see Essentra's commitment to diversity and inclusion. These efforts have also been recognised by local media as a great example of inclusive work practices.



Gender split all employees



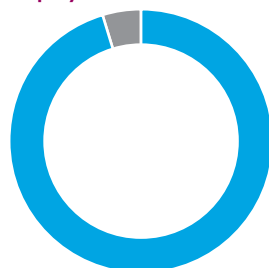
● Male: 66.5% (5024 employees)
 ● Female: 33.5% (2528 employees)
 As at 31 December 2019.

Gender pay gap

In 2019 the focus has been on making Essentra a more inclusive place to work, which has included initiatives to improve the gender balance across the Group.

While we have seen an improvement in our gender balance versus last year, the data shows that a gender pay gap does exist and although it has not improved, it remains broadly in line with the industry average. We accept there is still more work to do and we are working to better understand the underlying issues relating to the pay gap and the actions we need to take to close it.

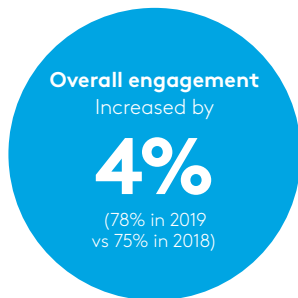
Permanent/contractor split all employees



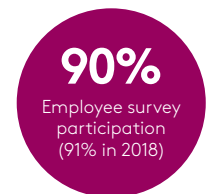
● Permanent: 95.3% (7202 employees)
 ● Contractors: 4.7% (350 employees)
 As at 31 December 2019.

Our guiding principle is to pay colleagues according to their role not their gender, providing everyone with an equal opportunity to develop and progress. For example men and women doing the same jobs at a business unit are paid the same hourly rate. However, we believe our gender pay gap is caused by the fact that we have more men than women across all levels of the organisation, and specifically in our most senior roles. Where we have more men in hourly paid roles versus females, our male colleagues generally hold specialist roles that attract premiums, such as machine setters.

How we do business continued



“Almost eight in ten employees at Essentra are engaged; a strong score which puts us ahead of the global and manufacturing industry averages”



World-class engagement

In November we received the results of our 2019 employee survey. We saw an increase in overall engagement from 75% in 2018 to 78% and an almost ten percentage point increase from 2017 (69%). This means that almost eight in ten employees at Essentra are engaged; a strong score which puts us ahead of the global and manufacturing industry averages.

We have also maintained our market-leading participation rate, at 90% this year, which means we can again be confident that the results reflect the true voice of Essentra. Furthermore at a Group-wide level, we have improved our result against all questions in the survey; no areas have decreased.

Questions relating to respect and diversity saw a huge improvement in our 2019 employee survey which is a reflection of the work undertaken to embed the diversity and inclusion agenda throughout 2019: employees increasingly believe that Essentra actively supports diversity in the workplace, that we have created an environment where different views and perspectives are valued and that their line manager treats them with respect.

All site action plans were agreed by the end of January 2020 and regular meetings are scheduled throughout the year to track progress.

Rewarding and recognising our people

In 2019 we introduced a new approach to have employees contribute to their UK pension, which increases the take-home pay of participating employees and reduces the employer social security that Essentra pays.

Our Group-wide “Make It Work” Awards are now in their second year. The Awards reflect our Six Principles and celebrate the people who have gone above and beyond to deliver what Essentra does best: make it work. 2019 saw over double the number of nominations submitted from all divisions and many functions across the organisation. Our six winners (five individuals and one team) were announced in January 2020 and will accept their awards at a gala dinner held in the Spring.

Being an ethical employer

Essentra has established a clear commitment to ensuring that its business activities are conducted in accordance with all applicable laws and regulations. The Group Compliance Strategy is based on risk-based policy and training protocols supported by appropriate technology platforms and expert guidance and advice. Our Ethics Code is the core foundation of our Group Compliance Strategy and is issued to all employees globally and who must affirm they have received and read the policy and undertake annual training on the Code. In addition we have specific policies relating to Anti-Bribery and Corruption, Anti-Money Laundering and

Third-Party Due Diligence. These policies are made available to all employees and specifically issued for affirmation to senior leaders and others as appropriate. Further details on these policies can be found at [essentraplc.com/responsibility](https://www.essentraplc.com/responsibility)

Our Right to Speak Policy and process is in place to enable any employee to report circumstances where they believe that the standards of the Ethics Code, or the Company’s wider policies and guidance notes, are not being upheld. We are committed to ensuring that employees feel able to raise any such concerns in good faith, without fear of victimisation or retaliation and with the support of the Company. Employees can report any concerns on a confidential basis online or by telephone.

Throughout our international operations we support and endorse human rights – as set down by the United Nations Declaration and its applicable International Labour Organisation conventions – through the active demonstration of our employment policies, our supply chain and the responsible provision of our products and services. This commitment includes a mandatory requirement on all our sites to avoid the employment of children, as well as a commitment to the prevention of slavery and human trafficking. Our operations based in India, Indonesia and Thailand are additionally accredited to SA 8000 which details fundamental principles of human rights.



A day in the life of typical Essentra employees

Cutting Operator at a Packaging site

This role is responsible for operating "guillotine" paper cutting equipment on site. This involves measuring, calculating and setting the correct programme for the equipment in order that it produces volume within a scheduled time to meet customer delivery dates.

An operator is responsible for ensuring that all products made have conformed to the following standards: ISO 9001:2008, PS 9000:2011, GMP and ISO 14001.

This role assists the Print Supervisor in ensuring that maximum outputs and efficiencies are achieved during a shift and as such a drive to achieve continuous improvements is vital. This role also needs to ensure the area, equipment and machinery are kept clean and tidy and an exceptional eye for detail is also needed.

Slitting Team Leader at our Tear Tapes site

This role is responsible for ensuring the efficient operation of a number of secondary slitting machines throughout a shift. This involves working with and communicating to members of the slitting machine team to ensure that the correct work flow is in place and that machines are operating to optimum output.

This person also needs to ensure that all health and safety practices are adhered to at all time and that quality checks are carried out in accordance with quality and standard operating procedures.

This person is expected to take an active role in the operation of the whole factory and shift, by assisting in day-to-day planning, promoting further continuous improvement and offering advice as and when required. In this role, a knowledge and understanding of ISO 9001, 14001 BRC, and OHSAS are required together with strong communication skills, self-motivation and initiative.

Maintenance Engineer at a Components site

This role is responsible for the maintenance and repair of manufacturing equipment, associated infrastructure and facilities equipment. This role operates under the direction of a Maintenance Manager, through the Lead Engineer, in order to ensure safe, timely and efficient operation of all plant machinery and equipment.

This role ensures that periodic and preventive maintenance are scheduled and undertaken and that emergency troubleshooting and maintenance support are readily provided as needed.

This role is also responsible for updating records of work activities, tasks carried out, parts used through stores and instruction passed on between shifts.

This role needs to work closely with manufacturers, suppliers and internal departments in finding ways to improve process and increase machine reliability and performance. This person needs to demonstrate problem-solving ability and be a self-starter with initiative.

Based on workforce analysis for the Chief Executive pay ratio, these are typical UK roles we see in the interquartile range (25th to 75th percentile) of remuneration.

How we do business continued

Health and safety

Essentra remains committed to achieving and maintaining the highest standards of occupational health and safety for our employees and everyone visiting our operations. The Board provides direction and leadership on all health and safety matters. The Chief Executive has primary responsibility for safety which is managed every day across the three divisions by our Operations and Health, Safety & Environment Managers and their teams. Their work is guided by the Group Health, Safety & Environment Director who, along with the Group Management Committee, regularly reviews our progress against our safety objectives and monitors performance. All incidents resulting in Lost Time are formally investigated and findings are shared throughout the business.

We continue to support the adoption of accredited Occupational Health and Safety Management Systems including ISO 45001 by our manufacturing sites. For example, in 2019 the Filters division focused on upgrading sites' OHSAS 18001 certificates to ISO 45001 standard and this activity is ongoing in 2020.

Investment in safety

During the year we continued our significant investment in safety across Essentra, both in terms of physical safety features and skills training to protect everyone at work.

In Packaging, we continued with a major machinery guarding project. As part of the project, all our global Packaging sites have completed a review process to identify areas for improvement, conducted consultations with machine operators and are in the process of completing works to improve machine guarding. A key machine at the Bangor site in Northern Ireland has received significant guard upgrades to prevent full and partial body access to the machine whilst running. This upgrade project has been identified by the UK Health and Safety Executive as an industry standard example of a recommended machine guarding upgrade project.

A "hand safe" campaign has supported the machine upgrading project in Packaging and has been well adopted by employees with a system of approved knives and gloves now being used for appropriate tasks. This has led to a significant reduction in the number of cut-related injuries in Packaging Europe and Asia; 16% from 2018 to 2019.

Year	Number of Lost Time Incidents	% change
2017	62	
2018	36	
2019	33	-8.33

NB: numbers restated due to portfolio changes. Data includes sites owned by Essentra for a full calendar year on 31 December 2019 to allow year-on-year comparisons. 2017 and 2018 data restated accordingly. An additional two LTIs occurred in sites acquired part way through the year.

Year	Number of days lost	% change
2017	1,638	
2018	987	
2019	855	-13.37

Severity rate reduced/improved by 13% from 2018 to 2019 (from 16.78 to 14.55)

NB: numbers restated for 2018 due to lost time incidents continuing on into 2019 so number of days lost continued to increase.

Safety engagement and training

In early December, we held our first global Safety Week with a focus on "slips, trips and falls". This was an opportunity to reinforce every employee's role in taking responsibility for driving improvements and embedding a safety culture throughout the business. Over 80 sites took part, with 56 improvement activities shared. This level of engagement supports our aim to drive a positive safety culture throughout the organisation.

The Visible Felt Leadership course develops employees' safety leadership skills which they can use within their everyday roles and when visiting sites across the Group. In 2019 over 150 of our managers and over 50 supervisor-level employees were trained on the course. This training reinforces the principle that safety is a foundation block of Essentra's strategy. It is also crucial in ensuring a good safety management culture throughout the organisation. After attending, managers and supervisors practise and display the safety leadership skills they have learned which creates a visible safety culture on the "shop floor". Visible safety leadership also generates opportunities for engagement between managers, supervisors and operators to hold regular safety conversations.

Our aim is to be in the top quartile of manufacturing companies for Incident Frequency Rates. We are therefore pleased to report that the number of incidents resulting in Lost Time has reduced by 8% from 36 in 2018 to 33 in 2019 and the total number of days lost due to incidents has reduced by 13% over the same period. This includes the sites owned by Essentra for a full calendar year on 31 December 2019.

Make It Work Awards 2019

At Essentra people are at the heart of what we do. Every day, employees go above and beyond to deliver what Essentra does best: make it work.

Our 2019 winner in the Respect and Diversity category was Jesline, based at our Filters division head office in Singapore. Jesline took steps beyond her duties to organise a variety of charitable events, encouraging her colleagues to take part.

Our winner in the Safety category was Andreas, based at our Components site in Nettetal, Germany. Andreas made great strides to improve the H&S environment in Nettetal and increased efficiency with cost- and waste-saving projects at the site.

Our winner in the Openness, Honesty and Integrity category was Juan, based at our Greensboro Packaging site in the USA. Juan has a high level of prepress knowledge which he happily shares across multiple sites. He steps up as a leader and takes time to hear concerns from fellow employees, finding solutions.



Sustainability

Integration of Environmental, Social and Governance (ESG) is crucial to our ability to maintain stability, deliver our strategies and ensure growth. Good management of this topic is critical to meeting the increasing expectations of all stakeholders including customers, investors, employees, as well as prospective employees.

In 2019 we further developed our sustainability strategy around four pillars: Responsible Resource Usage, Energy and Climate Change, People and Communities and Responsible Supply Chain. During the year we communicated this strategy internally under the concept of “small changes – big impact”, underlining and encouraging everyone’s role in contributing to the sustainability agenda.

Essentra’s part in a low-carbon economy

Essentra recognises that it needs to play its part within the low carbon economy. We have a rolling programme of site energy audits, leading to energy efficiency improvements, including roll-out of LED lighting at numerous sites and trials of new technologies, for example, all-electric presses in Components. We are also exploring on-site energy generation – two Filters sites use waste material to generate heat for sites and four Packaging sites are exploring solar photovoltaic projects currently. In addition, we source certified renewable energy, where possible and economic to do so.

Our sustainability strategy

Responsible Resource Usage

Reducing our impact on the environment through waste reduction projects, driving sites to zero waste to landfill, trials of recycled and biodegradable materials and trials of “closed loop” business models in partnership with suppliers and customers

Energy and Climate Change

Reducing scope 1 and 2 GHG emissions via energy efficiency (e.g. roll-out of LED projects across multiple sites), on-site energy generation (e.g. biomass for heating in Filters, four sites at pilot stage for solar PV in Packaging) and procurement of certified renewable energy

People and Community

Ensuring we support the communities we operate in through our community engagement policy – each site chooses and actively supports one or more local initiatives. Continued focus on improving our health and safety performance for employees and visitors

Responsible Supply Chain

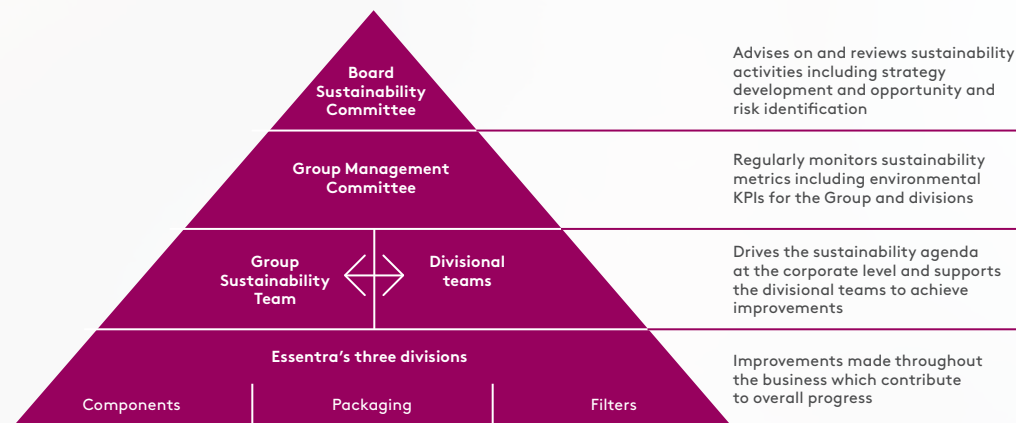
Ensuring our supply chain is robust through ongoing improvements in policies and standards including new KYS processes as part of BPR project, along with roll-out of a risk-based supplier audit programme



Essentra acknowledges the important role of the Taskforce for Climate Related Financial Disclosures (“TCFD”) to improve transparency and drive improvements across industry. We have disclosed on the four areas of Governance, Strategy, Risk Management and Metrics and will endeavour to increase the level of disclosure year on year.

Sustainability governance

To further underscore the importance the Board places on this topic, the Group Sustainability Committee created in 2018 was elevated to a Board committee in 2019 and is now chaired by Ralf Wunderlich. The Board Sustainability Committee meets at least quarterly in order to input to strategy, risk management and performance.



How we do business continued

Risk management

In 2019 ESG was recognised as a Principal Risk. This encompasses the topics of waste management, Essentra's carbon footprint and corporate social responsibility issues.

Additionally, two Emerging Risks have been identified which are currently managed under the ESG Principal Risk: Single-use Plastics and Climate Change. It is important this topic is managed effectively due to the potential environmental impact, changing regulatory context and increasing public awareness of this issue. Currently, the risk that climate change poses to Essentra's global operations is managed through business continuity planning for vulnerable locations.

Defining our material issues

It is important to identify our material issues in order to focus our efforts on solutions that make the biggest difference to our footprint. We are currently finalising this process using a methodology that identifies key stakeholders including customers, industry bodies and sustainability organisations, and researches the key sustainability issues that matter to them. The key issues identified are weighted on both importance to Essentra and stakeholders and Essentra's level of influence or control over the issue. Finally, the stakeholders review the ranking to finalise the priority areas. The areas with a high business impact and high degree of control are expected to be GHG emissions, materials and waste. The material issues will be re-evaluated annually to ensure they reflect the areas of highest priority to our stakeholders.

Voluntary sustainability disclosures

Essentra is committed to reporting against voluntary external indices to increase transparency, motivate stakeholders and drive change within our business and the value chain. In 2019, Essentra maintained a silver Ecovadis rating with an improved score of 59/100, which is in the 86th percentile of all companies who completed the assessment. We are working hard to improve our CDP Disclosures, improving our score to C in both the Climate Change and Water Categories in 2019. Completing external assessments demonstrates our commitment to continuous improvement and helps us to prioritise focus areas for the next year.



Essentra's approach to Single-use Plastics

Plastics are lightweight, versatile and cost-effective materials, and when used responsibly, have their place in achieving a lower carbon society that benefits people, planet and profit. However, once used, plastic waste must be dealt with effectively, to limit its impact on the environment.

We are proactively working across all divisions to offer our customers products that serve their requirements, whilst minimising the impact on the environment.

For Filters, a key issue is end of life waste management. We are actively trialling new materials from sustainable sources, to be able to provide a biodegradable solution to the industry. Within our Tear Tapes business, we are also exploring several different material pathways, including higher recycled content and biodegradable materials, along with materials from sustainable sources.

In Components we have conducted initial trials of materials with a higher recycled content, that still meet our customers demanding technical requirements. We are also trialling alternative, biodegradable materials, alongside trials of 'closed loop' business models, to be able to recapture and re-use those materials.

Alongside our Scope 1 and 2 GHG emissions, we also consider the greenhouse gas emissions associated with materials supplied to us as well as waste created throughout the product lifecycle. These emissions are often significantly greater than the emissions from our production facilities; it is therefore important that we look for opportunities for improvement in each stage of the product lifecycle.

Environmental reporting – metrics

From 2018 to 2019 our overall, absolute Scope 1 and 2 GHG emissions decreased by 6.1%. This has been achieved through a programme of site efficiency audits and emissions reduction activities to drive improvements, such as the implementation of LED lighting projects at many sites across the Group. We have also developed additional opportunity identification approaches via an energy project run by one of our graduate teams; the roll-out of their project will continue to be implemented across the divisions in 2020 and beyond. Our emissions per £m have decreased by 1.2%.

Waste reporting has improved significantly during 2019, with increased oversight of waste destinations. Recycling, recovery and incineration have increased as we build increased awareness of the waste hierarchy. Waste sent to landfill has decreased by 39.7%. In addition, eight sites across the Group have achieved zero waste to landfill (“ZWTL”) status in 2019; these sites have at least 12 months’ data to confirm this.

ERM CVS has verified Essentra’s environmental data in 2019. The data verified includes our energy usage and associated CO₂ equivalent emissions, waste quantities per destination and number of sites with ZWTL status.



Future Leaders Energy Project

During 2019 a team of graduates undertook a project to create an Energy Savings Playbook for Essentra to implement energy saving activities and projects. The team visited Components sites in Kidlington, UK and Flippin, USA to investigate potential energy saving opportunities in the manufacturing process and site operations.

The team identified areas for improvement that would allow sites to maximise the benefits of energy saving projects; these included

suggestions to educate employees to improve technical knowledge and behaviours around energy management. The team presented their findings to the Group Management Committee in November 2019, highlighting the cost saving and energy saving opportunities of rolling the project out across the Components division. Future plans to introduce energy saving projects across Essentra’s three divisions will contribute towards cost savings for the business’s and will reduce the business’ Scope 1 and 2 GHG emissions.

Tonnes CO ₂ e	2019	2018 (restated ¹)	2017 (restated ¹)	% change between 2018 and 2019
Scope 1	10,264	11,245	10,738	-8.7
Scope 2	6,2111	65,852	71,495	-5.7
Total	72,375	77,097	82,233	-6.1
Total CO ₂ eq per £m revenue	74.3	75.2	80.0	-1.2

Waste (tonnes) solid hazardous and non-hazardous	2019	2018 (restated ¹)	2017 (restated ¹)
Recycling	28,829.8	20,403.9	20,136.7
Recovery including incineration with energy recovery	17,612.9	2,006.6	1,865.4
Incineration without energy recovery	284.2		
Landfill	2,989.2	49,58.3	6,705.1
Percentage of waste diverted from landfill	94.0	81.9	76.6

- 1 Boundary: waste and energy data is collected for all global operations including manufacturing, warehouses, and offices. Sites included in emissions and waste reporting are those that constitute 99% of Essentra’s electricity consumption within our operational control. The sites which make up the lowest 1% of electricity consumption are excluded from reporting and verification due to their consumption being immaterial. Sites sold during 2019 are not included in disclosures to allow for comparison between years.
- 2 As classified by the Greenhouse Gas Protocol, Scope 1 includes direct emissions from the combustion of fossil fuels within Essentra’s operational control, the scope 1 emissions associated with refrigerant gas used in air conditioning equipment were not captured during 2019, however, the data collection methodology has been amended to capture this data in 2020. Scope 2 includes indirect emissions from purchased electricity and used by the organisation.
- 3 Emission factors: The Electricity Emissions Factors by Country published by the International Energy Agency in 2019 has been used to calculate Scope 2 emissions; and the Greenhouse Gas Protocol 2017 has been used to calculate Scope 1 emissions.
- 4 Emissions data was restated because the methodology to calculate GHG emissions was significantly updated during 2019; previously, only CO₂ was disclosed. Revenue has not been restated. Emissions and waste data have been restated due to Essentra’s portfolio simplification, therefore, sites sold 12 months ago or more are excluded from all reporting years.



Financial review

Trading performance

The FY 2019 result for the Group was robust, notwithstanding the uncertainty around the global macroeconomic climate, and significant portfolio rationalisation activities that took place during the year. As disclosed in the HY 2019, in aggregate, £105m of annualised revenue and £15m trading profit were disposed during the year, which had significant impact on the year-on-year comparisons.

FY 2019 revenue decreased 5.0% (-6.5% at constant exchange) to £974.1m owing to disposals during the period: on a LFL basis, revenue decreased 0.7% (+1.5% underlying). The underlying result reflected a resilient performance in Components (given the macroeconomic conditions) and a strong performance in Packaging, offset by a decline in Filters (which was primarily driven by softer performance in China and also in markets supplied by the Middle East).

On an adjusted basis, operating profit was down 3.5% (-5.4% at constant FX) at £87.5m. The 20bps uplift in the margin

(10bps at constant FX) to 9.0% was driven by the volume gearing effect from the revenue growth in Packaging, boosted by the impact of price increases in both Components and Packaging, and further operational efficiency gains in all three divisions.

Including amortisation of acquired intangible assets of £22.9m and an exceptional pre-tax credit of £15.4m – mainly relating to net gains on the divestment of the aforementioned businesses less costs associated – operating profit as reported was £80.0m (2018: £47.2m).

Net financial expense

Net finance expense was above the prior year at £14.5m (FY 2018: £10.9m), mainly due to interest on leases from having adopted IFRS 16 together with a higher average level of sterling-denominated debt during the period (which was done as a Brexit mitigation initiative).

Tax

The effective tax rate on underlying profit before tax (before exceptional and other adjusting items) was 19.9% (2018: 19.5%).

Net income

On an adjusted basis, net income of £58.5m was down 8.9% (10.9% at constant FX) and adjusted basic earnings per share

decreased by 7.8% (-9.7% at constant FX) to 21.3p. On a total reported basis, net income of £41.2m and earnings per share of 14.7p compared to £28.1m and 9.3p respectively in FY 2018.

Net working capital

Net working capital is defined as “inventories plus trade and other receivables less trade and other payables, adjusted to exclude deferred consideration receivable/payable and interest accruals/capital payables”.

The decrease in net working capital, from £121.8m in 2018 to £113.8m, was largely due to business divestments, within Specialist Components, offset by increases in Components and Packaging. The average net working capital/revenue ratio was 14.3% (2018: 13.7%, at constant FX). The increase in the net working capital ratio was driven by the impact of adopting IFRS 16 (which accounted for 20bps of the overall 60bps movement), with the remainder being driven by Brexit related stock building in the Components division and an increase in working capital in the Packaging division being used to fuel business growth. The movement in trade and other payables is driven by the release and utilisation of certain accruals and deferred income.

Lily Liu
Chief Financial Officer



“Our continued focus has led to robust profit delivery, whilst maintaining a solid balance sheet, and has allowed us to both increase investment in the business and maintain the distribution to our shareholders”



Cash flow

Adjusted operating cash flow was £71.8m (2018: £77.2m). This includes an outflow of net working capital for the year of £10.3m (2018: inflow of £5.9m) and gross capital expenditure of £58.9m (2018: £61.2m), with net capital expenditure equated to 155% (2018: 168%) of the depreciation charge (including amortisation of non-acquired intangible assets) for the year of £36.4m (2018: £35.9m). Net interest paid was £13.3m (2018: £9.5m) and tax payments remained flat at £16.5m, after adjusting for exceptional tax payments on disposals. The outflow in respect of pension obligations was £1.3m (2018: outflow of £1.0m).

Adjusted free cash flow of £40.7m compared to £50.2m in FY 2018.

Free cash flow reconciliation	£m
Adjusted operating profit	87.5
Non-cash/other items	51.2
Net working capital	(10.3)
Net capital expenditure	(56.6)
Adjusted operating cash flow	71.8
Tax paid	(16.5)
Net interest paid	(13.3)
Pension obligations	(1.3)
Adjusted free cash flow	40.7

Net debt

Net debt at the end of the period was £284.4m, a £15.1m reduction from 1 January 2019 (after applying IFRS 16), primarily due to proceeds from Specialist Components disposals and free cash flow generation, partially offset by cost of strategic acquisitions, dividend payments and cash exceptional and other adjusting items. The ratio of net debt to EBITDA as at 31 December 2019 was 2.0x (31 December 2018: 2.1x) after applying IFRS 16 (1.9x before applying IFRS 16), and interest cover was 6.6x (31 December 2018: 7.9x) after applying IFRS 16.

Balance sheet

As at the end of 2019, the Company had shareholders' funds attributable to Essentra equity holders of £533.1m (2018: £592.6m). Total capital invested in the business was £919.5m (2018: £927.2m).

This finances non-current assets of £841.8m (2018: £853.3m), of which £276.0m (2018: £282.2m) is tangible fixed assets, the remainder being intangible assets, right-of-use assets, deferred tax assets, retirement benefit assets and long-term receivables.

The Company has net working capital of £113.8m (2018: £121.8m), current provisions of £3.3m (2018: £5.3m) and long-term liabilities other than borrowings of £128.3m (2018: £106.2m).

Pensions

As at 31 December 2019, the Company's IAS 19 net pension liability was £17.4m (2018: £13.9m).

The Company concluded the triennial valuation of the two closed defined benefits sections of the Essentra UK Pension Plan with the Trustees of the Plan, with a settlement of £1m to be paid in three equal payments. The first took place in December 2019, and the remaining two will be paid in June and December 2020.

Treasury policies and controls

Essentra has a centralised treasury function to control external borrowing and manage exchange risk. Treasury policies are approved by the Board and cover the nature of the exposure to be hedged, the types of financial investments that may be employed and the criteria for investing and borrowing cash. The Company uses derivatives only to manage foreign currency and interest rate risk arising from underlying business activities. No transactions of a speculative nature are undertaken.

Underlying policy assumptions and activities are reviewed by the Treasury Committee. Controls over exposure changes and transaction authenticity are in place, and dealings are restricted to those banks with the relevant combination of geographical presence and suitable credit rating. Essentra monitors the credit ratings of its counterparties and credit exposure to each counterparty.

Foreign exchange risk

The majority of Essentra's net assets are in currencies other than sterling. The Company's normal policy is to limit the translation exposure and the resulting impact on shareholders' funds by borrowing in those currencies in which the Company has significant net assets. As at 31 December 2019, Essentra's US dollar-denominated assets were approximately 46% hedged by its US dollar-denominated borrowings, and its euro-denominated assets were approximately 32% hedged by its euro-denominated borrowings.

The majority of Essentra's transactions are carried out in the functional currencies of its operations, and therefore transaction exposure is limited. However, where such exposure does occur, Essentra uses forward foreign currency contracts to hedge its exposure to movements

in exchange rates on its highly probable forecast foreign currency sales and purchases over a period of up to 18 months.

Aside from foreign exchange risk, the Group is also exposed to other types of risks, including credit risk. Please see note 19 of the Financial Statements for further details.

Refinancing activities

Essentra is primarily funded by a series of United States Private Placement (USPP) loan notes held by various investors, and a Revolving Credit Facility (RCF) provided by a group of well rated banks. An \$80m USPP loan note is due to mature in April 2020 and the remaining \$75m USPP loan notes mature between November 2024 and November 2029. The RCF is made up of two tranches, £285m and €100.8m, which both mature in November 2022. At 31 December 2019 the available bank facilities totalled £370m (2018: £375m). Furthermore, the Group also has the following facilities which become available in 2020:

- a further USPP facility for \$25m, which can be drawn from April 2020, for which the note purchase agreement has been signed in December 2019; and
- a bridging loan facility for £50m which was agreed with banks in February 2020, with an initial term of 12 months, plus a further six months at Essentra's option, and thereafter another six months at the lenders' discretion

Engagement and development of the Finance team

Having been in the role for more than a year, I am pleased to report the progress of our team development. A global Finance Leadership Team with a mix of internal and external promotions was assembled, with a focus on transforming our function to be more business and people focused. These efforts have come to fruition with an eight point increase in the whole Finance team employee engagement in 2019. Our Shared Service Centre team in the UK received a Highly Commended recognition in the British Credit Awards 2020. During the year, we also deployed new Robotic Process Automation technologies in order to improve process efficiency and engagement, whilst contributing to the Group-wide BPR programme.

Lily Liu

Chief Financial Officer
28 February 2020

Alternative Performance Measures

Management uses a number of measures of financial performance, position or cash flows of Essentra which are not defined or specified in accordance with relevant financial reporting. In management's view, these Alternative Performance Measures reflect the underlying performance of the Company and provide a more meaningful comparison of how the business is managed and measured on a periodic basis.

FY 2019 results at a glance

	FY 2019 £m	FY 2018 £m	% change Actual FX	% change Constant FX
Revenue	974	1,026	-5	-6
Adjusted operating profit	88	91	-4	-5
Adjusted pre-tax profit	73	80	-9	-10
Adjusted net income	59	64	-9	-11
Adjusted earnings per share	21.3p	23.1p	-8	-10
Dividend per share	20.7p	20.7p	-	n/a
Reported operating profit	80	47	69	66
Reported pre-tax profit	66	36	80	76
Reported net income – total	41	28	47	46

The financial information in this FY 2019 Annual Report is prepared in accordance with IFRS as adopted by the European Union and IFRS as issued by the International Accounting standards Board, and with the accounting policies set out on pages 124 to 133.

Basis of preparation

Continuing operations

Unless otherwise stated, the FY 2019 results and narrative contained in this Annual Report reflect the revenue and adjusted operating profit of the Essentra Group on a continuing basis.

Non-GAAP measures

Throughout this FY 2019 Annual Report, the following terms are used to describe Essentra's financial performance.

Constant exchange rates

Movements in exchange rates relative to sterling affect actual results as reported. The constant exchange rate basis adjusts the comparative to exclude such movements, to show the underlying performance of the Company.

For the principal exchange rates for Essentra for the year ended 31 December 2019 ("FY 2019"), see the table below. Retranslating at FY 2019 average exchange rates increases the prior year revenue and adjusted operating profit by £15.9m and £1.8m respectively.

Principal exchange rates	US\$:£	€:£
Average		
FY 2019	1.28	1.14
FY 2018	1.33	1.13
Closing		
FY 2019	1.32	1.18
FY 2018	1.28	1.12

Like-for-like basis

The term "like-for-like" describes the performance of the continuing business on a comparable basis, adjusting for the impact of acquisitions, disposals and foreign exchange. The FY 2019 LFL results are adjusted for the acquisition of Nolato Hertila ("Hertila") on 5 July 2018 until 8 February 2019 (further to which it was fully integrated into the existing Components activities in Sweden and no longer separately identifiable), the acquisition of the Innovative Components business on 26 June 2019, the acquisition of Nekicesa Packaging on 6 September 2019, the divestment of the trade and assets of the Swiftbrook paper merchant business on 3 September 2018, the divestment of the Pipe Protection Technologies business on 14 January 2019, the divestment of the Extrusion business on 11 June 2019, the divestment of the Speciality Tapes business on 28 June 2019 and finally the divestment of the Card Solutions business on 23 July 2019.

Underlying basis

The term "underlying" describes performance on a LFL basis, further adjusting for the closure of the Kilmarnock and Largo consumer packaging sites and the cessation of Speciality Tapes in Nottingham at the end of 2018.

Adjusted basis

The term "adjusted" excludes the impact of amortisation of acquired intangible assets and exceptional and other adjusting items, less any associated tax impact. In FY 2019, amortisation of acquired intangible assets was £22.9m (FY 2018: £22.7m), and there was an exceptional pre-tax credit of £15.4m (2018: charge of £20.8m). This exceptional credit mainly relates to net gains on the divestment of the aforementioned businesses less costs associated, together with the release of provisions with regard to certain site closures; along with acquisition integration costs. There was also an exceptional cost incurred in relation to an investigation involving external professional advisers, of certain Group companies' (in the Filters division) export activities within the framework of US laws, as we previously disclosed in our HY 2019 results. Further details on exceptional and other adjusting items are shown in note 2 to the Financial Statements.

Constant exchange, like-for-like and adjusted measures are provided to reflect the underlying performance of Essentra. For further details on the performance metrics used by Essentra, please refer to page 16.

Reconciliation of GAAP to non-GAAP measures

The following tables are presented by way of reconciling the metrics which management uses to evaluate the Essentra Group to GAAP measures.

Cash flow

Adjusted operating cash flow is presented to exclude the impact of tax, exceptional items, interest and other items not impacting operating profit. Net capital expenditure is included in this measure as

management regards investment in operational assets as integral to the underlying cash generation capability of the Company.

Summary growth in revenue by division

% growth	Like-for-like	Acquisitions/ disposals	Foreign exchange	Total reported
Components	-1	+1	+1	+1
Packaging	+1	+1	+1	+3
Filters	-1	-	+2	+1
Specialist Components		-68	+1	-67
Total	-1	-6	+2	-5

Net income

£m	FY 2019	FY 2018
Adjusted net income	58.5	64.2
Amortisation of acquired intangible assets	(22.9)	(22.7)
Exceptional and other adjusting items	15.4	(20.8)
Exceptional tax items	-	-
Tax on adjustments	(9.8)	7.4
Profit after tax	41.2	28.1

Cash flow

£m	FY 2019	FY 2018
Operating profit – adjusted	87.5	90.7
Depreciation and amortisation of non-acquired intangible assets	47.7	35.9
Share option expense/other movements	3.5	4.9
Change in working capital	(10.3)	5.9
Net capital expenditure (excluding exceptional plant, property and equipment disposal proceeds)	(56.6)	(60.2)
Operating cash flow – adjusted	71.8	77.2
Tax	(16.5)	(16.5)
Cash outflow in respect of exceptional and other adjusting items	(34.2)	(20.8)
Pension obligations	(1.3)	(1.0)
Add back: net capital expenditure (excluding exceptional plant, property and equipment disposal proceeds)	56.6	60.2
Net cash inflow from operating activities – continuing operations	76.4	99.1
Operating cash flow – adjusted	71.8	77.2
Tax	(16.5)	(16.5)
Net interest paid	(13.3)	(9.5)
Pension obligations	(1.3)	(1.0)
Free cash flow – adjusted – continuing operations	40.7	50.2



Divisional performance

The revenue and adjusted operating profit for each division is stated before the elimination of intersegment revenue and the cost of central services, as reconciled to the reported results set out in note 1 on pages 134 to 136.

Risk management report

Risk management is integral to protecting and creating shareholder value.

Risk management approach

Our risk management activities aim to improve performance, encourage innovation and support the achievement of our strategic objectives. In doing this, we take a balanced approach that puts risk management at the core of the senior management agenda, which is where we believe it should be.

We have continued to make good progress in improving our risk management processes in 2019 as we move towards our objective of implementing processes in line with FTSE 250 upper quartile practice. This includes a number of initiatives to drive enhanced risk reporting and further embed risk activities to improve risk culture across the Company.

In 2019, the Board also considered Emerging Risks, with specific attention being given to those Emerging Risks considered to be of ongoing importance to the Company and its stakeholders. Particular focus was placed on assigning responsibility and accountability for Principal and Emerging Risks, particularly those risks that cut across divisions and Enabling Functions. The approach was adopted from ISO 31000 Risk Management guidelines and includes a RACI (responsible, accountable, consult and inform) matrix to drive clear responsibility and accountability.

We are committed to managing risks in a proactive and effective manner to provide assurance to the Board and our stakeholders.

Risk management framework

Our risk management framework continues to evolve in line with best practice to ensure that it supports the Company's ongoing growth and strategic objectives. A robust, but flexible, approach to the management of risk is fundamental to the continued success of the Company.

There is a risk management framework for identifying and managing risk within defined appetite levels, in relation to both operations and strategy. The framework has been designed to provide the Group Risk Committee ("GRC") and the Board with a clear line of sight over risk and to enable informed decision-making.

Risk can present itself in many forms and has the potential to impact health and safety, the environment, our community, our reputation, regulatory compliance, market and financial performance and therefore the achievement of our corporate purpose. By understanding and managing risk, we provide greater certainty and confidence to our shareholders, employees, customers, suppliers, and the communities in which we operate.

The Board reviews its risk appetite annually by mapping its Principal Risks against a sliding scale from "risk-averse" to "risk-neutral" to "risk-tolerant" and this informs the development of mitigating actions for each of the Principal Risks.

Roles and responsibilities of the GRC

Identify

- Establish the process for identifying and understanding key business risks
- Identify risks in each of our businesses and Enabling Functions
- Risk reviews with senior leadership
- Review Principal, Key and Emerging Risks

Assess

- Prioritise risks through agreed ranking criteria
- Risk appetite set by the Board for all Principal Risks

Control

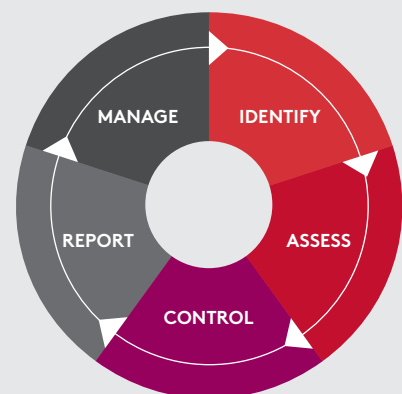
- Ownership defined
- Establish key control processes and practices
- Controls to manage the risk within appetite
- Monitor the operation of the controls

Report

- Agree and implement measurement and reporting standards
- Communicate with all stakeholders

Manage

- Review all aspects of the Company's risk profile
- Review and challenge risk management practices



The process for identifying, assessing and controlling material business risks is designed to manage, rather than eliminate.

In 2019, we updated our risk management framework to include procedures for the identification, assessment and monitoring of Emerging Risks, as required by the 2018 UK Corporate Governance Code.

At a strategic level, our risk management objectives are to:

- identify the Company's significant risks and appropriate mitigating actions
- formulate the risk appetite and ensure that our business profile and plans are consistent with it
- ensure that growth plans are properly supported by an effective risk infrastructure
- help management teams to improve the control and co-ordination of risk-taking across the Company

Strengthening our framework

To achieve the objective of implementing FTSE 250 upper quartile risk management practice, we have made good progress in implementing our three-year risk management improvement plan in line with best practice and ISO 31000 guidelines.

In 2019, we enhanced our risk reporting and GRC management processes including implementing a standard risk reporting template. An annual calendar of GRC agenda items has also been implemented and each Principal Risk is subject to an annual deep dive during each Board and GRC meeting using a standard reporting template. This has enabled consistency of risk reporting across the Company.

The Group Assurance function has engaged directly with Divisional and Enabling Functions Leadership teams on the development of their risk registers and risk reporting practices. This included conducting risk knowledge workshops, in line with ISO 31000, to drive a consistent understanding and application of risk. Each workshop included a discussion of the Board-approved rating criteria for financial and reputational impact and likelihood, to ensure that a consistent rating based on risk to the Company is applied.

Further improvements in risk management will be continued in 2020.

Risk governance structure and oversight

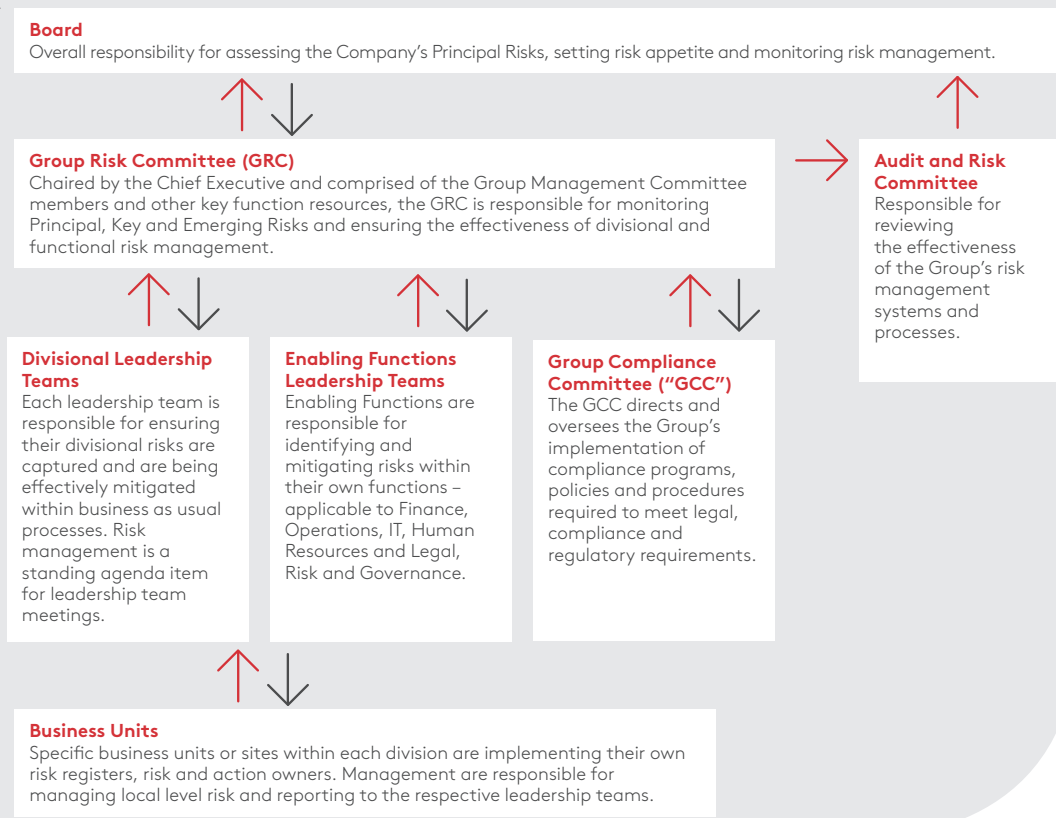
The Board has established a risk and internal control structure designed to manage the achievement of strategic business objectives. The Group Assurance function, separate from line management, enables and facilitates the risk management process across the Company and acts as the custodian of the Company's risk architecture and its management. In addition, all divisions have appointed Risk Champions to drive risk management practices into their businesses.

The GRC met seven times in 2019, each meeting with a full attendance. The GRC is chaired by the Chief Executive and its membership comprises the GMC members, Head of Legal, Group Head of Assurance and Head of Communications. Non-member standing attendees are the Group Health, Safety and Environment Director, the Director of Group Assurance and the Group Financial Controller. Other members of senior management are also invited to present reports on risk activities. The Chairman of the Audit and Risk Committee has a standing invite to attend all GRC meetings and receives copies of the minutes of every meeting.

Our risk governance structure

→ Direct and monitor
→ Report

Facilitators
Group Assurance
Divisional Risk Champions
Enabling Function Risk Champions



Risk Management Report continued

The GRC’s responsibility is to focus and co-ordinate risk management activities throughout the Company and to facilitate the appropriate identification, evaluation, mitigation and management of all key business risks. In addition, the GRC reviews the risk appetite and future risk strategy, and makes recommendations on risk appetite to the Board and actions required to ensure adequate controls and mitigating actions are in place against identified Key Risks.

As an important part of fulfilling its responsibilities the Board receives regular reporting from the Chief Executive in his capacity as GRC Chairman to enable the Board to challenge and review the GRC’s views on the Principal Risks, Key Risks and Emerging Risks.

The Audit and Risk Committee (“ARC”) engages directly with the divisions and the Enabling Functions, including deep dive reviews, as part of fulfilling its oversight responsibilities on the risk management processes. The ARC, with assistance from Group Assurance, oversees compliance with risk management processes and the adequacy of risk management activities related to the Company’s operations.

Risk categories

The Company has considered the risks it is facing under the following four risk category headings and has identified 11 Principal Risks

External

Risks relating to the macroeconomic climate, political events, competitive pressures or regulatory issues

Operational

Risks that could impact day-to-day operations and prevent business as usual activities

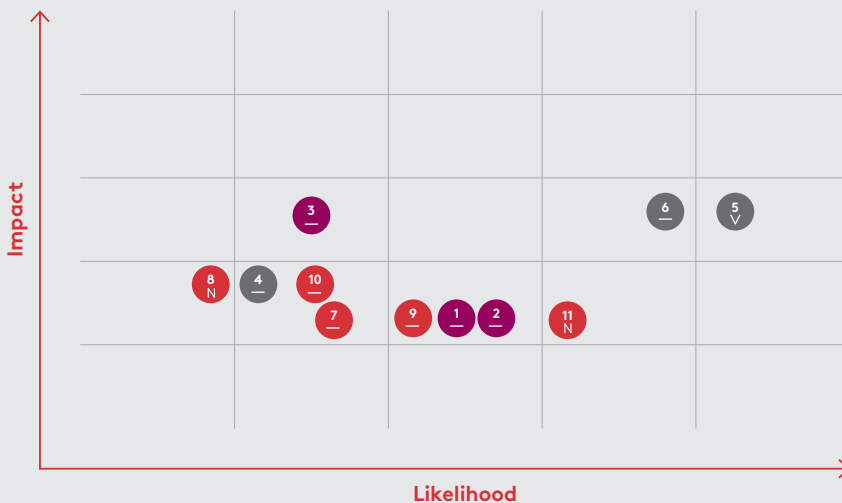
Strategic

Internal risks that may impede achievement of strategic goals

Disruptive

Risks that could impact the business model or viability of the Company. Although key disruptive risks have been identified and mitigated by the Company, none of them are considered to be Principal Risks currently

Principal Risks



1. Failure to Achieve Acceptable Returns from the Packaging division
2. Tobacco Industry Dynamics
3. Delivery of Strategic Projects
4. Regulatory – Governance
5. Cyber Attack
6. Macroeconomic and Trade Deal Uncertainty (including Brexit)
7. Business Continuity Planning and Management
8. Environmental and Social Governance
9. Internal Processes and Control
10. Safety (including Regulatory)
11. Talent to Deliver Our Future

- Strategic Risks
- External Risks
- Operational Risks

KEY: ▲ Increased, ▼ Decreased, — No Change, N New

The Divisional and Enabling Functions Leadership teams dedicate time each year in a facilitated discussion with the Group Assurance function to consider the risk environment for their particular functional or geographic area of responsibility and how these could impact on the achievement of the Company's strategic objectives.

Principal Risks

The GRC has responsibility for overseeing Essentra's Principal Risks. A top-down and a bottom-up assessment is undertaken to identify our Principal Risks. The assessment is performed against the four risk categories.

As part of the bottom-up process, the Divisional and Enabling Functions Leadership teams have also undertaken a detailed risk assessment, facilitated by Group Assurance using a consistent workshop methodology, the outputs of which were reflected in updated risk registers. These risk registers were then analysed to ensure completeness and appropriateness of the Principal Risks.

As part of our top-down process, an updated assessment was completed for each Principal Risk by the GRC. This top-down assessment required each GRC risk owner to provide analysis on material changes in the risk they manage and whether they consider it to have more or less impact during the course of the year on achievement of our strategic objectives.

These individual responses were consolidated, the GRC then discussed and reached a consensus regarding Principal Risks that can seriously affect the performance, future prospects or reputation of Essentra. The outputs from the GRC assessments were then presented to the Board for approval along with the recommendation of Principal Risks to be included in the viability testing.

The Board believes the Principal Risks are specific to Essentra and reflect the risk profile of the Company at the current time. All Principal Risks are managed within their individual risk appetite. As a result, the Principal Risks are a combination of new and previously disclosed risks.

Key changes in the year

Following the 2019 review process, our risk profile remains stable, with the following key changes.

Two new Principal Risks have been identified:

- **Talent to Deliver Our Future captures the risk that Essentra may fail to attract and retain the required management and leadership skills necessary to evolve our business, develop the culture and meet future customer needs. This risk has been introduced given our strategic growth objective**
- **Environmental and Social Governance risk reflects expectations of increasing environmental and social governance obligations, leading to reputational risk for the Group.**

This includes risk arising from changing investor attitudes impacting ability to secure funding from investors and social attitudes towards the health and environmental impact of our products

Two 2018 Principal Risks have been downgraded to Key Risks for 2019:

- **Product Liability – following improvements achieved in performance in quality faults and critical complaints. These metrics are regularly reviewed at Divisional and Group level**
- **IT Systems – Stability and Reliability risk due to a reduction in major incidents following significant investments in our IT infrastructure**

In addition to the Principal Risks, Key Risks and Emerging Risks have been identified and are being monitored by the Company. Mitigation actions in response to such risks are an important part of the Divisional and Enabling Functions risk reporting to the GRC and Board.

The Board and GRC evaluate the potential effects of Principal Risks materialising over a three-year period to understand how they could impact the Company's long-term viability. The evaluation is based on plausible worst case scenarios. These scenarios encompass what could reasonably go wrong, as a foreseeable "perfect storm".

To make this evaluation, the estimated financial impact of each Principal Risk crystallising was considered. The Board and GRC assessed the potential impact on the Company's viability, based on selected severe plausible risk scenarios. These were developed in conjunction with senior management. The Principal Risks that were considered to have a potentially significant impact on the Company's viability are included in the Long-Term Viability Statement from page 115 to 116.

Risk Management Report continued

Emerging Risks

We define Emerging Risk as a changing risk or a novel combination of risks for which there is no track record or previous experience by which the impact, likelihood or costs can be understood. Its potential impact is viewed as being two years or more in the future.

We strongly believe that identification and appropriate challenge to the management and mitigation of Emerging Risks is critical to our long-term success.

Emerging Risks have the potential to increase in significance and affect the performance of the Company and as such are continually monitored through our existing risk management

processes described on page 34. Our risk management process ensures Emerging Risks are identified and aids the GRC and the Board's assessment of whether the Company is adequately prepared for the potential opportunities and threats they present. The process enables new and changing risks to be identified at an early stage so we can analyse them thoroughly and assess any potential exposure.

We undertake a top-down and a bottom-up assessment to identify Emerging Risks. Risk management workshops for Divisional and Enabling Functions Leadership teams were facilitated by the Group Assurance function this year, to provide a bottom-up view of Emerging Risks. These workshops include discussion of potential Emerging Risks based on externally sourced Emerging Risk data. The Company's potential

exposure is assessed against the Board's approved risk measurement criteria. The process enables new and changing risks to be identified at an early stage so we can analyse them thoroughly and assess potential exposure.

The preliminary view on Emerging Risks were consolidated and discussed by the GRC to reach a consensus regarding Emerging Risks that can seriously affect the performance, future prospects or reputation of Essentra. The outputs from the GRC assessments were presented to the Board for approval along with the recommendation to develop appropriate response strategies.

We have created a list of Emerging Risks to be reviewed on a regular basis at the GRC and Board level.

Emerging Risks

Emerging Risk	Owner	Risk description
Climate change	Group Operations Director	The risk that Essentra fails to anticipate the impact of climate change including the consequential increase in frequency and severity of natural disasters. This includes consideration to the impact of climate change on global operations through forward-looking consideration of business continuity risks in vulnerable locations. These considerations need to be built into our Mergers and Acquisitions strategy.
Geopolitical change	Group Operations Director	As a global company, Essentra will be exposed to geopolitical changes that impact on patterns of trade and the movement of labour and capital. A trend towards protectionism, regionalism and a rebalancing from West to East creates risks and opportunities that Essentra will need to manage and exploit.
Regulatory change	Company Secretary and General Counsel	Essentra is a global company that must comply with regulatory requirements in many countries. Regulation is increasing worldwide and may potentially impact our products, operations, workforce and relationships with suppliers, customers and stakeholders. The Company continues to be alert to longer-term regulatory developments including those related to single-use plastics and tobacco-related and tobacco-alternative products.
Technology disruptors	Chief Information Officer	The risk that Essentra does not manage its response to evolving technologies effectively. This may include losing competitive advantage as rivals deploy advanced manufacturing technologies, artificial intelligence and robotics to strengthen product development, marketing, production, distribution and support functions.

The GRC and the Board have undertaken a rigorous assessment of Emerging Risks during 2019 and have established procedures to closely monitor Emerging Risks on an ongoing basis including:

- the GRC's terms of reference require it to review the Group's ability to identify Emerging Risks
- Emerging Risks is a standing agenda item at each GRC meeting and each Emerging Risk will be subject to a deep dive
- external specialist input will be sought where required
- identified Emerging Risks have been assigned an owner who is both a GRC and GMC member. The Emerging Risk owner is responsible for providing an update on the development of Emerging Risks at each meeting

The Board can confirm that it has completed a robust assessment of the Company's Principal, Key and Emerging Risks. We continue our focus on ensuring the adequate mitigation of risks faced by the Company.

N New
 — No change
 ^ Increased
 v Decreased

Strategic Risk

Failure to Achieve Acceptable Returns from the Packaging Division

 **Change in risk level:**
 Unchanged

Ownership:
 Packaging Division
 Managing Director

Relevance:
 Company specific

Description

The potential for a decline in returns from the Packaging division, and a failure of the division to deliver new business wins and expected cost savings within the timelines of the turnaround plan, have been reported as a Principal Risk since 2017.

It was reported in 2018 that the division's performance had stabilised and the focus for 2019 was on ensuring that actions taken were effective and sustained.

The Packaging division reported revenue growth and margin improvement for 2019 in line with the strategy and plan.

In addition, the acquisition of Nekicesa Packaging, a leading converter of folding cartons that supplies the pharmaceutical end-market in Spain, provides a revenue-enhancing addition to the business. The level of risk to the Company has remained the same.

This risk includes the potential of the Packaging business failing to deliver new business wins, expected cost savings or acceptable returns.

Mitigation

This Principal Risk is addressed annually with the development of the business strategy and plan. Both strategy and plan reflect this risk, and key initiatives are developed to further improve business performance, with a target of achieving industry average margins by 2021.

Key initiatives for 2019 included:

- driving cost savings through operational continuous improvement projects at each manufacturing site, efficiency improvements through investment in new equipment, procurement initiatives and overhead cost savings
- achieving profitable revenue growth with a focus on key and global customer account management
- delivering on key customer performance metrics of quality, On-Time-In-Full, manufacturing lead times, safety and supply chain efficiency

The implementation of these initiatives, and ongoing performance of the division, are subject to close monitoring and reporting at divisional and GMC level each month and quarter. Leading and lagging KPIs are used to monitor performance including order lead times, on time and in full order fulfilment, complaints, achievement of sales plan, recovery of inflation cost increases through pricing, cost savings and overhead as a percentage of sales.

Strategic Risk

Tobacco Industry Dynamics

Change in risk level:
Unchanged

Ownership:
Filters Division
Managing Director

Relevance
Company specific

Description

The Filters division supplies filter products and packaging solutions to manufacturers in the tobacco industry. Changes in the traditional tobacco market present both opportunities and risks for the division.

Whilst the Company has a strong market position the future growth opportunities may be affected by dynamics of the tobacco industry such as the declining combustible markets, shifting towards Next Generation Products (“NGP”) as well as moving towards other tobacco substitutes such as cannabis.

Essentra’s competitive position can be sustained if we continue to adapt our operational capacity and innovation capabilities in line with key market trends. Key market trends include global consumption shift from western to eastern markets, customers’ self-manufacture and demand volatility, increasing commercial pressures, special filters and NGP developments and evolving legislation.

There is an increasing trend towards more legislation restricting smoking prevalence and also related to more sustainable products and practices (eg EU Single-use Plastics Directive).

The change in global consumption and end markets for our products increasingly requires increased oversight of where our products are used and a robust regulatory framework.

2019 saw significant negative publicity with regard to the use and health effects of e-cigarettes. Growth in this sector slowed and further cost pressures were placed on customers as a result.

Tobacco-related litigation could also affect Essentra, although there is no history of the Company being involved in such a claim.

A number of initiatives are targeted to be completed in 2020 which are anticipated to minimise the risk over time. The level of risk to the Company has remained the same.

Mitigation

Essentra is seeking to mitigate the risk associated with changes in the tobacco market dynamics by focusing on activities with longer-term viability and exploiting potential growth opportunities. This includes progressing on our “game changers” and increasing our innovation capabilities.

Key 2019 mitigating actions include:

- completion of China JV agreement for both a production facility and a development centre
- a significant outsourcing contract has been secured with a multinational company partner
- four product patent applications have been filed for NGP products
- operational KPIs continue to improve to ensure our customers get the best possible service
- implementation of key account management has provided a deeper insight into customer needs
- rationalisation of Filters innovations teams and processes has allowed increased focus on delivery of strategic initiatives
- successful integration of Tear Tapes business allowing tobacco category approach and diversifying revenue stream

Strategic Risk

Delivery of Strategic Projects



Change in risk level:
Unchanged

Ownership:
Strategy and
Commercial Director

Relevance:
Company specific

Description

The Company's success is dependent on its ability to deliver key strategic projects on time and within budget, to realise their full potential. The Company invests in, and delivers, significant strategic, operational and capital expenditure projects in order to drive the business forward, for example our ongoing Business Process Redesign/ERP implementation. In line with our strategic plans, this project approach also includes the acquisition and disposal of businesses. Failure to deliver such key projects effectively and efficiently could result in significantly increased project costs and impede our ability to execute our strategic plans. The level of risk to the Company has remained the same.

Mitigation

The Company uses a range of controls to ensure successful delivery of strategic projects including:

- day-to-day project management using a standard project management methodology
- ongoing tracking of key projects by a Group Project Management ("PMO") function to monitor and control major strategic programmes, investments and capital expenditure projects
- interventions, as required, by Group PMO, to initiate, course correct and undertake remedial actions on programmes and projects
- review and approval of key, strategic projects by Board and GMC, as appropriate
- robust governance, detailed reporting and regular reviews by GMC and Board of project KPIs and key milestones
- use of external advisers to provide expertise, assistance and rigorous due diligence, as appropriate
- an annual strategic review is in place with the Board and the GMC where we proactively monitor the market, review our strategy and our strategic programmes. This process is led by the Strategy and Commercial Director
- acquisition pipeline management to identify suitable acquisition targets with best value-creation potential
- post-investment/project reviews to identify key learnings to embed into future initiatives
- maintain strong focus on the capability of our employees. This is achieved by mobilising teams which possess the right skills to deliver our strategic programmes

External Risk

Regulatory – Governance

Change in risk level:
Unchanged

Ownership:
Company Secretary
and General Counsel

Relevance
Industry general

Description

The Company operates across many international jurisdictions and engages with a wide range of stakeholders, including a diverse employee, customer and supplier base. Some locations we operate in are high risk. We are required to comply with multiple areas of legislation, regulation and good practice for areas such as Anti-Trust, Anti-Bribery, Sanctions and General Data Protection Regulation (“GDPR”). Our operations are subject to an external environment which is seeing increasing levels of scrutiny and oversight from regulators and enforcement agencies.

Failure to manage effectively the scrutiny and oversight and/or comply with new laws and regulations could result in significant fines, costs and reputational damage to the Company.

Whilst the external environment is generating additional compliance demands of enforcement, the level of risk to the Company has remained the same.

Mitigation

The Company deploys a range of controls to manage regulatory risk including:

- a “tone from the top” from the Board and GMC on the importance of ethics and compliance
- strengthening of internal resources and continued investment to drive better governance
- the Company’s Legal, Risk and Governance team continuously monitors changes in regulations and emerging good practice. This team is responsible for enacting an appropriate compliance framework with effective policies, processes and reporting. Each division is responsible for embedding regulatory compliance in their particular sector
- through the Company’s compliance programme (including employee training), we aim to conform with all applicable laws and regulations, and encourage a culture of transparency, integrity and respect
- a Right to Speak process in which the Chief Executive, Company Secretary and General Counsel, and Group Human Resources Director are key stakeholders
- the establishment of a Group Compliance Committee that will direct and oversee the Group’s implementation of compliance programs, policies and procedures required to meet legal, compliance and regulatory requirements

External Risk

Cyber Attack



Change in risk level:
Decreased

Ownership:
Chief Information
Officer

Relevance
Industry general

Description

The Company is dependent on the IT systems for day-to-day operations. Should the Company be affected by a cyber security breach, this could result in suspension of some IT services and loss of data. Subsequently, the Company could receive fines, lose customer confidence and suffer reputational damage.

The risk of cyber attack is ever-present due to the external threat landscape. The Company had one significant incident in February 2019 when one of our sites experienced an outbreak of malware. We were able to restore operations over a 72-hour period and avoid any loss of data.

Cyber attacks are treated as normal course of business and the Company continues to invest in cyber security monitoring and protection capabilities.

The financial impacts of a cyber attack have been analysed and included in the Company's viability modelling.

The potential impact of this risk has reduced as a result of investments in our cyber defences.

Mitigation

The Company has an ongoing cyber security improvement programme. This aims to mitigate the risks and operational disruption caused by cyber attacks. This programme includes:

- endpoint protection, encryption of data, identity-based access control, network firewalls, web and email content protection
- cyber security awareness training for all employees
- vulnerability and penetration testing for all external facing Company services and websites
- scanning, monitoring and logging tools to identify intrusions and detect rogue data traffic
- internal cyber security teams, complemented by external cyber security services

In 2019 the Company achieved accreditation with Cyber Essentials Plus and ISO 27001. It also established a Crisis Communication Network which will conduct a cyber attack simulation in 2020.

External Risk

Macroeconomic and Trade Deal Uncertainty (including Brexit)

Change in risk level:
Unchanged

Ownership:
Group Operations
Director

Relevance
Industry general

Description

As a global business, we operate in many countries and currencies so changes to global economic conditions or trading arrangements have the potential to impact us.

The UK left the European Union (“EU”) on 31 January 2020 and entered a transition period until 31 December 2020. During the transition period the UK will continue to be bound by EU laws and regulations. Beyond that date there is no certainty on what the future relationship between the UK and the EU will be.

The ongoing Brexit situation could impact the Company due to raw materials and finished goods flows across the EU-UK border. The key risks here are the imposition of potential duties or customs costs linked to these flows and the associated potential supply chain disruptions. The potential impact of Brexit appears to be reducing, but has been analysed and estimated as part of the Company’s viability modelling.

More broadly, as a global business, our international trade flows expose the Group to tariffs, duties or quotas imposed through trade sanctions and also to macroeconomic effects due to regional or global industrial output changes.

The level of risk to the Company has remained the same.

Mitigation

Essentra has an international customer base which dilutes the effect of downturns in specific geographies. The economic environment is constantly monitored as part of our business planning cycle and budgeting, enabling a degree of forward planning in the event of a period of economic instability. This is performed in close co-ordination with each division to pinpoint trends likely to impact our individual business activities.

The annual budgets that result from the planning process are a control, against which monthly results are monitored, surfacing any effects of economic instability and informing commercial decision-making. Movements in currency can have positive and negative impacts on the Company’s reported earnings. This is managed through proactive hedging of currency measures.

The Board also considers potential impacts of specific macroeconomic events, including the UK’s decision to leave the EU. The breadth of the Company’s portfolio and its diversification across markets, geographies and products provides some natural mitigations of potential impacts.

Our divisions consider the wider economic situation in their strategies as part of the budgeting and strategic planning process.

Brexit uncertainty

Throughout 2018 and 2019, the Company conducted a thorough review of Brexit risks and implemented a series of changes to minimise raw material and finished product flows across the EU-UK border, and to mitigate the associated risks including supply chain disruption. We continue to monitor the situation post the recent UK election, and are continuing activity in this space, including asset/footprint changes, optimisation of material flows, identification of alternative raw material supply sources and putting Authorised Economic Operator status in place.



Operational Risk

Business Continuity Planning and Management

 Change in risk level: Unchanged	Ownership: Group Operations Director	Relevance: Industry general
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Description

The continuity of our supply chain is a critical factor in serving our customers, who expect us to have a resilient supply chain to minimise the impact of any disruption.

Our supply chains can be complex and global in nature. Our global footprint exposes us to a broader set of potential disruption risks including natural catastrophe, than more focused companies. However, this global footprint also provides risk diversification, via alternative manufacturing routes.

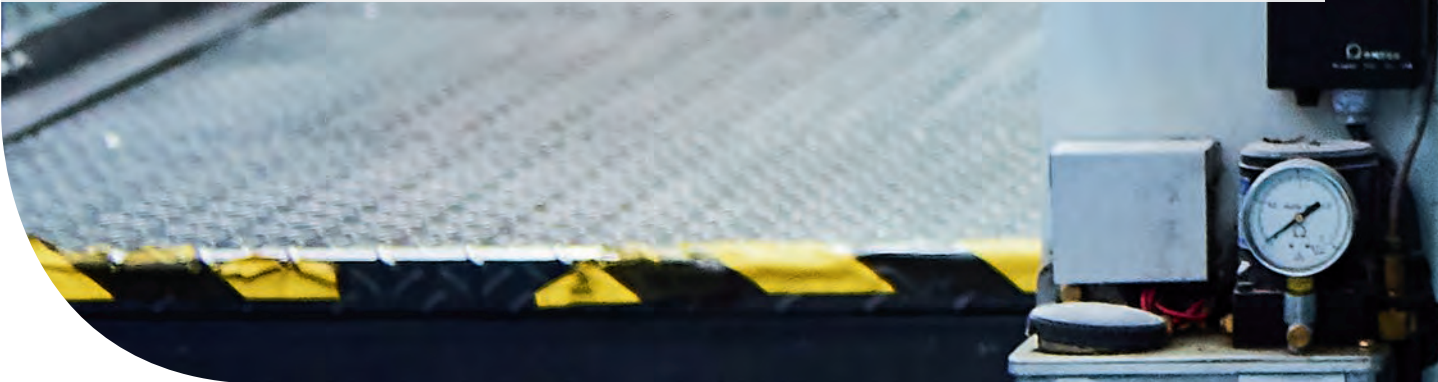
The Group experienced limited employee impact and operational disruption through operational-related business continuity issues, during 2019. Should future events occur, this could impact production capability, fixed assets, supply chain management, customer relationships, reputation, revenue and profit. Such events continue to be a risk to the normal operation of the Company. The level of risk remains the same.

Mitigation

The Group continues to review and refresh its business continuity management and planning frameworks and processes, including a current and ongoing deep-dive review.

Other mitigating factors that the Company has in place are:

- operating within a flexible global infrastructure
- developing multi-site capabilities and manufacturing flexibility
- fire and other risk prevention systems
- assessing and managing operational risks via the enterprise risk management process
- continuing to identify alternative sources of supply for key raw materials and supply guarantees where necessary and feasible
- ensuring comprehensive maintenance plans are in place for key manufacturing equipment, and/or alternative manufacturing routes are identified
- maintaining an insurance programme and working closely with our insurers, FM Global, to ensure complete and comprehensive cover to prevent losses



Operational Risk

Talent to Deliver Our Future

N Change in risk level:
New

Ownership:
Group Human
Resources Director

Relevance
Industry general

Description

Failure to attract and retain the required management and leadership skills necessary to evolve our business, develop the culture and meet future customer needs. The talent market is changing and is less favourable towards the manufacturing sector. Our ability to attract candidates is becoming more challenging, as is the ability to retain key talent given the wider range of market opportunities available. This is a new Principal Risk for 2020.

Mitigation

A more refined people strategy has been launched and will underpin the approach to enhance the employee experience and drive the changes needed.

A newly appointed Talent Acquisition Director will focus on articulating the employee value proposition and approach to the external market.

Talent mapping and succession planning will be implemented with a full organisational wide half yearly review.

Communication with employees, and potential employees, is seen as critical and the communication team will be strengthened to enhance the Company profile and communication channels.

People risk mitigation plans are in place throughout the Group, supported by the GMC.

Operational Risk

Internal Processes and Control

— Change in risk level:
Unchanged

Ownership:
Chief Financial
Officer

Relevance
Company specific

Description

Processes and controls play an important part in our ability to prevent and detect inappropriate and unethical behaviour. This includes fraud, deliberate financial misstatement and improper accounting practices. If the design, operation or the assurance over these controls is ineffective or ownership is not defined or controls are overridden, there is a greater risk of operational loss. The lack of documentation and embedment of standard operating procedures across key business areas including finance increases this risk.

During 2019, we continued the initiatives to reduce this risk with further work planned in 2020.

Mitigation

During 2019, Minimum Control Standards ("MCS") continued to be rolled out across various sites in the Company, establishing a consistent minimum standard of financial controls across the Group. A total of 50 sites now have had the MCS roll-out, which account for approximately 80% of Group revenue.

MCS implementation action plans were continually assessed and tracked through the course of the year. The primary responsibility for site roll-outs and embedding of MCS moved from Group Assurance to divisional management, and the central co-ordination role is now held by Group Finance.

Furthermore, Group Assurance audit procedures were carried out to assess performance of internal controls and the effectiveness of the MCS roll-out. Group Finance performed a separate layer of independent testing to further evaluate the effectiveness of implementation thus far.

While the Group recognises that further work is needed in order to fully embed standard controls and processes across all sites, benefits of MCS can already be seen taking effect within the Group. The project has been conducted in close collaboration with other wider business initiatives, such as Business Process Redesign.

Plans for 2020 focus on concluding MCS roll-out workshops across all remaining sites, as well as the implementation of self-assessment testing and certification, which establishes and enforces accountability for effectiveness of the controls at the relevant management level (site and divisional). The Group will continue to focus on embedment of the MCS framework to maintain a robust internal control framework.

Operational Risk

Safety (including Regulatory)

Change in risk level:
Unchanged

Ownership:
Group Operations Director

Relevance:
Industry general

Description

Safety is of the highest priority for the Company. Essentra has many manufacturing facilities across the world, along with non-manufacturing sites and internationally mobile employees. Factory manufacturing can be inherently risky given the use of industrial machinery and high speed manufacturing processes. In addition, the Company must comply with national safety regulation in multiple jurisdictions.

When considering health and safety, Essentra is aware that should an injury or fatality occur involving our employees or visitors; or should there be any breach of safety regulation resulting in prosecution, considerable reputational damage is anticipated as well as potentially significant financial costs.

Such events will continue to be a risk to the Company, consequently the level of the risk remains the same with continued active management and controls to mitigate these risks.

Mitigation

Throughout 2019, the “tone from the top” on safety has continued to reinforce across all of the businesses. Management teams have been instructed to give a high priority to establishing appropriate Safety Management Systems and reinforcing the desired behaviours by all who are employed by the Company.

Some of the key mitigations which are in place include:

- regular reporting to the GMC, GRC and the Board on Health, Safety and Environment (“HSE”) related matters
- a Group HSE policy is in place detailing required standards, governance, roles and responsibilities at all sites
- performance monitoring and Health and Safety Audits, incorporating reporting and escalation arrangements to ensure all actions are closed
- root cause analysis is conducted for any issues identified through investigation of serious incidents, including Near Misses and “Stop, Think, Examine, Proceed” (“STEP”) programme

- our Global STEP programme, which is a hazard identification and process improvement initiative. This empowers the entire workforce to recognise and address opportunities with corrective actions assigned clear owners for completion within 48 hours
- focused HSE events throughout the year to highlight particular risks and help keep safety at the forefront of our minds. In 2020, we will continue with the above work, supplemented by Group-wide campaigns on high-priority safety areas (eg Slips, Trips & Falls, Lock Out Tag Out)

Operational Risk

Environmental, Social and Governance

Change in risk level:
New

Ownership:
Group Operations Director

Relevance:
Industry general

Description

Environmental, Social and Governance (“ESG”) issues are becoming increasingly important for all companies, including the Group.

Failure to meet stakeholder expectations on increasing environmental and/or social governance obligations could lead to reputational risk for the Group. This includes risks arising from changing investor attitudes, impacting our ability to secure funding from investors, and also social attitudes towards the health and environmental impact of our products which may impact on our ability to market them.

ESG is a new Principal Risk for 2020, having been monitored throughout 2019.

Mitigation

ESG issues are becoming increasingly relevant for the Group, including exposure to tobacco-related products, potential changes in regulation related to single-use plastics, climate change and other issues.

Recognising this, the Group has recently instigated a Board Sustainability Committee, chaired by a Non-Executive Director, and including membership from Board, GMC and across the Company. The role of this Committee is to:

- review and assess the Group’s exposure to ESG-related issues
- assess the Group’s responses to these issues
- understand whether these responses are consistent with the risk appetite of the Group
- identify potential gaps in approach and high-level approaches to closing those gaps

The Board Sustainability Committee’s recommendations will link into and inform the work of GMC, the divisions and the Enabling Functions, to reduce risk exposure, appropriately.



Operational review

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Operational review: Components



Summary

"Essentra Components' flexibility and capability to deliver the same day means we are able to support the ongoing demands from our customers, hassle-free."
Mathijs Kox
Director Bax Metaal

Quick thinking for customers

Based in the Netherlands, Bax Metaal is at the forefront in technologies that enable it to produce custom solutions in composite sheet metal and tubular constructions.

Tasked with creating frames for a new box spring bed, it needed to efficiently procure levelling feet with a plastic insert and bumper for an all-round cost-effective solution.

Bax Metaal turned to Essentra Components for support and expertise, and after extensive discussions with the technical sales experts, we provided free samples to support the assembly of the prototypes.

With Bax Metaal's tight deadline in mind, Essentra Components identified standard solutions from the product range: a threaded insert, an adjustable foot and a bumper with required hardness and specific dimensions. This solution provided Bax Metaal with the perfect solution within its time frame, without additional expense.

Components: Delivering hassle-free service

Revenue

£283.3m

(2018: £279.8m)

Adjusted operating profit¹

£60.3m

(2018: £61.0m)

Adjusted operating margin¹

21.3%

(2018: 21.8%)

¹ Excluding amortisation of acquired intangible assets and exceptional and other adjusting items.



Scott Fawcett
Managing Director
Components

A leading global manufacturer and distributor of a comprehensive range of components, used in diverse industrial applications and end-markets.

Who we are and what we do

We make and distribute small industrial components from plastic and metal that are used in industrial and consumer equipment.

Our components serve a very broad and fragmented industrial manufacturing market. Typically B2B manufacturers, our core markets range from data cabinet manufacturers and telecoms base station producers to automotive tier suppliers and domestic appliance manufacturers.

Uniquely we combine the range and service of a distributor with the expertise and flexibility of a manufacturer. This brings the customer a hassle-free experience when buying components that are relatively low in cost but have a high propensity to cause disruption if there is a problem with either delivery or quality.

Operational review: Components continued

2019 reflections

In 2019 we made significant steps towards delivering our strategy. During the year we launched our new web platform in ten countries and will continue the roll-out through 2020. This new platform is built on the latest flexible technology that enables us to sustainably compete in an ever-more demanding and rapidly changing digital market. This platform has given us the stage on which to promote our expanding range of products that have both been organically introduced and added from the acquisition of Innovative Components.

Further improving service levels through our supply chain, we have opened a new distribution hub in Houston, Texas which enables us to reach more South/Southwestern states in our target delivery time. We have launched two new training centres in China and the USA to ensure that our teams build on their expertise in our full product portfolio.

Financial performance

Revenue increased 1.3% (0.7% at constant exchange) to £283.3m. Adjusting for the acquisition of Innovative Components on 26 June 2019 like-for-like revenue declined 0.6%.

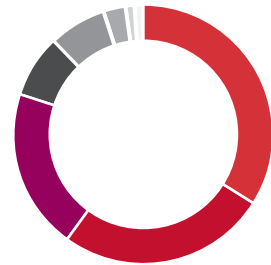
The challenging macro environment saw weakening markets throughout the year, with Global PMI under 50 for six months, especially affecting Europe.

Access Hardware continues to grow with all regions seeing double-digit growth. The emergence of new technologies such as charging stations and 5G infrastructure continue to provide good opportunity for further growth in the market. We are leveraging our customer base across other product lines to gain market share by cross-selling this range.

PCB Hardware sales were down in the period, linked to the electronics market declines. Cable management products which serve a broader range of industries performed better. Caps and plugs (general protection) suffered a decline, being driven by exposure to automotive markets in particular. Fastener sales were better than prior year, bolstered by good performance from the Micro Plastics acquisition.

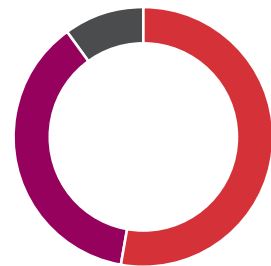
Adjusted operating profit decreased 1.1% to £60.3m (at constant FX), equating to a margin of 21.3%. This 40bps dilution reflected the aforementioned volume impact of a softer macro environment along with the dilutive impact of acquired and reintegrated businesses, partially being offset by successful pricing management. On a like-for-like basis, excluding the Reid Supply business transfer, OP margin is broadly flat with prior year.

Revenue by segment



- Other Industrial Manufacturers: 34%
- Equipment Manufacturer: 26%
- Electronics/Electrical: 20%
- Metal Fabrication: 8%
- Automotive: 7%
- Furniture: 3%
- Print/Paper: 1%
- Oil and Gas: 1%

Revenue by destination



- Europe and Africa: 53%
- Americas: 37%
- Asia including Middle East: 10%

Our markets



Automotive



Equipment Manufacturing



Fabrication



Electronics



Construction



Oil and Gas



Retail POP/Paper and Board

Market trends and dynamics

Trends in the automotive market and electronics markets have had an adverse impact on our business during 2019. Global manufacturing PMI ended 2019 at 50.1 versus 51.5 at the end of 2018, with major drops in the Eurozone and UK.

We expect that the automotive market is likely to remain depressed in 2020 and although there are some signs of optimism within the electronics sector, we remain cautious.

Our business strategy is focused on driving sales on a broad base of mid-sized manufacturers and this has the benefit of developing a resilient customer base but also provides us

good exposure to some of the faster growing emerging industries such as electric vehicle charging stations, power storage, LED lighting and 5G infrastructure projects.

We continue to focus our commercial efforts in these faster growing segments across all geographies.

Acquisition of Innovative Components

Headquartered in Chicago, USA, Innovative Components is a leading manufacturer and distributor of knobs, pins and handles in North America for a broad range of end-markets. With production capability in Chicago and Costa Rica, the company blends cost-effective production with the flexibility to produce rapidly in the USA.

The acquisition in June 2019 has built on Essentra Components' product offering in the USA, providing range opportunities in Europe and Asia and adding manufacturing capability in Costa Rica. Their product range combined with our customer base provides an opportunity for growth through cross-selling, a key part of our strategy and fundamental to us achieving market share gain.

Following on from the acquisition of Micro Plastics and Hertila, this transaction is another great example of our Components strategy in action, and what it means to have a focus on distinct product categories in an industry that is very fragmented.

2020 priorities

- Continue to deploy our new web platform across all our global businesses to enhance lead and customer acquisition
- Complete the development and commence roll-out of the new Business Process Redesign (ERP & CRM) platform
- Enable the commercial teams to cross-sell through sales effectiveness and product application expertise programmes
- Further improve service levels with the launch of new warehouse in Germany
- Develop the acquisition pipeline further with a view to addressing product and market adjacencies as potential areas for future expansion
- Continue to invest in our talent through both recruitment and development programmes to support the delivery of our strategy



What we measure

81K

(2018: 85K)

Active customers

Why we measure it

Reflects marketing effectiveness and measures the potential population for further growth opportunities

How we have done

Reduction from 85K to 81K, as we continue to focus on mid-sized customers

41

(2018: 30)

Net Promoter Score

Why we measure it

Reflects our customers' overall satisfaction with our products and service, as well as loyalty to our brand

How we have done

Launched a new website in ten countries and introduced a number of hassle-free projects aiming to improve the customer experience

94.3

(2018: 92.4%)

On Time and In Full

Why we measure it

Demonstrates the ability to meet delivery demand

How we have done

Continued the roll-out of our Demand Planning software platform in Asia and Americas, improvements in warehouse processes. New Hub warehouse launched in Houston

13

(2018: 4)

Lost Time Incidents

Why we measure it

Indicates our overriding commitment to health, safety and welfare in the workplace

How we have done

Unfortunately we had an increase in LTIs driven by newly acquired businesses. We've now increased our focus on health and safety culture improvements as part of our post merger integration plans

* Figures above exclude Reid

Whenever a pharma company gets official FDA approval on a new drug, speed of getting that product to market is critical, not least for the patients desperately waiting for these new drugs to help their conditions.

Critical help to patients faster

Not that many years ago, the typical time from FDA approval to getting a drug into a patient's hands took up to eight weeks. Essentra has developed a reputation at being the best in class in supporting drug launches and through collaborative efforts customers are now able to get a product into the market in under 72 hours.

In 2019 a major global pharmaceutical customer was launching a revolutionary drug therapy that can be truly life-saving to its patients around the world. To support the launch, after close planning and coordination with Essentra prior to FDA approval, our customer's supply chain team stayed at our site in Puerto Rico so that they could immediately approve first production following FDA approval. That approval came at 2 AM on a Tuesday morning and less than seven hours later, we were shipping first production to our customer, allowing them to hit the market in record time and most importantly, providing a new life-saving therapy option to patients in need.

In 2019 we supported more than 500 pharmaceutical launches globally.

Packaging: Collaborative customer relationships

Revenue

£352.7m

(2018: £342.3m)

Adjusted operating profit¹

£15.1m

(2018: £5.4m)

Adjusted operating margin¹

4.3%

(2018: 1.6%)

¹ Excluding amortisation of acquired intangible assets and exceptional and other adjusting items.



Iain Percival
Managing Director
Packaging

One of very few multi-continental suppliers of a full secondary packaging range to the pharmaceutical, personal care and beauty sectors.

Who we are and what we do

We supply both global and mid-sized customers in our chosen markets, including 18 out of the largest 20 global pharmaceutical companies.

In response to increasing pressure on agility, innovation and total cost within their supply chains, our customers are looking to focus their spend on fewer suppliers who can work in partnership to address their challenges.

Our distinct proposition is underpinned by our focus on our chosen sectors, our global scale and our approach to collaborative customer relationships. We continue to partner with customers to innovate new products in a sustainable way leveraging our agility to meet shorter launch periods with a wider range of products.

Operational review: Packaging continued

2019 reflections

2019 saw the roll-out of our new key account management process, better aligning our resources with the developing organisational structures within our customers.

Within our operations, multiple initiatives were targeted at sharing best practice and leveraging the strength of our production network, from sales and operations planning, through global quality reporting, to standardised Group-wide colour management.

At the portfolio level, after the divestment of two non-core sites last year, this year saw the acquisition of Nekicesa in September 2019.

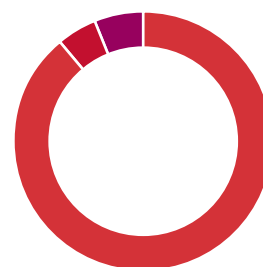
Financial performance

Reported revenue increased 3.0% (1.7% at constant exchange). Underlying revenue increased 5.6% (at constant exchange). As expected, the first half of the year was particularly strong reflecting both weaker comparatives in 2018 and significant short-term customer demand on the back of Brexit uncertainties in the UK, and in anticipation of the introduction of the Falsified Medicines Directive.

Both Europe and the Americas grew in the year as both quality improved and lead time reduced. Growth in the second half was somewhat hindered by specific customer supply chain issues reducing Americas growth rates in Q4. Nekicesa continues to perform in line with the rest of the business and above pre-acquisition expectations.

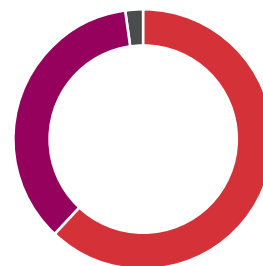
Adjusted operating profit increased 185.6% to £15.1m (at constant FX), equating to a margin of 4.3%. This was largely driven by the volume gearing effect from the revenue growth, boosted by price increases to offset higher raw material costs, a one-time benefit of £1.7m from the release of previous provisions, the impact of improved operational efficiencies crystallising as savings and the benefit of closing the loss-making Kilmarnock and Largo facilities. Adjusting for both the divestment and site closures, the margin was ahead by 200bps per our expectation.

Revenue by segment



- Health and Personal Care: 89%
- Food and Beverage: 5%
- Other: 6%

Revenue by destination



- Europe and Africa: 62%
- Americas: 36%
- Asia including Middle East: 2%

Our markets



Pharmaceutical



Personal Care and Beauty

Market trends and dynamics

The Pharmaceutical, Personal Care and Beauty markets remain strong as a growing, more affluent and ageing population, drives both increased volume and more segmented products.

Our global and regional customers are increasingly focusing in specific market areas including splitting organisations between pharmaceutical and over the counter (OTC) businesses.

With pharmaceuticals there is an increased move towards biologics-based therapies which contribute towards the wider trend in smaller batch size requirements and faster response times.

Our agility and ability to manage more frequent changes to product specifications and shorter launch times enables us to respond well to our customers' needs.

The estimated market size for Pharmaceutical, Personal Care and Beauty secondary packaging is US\$18.5bn globally and market growth is between 2% to 3% per annum.

Acquisition of Nekicesa Packaging

Based in Spain, Nekicesa has more than 50 years' experience developing secondary packaging solutions for the international pharmaceutical industry. With two well-invested facilities in Madrid, it is one of the leading converters of folding cartons in the Spanish market.

The acquisition of Nekicesa in September 2019, has added manufacturing capacity and service capability to Essentra Packaging's existing footprint in Barcelona, giving us a presence in both pharmaceutical hubs in Spain and helping to establish us as a leading player in this attractive packaging market. Nekicesa also brings expertise in serialisation and digital printing which can be leveraged through the division.

This is a very exciting opportunity for the Packaging division and a demonstration of our strategy in action. The transaction would not have been possible without the tremendous efforts of the whole Packaging team over the last 18 months, stabilising the business in terms of service, quality and safety and restoring revenue and profit growth.

2020 priorities

- Continue to leverage key account management structure and the design hub capabilities to drive revenue growth above underlying market growth rates
- Further improve operational efficiency by focusing on overall equipment effectiveness, maximising machine uptime through enhancing continuous improvement activity, planning optimisation and preventative maintenance programs
- Provide added value to our customers' businesses by remaining globally available, agile and able to respond to particular customer demands such as short-notice new product launches
- Build on the success of 2019 in further improving on time in full, lead time and quality performance
- Finalise the ongoing integration of Nekicesa and drive expected synergies
- Continue to invest in and enhance the capability of the Packaging team



What we measure

96.6%

(2018 95.6%)

On Time and In Full

Why we measure it

Drives performance of quality systems and service delivery

How we have done

96.6% compared to 95.6% in 2018

14%

Decrease vs 2018

Customer complaints

Why we measure it

Drives performance of quality systems and service delivery

How we have done

14% decrease in customer complaints versus 2018

18

(2018: 23)

Lost Time Incidents

Why we measure it

Measures the opportunity cost of incidents in the workplace

How we have done

Eighteen Lost Time Incidents compared to 23 in 2018

In 2019 we continued to work with a number of independent customers in a key Asia territory to differentiate their brands using flavour products.

Differentiating our customers' brands

Over the course of five years we have worked with our customers' supply chains to develop bespoke flavour products.

In a market that has largely been based on standard cellulose acetate filters, customers have historically used our design, manufacturing expertise and flexibility to continually introduce products into the market.

This has resulted in us supporting over 20 SKUs with 14 different flavours in 2019, thereby distinguishing the customers' products and helping to grow the flavour segment overall.

Filters: Focus on innovation and operational excellence

Revenue

£303.6m

(2018: £299.4m)

Adjusted operating profit¹

£36.2m

(2018: £35.1m)

Adjusted operating margin¹

11.9%

(2018: 11.7%)

¹ Excluding amortisation of acquired intangible assets and exceptional and other adjusting items.



Kamal Taneja
Managing Director
Filters

The only global independent provider of filters and related solutions to the tobacco industry.

Who we are and what we do

We are the only global independent provider that designs, develops and manufactures filters for the tobacco industry. We provide services such as laboratory testing, innovation and components supply for the tobacco industry.

Our Tear Tape business (which was absorbed into the division at the end Q3 2019), is globally recognised as the leading manufacturer and supplier of narrow-width pressure sensitive adhesive tear tapes, which allow the easy opening of a product's packaging and which are largely used in the tobacco, food and drink, and specialist packaging sectors.

We supply over 700 filter product specifications to more than 250 tobacco customers in over 64 manufacturing locations, including global and regional companies, and state owned monopolies. Our Tear Tape business serves key multinational and regional customers.

Operational review: Filters continued

As the first independent filter supplier with over 70 years of experience our knowledge is unique, our footprint is global, and we have built strong relationships with our customers and suppliers. We are also unique in the Open, Close, Inform, Protect Tapes market. Our heritage, technical reputation, global supply chain and manufacturing excellence in printing, coating and converting, set us apart.

2019 reflections

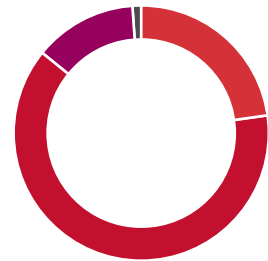
We have made good progress in 2019 on delivering our strategy, despite a volatile tobacco industry backdrop. Our overall operational performance continued to improve, with some good improvements in KPI metrics. We have established a commercial excellence function that is contributing to a much stronger key account management process, as well as delivering a more robust opportunity pipeline. Our Innovations team has been restructured, resulting in increased focus on combustibles and next generation products ("NGP") respectively.

In terms of the "game changers", agreement was reached with a number of Chinese partners to establish a Joint Venture, which will design, manufacture and market tobacco filters in China. On the NGP front, four patent applications were made for new products. Our first significant outsourcing contract was delivered, worth approximately £8m per annum for a period of six years. After the close of 2019 we were awarded a second outsourcing opportunity with another multinational company. The Tear Tapes business was integrated into the wider division, allowing us to better our offering to our tobacco customer base.

Financial performance

Revenue for the division was up 1.4% (down 1.1% at constant exchange). The modest year-on-year decline was primarily caused by softer trading in China, which has been impacted due to our lack of local manufacturing presence. This further underlines the importance of the creation of the JV in China – which will give the division that local manufacturing presence, and thus provide a great platform to capture the market opportunities available in China. Secondly, the division was faced with challenging trading conditions in certain markets supplied out of the Middle East; in response to sanction compliance failings, revenue was impacted, with some orders being delayed and certain relationships being terminated. Elsewhere, revenue grew in both the European and Americas regions.

Revenue by segment



- Mono: 23%
- Specialty: 63%
- Tapes: 13%
- Other: 1%

Revenue by destination¹



- Europe and Africa: 31%
- Americas: 16%
- Asia including Middle East: 53%

¹ The inclusion of Tear Tapes revenue has skewed the split of revenue by destination, given that the largest regional market for Tear Tapes is Europe.

Our markets



Tobacco



Food and Beverage

Market trends and dynamics

The tobacco market is an extremely dynamic and complex environment which offers both risks and opportunities.

Volume decline for combustible products continues in many geographies and has motivated many customers to drive cost savings both internally and in their supply chains, which strengthens the case for outsourcing.

These savings are reinvested in Next Generation Products such as e-cigarettes and Tobacco Heated Products. Our customers also continue to offer differentiated combustible products that include specialty filters such as with capsules and shapes. Within the market for tear tapes, the need for our solutions continues to rise with discerning younger, and wealthier older, generations looking for intuitive and engaging packaging.

Sustainability is a key trend across all our market segments and a focus of our innovation activities.

All our markets are susceptible to counterfeits and illicit trade. Our authentication technology solutions are deployed across these markets to keep consumers, brands and governments safe.

The business outperformed the broader tobacco market and is well positioned for medium- to long-term growth. During the period, the division continued to build upon its proven track record of developing innovative products which meet the evolving needs of customers. In the combustible market, there was further demand for products which incorporate one or more capsules and/or are visually differentiated (such as tube filters), particularly from the independent segment.

Beyond traditional combustible filters, there was further progress in NGP. Although a relatively modest contributor to divisional revenue and operating profit, the business continued to work with various multinationals and independents to advance their respective potential – or next phase – Heat Not Burn offers. In addition, the Scientific Services unit performed well, further building on its extensive experience and range of accredited testing methods for both combustible and NGP products.

Adjusted operating profit decreased 1.3% to £36.2m, with operating margin unchanged (both at constant FX) at 11.9%, driven by further significant efficiency improvements and productivity gains resulting from the division's world-class operational metrics.

Establishment of Joint Venture in China

In November we announced the signing of an agreement to establish a new Joint Venture company in China, China Tobacco Essentra (Xiamen) Filters Co., Ltd. Under the terms of the agreement, Essentra will hold a 49% shareholding in the JV with a number of Chinese industrial companies, principally Fujian, as well as Hunan, Shanghai and Guangxi, holding the remaining 51%.

China is the world's largest tobacco market, accounting for 44% of global cigarette sales by volume in 2018, and this JV positions us well to take advantage of the sizeable opportunities there. Indeed, the creation of a JV in China has been one of our stated ambitions, or "game changers", in the Filters strategy and closely follows the recent announcement of a significant outsourcing deal.

The JV will produce specialist and next generation filters, servicing a rapidly expanding segment of the Chinese tobacco industry for which market penetration remains significantly lower than levels seen in the rest of the global tobacco industry. The filters will be manufactured locally in a new facility in Xiamen which will incorporate a state-of-the-art development and testing centre.

2020 priorities

- Continue with the set up of the China JV with installation and commissioning of manufacturing equipment in Q4 this year
- Further development of pipeline of products for NGP
- Continue to explore further outsourcing projects
- Drive additional operational excellence initiatives to help shorten the supply chain and further reduce waste
- Harness innovations across all segments, with focus on sustainable products and practices
- Development of commercial excellence to strengthen the opportunity pipeline



What we measure

98.5%

(2018: 98.5%)

On Time and In Full

Why we measure it

Demonstrates the ability to meet delivery demands

How we have done

Maintained world-class service performance and improved planning and increased flexibility underpin performance

0%

movement vs 2018

Quality complaints per billion rods

Why we measure it

Demonstrates the ability to meet quality demands

How we have done

Maintained world-class service performance, initiated Six Sigma training and focused on product quality

30%

reduction vs 2018

Waste

Why we measure it

Drives productivity and the efficient use of materials

How we have done

Significant reduction of over 30% in waste vs 2018 following a reduction of 3.9% in 2018 vs 2017

0

(2018: 4)

Lost Time Incidents

Why we measure it

Indicates our overriding commitment to health, safety and welfare in the workplace

How we have done

Decreased from four in 2018 to nil in 2019. Cultural transformation ongoing to ensure safety is always first priority

* All KPI Figures above exclude Tear Tapes

Group Management Committee

Executive Board Directors



Paul Forman
Chief Executive

Further details on Paul's skills and experience can be found on page 66.



Lily Liu
Chief Financial Officer

Further details on Lily's skills and experience can be found on page 66.

Divisions



Scott Fawcett
Managing Director,
Components

Scott Fawcett joined Essentra in 2010 as Managing Director of the European Components business, and was appointed divisional Managing Director in January 2014. Prior to joining Essentra, Scott was Head of eCommerce at Electrocomponents plc, where he held a variety of increasingly senior sales, marketing and eCommerce positions during his 17-year career there.



Iain Percival
Managing Director,
Packaging

Iain Percival joined Essentra as Managing Director, Essentra Packaging in 2017, before which he was divisional CEO, Beverage Cans Europe for Rexam plc. Prior to this, Iain held a number of increasingly senior roles at Rexam plc, Toyota Motor – Europe Manufacturing and Dowty Group, and has extensive experience in category management, manufacturing and supply chain optimisation.



Kamal Taneja
Managing Director,
Filters

Kamal Taneja joined Essentra as Managing Director, Essentra Filters in 2017 from Amcor Tobacco Packaging, where he worked as Vice President and General Manager, based in Singapore. Prior to this, Kamal held increasingly senior roles at Ingersoll Rand and Trane, and has extensive marketing, commercial, operational and supply chain optimisation experience throughout the Asia Pacific region.

Enabling Functions



See more
on the Board
of Directors
from page 66



Richard Cammish
Chief Information Officer

Richard Cammish joined Essentra as Chief Information Officer in June 2017. Prior to this he was Group Chief Information Officer for Coats plc. During his career, Richard has gained extensive IT, digital and international experience in organisations including Heineken, Cadbury, British American Tobacco and Mars. He has also worked for a leading management consultancy and in a technology start-up business.



Oshin Cassidy
Group Human
Resources Director

Oshin Cassidy joined Essentra as Group Human Resources Director in January 2019. Prior to joining Essentra, Oshin was Group Human Resources Director at Imagination Technologies, and has extensive human resources experience having previously held senior roles at global organisations including Securitas, ComfertDelGro, Centrica and QinetiQ.



Nick Pennell
Group Operations Director

Nick Pennell joined Essentra as Group Operations Director in 2017, prior to which he was Chairman of Lavery/Pennell and a Partner at Booz Allen Hamilton/Booz and Co. in the UK and China. Nick has extensive experience of performance improvement, operational and strategy development projects gained across the industrial and energy sectors, and in many geographies. He has also held operational and corporate strategy roles at Bass Brewers and at Shell.



Jon Green
Company Secretary
and General Counsel

Jon Green joined Essentra in 2005, and was appointed Company Secretary and General Counsel in July 2005. Prior to joining Essentra, Jon worked as an in-house lawyer for a number of large international businesses, including Hays plc and Unilever plc. Jon is a qualified solicitor.



Kathrina FitzGerald
Strategy and
Commercial Director

Kathrina FitzGerald was appointed as Strategy and Commercial Director in January 2018. Prior to joining Essentra, Kathrina worked with DMGT plc – a portfolio of information and media businesses – where she held a number of increasingly senior roles during her ten-year tenure, including Business Development Director, Managing Director of DMGT International and Director of Strategy and Development. Kathrina started her career at JP Morgan, where she spent seven years in investment banking.

By order of the Board

Paul Forman
Chief Executive
28 February 2020

Directors' Report



Chairman's Corporate Governance Statement



Dear Shareholder

I am pleased to present the Essentra plc Corporate Governance Report for the year ended 31 December 2019. This reports on our governance practices that are supporting the Company as it moves to deliver its three-year strategy and enters into its final stage of the journey – growth. Coupled with the achievement of this strategy is the Company's journey to reaching FTSE 250 upper quartile best practice governance.

The Essentra Board is accountable to all of the Company's stakeholders for the standards of governance which are maintained across Essentra's diverse range of global businesses. During the year, Essentra was subject to the 2018 UK Corporate Governance Code (the "2018 Code") published by the Financial Reporting Council ("FRC"). The Board has reviewed its operations and governance framework and confirms that, as at the date of this Report, the Company has complied with the provisions set out in the 2018 Code.

Essentra applies the 2018 Code's principles of openness, integrity and accountability, clear definition of reserved matters and delegated authorities. There is also a system which exists of checks and balances in which no individual has unfettered decision-making power ensuring transparency and integrity in business. This Report details how Essentra has applied the Principles of the 2018 Code and by following the more detailed Provisions can demonstrate how good corporate governance behaviour contributes to the Company's long-term sustainable success and achievement of its wider strategic objectives.

As required by the new Principles of the 2018 Code, the Board, working with the Remuneration Committee, will align the pension contribution rates of the current executive directors with the rest of the UK workforce. Further details can be found in the Remuneration Report from page 92 to page 93.

As required by the new Principles of the 2018 Code, Mary Reilly was appointed as the Employee Board Champion, effective from 1 January 2019, and tasked with bringing the Voice of the Employee into the boardroom. Mary has embraced this role with much enthusiasm and travelled to a number of sites around the world to meet employees and as such has allowed the Board to hear directly the views of the employees, by providing feedback at each Board meeting. Given the importance placed on employee engagement, the success of this role, and indeed our desire to hear and understand even more, Ralf Wunderlich has also been appointed as a further Board Employee Champion which should ensure even more voices are heard in the boardroom. Further details on this role and Mary's visits to a number of locations can be found on page 76.

Mary and Ralf will be supported by the other Non-Executive Directors who carry out regular, independent site visits to enable continuous understanding of the business, experience first-hand the culture within the Company and to engage directly with employees.

During early 2019 a Board evaluation was undertaken which, as per the 2018 Code, has become the responsibility of the Nomination Committee. The evaluation which consisted of a questionnaire-based approach identified that the performance of the Board continues to improve. The top priorities for the Board were identified as: (i) ensuring sufficient time for discussions, particularly on key topics; (ii) devoting additional time to strategy and portfolio decisions; (iii) conducting more site visits; and (iv) having more opportunities for the Board to meet without the executive management in attendance.

2019 has been a year of consolidating on changes made to last year's Board processes and procedures particularly in relation to the development of Board reporting. This has enabled the Board to focus on the more important elements of information presented, with additional attention being given to the Company's stakeholders, both internal and external, within the decision-making process.

During the year the Board responded quickly to support management in the comprehensive investigation of some sanctioned market compliance failures in the Filters business. The Board is committed to ensuring the highest standards of compliance and has taken steps to ensure the robustness of the compliance programme and to mitigate the prospect of any future failures.

Board focus for 2020

We will continue to support the Executive Committees with their growth plans across all of our businesses through the continuation of receiving key management presentations and visits to sites. There are many opportunities for Essentra to grow, organically and through acquisition, and to build on the success of the last few years. The Board looks forward to realising and sharing these successes with our shareholders, employees and other stakeholders as we effect them through our strategic plan.

Paul Lester, CBE
Chairman
28 February 2020

Board of Directors

Experienced, effective and diverse leadership

Our Business is led by our Board of Directors, biographical details of the Directors are available at essentraplc.com/about-us/board-of-directors

Committee membership key

- 1 Audit and Risk Committee
- 2 Nomination Committee
- 3 Remuneration Committee
- 4 Sustainability Committee
- 5 Committee Chairman



Paul Lester, CBE
Non-Executive Chairman
Independent on appointment

2 3 5

Appointed to the Board:
December 2015

Skills and experience:
Paul brings a wealth of experience to Essentra gained in increasingly senior operational and strategic executive roles alongside serving on a number of Boards in a non-executive director capacity for more than 20 years. Paul continues to use his experience to oversee the development of Essentra's strategy and the effectiveness of its operations.

Other current appointments:

- McCarthy and Stone plc, Non-Executive Chairman
- Ready Power Service Limited, Non-Executive Chairman
- First Port Limited, Non-Executive Chairman
- Appello Limited, Non-Executive Chairman



Paul Forman
Chief Executive
Executive Director

2 4

Appointed to the Board:
January 2017

Skills and experience:
As Chief Executive Paul combines strong commercial and operational leadership with a detailed understanding of company rationalisation, as well as growth through acquisition, development and delivery of a clear vision and corporate strategy. Prior to joining Essentra, Paul was Group Chief Executive of Coats Group plc – the world's leading industrial thread manufacturer – for seven years. Previously Paul held a number of increasingly senior operational and strategic positions at a variety of companies, and has a proven track record of international manufacturing experience at the highest level.

Other current appointments:

- Tate and Lyle plc, Senior Independent Director



Lily Liu
Chief Financial Officer
Executive Director

Appointed to the Board:
November 2018

Skills and experience:
Lily brings considerable corporate finance and accounting experience to the Board gained working within the manufacturing and engineering sectors for nearly 20 years. Lily began her career with a Chinese investment firm before emigrating to Australia to complete an MBA. She has worked across three continents (Asia, Europe and Australia).

Other current appointments:

- None



Tommy Breen
Senior Independent Director

1 2 3

Appointed to the Board:
April 2015

Skills and experience:
Previously Tommy was Chief Executive of DCC plc, an international sales, marketing, distribution and business support services group, headquartered in Dublin and with operations in 13 countries. Tommy brings significant experience to Essentra, in particular of growing diverse businesses both organically and via acquisition during his 30-year career with DCC. Tommy brings a strong commercial perspective to Board discussions.

Other current appointments:

- Lota View Holdings Limited, Non-Executive Chairman
- W&R Barnett Limited, Executive Director



See details
of the Group
Management
Committee
from page 62



Nicki Demby
Non-Executive Director

1 2 3 4

Appointed to the Board:
June 2019

Skills and experience:
Nicki brings extensive advisory experience to Essentra, having provided Board level counsel to many UK and international businesses over more than 25 years as an executive remuneration consultant. Nicki has been a Partner of Deloitte LLP and led the Deloitte "Women on Boards" programme, as well as teaching a number of programmes for Non-Executive Directors. Nicki combines her Board work with advice on senior executive career strategy and development.

Other current appointments:
– Stork & May, Partner



Mary Reilly
Non-Executive Director

1 2 3 4 5

Appointed to the Board:
July 2017

Skills and experience:
Mary brings a wealth of accounting, finance and international management experience to Essentra, having previously been a Partner of Deloitte LLP for more than 20 years, as well as serving on a number of Boards in a non-executive capacity since 2000. Mary's focus on finance, risk and compliance is valuable to Board discussions. Mary was appointed as the Board Employee Champion effective from 1 January 2019.

Other current appointments:
– Travelzoo, Non-Executive Director and Chair of the Audit and Risk Committee
– Mitie Group plc, Non-Executive Director and Audit Committee Chairman



Lorraine Trainer
Non-Executive Director

1 2 3 5

Appointed to the Board:
July 2013

Skills and experience:
Lorraine brings a wealth of experience in many areas and in particular in relation to remuneration, with a particular focus on leadership and talent bringing valuable insight to Board discussions. Lorraine began her executive career at Citibank, and has some 20 years' experience in Human Resources at blue chip companies such as the London Stock Exchange and Coutts NatWest Group.

Other current appointments:
– TP ICAP plc, Non-Executive Director, Chair of the Remuneration Committee, member of the Audit Committee, Employee Board Champion
– Sonae SGS, S.A., Senior Independent Director, Chair of the Remuneration Committee



Ralf K. Wunderlich
Non-Executive Director

2 3 4 5

Appointed to the Board:
July 2017

Skills and experience:
Ralf brings extensive international operational experience in the packaging industry to Essentra, gained over many years and through living and working across three continents. Currently based in Germany, Ralf is a senior adviser to private equity firms and an independent consultant. Ralf has a deep understanding of international capital market regulations developed from his previous roles and this comprehensive knowledge is valuable to Board discussions. Ralf was appointed as the joint Board Employee Champion from 1 November 2019.

Other current appointments:
– AptarGroup, Inc., Non-Executive Director
– Huhtamäki Oyj., Non-Executive Director

Corporate Governance Report

The Board can confirm that it has complied with the Provisions as set out in the 2018 UK Corporate Governance Code.

Key topics raised in the 2018 Code



The Corporate Governance Report has been restructured to reflect the pillars of the new Code. Some of the information required by the Code is included in the Strategic Report and is cross-referenced here to avoid unnecessary duplication.

Fair balanced and understandable

One of the key corporate governance requirements is for the Annual Report to be fair, balanced and understandable. The coordination and review of the Group-wide input into the 2019 Annual Report is a sizeable exercise performed within exacting time frames which runs alongside the formal audit process being performed by the External Auditor.

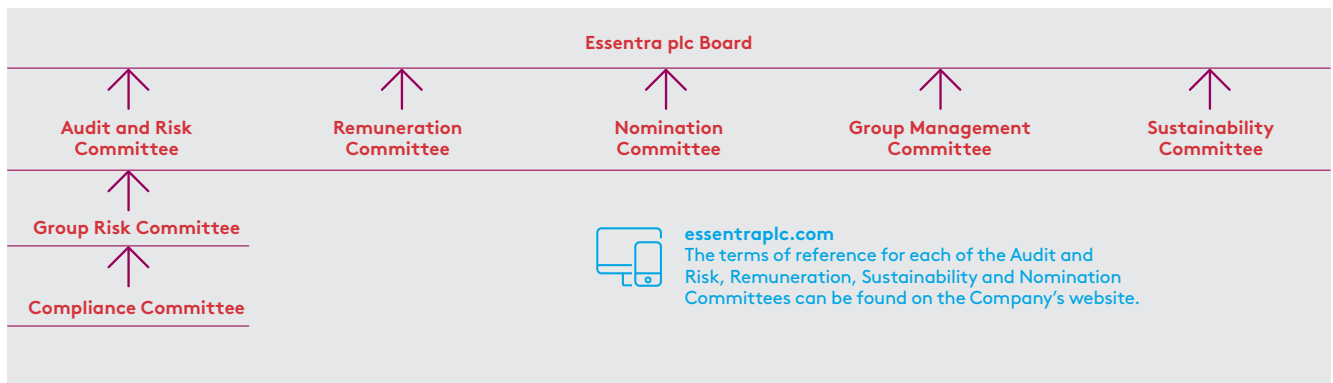
Following a comprehensive review process, initially the Audit and Risk Committee, and then the Board, can confirm that the 2019 Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the performance, strategy and business model of the Company.

Leadership and accountability

The Board's role is to provide effective and entrepreneurial leadership to the Company and to be responsible to the shareholders for the long-term sustainable success of the Company.

An effective Board defines the Company's purpose and then sets a strategy to deliver it, underpinned by the values and behaviours that shape its culture and the way it conducts its business. The Board should consider the main trends and factors which will affect the long-term success and future viability of the Company – and how these and the Company's Principal Risks, uncertainties and opportunities have been addressed.

Our structure



Essentra plc Board (the "Board")

- In fulfilling its role, the Board:
- establishes the Company's purpose, values and strategy and has satisfied itself that these and its culture are aligned
 - sets, continually reviews and tests the Company's strategic aims
 - determines the nature and extent of acceptable risks in achieving the Company's strategic objectives
 - assesses shareholder and stakeholder interests from the perspective of the long-term sustainable success of the Company
 - oversees the establishment of formal and transparent arrangements for the application of corporate reporting, risk management and internal control requirements and principles
 - ensures that the necessary financial and human resources are in place for the Company to meet its objectives
 - reviews the performance of the Company's executive management
 - presents a fair, balanced and understandable assessment of the Company's position and prospects to its shareholders

Audit and Risk Committee

The Audit and Risk Committee supports the Board and is responsible for: monitoring the integrity of the Company's Financial Statements; reviewing, challenging and approving its accounting policies; and scrutinising the effectiveness of the internal and external auditors and the Company's internal control and risk management systems.

Remuneration Committee

The Remuneration Committee is established by the Board and is responsible for setting a remuneration policy for Directors and senior executives. This policy is designed to promote the long-term success of the Company, taking into consideration the reward, incentives and conditions available to the Company's workforce, shareholders and other stakeholders. The Remuneration Committee determines an appropriate balance between fixed and performance-related and immediate and deferred remuneration. The Remuneration Committee is also responsible for setting the fees of the Chairman.

Nomination Committee

The Nomination Committee is responsible for regularly reviewing the structure, size and composition of the Board for any changes that it considers to be appropriate. The Nomination Committee will lead the process for Board appointments and make recommendations to the Board taking into account the Company's strategic priorities and the main trends and factors affecting the long-term success and future viability of the Company.

Group Management Committee

The Group Management Committee ("GMC") provides general executive management of Essentra within agreed delegated authority limits determined by the Board. Specifically, the GMC supports the Chief Executive in reinforcing Essentra's Six Principles.

Sustainability Committee

The Sustainability Committee is established by the Board and is responsible for providing advice on and co-ordinating, sustainability-related activities across the Company. The Sustainability Committee shall review the strategies, policies, management, initiatives, targets and performance of the Company within its sustainable development framework.

Group Risk Committee

The Group Risk Committee is responsible for monitoring Principal, Key and Emerging Risks, and ensuring the effectiveness of divisional and functional risk management. Further details of the Company's risk management framework can be found on page 81.

Compliance Committee

The Compliance Committee is established to oversee the Group's implementation of compliance programmes, policies and procedures required to meet legal, compliance and regulatory requirements. The Company Secretary and General Counsel will be the Chairman of the Committee and is accountable for the Company for compliance activities. The Committee is responsible for executive monitoring of the overall progression of compliance activities.

Our stakeholders engagement table

The following disclosure describes how the Directors have had regard to the matters set out in Section 172(1) (a) to (f) and forms the Directors' statement required under Section 414CZA of The Companies Act 2006.

<p>Who?</p> <p>Stakeholder group.</p>	<p>Why?</p> <p>Why it is important to engage.</p>	<p>How?</p> <p>How management and/or directors engaged.</p>
<p>Investors</p> <p>The major interests in our shares are set out on page 113.</p> <p>Key metrics:</p> <ul style="list-style-type: none"> • Earnings per share • Total dividends paid • TSR • Dividend yield • Dividend cover 	<p>Continued access to capital is of vital importance to the long-term success of our business.</p> <p>Through our engagement activities, we strive to obtain investor buy-in to our strategic objectives and our execution of them.</p> <p>We create value for our shareholders by generating strong and sustainable results that translate into dividends.</p> <p>We are seeking to promote an investor base that is interested in a long-term holding in the Company.</p>	<p>The key mechanisms of shareholder engagement included:</p> <ul style="list-style-type: none"> • AGM • Full year and half year presentations • Investor days • One-on-one investor meetings with the Chairman, Chief Executive, Chief Financial Officer, Senior Independent Director, Chair of the Remuneration Committee
<p>Suppliers</p> <p>The Company has a large number of international suppliers and also partners with a high volume of small businesses.</p> <p>Each division presents distinct key supplier groups. 85% of Filters and Packaging's raw materials come from a small proportion of suppliers used.</p> <p>The Components division utilises a mature network of key suppliers.</p>	<p>Our suppliers are fundamental to the quality of our products and to ensuring that as a business we meet the high standards of conduct that we set ourselves.</p> <p>We are fundamentally a conversion business and are dependent on our suppliers to provide our goods ethically, within our code of conduct, on time and to the quality required by our customers.</p> <p>Innovation is key to the success of our business and engaging with suppliers early is fundamental to the enabling of new products.</p>	<p>We engage with local suppliers through working group initiatives that are run by regional management.</p> <p>Our supplier code of conduct and Modern Slavery Statement is shared with all key and new suppliers.</p> <p>Procurement runs a supplier development program with all key suppliers.</p>

<h2 style="color: red;">What?</h2> <p>What were the key topics of engagement and what feedback and input did the board/management obtain?</p>	<h2 style="color: red;">Outcomes and actions</h2> <p>What was the impact of the engagement including any actions taken?</p>
<p>Other than our routine engagement with investors on topics of strategy, governance and performance, below are specific matters on which we engaged investors and that influenced outcomes and actions this year:</p> <ul style="list-style-type: none"> Planned change within the Remuneration Policy: early notification and consultation with investors. See the Remuneration Committee Report from page 92 for more details. Environmental, Sustainability & Governance issues, particularly in relation to the Single-use Plastics Directive and its impact on the Filters business. 	<p>Good communication and early notification resulted in shareholders vote for the approval of the Remuneration Report at the AGM 2019.</p> <p>The Chairman and the Senior Independent Director met key investors to discuss succession and recruitment plans.</p> <p>Escalation of the Group Sustainability Committee to be a Board Sustainability committee with the Chair being a Non-Executive Director.</p>
<p>Sustainable procurement has gained an increased focus. With procurement working to increase supply chain transparency, environmental and social impact has been a key focus.</p> <p>Impact of Brexit on business continuity in our UK and European factories: our suppliers shared the plans they are putting in place, including focus on increased local sourcing.</p>	<p>A key supplier management program has been initiated allowing us to drive our environmental and social policies down the supply chain.</p> <p>We are starting to share our environmental initiatives.</p> <p>The Company anticipates that by the end of 2020 more than 20% of our supplier spend will be covered by our supplier code of conduct certification.</p> <p>We develop long-term, strategic relationships formed on the basis of trust and understanding and which are to the mutual benefit of both parties.</p> <p>Collaborate on key initiatives and innovation projects.</p> <p>Management continues to develop contingency plans, as discussed in our Risk Management Report on page 34. These will be subject to testing by Internal Audit in the course of their next cycle of work.</p>

Stakeholder table continued		
Who?	Why?	How?
Stakeholder group.	Why it is important to engage.	How management and/or directors engaged.
<p>People</p> <p>We define our workforce as the total number of employees working for us for periods in excess of three months per year.</p> <p>Key metrics:</p> <ul style="list-style-type: none"> • Employee engagement • Employee turnover rate • Safety KPIs • Total benefits and payments 	<p>The Company's long-term success is predicated on the daily commitment of our workforce to our purpose and values (Six Principles).</p> <p>To maintain our competitive advantage and meet the growing demands of the environment in which we operate, we need a workforce which is adaptive and whose skill base constantly evolves. We also value workers with long-term practical experiences.</p> <p>We engage with our people regularly and have developed a people strategy which seeks to create an environment in which our people are happy at work and that best supports their well-being.</p> <p>We invest significantly in our people as we believe that maintaining low turnover rates across the entire workforce is the source of our industry-leading efficiency and productivity rates.</p>	<p>We discuss our workforce engagement activities from page 76 to page 77.</p> <p>We distribute an employee survey to all our employees annually.</p> <p>To meet the new requirements of the 2018 Code, the Board has appointed two designated Non-Executive Directors to be responsible for workforce engagement.</p> <p>Employees are provided with information of concern, including factors affecting company performance through</p> <ul style="list-style-type: none"> • regular town hall briefings • intranet updates
<p>Customers</p> <p>Our purpose is to provide the parts, products and services our customers need to succeed as a business.</p> <p>We measure the volume of active customers by who has received at least one invoice in the prior year</p>	<p>Our customers are the lifeblood of our business and we recognise that their feedback and support is crucial to our future success</p>	<p>We have strategic global relationships with a number of multinational companies. We have also invested in key account management structures across our businesses to manage relationships with customers.</p> <p>This ensures that we provide the most appropriate service for individual accounts</p>
<p>Government and Regulators</p> <p>Wherever we operate we are committed to conducting business in line with the appropriate laws and regulation</p>	<p>As a global company with many local operations, Essentra considers governments and regulators as important stakeholders.</p> <p>We are committed to working with governments at national, regional and local level in establishing sound and transparent working relationships that benefit the countries and host communities.</p> <p>In accordance with our Ethics Code, Essentra does not provide financial contributions to political parties and lobby groups.</p>	<p>Engagement with regulators and governments is undertaken in various ways across our global operations.</p> <p>As a UK listed company the Board and the GMC manage many of these relationships while our local teams regularly engage local governments in relations community issues.</p>

<h2 style="color: #c00000;">What?</h2> <p>What were the key topics of engagement and what feedback and input did the board/management obtain?</p>	<h2 style="color: #c00000;">Outcomes and actions</h2> <p>What was the impact of the engagement including any actions taken?</p>
<p>The Board reviewed the results of the recent employee survey and encouraged by the high participation rate (90%) and the increase from 75% to 78% in engagement overall. The Board was also pleased to see the significant improvement in respect and diversity scores as well as confirmation that safety is considered a high priority in our business.</p> <p>The engagement with Employees through the Board Employee Champion roles discussed a number of key topics</p> <ul style="list-style-type: none"> • IT improvements projects • recognition and reward • resource and investment allocation <p>Further details can be found from page 76 to page 77</p>	<p>Based on survey feedback, the Board is committed to supporting management in doing more to make our people feel proud of and valued by Essentra as well as breaking down silos and encouraging collaboration between departments and teams.</p> <p>In 2020 the Board will support the refreshed HR strategy established in 2019.</p> <p>The success of the 2019 Board Employee Champion programme led the Board to appoint a second designated Non-Executive Director so that the programme can be expanded and more sites and employees can be visited.</p>
<p>We meet customers regularly not only to share information but to gain feedback on customers KPIs such as OTIF, and also, in some cases, to explore areas of potential product information.</p> <ul style="list-style-type: none"> • Key account meetings • Business reviews 	<p>Development of long-term strategic relationships formed on the basis of trust and understanding and which are to the mutual benefit of both parties.</p> <p>Continued to expand our product offering and build expertise within our sales team.</p> <p>A number of hassle free initiatives are continuing, including within the Components division the introduction of Business Process Engineering which will build a hassle free service offer and increase sales effectiveness.</p>
<p>At a Group level we have maintained a strong dialogue with various regulatory agencies. During 2019 Essentra co-operated fully with the US Government into some sanctioned market compliance failures in the Filters business. As a result of the investigations conducted by the Group in response to US Government enquiries, the Group has made a voluntary disclosure to the US Office of Foreign Assets Control.</p>	<p>Our dialogue on compliance has an informed chain, we have put in place to ensure risks are reduced and a compliance culture can be enlarged.</p>

Matters considered by the Board in 2019

In managing the affairs of the Company, the Board's agenda is set by the Chairman and carefully planned, in conjunction with the Company Secretary and General Counsel, to ensure focus on the Company's strategic activities and key monitoring activities as well as reviewing significant issues. The annual cycle of agenda items deals with an adopted schedule of reserved matters.

Corporate responsibility

- establishment of a Board Sustainability Committee to assess the Company's approach to sustainability and establish a future strategy with objectives
- approval of the Diversity and Inclusion Policy

Strategy

- receiving regular strategy update sessions
- holding an annual "away-day" focused on strategy
- approved change of our divisional structure from four divisions into three and the incorporation of the Tear Tapes and Reid Supply into Filters and Components respectively
- agreed outsourcing "game changer" project in the Filters division
- annual review of past acquisitions to ensure post acquisition integration is being implemented

Acquisitions and disposals

- approved the purchase of Innovative Components, USA and Costa Rico
- approved the purchase of the minority stake of the Filters Dubai business
- approved the purchase of Nekicesa Packaging, Spain
- approved the Filters Joint Venture Agreement, China
- approved the sale of Pipe Protection Technologies
- approved the sale of Extrusion, Netherlands
- approved the sale of Speciality Tapes, USA
- approved the sale of Card Solutions, UK

Financial and operational performance

- approval of the Company's trading statements, full year and half year results and quarterly trading statements
- received regular reports from the Chief Executive and the Chief Financial Officer
- approved the Group budget for 2020
- recommended the 2018 final dividend and approval of the 2019 interim dividend
- received detailed presentations from senior management across the businesses and considered reports from enabling functional management about matters of material importance to the Company
- approval of major capital and operating expenditure proposals
- review of refinancing proposals

Governance and risk

- review of the Governance Improvement Programme through regular reports and updates on governance matters
- appointment of Board Employee Champion role and received feedback on the employee sessions after each site visit
- continuous review of the 2018 Code Provisions
- review of its meeting processes particularly in relation to a consistent approach
- participated in the externally facilitated Board evaluation
- review of risk strategy and risk appetite
- annual review of Principal Risks and Key Risks and Emerging Risks facing the Group's businesses
- regular deep dive reviews for the Company's Principal Risks continued consideration of the Business Process Redesign project
- continued consideration of cyber security risk
- continued consideration of Brexit implications and mitigating strategies
- reviewed and approved gender pay reporting
- reviewed and approved the annual Modern Slavery Statement
- comprehensive investigation into some sanctioned market compliance failures in the Filters business
- review of the Compliance Transformation program
- review of the Company's Right to Speak claims and ensuring arrangements are proportionate and independent
- received updated training on the Market Abuse Regulation

People

- review of Talent Management process within the Group
- review of the annual employee engagement survey results
- monitoring of performance and continued development of Health and Safety risk
- appointment of new Non-Executive Director
- review of new Human Resources strategy
- at each meeting an assessment of Health and Safety performance

Principal decisions

We define principal decisions as both those that are material to the Company, but also those that are significant to any of our key stakeholder groups. For detail as to how we established and defined our key stakeholder groups see page 70 to 73. In making the following principal decisions the Board considered the views of its key stakeholders, as well as the need to maintain a reputation for high standards of business conduct and the need to act fairly between the members of the Company.

Principal decision 1

Simplification of our divisional structure

- The Board decided to sell a number of businesses that were non-core to the Company and not in line with the Company's strategic plan/objectives
- Details of the disposals are included on page 14, where we explain our long-term approach to the Company's strategy
- During our engagement with potential purchasers/investors they were questioned on their long-term plans for the businesses particularly in relation to resource allocation and employees. The decision to proceed with each of the disposals was after due consideration of the sustainable success of the Company, after the disposals, without the disposals and for the businesses as stand-alone entities

Principal decision 2

Acquisitions

- The Board plays a critical role in ensuring that a robust and rigorous process is followed in respect of acquisitions to ensure that all elements of the proposals, including stakeholder considerations are carefully reviewed and challenged. Details of the acquisitions are included in the Operational review from page 49 to page 61 where we explain our long-term approach to the Company's strategy.
- Presentation to the Board to consider if the proposal is in line with the strategy of growth through acquisition and ensuring long-term sustainable success
- Considerations include the financial performance of the target business, the projected synergies, the regulatory, political and competitor landscape and how best to serve customers.
- The acquisitions of Innovative Components and Nekicesa Packaging increased the divisions footprint into new territories
- Review of the Company's existing operations and market presence in the relevant country, employee matters, suppliers and potential risks and managements proposals for mitigating these businesses as stand-alone entities

Principal decision 3

Establishment of Board Sustainability Committee

- The Board decided that the Group Sustainability Committee established in 2018 should be elevated to a new Board Committee. Chaired by a Non-Executive Director
- Good management of Environmental and Social Governance ("ESG") is crucial to meeting the increasing expectations of all stakeholders including employees, customers and investors
- Engagement with investors has highlighted the importance of ESG to them when considering investment strategies
- Increasing interest from already established and new suppliers on details of the Company's objectives and planned actions in relation to ESG
- ESG is of growing interest to our employees. The 2018 Employee Survey, highlighted there was significant room for improvement for Essentra to become an environmentally responsible company
- The Board has identified ESG as a Principal Risk

Q&A

Board engagement with employees

In January 2019 Mary Reilly was designated as Board Employee Champion. In this role Mary has travelled to sites around the world to meet employees, host town halls, learn about employee experiences and take back to the Board any feedback or questions. Given the importance the Board places on engagement and the desire to hear and understand even more, in November 2019 Ralf Wunderlich joined Mary in this role. In 2020 they will visit more Essentra sites – in Asia, Europe and the Americas – either alone or together.

Mary Reilly
Non-Executive Director



What have you enjoyed most about the role?

A I was initially attracted to the role because I'm naturally curious – said to be a good characteristic for a Board member – about how the Company makes money, the role employees play in that and what their perspectives are on the issues facing Essentra. Also on a human level I really enjoy meeting different people, so, I've enjoyed getting to the grassroots of the organisation and meeting the people who make things happen for our customers and each other every day. The role has given me the opportunity to see the many different aspects of the organisation – regional differences, differences between our business divisions – as well as all the things our employees have in common.

What are the benefits of having this designated role on the Board?

A When creating this role the Board thought very carefully about how it should work. We have deliberately ensured that there is no agenda when I'm out and about meeting employees; it is simply about creating a genuine dialogue. What this means for employees is that I can explain what the Board is, how it works and describe what it is working on. It's particularly important for employees to understand that this is not an HR, Workers' Council or Union role, it is simply their opportunity to talk. For the Board I am able to relay perspectives and suggestions and these help build our understanding of the organisation, enrich our discussions and inform our broader decision-making.

What are the main themes coming out of your meetings with employees?

A IT is definitely a theme. While the organisation has invested a lot in creating more stability in the IT infrastructure there is still some frustration felt on the front line. As expected HR issues come up quite frequently in terms of reward and recognition and this aligns with feedback coming out of the employee survey. Also as you might expect working environment also comes up a lot, this can be anything from the availability of toilets to investments in machinery etc. However, what has really struck me is that the vast majority of employees do feel invested in the Company's future and see that they have a role in making Essentra a great place to work.

Have there been any surprises?

A I have been genuinely surprised to meet so many employees with long tenures within the organisation and also the huge amount of pride that exists among the workforce. There's genuine care for management by front line staff – the amount of issues they have to grapple with and also some concern around the broader economic environment, eg Brexit.

What has been the reaction from employees to the role?

A The reaction has been really positive everywhere I've been. I have found employees are very happy to take time out of their shift to meet me. They are universally keen to understand the difference between the Board and the Group Management Committee ("GMC") and how both work in terms of decision-making at Essentra. Employees have also been really receptive to the confidential email inbox we have made available so that employees can contact me outside of the meetings.

What has been the reaction from the Board?

A The Board has really invested in making this role a success and is eager to hear the feedback from my visits, which I provide at each Board meeting.

How has the role influenced decision-making by the Board?

A In general terms feedback from the role has definitely helped create more robust dialogue about employees at the Board. It is interesting for the Board to see how the decisions we make carry through the organisation and impact on front line staff. I think we have all been surprised by how long it can take for some investments to impact the front line, for example in IT upgrade.

As a more specific example of how the role has influenced decision-making, I was fortunate enough to visit our Packaging site in Barcelona in April, around the same time that the Board was considering the potential acquisition of Nekicesa in Spain. Visiting the site, it was clear that our business has capacity issues which was leading to employee frustration. They are incredibly passionate and commercial and really wanted to maximise the opportunities as they saw them in the Spanish market. While not the deciding factor in the acquisition, this perspective certainly added to our decision-making process and the ultimate acquisition which completed in September.

What have been the challenges of the role and how do you see it developing?

A Making the time and then managing the trips has required more organisation than originally envisaged. In making this happen the Company has been a great support and clearly demonstrates its commitment in making the role a success.

Indeed because the Board wants to hear and understand even more from employees, I'm delighted that in November Ralf Wunderlich was also designated as a Board Employee Champion. We've already seen the benefit of having two Employee Champions, for example we went through the results of the recent employee survey together; having two perspectives was very useful. Ralf and I, together with the whole Board, are committed to supporting management in doing more to make our employees feel proud of and are looking forward to visiting a number of our sites during 2020 either alone or together.

What are you hoping to see evidence of during your visits of 2020?

A The Company is working hard to improve and change culture within the businesses, specifically in relation to compliance training and activities, and I shall be hoping to find evidence of this as I continue my tour of the Essentra facilities. I shall also be looking to hear from employees about the impact of the new HR strategy, particularly the introduction of the employee lifecycle.

Visits by the Non-Executive Directors and the Board Employee Champion



Division of responsibilities

The roles of the Chairman and the Chief Executive are separately held and are so defined as to ensure a clear separation of responsibilities. The Chairman leads the Board and ensures its effectiveness, and the Chief Executive is responsible for the executive management and performance of Essentra's operations.

The Board considers that, for the year ended 31 December 2019, the Non-Executive Directors were each independent. In making this assessment of independence, the Board considers that the Chairman and Non-Executive Directors are independent of management, and free from business and other relationships which could interfere with the exercise of independent judgement now and in the future. The Board believes that any shareholdings of the Chairman and Non-Executive Directors serve to align their interests with those of shareholders.

The Board considers that the Non-Executive Directors provide an independent view in Board discussions and in the development of the Company's strategy. Non-Executive Directors also ensure a sound basis for good corporate governance for the Company, challenging management's performance and, in conjunction with the Executive Directors, ensuring that rigorous financial controls and systems of risk management are maintained as appropriate to the needs of the businesses within Essentra.

The Senior Independent Director ("SID"), currently Tommy Breen, can be contacted via the Company's registered office. In that role, he is available to shareholders to discuss and develop an understanding of their issues and any concerns which cannot be resolved by discussions with the Chairman, the Chief Executive or Chief Financial Officer, or where such contact is inappropriate.

External commitments

The Board is fully aware of current external commitments for all of the Non-Executive Directors, and is satisfied these do not distract from the time committed to Essentra. Non-Executive Directors are also required to discuss any additional external appointments with the Chairman prior to their acceptance. In addition, the time commitments of the Chairman are the subject of review by the SID, in conjunction with the other Non-Executive Directors. The Conflict of Interest register is reviewed at each Board meeting.

While there were no material changes to the time commitment of the Chairman during the year, the Board took note of Paul Lester's appointment as Chairman of Ready Power Rail Services Limited and the separation of Knight Square Holdings Limited into First Port Limited and Appello Limited. In light of these changes, and other external positions, it was concluded these are not significant appointments and that he continues to be able to fully satisfy his obligations to Essentra. In considering the Chairman's continued time commitments to the Company, the Non-Executive Directors also viewed positively his exemplary attendance record at Essentra, ensuring that he was able to attend 100% of Board and Committee meetings and other additional informal meetings with Board members throughout the year. The Board expects this attendance record to continue going forward and Paul Lester has given assurances of his continued commitments to the Company. The Board also notes that Paul Lester retired from Forterra plc as Chairman and Director with effect from Forterra's AGM in May 2019.

During the year Tommy Breen has taken on a number of smaller roles with privately owned companies, all of which were notified to the Board and Nomination Committee beforehand. The Board remains confident that he has sufficient time for the SID role. The Board is content that the Non-Executive Directors devote sufficient time to the business of Essentra. Executive Directors may accept outside appointments, provided that such appointments do not in any way prejudice the ability to perform their duties on behalf of Essentra.

Paul Forman, Chief Executive, currently holds one external non-executive position, and the Board is of the view that this is not detrimental to the performance of his duties given the time requirements involved and that this appointment is beneficial to Essentra given Paul's exposure to another business and their response to a wide variety of issues. The letters of appointment for Non-Executive Directors are available for review at the Company's registered office and prior to the AGM.

Directors' elections

The Company's Articles of Association require that all new Directors seek election to the Board at the AGM following their appointment. In compliance with the 2018 Code, all eligible Directors will put themselves forward for re-election on an annual basis. The Board, including the Chairman, is satisfied that each of the Directors being put forward for re-election continues to be independent and effective and that their ongoing commitment to the role is undiminished. The Notice of Meeting contains additional information as to the recommendations of the Directors' election or re-election.

The conduct of board matters

During the year, there were eight scheduled Board meetings. In addition to these scheduled formal meetings, the Board met on a number of other occasions as required. In particular, the Directors held a specific meeting in June 2019 to review the progress to date, including the continuing reaction of Essentra's shareholders, to the current Group strategy.

There is an enhanced programme of meetings, both formal and informal, in line with recommendations of the Board evaluation action plan.

Informal discussions are also held between the Chairman and the Non-Executive Directors on a regular basis and additionally prior or post each scheduled Board meeting. Regular contact is also maintained with the Chief Executive and with members of the GMC. Led by the SID, the Non-Executive Directors also met without the Chairman present to appraise his performance.

Board meetings during the year

Paul Lester , Non-Executive Chairman	8 (8)
Paul Forman , Chief Executive	8 (8)
Tommy Breen , Senior Independent Director	8 (8)
Lily Liu , Chief Financial Officer	8 (8)
Mary Reilly , Non-Executive Director	8 (8)
Lorraine Trainer , Non-Executive Director	8 (8)
Nicki Demby , Non-Executive Director ¹	4 (4)

¹ Nicki Demby was appointed as a Director on 1 June 2019. Figures in brackets denote the maximum number of meetings that could have been attended. The Company Secretary and General Counsel acts as Secretary to the Board.

In 2019 the Board held one of its meetings in Greensboro, USA which enabled the Board to visit two sites, namely Filters and Packaging. It is intended that further locations will host meetings during 2020 so that the Board has the opportunity to engage with local management and derive a better understanding of the Company's operations and business model.

Additionally Non-Executive Directors independently visited facilities during 2019 in order to gain a better understanding of the Group's businesses in a more informal environment and also to meet employees and support the Voice of the Employee program; each Director reported back to the Board after their visits. All of the Non-Executive Directors visited the Packaging and Components facilities based in Barcelona as part of the annual Leadership Conference.

Whilst the Board Committees are a valuable part of the Company's corporate governance structure, the Board, as a whole, maintains oversight of such important matters and, after each Committee meeting, the Chairman of the Audit and Risk Committee reports on the matters which have been reviewed. In particular the Board looks to the Audit and Risk Committee to undertake the majority of the work involved in monitoring and seeking assurance as to compliance with the internal controls and risk management practices within this structure.

Other specific responsibilities are delegated to the Remuneration, Nomination and Sustainability Committees.

The Board believes that it, and its Committees, have the appropriate composition to discharge their respective duties effectively with the appropriate level of challenge and independence, and that the members of the Board in conjunction with the senior executive teams are well equipped to drive and deliver, the Company's strategic objectives.

Roles and responsibilities

Chairman

- Sets the Board agenda primarily focused on strategy, performance, value creation, culture, stakeholders and accountability, and ensuring that issues relevant to these areas are reserved for Board decision
- Shapes the culture in the boardroom
- Encourages Board members to engage in Board and Committee meetings
- Fosters relationships based on trust, mutual respect and open communication between Non-Executive Directors and the Group Management Committee
- Develops a working relationship with the Chief Executive
- Provides guidance and mentoring to new Directors as appropriate

Chief Executive

- Proposes the strategy to the Board and implements the strategy which has been approved by the Board
- Communicates to the workforce the expectations in respect of the Company's culture and for ensuring that operational policies and practices drive appropriate behaviour
- Develops manageable goals and priorities for the management team
- Leads and motivates the management teams
- Ensures that the Board is aware of the views of the senior management team on business issues
- Develops proposals to present to the Board on all areas reserved for its judgement

Senior Independent Director ("SID")

- Provides a "sounding board" for the Chairman
- Serves as an intermediary for the other Directors when necessary
- Acts as an alternative point of contact for shareholders where contact through the normal channels of Chairman, or other Executive Directors has failed to resolve any concerns, or for which such contact is inappropriate
- Leads the annual assessment of the effectiveness of the Chairman

Non-Executive Directors

- Providing constructive challenge to executive management
- Bring experience and objectivity to the Board's discussions and decision-making
- Monitor the delivery of the Group's strategy against the governance, risk and control framework established by the Board
- Responsible for evaluating the performance of the Chairman, led by the SID

Company Secretary

- Maintains a record of attendance at Board meetings and Committee meetings
- Responsible for ensuring good information flows to the Board and its Committees, and between the GMC and the Non-Executive Directors
- Advises the Board on all regulatory and corporate governance matters
- Assists the Chairman in ensuring that the Directors have suitably tailored and detailed induction and ongoing training and professional development programmes

Corporate Governance Report continued

The Board is of the view that it has a highly competent Chairman who, together with each of the other Non-Executive Directors, has considerable international experience at a senior level in the management of activities broadly similar to those carried out by Essentra and the material issues likely to arise for the Group.

Operational matters and the responsibility for the day-to-day management of the businesses are delegated to the Chief Executive, supported by members of senior executive management as appropriate, within delegated authority limits. The support of the GMC ensures a strong link between Essentra's overall corporate strategy and its implementation within an effective internal control environment and robust risk management.

Full details of the membership of the GMC can be found on page 62.

As part of the Governance Improvement Programme that Essentra has established and in order to continue to implement effective corporate governance within the Group, the GMC is driving working practices and behaviours through the establishment of clearly defined annual agendas for reporting, reviewing and decision-making.

Applying Essentra's corporate responsibility principles

The Chief Executive is the Director with primary responsibility for the implementation and integration of Essentra's corporate responsibility principles across the Company. During 2019, the Group Operations Director was responsible for co-ordinating the operation of detailed policies on health and safety and the environment, and the Company Secretary and General Counsel was responsible for co-ordinating policies on ethics, which support Essentra's commitment to its corporate responsibility principles. Further details of these policies can be viewed from page 20 to 29 and on the Company's website.

Diversity

The Diversity and Inclusion Steering Group (the "Steering Group") has continued to roll-out a programme of work, with some externally facilitated support, to ensure behaviours fully reflect the principles of diversity and inclusion across the Company. During the year the Board approved the Diversity and Inclusion Policy which detailed its purpose and objectives to create an inclusive culture, and where diversity is embraced by all employees to ensure Essentra is a rewarding and successful place to work. The 2019 employee engagement survey recognised that the activity and commitment of the Steering Group has created an environment where different views and perspectives are increasingly valued.

The Board confirms a strong commitment to diversity (including, but not limited to, gender diversity) at all levels of the Group. Further information can be found on page 22.

Board Sustainability Committee

It was reported in the 2019 Annual Report that the Company had established a Group Sustainability Committee. The momentum on ESG matters, gained through the evaluation of emerging risks at the Group Risk Committee led to an increased Board level awareness and commitment to identify and co-ordinate Company-wide opportunities to improve Essentra's ESG performance and reduce the Company's risk profile through sustainability-related activity. Consequently it was determined that the importance and relevance of this topic would be best served by a Board Committee chaired by a Board member and supported by the Group Operations Director. Further details can be found on page 27.

Conflict of interests

Directors have a statutory duty to avoid actual or potential conflicts of interest. The Company's Articles of Association permit the Board to consider and, if it sees fit, to authorise situations where a Director has an interest that conflicts, or may possibly conflict, with the interests of the Company. The decision to authorise a conflict of interest can only be made by non-conflicted Directors. A register of Directors' interests is maintained so that any potential concerns are addressed before any material issues may arise.

The Conflict of Interests register and the schedule of Directors' Interests is reviewed at each Board meeting. During the course of the year, there were no material conflicts of interest impacting on the conduct of the Board's activities.

Information and professional development

The Chairman, supported by the Company Secretary and General Counsel, takes responsibility for ensuring that the Directors receive accurate, timely and clear information.

On appointment, an induction programme tailored to their individual needs is available to Directors, and is designed to assist them in their understanding of Essentra and its operations.

Throughout a Director's tenure, they are encouraged to develop their knowledge of the Group through meetings with senior management and site visits. Directors are also provided with updates, as appropriate, on matters such as fiduciary duties, Companies Act requirements, share dealing restrictions and corporate governance matters.

All Directors have access to the advice and services of the Company Secretary and General Counsel, and for the year under review, his advice was sought in relation to share dealings only. In the furtherance of their duties, there are agreed procedures for the Directors to take independent professional advice, if necessary, at the Company's expense. No Director took independent professional advice during the year.

Shareholder communications

The Board recognises the importance of effective communication, and seeks to maintain open and transparent relationships with its shareholders and other stakeholders, including providers of finance, customers and suppliers. This is achieved by regular updates through public announcements, the corporate website and other published material.

Sustainability Committee meetings during the year

Ralf K. Wunderlich Non-Executive Chairman	1 (1)
Paul Forman Chief Executive	1 (1)
Nicki Demby Non-Executive Director	1 (1)
Mary Reilly Non-Executive Director	1 (1)
Jon Green Company Secretary and General Counsel	1 (1)
Nick Pennell Group Operations Director	1 (1)

Other attendees

Strategy and Commercial Director and Group Communications Director attended by invitation.

Figures in brackets denote the maximum number of meetings that could have been attended.

All shareholders can meet any of the Directors of the Company should they so wish. In particular, the SID is available to shareholders should they have concerns or wish to share their views. Feedback from meetings with shareholders is provided to the Board so they are aware of any issues or concerns, and ensures that the Board has a balanced view from the major investors. Additionally, the Board uses the AGM as an occasion to communicate with all shareholders, including private investors, who are provided with the opportunity to question the Directors.

At the AGM, the level of proxy votes lodged on each resolution is made available, both at the meeting and subsequently on the Company's website. Each substantially separate issue is presented as a separate resolution, and the Chairmen of the Audit and Risk, Nomination, Remuneration and Sustainability Committees are available to answer questions from shareholders.

The Company also communicates regularly with its major institutional shareholders and ensures that all the Directors, including the Non-Executive Directors, understand the views and concerns of major shareholders in relation specifically to their views on governance and performance of the Company against strategy. The Chief Executive, Chief Financial Officer and Investor Relations Director have primary responsibility for investor relations. Presentations for analysts and shareholders were held during the year, and meetings were also undertaken with key institutional investors to discuss strategy, financial performance and investment activities. Slide presentations are made immediately available after the full and half year results, and are also available on the Company's website to view and download. The Company ensures that any price-sensitive information is released to all shareholders at the same time, in accordance with regulatory requirements. During the year the Chairman and SID have held independent meetings with shareholders and additionally the Chairman has attended meetings with the Chief Executive. At each Board meeting reports are presented detailing the engagements with shareholders to ensure that the Board as a whole has a clear understanding of the views of the shareholders.

Financial reporting

The Directors have acknowledged, in the Statement of Directors' Responsibilities set out on page 117, their responsibility for preparing the Financial Statements of the Company and the Group. The Directors are responsible for preparing the Annual Report and Accounts, and they consider that the Annual Report and Accounts taken as a whole are fair, balanced and understandable. The External Auditor has included a statement about their reporting responsibilities in the Independent Auditors' Report, set out on pages 180 to 186.

The Directors are also responsible for the publication of half year results, as required by the Disclosure and Transparency Rules of the Financial Conduct Authority. This provides a general description of the financial position and performance of the Company and the Group during the relevant period.

Internal controls

In accordance with the 2018 Code, the Board acknowledges its overall responsibility to shareholders to ensure that an adequate system of risk management and internal control is in place and for reviewing the effectiveness of this system. Such a system can only be designed to mitigate, rather than eliminate, the risk of failure to achieve business objectives, and can therefore only provide reasonable, and not absolute, assurance against material misstatement or loss. This is essential for reliable financial reporting and also for the effective management of the Group.

“The Board recognises the importance of effective communication, and seeks to maintain open and transparent relationships with all its stakeholders”



Further details on the Company's risk management system and internal controls can be found on page 34.

The following enables the Board to review the effectiveness of the system of internal control and the financial reporting processes:

- the ARC meets regularly and reports to the Board, no less frequently than at every Board meeting following an ARC meeting
- the terms of reference provide a framework for the ARC to review and oversee the quality, integrity, appropriateness and effectiveness of the Group's internal control framework
- the Board has the opportunity to review the internal control environment at local sites when Board meetings are held away from the Company's head office
- every month, each division submits detailed operating and financial reports covering all aspects of performance. These are reviewed by the Chief Financial Officer and the Group's central Finance function, and summary reports are communicated to the GMC and the Board
- certificates are required from the businesses to confirm compliance with the Group's policies (including financial) and procedures at both the half year and year end.

Directors' and Officers' insurance

In accordance with the Company's Articles of Association, and to the extent permitted by the laws of England and Wales, the Directors are granted an indemnity from the Company in respect of those liabilities incurred as a result of their office. In respect of those matters for which the Directors may not be indemnified, the Company maintained a Directors' and Officers' Liability Insurance Policy throughout the year. It is anticipated this policy will be renewed. Neither the Company's indemnity, nor the insurance policy provide cover, to the extent that a Director is proven to have acted dishonestly or fraudulently.

Composition, succession and evaluation

Nomination Committee Report



Paul Lester, CBE
Non-Executive Chairman
 Chairman of the Nomination Committee

Membership and attendance

	Meetings during the year
Paul Lester , Non-Executive Chairman	4 (4)
Paul Forman , Chief Executive	4 (4)
Tommy Breen , Non-Executive Director	4 (4)
Mary Reilly , Non-Executive Director	4 (4)
Lorraine Trainer , Non-Executive Director	4 (4)
Ralf K Wunderlich , Non-Executive Director	4 (4)
Nicki Demby , Non-Executive Director	2 (2)

Other attendees

During 2019, the Group HR Director and the Chairman of the Diversity and Inclusion Steering Group attended by invitation as appropriate.

Figures in brackets denote the maximum number of meetings that could have been attended. The Company Secretary and General Counsel acts as Secretary to the Nomination Committee.

Nicki Demby was appointed to the Nomination Committee with effect from 1 June 2019, on being appointed as a Non-Executive Director.

The Nomination Committee is responsible for Board recruitment and in doing so will conduct a continuous and proactive process of planning and assessment, taking into account the Company's strategic objectives and the main trends and factors affecting the long-term success of the Company.

2018 UK Corporate Governance Code

Following the publication of the 2018 UK Corporate Governance Code (the "Code") the Terms of Reference for the Nomination Committee were reviewed and revised to ensure Essentra follows best practice.

The impact of diversity amongst the Board and the senior management is the responsibility of the Nomination Committee who believe that diversity can have a positive effect on the quality of decision-making by reducing the risk of "group-think".

Securing the right combination of skills, experience and expertise allows the Board to effectively lead the sustainable growth and success of the Company for the benefit of all stakeholders.

With regard to the 2018 Code the Nomination Committee noted that the Board has appointed Mary Reilly as the designated Non-Executive Director responsible for the engagement of employees and reporting the Voice of the Employee to the Board and its Committees effective from 1 January 2019. Ralf Wunderlich was appointed as the second Voice of the Employee from 1 November 2019.

Talent management and succession planning

The Nomination Committee continues to take an active interest in the quality and development of talent and capabilities below Board level, particularly at Group Management Committee ("GMC") and senior management.

The Chief Executive presented his annual management succession plan to the Nomination Committee for consideration. This process helps to ensure that appropriate opportunities are in place to develop high performing individuals and to increase diversity in senior roles across the Group. This continued interest and focus has seen diversity improve overall.

During the year the Group Human Resources Director attended a number of the Nomination Committee meetings and reported on the progress being made with the introduction of a more structured talent management and succession planning process within the GMC and senior management. In addition the Group Human Resources Director shared the development of a Talent Acquisition strategy to address a key risk identified as the Company continues to see the skills needed to deliver growth. The Nomination Committee was notified during the year of the appointment of a new Talent Acquisition Director role.

Key activities 2019

- Reviewed and approved the Nomination Committee Report for inclusion within the 2018 Annual Report
- Reviewed the composition, structure, size and skill set of the Company's Board and the Committees
- Recommended the appointment of Nicki Demby to the Board
- Carried out an external review of the independence of Nicki Demby
- Reviewed the Company's evolving approach to ensuring a diverse and inclusive culture and the initiatives being undertaken by the Company
- Reviewed the succession planning for the Board
- Reviewed the nature and extent of the succession planning for the GMC and senior management roles and the plans to address any development needs for senior management
- Reviewed the results of the Board Evaluation and implemented an action plan accordingly
- Recommended to the Board the appointment of Ralf Wunderlich as the Chairman of the newly formed Board Sustainability Committee
- Reviewed the 2018 Code and noted the new guidelines in relation to the role of the Nomination Committee
- Reviewed and aligned the Non-Executive Director Service Agreements to ensure they reflected the guidelines from the 2018 Code
- Reviewed and agreed revised Terms of Reference for the Nomination Committee
- Approved for recommendation to the Board the new Company Diversity and Inclusion Policy
- Reviewed the workstreams and progress currently being undertaken by the Diversity and Inclusion Steering Group

Board changes

When considering succession planning for both the Board and the senior management roles the Nomination Committee considered diversity within a range of different aspects, including age, disability, ethnicity, education and social background, as well as gender.

As reported in last year's Nomination Committee Report Nicki Demby was to be appointed as a Non-Executive Director and Chairman Designate for the Remuneration Committee effective 1 June 2019 and will replace Lorraine Trainer as the Chairman of the Remuneration Committee after the 2020 AGM.

Inzito Partnership were engaged to assist in the recruitment of Nicki Demby. There is no related party connection with Inzito Partnership and the assignment was undertaken on an arms length basis.

Nicki brings extensive advisory experience, having provided Board level counsel to many UK and international businesses for more than 20 years as an executive remuneration consultant. Further details on Nicki's skills and experience can be found on page 66.

In recommending Nicki's appointment to the Board the Nomination Committee considered potential concerns regarding her independence and can confirm that:

- post commencement of the succession process Nicki ceased to provide advice to the Remuneration Committee at Essentra
- the fees paid to Deloitte as remuneration advisers are not considered to be material both in terms of relationship and fees from the point of view of Deloitte and the Company
- the succession and selection process included an external assessment against the required skills and experience required for the role
- Nicki has considerable experience in providing advice to remuneration committees

Following the appointment of Nicki as a Non-Executive Director the Nomination Committee can confirm that:

- Nicki has undertaken a comprehensive induction programme within the Company
- the Remuneration Committee undertook a process to review the independent remuneration advisers, Nicki did not participate in the selection or rationale for the reappointment of Deloitte
- Nicki has made a substantial contribution to the Board and the Board Committees both in terms of experience, skills and competency as well as adding gender diversity

Sustainability

Following the creation of the Board Sustainability Committee during the year the Nomination Committee recommended to the Board that Ralf Wunderlich be appointed as Chairman of the Committee effective from 1 November 2019. Ralf's considerable experience and interest in ESG matters were taken into consideration when making this appointment.

Diversity

The Nomination Committee and the Board supports the recommendations set out in the Lord Davies Report "Women on Boards". The fundamental objective must be to ensure that the best people are appointed to do the best job for Essentra, taking into consideration other factors, such as market and international experience, and diversity of thought and background. Appointing people on merit, without any form of discrimination, is a key component of Essentra policies across its international operations at all levels.

During 2019 the Nomination Committee worked with the Group Human Resources Director and the Diversity and Inclusion Steering Group in setting and meeting diversity objectives and strategies for the Group as a whole, and in monitoring the impact of diversity initiatives including the formalisation of a Group policy which was distributed to employees for acknowledgement. Further details can be found on page 22.

Nomination Committee Report continued

Board evaluation

During the early part of 2019, the Company engaged Lintstock Ltd ("Lintstock") to externally facilitate an interview-driven review of the performance of the Board and each of its Committees.

Lintstock engaged with the Chairman of the Nomination Committee to set the scope of the evaluation and to focus on any particular areas specific to Essentra. The conclusions were presented to the Nomination Committee in March 2019 and an action plan developed.

Board evaluation

Areas of focus for 2019

- The current composition of the Board, and any particular considerations relevant to any potential new Director appointments
- The relationship between the Board and Chief Executive
- The management of Board and Committee meetings, and particular considerations to ensure thoughtful debate and broad input
- Improvements to the quality of the Board and Committee meeting packs
- The Board's relationships with, and exposure to, management both inside and outside the boardroom
- The Board's understanding of the separate parts of the business, as well as the Board's oversight of strategy, major projects and the main risks facing the business
- The delegation of authority from the Board to senior management, alongside the Board's oversight of the performance of management
- The identification of the priorities for the Chief Executive, as well as the priorities for improving the Board's performance over the coming year
- The performance of each of the Board Committees in fulfilling their mandates

What we found

Board dynamics

The Non-Executives' support and challenge of management had improved, though encouraging more discussion at Board meetings would be beneficial, and particularly with regard to increased engagement between Board and GMC members.

Board Committees

Whilst there had been improvement and enhanced recognition of the Nomination Committee there needs to be a more structured approach so the role of the Nomination Committee reflects equally with the other Board Committees.

Stakeholder oversight

Understanding the views of customers, suppliers and communities should be further increased, in addition to the already good understanding and requirements of investors, employees and regulators. Increased focus on the monitoring of culture and behaviours throughout the organisation, and the value of site visits in this context should enhance this.

What has gone well

Board dynamics

The Non-Executives' support and challenge of management, both inside and outside the boardroom. The quality of the relationship between the Board and Chief Executive.

Board Committees

The Audit and Risk Committee and the Remuneration Committee fulfil their responsibilities very effectively.

Management and focus of meetings

The value of site visits undertaken by Board members was very highly rated.

Board support

The Board packs were rated highly.

Strategic and Operational Oversight

The Board's review of strategic opportunities and key operational metrics.

Risk management and internal control

The Board's oversight of the main risks to the business.

Succession planning and human resources oversight

The strength of Essentra's management had improved.

Opportunities for improvement

Board dynamics

Encouragement of more discussion at Board meetings, and increased engagement between Board and GMC members.

Management and focus of meetings

Customers and people matters (including culture) were identified as areas on which the Board should spend more time.

Board support

The timeliness with which Board papers are circulated was encouraged.

Board committees

A number of recommendations were made for improvement in the management and administration of the Nomination Committee.

Strategic and operational oversight

Formalising the review and the effectiveness of past acquisitions and major projects.

Succession planning and human resources oversight

Improvements in succession plans for senior management.

Priorities for Change

The performance of the Board was seen to have improved generally since the last Board Review.

The top priorities for the Board over the coming year were identified as i) ensuring sufficient time was available for full discussion on key topics, (ii)

devoting additional time to strategy and portfolio decisions, iii) conducting more site visits, and iv) having more opportunities for the Board to meet without executive management in attendance.

“I was delighted to join the Board of Essentra, my induction has given me good insight into the workings of the Company and the many challenges and opportunities facing the Board in the forthcoming months”



Nicki Demby's induction

Prior to and since Nicki Demby joined the Board she has participated in an induction programme to ensure a smooth transition, which has included:

- meeting with the Company Secretary covering Board procedures
- engagement with the External Auditors and other advisers
- presentations with senior executives, including Corporate Development and Strategy, Investor Relations, Group Assurance, Human Resources, Operations and IT
- receiving briefings from divisional management teams
- site tours to both the UK and overseas
- comprehensive discussions with the current Remuneration Committee Chairman
- receipt of information relating to the Board, specifically Market Abuse Regulation
- planning put in place for meeting major shareholders in the forthcoming months

Key objectives and selecting a service provider for 2020 evaluation

Lintstock has conducted annual Board and Board Committee reviews at Essentra for a number of years. The Nomination Committee proactively considered two alternative providers for this year's evaluation, but after discussions with Lintstock about formulating a different approach, the Nomination Committee decided to retain Lintstock given their previous experience of working with the Board, and the benefit to be derived from existing knowledge of the Company and its governance improvement activities.

The Nomination Committee agreed that Lintstock would conduct a “light touch” approach for the Board and Board Committees, managed largely through the use of short questionnaires. However, the proposal is to engage with the GMC with a combination of questionnaires and interviews to solicit feedback on an anonymous

basis. Good practice reviews are increasingly asking companies to look at whether the right people are included in the board evaluation process and extending the respondent or interview list to include executive management should provide a better understanding of the Board and its value, and identify opportunities for doing things differently and better. The introduction of the GMC into the process will also reflect the importance of stakeholder engagement and perception to the Board.

There is no related party connection with Lintstock and the evaluation was undertaken on an arms length basis.

Audit, risk and internal control

Chairman of the Audit and Risk Committee's Letter



Mary Reilly
Non-Executive Director

Dear Shareholder,

As Chairman of the Essentra plc Audit and Risk Committee (the "ARC"), I am pleased to present my Report to shareholders which details the areas and issues covered by the Committee.

The ARC fulfils an important oversight role on behalf of the Essentra Board, monitoring the integrity of the Group's financial reporting and the effectiveness of both the Group's systems of internal control and its risk management framework. During 2019 the ARC continued to apply rigorous scrutiny and challenge to the Group Assurance function which has responsibility for internal audit and risk management and I believe that this, together with the Board's efforts in promoting a strong risk-focused culture, play an essential role in safeguarding the interests of stakeholders and assuring the long-term viability of the Company.

I am particularly pleased that Essentra's Group Assurance function won the "outstanding team" category in a nationally recognised Audit and Risk Awards in 2019 which was a reflection of the outstanding work and delivery of the Assurance function.

This Report also reflects the requirements placed on committees by the 2018 Code and applicable guidance, laws and regulations. In carrying out its duties the Committee also operated in accordance with recommendations set out in the FRC Guidance on Audit Committees which was published in April 2016.

"The ARC fulfils an important oversight role on behalf of the Board, monitoring the integrity of the financial reporting and the effectiveness of both the Group's systems of internal control and its risk management framework"



In addition to fulfilling its normal programme of work this year the ARC has spent considerable time and focus on an investigation into some sanctioned market compliance failures in the Filters business. The ARC has fully supported management in the initiation of a compliance transformation programme within the Filters division which will be rolled out across the Group in 2020. The ARC has received, and will continue to receive, regular updates on the programme and additionally will seek assurance that the effectiveness of this programme is periodically assessed, by either internal or external resources.

Last year's Annual Report reported on the implementation of a Minimum Controls Standards programme ("MCS") to help drive improvements within the Company's financial control framework. During 2019 the leadership of MCS transitioned from Group Assurance and was rolled out by divisional management, and the central co-ordination role became the responsibility of Group Finance. To date significant progress has been made embedding MCS within the businesses. A total of 24 workshops were carried out in 2019, which when combined with the work from 2018 means 50 sites now have had the MCS roll-out completed. It is encouraging to report these sites account for about 80% of revenue for the Group.

I am happy to confirm the continuation of the high quality levels of debate, discussions and presentations made by the Group Risk Committee particularly when examining and identifying Principal Risks, Key Risks and Emerging Risks for consideration by the Board at both the half year and full year reporting cycle. Linked with the ongoing work in reviewing Emerging Risks the Company

Roles and responsibilities

Financial Reporting

- Ensuring the interests of the shareholders are properly protected
- Monitoring and reviewing the integrity of the Financial Statements and any formal announcements relating to financial performance
- Reviewing the relevance of accounting policies adopted
- Challenging significant accounting judgements

Risk Management and internal control

- Reviewing, assisted by the Group Risk Committee, the risk management processes, procedures and controls the effectiveness of the internal financial controls

- The Right to Speak arrangements and the follow up of any claims made through this mechanism

Internal Audit

- Overseeing the internal audit activities
- Monitoring and reviewing the effectiveness of the internal audit function
- Agreeing the annual internal audit plan and reviewing the output from that

External Audit

- Making recommendations to the Board in relation to the appointment, reappointment and removal of the External Auditor
- Reviewing the relationship with the External Auditor and monitoring their independence and objectivity

- Reviewing the effectiveness and quality of the external audit process
- Agreeing the scope, terms of engagement and fees for the external audit
- Initiating and supervising a competitive tender process for the external audit when required
- Monitoring the engagement policy of the External Auditor to supply non-audit services
- Reviewing and discussing reports presented by the external auditor at each meeting

“During 2020 the ARC will continue its focus on the compliance transformation programme and detailed oversight of the activities of the Group Assurance Function”



has consulted with external experts to provide an insight into the impact, if any, of the EU Single-Use Plastics Directive on our businesses. The employees who attended this workshop continue to work together, and alongside the Board Sustainability Committee, to identify any risks or opportunities.

The detailed report, which follows, aims to provide insight into the workings and activity of the ARC throughout the year as it seeks to assist the Board in discharging its responsibilities. The Report covers, inter alia, the integrity of Financial Reporting; the relationship with the External Auditor; the effectiveness of the Group Assurance function and the effectiveness of the risk management process and internal control processes. I believe that the ARC has the necessary experience, expertise and financial understanding to fulfil its responsibilities and meet the increasing governance demands.

During 2020 the ARC will continue its focus on the compliance transformation programme and detailed oversight of the activities of the Group Assurance function.

Mary Reilly
Non-Executive Director
 Audit and Risk Committee Chairman
 28 February 2020

Report of the Audit and Risk Committee

Governance

All the ARC members are independent Non-Executive Directors, and have financial and/or related business experience gained in senior positions at other large diverse organisations. Mary Reilly has been the Chairman of the ARC since April 2018, and the Board is satisfied that Mary has recent and relevant financial experience. As a whole the Board believes that the members of the ARC are competent in the business sectors within which the Essentra Group operates. The ARC supports the Board and reports to it following each Committee meeting. No member of the ARC has a connection with the current External Auditor.

In the performance of its duties the ARC has independent access to the Head of Group Assurance and the External Auditors and may obtain outside professional advice if required. Both the Head of Group Assurance and the External Auditor has direct access to the Chairman of the ARC who held a number of meetings with each of them during the year outside formal Committee meetings. The Chairman of the ARC also liaises with the Chief Financial Officer as well as the Company Secretary and General Counsel as necessary to ensure robust oversight and challenge in relation to financial control and risk management.

During early 2019, the Company engaged Lintstock Ltd to facilitate an interview-driven review of the performance of the ARC, in conjunction with a full review of the Board and the other Board Committees. Recommendations concerning the performance of the meetings were made and an action plan put in place to address these points. The overall performance of the ARC was very highly rated. The commitment and engagement of the members ensure the ARC benefited from open and honest input, encouraged to a great degree by the Chairman.

There is an annual cycle of items considered by the ARC covering the requirements of the external audit cycle and any other relevant matter, as detailed in the Terms of Reference of the ARC. The agenda cycle is reviewed annually to ensure that the ARC remains proactive and relevant. The current Terms of Reference for the ARC are available at essentraplc.com and are also reviewed annually. The Terms of Reference provide a framework for the ARC's work to review and oversee the quality, integrity, appropriateness and effectiveness of the Group including the following:

- Financial Statements and external financial reporting
- significant financial judgements
- Tax and Treasury function review
- cyber security response
- compliance programme
- system of internal control and internal audit function
- risk management processes and practice
- relationship with, and performance of the External Auditor

Financial Statements and external financial reporting

Ensuring the integrity of the Financial Statements and associated announcements is a fundamental responsibility of the ARC. In recommending to the Board, with regard to the approval of the 31 December 2018 Annual Report and the 30 June 2019 Half Year Report, the ARC reviewed, examined and challenged the Chief Financial Officer and External Auditor on their respective assessments on such items as going concern basis of preparation, accounting policies and disclosures, any financial reporting issues, significant financial judgements made and appropriate levels of disclosures to ensure that the reports are fair, balanced and understandable.

One point of increased consideration was in relation to the exposure and liabilities arising from an investigation into some sanctioned market compliance failures in the Filters business. The ARC discussed the issue at length, challenged the management and took external professional advice alongside consulting the External Auditor, as to the adequacy and appropriateness of disclosure of the contingent liability for inclusion in the half year results and latterly the accounting treatment (recognition, measurement and disclosure) of the associated costs within exceptional and other adjusting items in the 2019 Annual Report. The ARC were able to conclude that the various accounting matters associated with the investigation and potential liabilities were dealt with appropriately.

Additionally the ARC reviewed the contents and suitability of the Long-Term Viability Statement and challenged the risk scenarios, the range of sensitivities applied and the potential impacts considered.

The ARC was presented with information and advice regarding the changes due to the implementation of IFRS 16 *Leases* and challenged management on the appropriateness of the disclosures.

Membership and attendance

	Meetings during the year
Mary Reilly , Chairman	4 (4)
Tommy Breen , Non-Executive Director	4 (4)
Lorraine Trainer , Non-Executive Director	4 (4)
Nicki Demby , Non-Executive Director	2 (2)

Other attendees

The External Auditor, Chairman of the Board, Chief Executive, Chief Financial Officer, Head of Group Assurance, Group Financial Controller, Ralf Wunderlich and members of the Group Management Committee ("GMC") attended meetings by invitation, as appropriate. During the year, the ARC met the External Auditor, PricewaterhouseCoopers LLP ("PwC"), and the Group Head of Assurance without the Executive Directors being present.

The ARC received presentations from the Chief Executive, the Chief Financial Officer, divisional Managing Directors, Group Head of Tax, Group Head of Treasury and the Group Chief Information Officer.

Figures in brackets denote the maximum number of meetings that could have been attended.

The Company Secretary and General Counsel acts as Secretary to the ARC.

Significant financial judgements

Goodwill and intangible assets

As required by IAS 36, the Company undertakes an assessment of the carrying value of intangible assets on an annual basis, or more frequently if there is an indication of impairment. The details of the work carried out and the results are in note 8 of the Notes to the Financial Statements. The assumptions for 2020 and beyond (such as the annual growth rate and the terminal growth rate) are based on the 2020 annual plan and management's financial projections in subsequent years. The impairment reviews performed by management contain a number of significant judgements and estimates including revenue growth, profit margins and discount rates. A change in these assumptions can result in a material change in the valuation of the assets and the eventual outcome of the impairment assessment. The ARC evaluated and challenged the methodology of the impairment review and the assumptions on which it was based, including the financial plans approved by the Board.

The ARC discussed at length with the Chief Financial Officer, the Chief Executive and the External Auditor the review and assumptions presented. After due consideration the ARC was satisfied that the impairment assessment is appropriately carried out.

Exceptional and other adjusting items

The Financial Statements include certain items which are disclosed as exceptional and other adjusting items. The nature of these items is explained within the Group Accounting Policy, and includes transaction costs and gains or losses relating to acquisitions and disposals of businesses, acquisition related integration and restructuring costs, and other items such as impairment losses. Following an extensive review, the ARC is satisfied that the Group's definition of exceptional and other adjusting items remains clear and that appropriate level of disclosure is included. The definition remains consistent with the prior year, and in the current year the ARC has been involved in a rigorous review of the items presented, and challenged the Chief Financial Officer about the appropriateness of

items presented including impairment and restructuring activities to ensure they are one-off material items rather than incurred in the ordinary course of business and are presented separately to allow a better understanding of the Group's ongoing activities. Further details can be found in note 2 of the Notes to the Financial Statements.

Tax liabilities

The Group is, on occasion, subject to tax assessments that may represent potential future tax exposures, which arise from tax authorities in a number of the jurisdictions in which the Group operates. The Group assesses all such exposures in the context of specific country tax laws, where applicable, makes provisions for any settlements which it considers appropriate.

The Group operates in a number of tax jurisdictions, and recognises tax based on interpretation of local laws and regulations which are sometimes opaque. Where the amount of tax payable is uncertain, the Directors are required to exercise significant judgement in determining the appropriate amount to provide in respect of potential tax exposures. The ARC challenged the nature and extent of the tax provisioning of the Company and sought assurance that the Company was working diligently to resolve outstanding liabilities in an appropriate fashion. The potential tax exposures over the Group's transfer pricing position and the deductibility of interest on internal financing are also considered.

The ARC reviewed the assumptions of the tax liabilities at the start of the year, those created during the year and the effective tax rate as indicated in the Financial Statements from page 119. The ARC questioned and challenged the Chief Financial Officer and Group Tax Director as to the appropriateness of the Company's risk attitude and appetite in this area. The ARC was satisfied that the tax liabilities are appropriate, and that the Group's tax disclosures are adequate given the nature of the Group's activities.

Pensions and leases

The accounting of defined benefit pension schemes requires the exercise of judgement in relation to the assumptions used and the range of possible outcomes. In consultation with Essentra's actuaries, management decides the point within those ranges that most appropriately reflect Essentra's circumstances. In terms of leases, a key judgement in determining the right-of-use asset and lease liability is establishing whether it is reasonably certain an option to extend the lease will be exercised. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Pension accounting and lease accounting are two of the key areas of audit focus, and the External Auditor addressed with the ARC any potential issues arising from their external audit process.

Compliance with US Sanctions Legislations

During the current year, the Group recognised certain costs in relation to a review of the compliance of certain group companies' export activities (in the Filters division) with US laws, for which the Group is co-operating fully with the US Government. The Group provided for an estimate of the expected financial penalties for sanction compliance failures. In arriving at this estimate, management received professional advice from external consultants which took into account past experiences from previous cases. The ARC had direct communications with the external consultants and reviewed their advice and guidance in assessing the reasonableness of the estimate. After due consideration, the ARC was satisfied that the basis for the estimate is appropriate, and that relevant disclosures are included within the Financial Statements.

Report of the Audit and Risk Committee continued

Tax and treasury function review

During the year joint presentations were made to the ARC by the Group Tax Director and the Group Head of Treasury due to the recognition of the close working relationship of these two functions, particularly in relation to:

- external and internal debt restructuring
- foreign exchange management
- short- and long-term liquidity
- acquisitions and disposals

Updates were also provided on global regulatory changes and compliance matters. The ARC considered the matters presented and were satisfied with the approach being taken.

Additional details on the Group Tax Strategy can be found on essentraplc.com/responsibility.

Cyber security response

During the year the ARC received regular reports from the Chief Information Officer on the improvements and controls being implemented within the Group to help mitigate against the increasing risk posed to businesses by cyber attack. Cyber security has been greatly increased across the Group and in addition to upgrades of web and email protection plus anti-virus software, ongoing cyber security awareness training campaigns are being delivered to employees.

Compliance

The Company has established a clear commitment to ensuring that its business activities are conducted in accordance with all applicable laws and regulations. The Group Compliance Strategy is on a risk based policy and training protocols, supported by appropriate technology platforms and expert guidance and advice. The ARC continued its regular review of the Group's compliance activities and received regular presentations from the Company Secretary and General Counsel. At each meeting reports are presented detailing any claims made under the Company's independent Right to Speak process.

During the year a number of activities were undertaken to strengthen the Group's compliance programme which included:

- appointment of divisional compliance officers in all divisions
- divisional compliance officers to be independent to divisions
- formation of a Group Compliance Committee with a first meeting January 2020
- roll-out of a Group-wide compliance transformation programme
- initiatives to improve compliance culture and mindset

The compliance transformation programme aims to create a sustainable business model underpinned by clear controls and processes. The scope of the compliance transformation programme includes: (i) Regulatory and Sanctions Compliance; (ii) Third-Party due diligence; and (iii) Anti Money Laundering and Anti Bribery & Corruption. The programme has been introduced during 2019 to the Filters division and is expected to be rolled out to the other two divisions during 2020. The ARC will receive comprehensive reports about its progress at each meeting and additionally will seek assurance that the effectiveness of this programme is periodically assessed, by either internal or external resources.

Compliance transformation programme framework

Why we need to improve

- Creating competitive advantage
- Ensure consistent compliance with key policies and procedures

What we need to improve

- Reinforce positive compliance culture
- Continuously monitor changing risks

How we are improving

- Strong tone from the top to drive business safety
- Promote training and awareness of policy framework and controls
- Strengthening compliance controls and processes with clearly defined roles and responsibilities

Where we want to be

- Sustainable behavioural change
- Forward-looking approach to the ever changing regulatory governance needs
- Rigorous adherence of compliance policies and procedures

Internal control and internal audit

Essentra has a well-established internal audit function, which sits within the Group Assurance function to monitor and review material controls such as financial, operational and compliance controls. The ARC is required to assist the Board in fulfilling its responsibilities for ensuring the capability of the Group Assurance function and the adequacy of its resourcing and plans and are committed to a prioritised and structured programme to drive improvements in the Company's internal control systems.

Group Assurance assists the Company in accomplishing its objectives by bringing a systematic and disciplined approach to the evaluation, assurance and improvement in the effectiveness of the organisation's risk management, internal control and governance processes. In order to achieve this the ARC reviews:

- the internal audit plan and its achievement of the approved internal audit plan's activities
- the adequacy of the budget and resources of the Group Assurance function
- the operational initiatives for the continuous improvement of the function's effectiveness
- follow-up of internal audit activities which focus on unsatisfactory audit results
- the adequacy of management's response and the necessary actions taken to address and rectify any weaknesses identified in a timely manner

Internal audit results are analysed into root causes to identify areas, both generic and specific, that require attention. During the year, Internal Audit focused on Principal Risks in relation to Regulatory Governance and Internal Processes and Controls.

The ARC's discussions and considerations on risk to ensure an oversight of the risk management process continued throughout the year working closely with the Group Risk Committee and the Group Assurance function. This enabled the ARC to assess the quality of its existing practices and to identify Principal Risks, Key Risks and Emerging Risks. Further details on the risk management initiatives reviewed by the ARC can be found from page 34 to 48 in the Risk management report.

“Essentra has a well-established internal audit function which sits within the Group Assurance function”



External Auditor

During the year the ARC:

- reviewed and agreed the scope and strategic nature of the audit work to be undertaken
- widened the scope of the external audit in the USA
- agreed the terms of engagement and fees to be paid to the External Auditor
- reviewed the qualifications, resources and independence of the External Auditor and assessed its performance with special regard to the overall quality of the external audit
- reviewed the level of non-audit work being carried out by the External Auditor and confirmed the level of services ensured their continued independence

Assessment of the External Auditor

The ARC is provided with reports, reviews, information and advice throughout the year, as set out in the terms of the External Auditor's engagement and performance is formally assessed by the ARC in conjunction with the GMC. The ARC remains satisfied that the External Auditor is effective and provided appropriate independent challenge to the Company's management.

Independence of the External Auditor

The ARC believes that it is important to maintain the objectivity and independence of the External Auditor by minimising their involvement in projects of a non-audit nature. It is, however, also acknowledged that, due to their detailed understanding of the Company's business, it may sometimes be necessary to involve the External Auditor in non-audit related work, principally comprising further assurance services relating to due diligence and other duties carried out in respect of acquisitions, disposals, tax services (outside the EU) and other services. There is a policy in place which reflects best practice in relation to the engagement of the External Auditor to supply non-audit services with defined parameters and approval requirements.

The ARC Chairman, without the approval of the Committee, is authorised by the Company to engage the External Auditor on non-audit related work where the fees per project are not considered to be significant, provided that the annual aggregate of non-audit related fees shall not exceed 70% of the average of the fees paid in the last three consecutive financial years. The External Auditor may not be engaged to provide a non-audit service when the objectives of the service would be regarded, by a reasonable and informed third party, as conflicting with the objectives of the external audit. At each ARC meeting non-audit fee work is reviewed.

Details of the fees paid to PwC up until 31 December 2019, can be found in note 2 of the Notes to the Financial Statements, which includes fees paid to the External Auditor and its network firms for audit services, audit-related services and non-audit services.

PwC provided a letter confirming that it believes it remains independent within the meaning of the regulations on this matter and in accordance with their professional standards. The ARC formally reviewed the letter which describes arrangements in place to identify, report, and manage any conflicts of interests and policies and procedures including the extent of non-audit services, to maintain independence and the subsequent monitoring. From January 2019 PwC entered into a voluntary commitment to stop providing non-audit services by the end of 2019, audit related services will continue.

Effectiveness of the External Auditor

The ARC assessed the effectiveness of the External Auditor by reviewing:

- the External Auditor's fulfilment of the agreed audit plan and the quality of their work including the depth and appropriate challenges
- feedback highlighting the major issues that arose during the course of the audit
- feedback from the businesses and management evaluating the performance of each assigned audit team

Engagement of the External Auditor

The External Auditor is engaged to express an audit opinion on the truth and fairness of the Financial Statements. The external audit includes the review and testing of the system of internal financial controls and the data contained in the Financial Statements to the extent necessary. In order to protect independence and objectivity and provide fresh challenge to the business, the External Auditor periodically changes the audit partners at a Group, divisional and country level, in accordance with professional and regulatory standards. Such changes are carefully planned to ensure that the Group benefits from staff continuity without incurring undue risk of inefficiency. The External Auditor is required to rotate the lead partner every five years, and such changes will be carefully planned to ensure business continuity without undue risk or inefficiency. The current audit partner is Nicholas Stevenson who has been in this role since PwC was appointed in April 2017.

The ARC has been kept up to date with the development of new EU-wide regulations concerning audit tenure and the longevity of audit firm relationships with companies they audit. In 2016 a comprehensive competitive tender was undertaken for the external audit and subsequently the appointment of PwC to replace the Company's previous auditors was approved by the shareholders at the 2017 AGM. As detailed above the ARC is satisfied with the External Auditor's effectiveness and independence and accordingly has recommended to the Board that PwC be reappointed as the Company's External Auditor at the 2020 AGM. The Company will continue to consider on a regular basis any potential benefits from tendering the audit process having regard, in particular, to the importance of audit quality or the continued independence of the External Auditor. There are no contractual obligations in place that restrict the Company's choice of statutory auditor.

The Company has complied throughout the year with the Statutory Order 2014 issued by the Competition and Markets Authority.

Remuneration

Chairman of the Remuneration Committee's Letter



Lorraine Trainer
Non-Executive Director

Dear Shareholder

As Chairman of the Remuneration Committee I am pleased to present our Remuneration Report for the financial year ended 31 December 2019.

Linking Reward to Performance

2019 has been a successful year of portfolio rationalisation as Essentra has divested four businesses in addition to making three strategic acquisitions. We are now operating more efficiently as three global divisions. In light of this extensive M&A activity, the Remuneration Committee has given careful consideration as to how targets set for our incentive plans should be adjusted. The basic principles underpinning this process have been to ensure that the adjusted targets are being measured on a consistent basis both with the original targets and aligned with the year-end results as outlined in this year's Annual Report, and that management remain incentivised to enhance shareholder value. Details of the adjusted targets are set out on page 104.

The Committee approved bonus payments of 30% of maximum for Paul Forman and 28% of maximum for Lily Liu. Paul Forman's 2017 LTIP award vested at 13.53% of maximum. Further details can be found on pages 103 to 104. The Remuneration Committee considered carefully whether any adjustments should be applied to these formulaic outcomes, and agreed the outcome is appropriate.

Linking Reward to Strategy

As outlined in the Chief Executive's Review on pages 4 to 7, our overarching corporate strategy remains unchanged in 2020 and accordingly no change is proposed to our Directors' Remuneration Policy (the "Policy").

In 2020 the Committee will make two changes to the annual bonus. The first is to replace Net Working Capital with Adjusted Operating Cash Flow. This change is being made because cash generation is consistent with Essentra's transition from stability to the growth stage of our strategy. The second change is to reweight the balance between financial and strategic performance measures from 80%:20% to 70%:30%. The strategic performance measures are subject to specific targets. They are designed to focus the executive team on the delivery of key strategic objectives for the Group in 2020. Payment of any bonus is dependent on achieving 85% of Plan Adjusted Operating Profit.

It is an important principle of Essentra's pay philosophy that the structure of pay should complement and support business strategy. The table below summarises the KPIs that are being used in executive incentive plans in 2020.

KPI	Annual bonus		LTIP	
	2019	2020	2019	2020
Adjusted Operating Profit	50%	40%		
Net Working Capital	30%			
Adjusted Operating Cash Flow		30%		
Adjusted EPS			33%	33%
Total Shareholder Return			33%	33%
Return on Invested Capital			33%	33%
Personal and Strategic Objectives	20%	30%		

Considering the 2018 UK Corporate Governance Code (the "2018 Code")

During the past year the Remuneration Committee has continued to discuss the 2018 Code and its implications for Essentra. As I noted last year, our remuneration arrangements are already compliant with many of the 2018 Code provisions and work is well under way to incorporate further agreed changes as we prepare to renew our policy at the 2021 AGM.

Ahead of the policy renewal, the current Executive Directors have agreed to reduce their annual pension allowances with effect from 1 April 2020 (based on proposed 2020 salaries) by £11,900 for Paul Forman and £2,100 for Lily Liu.

Further reductions in pension provision for the current Executive Directors to the level of the wider UK workforce will be completed by the end of 2022. Details of the precise timetable for this process will be finalised as part of the 2021 policy.

Although our current policy states that any future Executive Director appointment will have a maximum pension provision of 20% of salary, the Committee has determined that pension provision for any future Executive Director will have a pension in line with the wider UK workforce. This will formally be incorporated in the next policy renewal to be approved at the 2021 AGM.

“In addition to pensions alignment, the Committee has also discussed a number of broader issues relating to workforce and executive pay. These include feedback received by our Board Employee Champion on employee share plans, merit increases, gender pay and the ratio of Chief Executive’s pay to employees and general recognition”



The Remuneration Committee is satisfied that the Policy has operated as intended since its introduction in 2018. However, we intend to fully assess the Policy’s continued appropriateness ahead of its renewal in 2021 including an assessment of its alignment with strategic priorities and market practice.

Remuneration for Executive Directors

The Executive Director salaries were reviewed, and the Chief Executive’s salary will increase for 2020 by 2.4%.

The CFO joined Essentra in 2018 on a salary below the market rate on the understanding, as highlighted in last year’s Annual Report, that she may receive an above inflation increase (or increases) as she gained experience in the role. After a full year in the post, the Remuneration Committee, with input from the Chief Executive and other Board members, have assessed her performance. The consensus view was that her performance had been strong and that it was therefore appropriate to increase her salary to a level broadly in-line with the market median using a range of market data. Accordingly, her salary will increase by 9.9% in April 2020. Future salary increases are currently anticipated to be in line with the wider UK workforce.

Remuneration in our wider workforce

The Remuneration Committee continues to consider remuneration in our wider workforce when making decisions that affect our senior executives.

Key principles

Key principles that have underpinned our approach to remuneration this year are as follows:

- Linking reward to strategy. The delivery of Essentra’s strategic priorities is underpinned by a focus on Key Performance Indicators (“KPIs”) which measure the Company’s progress in the delivery of value.
- Ensuring incentives are aligned with shareholders’ value. The Committee ensured that management were incentivised to enhance shareholder value and that management and shareholder interests remain aligned.
- Linking reward to performance. The Remuneration Committee sets performance targets that are stretching whilst also providing sufficient incentive for management.
- Ensuring remuneration continues to attract and develop key talent. The Remuneration Committee works with the Chief Executive to ensure he has the right reward tools to be able to attract talent into the business.
- Ensuring consistency of reward principles. The Remuneration Committee has taken an active role in ensuring that reward principles are applied consistently throughout the Essentra organisation.

In addition to pensions alignment, the Committee has also discussed a number of broader issues relating to workforce and executive pay. These include feedback received by our Board Employee Champion on employee share plans, merit increases, gender pay and the ratio of Chief Executive pay to employees and general recognition. These topics are reflected in the management approach to reward across the workforce.

Conclusion

I hope you will find this report to be clear and helpful in understanding our remuneration practices and that you will be in support of the advisory resolution on the Annual Remuneration Report at the 2020 AGM. As ever, the Remuneration Committee welcomes any questions or comments from shareholders.

This year, I have also worked closely with Nicki Demby, who joined the Board in June 2019. I will be stepping down from the Essentra Board at the 2020 AGM and I am delighted to confirm that Nicki will take over as the Chairman of the Remuneration Committee. Nicki has a wealth of experience in this area and is a welcomed addition to the Board.

I am grateful to the Chairman and my colleagues for their professional guidance and support in making the right remunerations decisions in the ever changing external market. I wish Essentra, its employees and shareholders all the best for the future.

Lorraine Trainer
Non-Executive Director
 Remuneration Committee Chairman
 28 February 2020

Remuneration at a glance

2020 remuneration structure for Executive Directors, showing years of payment

	2020	2021	2022	2023	2024	2025	Commentary	Changes for 2020
Base salary	→						Paul Forman £658,560	Salary increase of 2.4% effective 1 April 2020
							Lily Liu £362,000	Salary increase of 9.9% effective 1 April 2020
Pension allowance	→							Paul Forman's to reduce by £11,900, effective 1 April 2020.
								Lily Liu's to reduce by £2,100, effective 1 April 2020.
Benefits	→						Car cash allowance, plus private medical insurance and life assurance cover	No change
2020 annual bonus 50% cash	PERFORMANCE PERIOD →						<ul style="list-style-type: none"> Maximum opportunity: <ul style="list-style-type: none"> Paul Forman 150% of salary; Lily Liu 125% of salary Performance conditions: <ul style="list-style-type: none"> Adjusted Operating Profit: 40% Adjusted Operating Cash Flow: 30% Personal and Strategic Objectives: 30% 	No change
			(DEFERRED FOR THREE YEARS)					
2020 LTIP Three year performance period (2020-22) and two year deferral (2023-24)	PERFORMANCE PERIOD →						<ul style="list-style-type: none"> Conditional award of shares: <ul style="list-style-type: none"> Paul Forman 200% of salary Lily Liu 150% of salary Performance conditions: <ul style="list-style-type: none"> EPS Growth: 33.33% Relative TSR: 33.33% Return on Invested Capital: 33.33% 	No change
				(DEFERRED FOR TWO YEARS)				



The full policy can be found online at essentraplc.com/investors/corporate-governance

Incentive outcomes for 2019

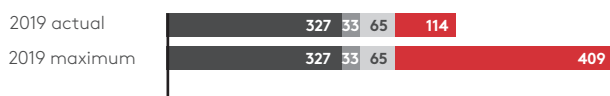
	Performance period	Performance measures	Payout	
Annual bonus	2019	Adjusted Operating Profit, Net Working Capital, Personal Objectives	Paul Forman 30.2% of maximum Lily Liu 28% of maximum	Details on page 103
LTIP	2017-2019 ¹	EPS, TSR, Adjusted Operating Cash Flow	Paul Forman 13.53% of maximum	Details on page 103

¹ Lily Liu did not hold LTIP awards for this performance cycle as she joined the Board in November 2018.

Paul Forman (£000)



Lily Liu (£000)



- Salary
- Benefits
- Pension
- Bonus
- LTIP

“The Remuneration Committee believes that the overall annual bonus outcomes for the Executive Directors are a fair reflection of what has been achieved in 2019”



Remuneration Report

Policy Summary

Our Directors' Remuneration Policy Report ("the Policy Report") sets out the policies under which the Executive and Non-Executive Directors are remunerated.

The current Policy Report was approved by shareholders at the AGM on 19 April 2018. A summary of the Policy Report is set out below and the full version can be found on our website at essentra plc.com/investors/corporate-governance/remuneration-committee.

Summary of 2018 Policy Report

The Remuneration Committee structures Executive Director remuneration in two distinct parts: (i) fixed remuneration of basic salary, pension and benefits; and (ii) variable performance-related remuneration in the form of cash bonuses, deferred share bonuses and long-term incentive arrangements.

Remuneration for Executive Directors is structured so that the variable performance-related pay element forms a significant portion of each package. The majority of total remuneration at the maximum performance level will derive from the Company's long-term incentive arrangements. All incentives are designed to be aligned to the delivery of Essentra's strategic priorities.

Basic salary

Purpose and link to strategy	To reflect the particular skills and experience of an individual and to provide a competitive basic salary.		
Operation	Generally reviewed annually with any increase normally taking effect from 1 April although the Committee may award increases at other times of the year if it considers it appropriate. The review takes into consideration a number of factors, including (but not limited to):	<ul style="list-style-type: none"> • The individual Director's role, experience and performance • Business performance • Pay and conditions elsewhere in the Group • Market data for comparable roles in appropriate pay comparators 	
Opportunity	No absolute maximum has been set for Executive Director base salaries. Any annual increase in salaries is at the discretion of the Committee taking into account the factors stated in this table and the following principles:	<ul style="list-style-type: none"> • Salaries would typically be increased at a rate consistent with the average salary increase (in percentage of salary terms) for permanent UK employees • Larger increases may be considered appropriate in certain circumstances (including, but not limited to, a change in an individual's responsibilities or in the scale of their role or in the size and complexity of the Group) 	<ul style="list-style-type: none"> • Larger increases may also be considered appropriate if a Director has been initially appointed to the Board at a lower than typical salary
Performance measures	Not applicable.		

Annual bonus			
Purpose and link to strategy	To ensure the delivery of Company performance-related objectives, and to aid retention and to align Directors' interests with those of the Company's shareholders.		
Operation	<p>One half of the total annual bonus is paid in cash shortly after the announcement of the annual results.</p> <p>The other half is deferred into shares in the Deferred Annual Share Bonus ("DASB") which will normally vest after three years subject to continued service.</p> <p>Performance is assessed against measures and targets which are established on an annual basis by the Remuneration Committee. As performance increases so does the percentage payable up to the maximum.</p>	<p>The bonus is subject to malus and clawback provisions for a period of three years following the determination of the bonus. Circumstances in which these provisions could be applied by the Remuneration Committee are material misstatement in the Company's Financial Statements, error in assessing the performance conditions, serious misconduct by an individual or serious reputational damage to the Company or a relevant business unit.</p>	<p>An additional payment (in the form of cash or shares) may be made in respect of shares which vest under deferred awards to reflect the value of dividends which would have been paid on those shares during the vesting period (this payment may assume that dividends had been reinvested in Company shares on a cumulative basis).</p>
Opportunity	Chief Executive – 150% of basic salary.	Other Executive Directors – 125% of basic salary.	
Performance measures	<p>The bonus will be based on performance assessed over one year using appropriate financial, strategic and individual performance measures.</p> <p>The majority of the bonus will normally be determined by measure(s) of the Company's financial performance.</p>	<p>The remainder of the bonus will be based on financial, strategic or operational measures appropriate to the individual Director.</p> <p>The selected measures for the next financial year are set out in the Annual Report on Remuneration on page 110.</p>	No more than 20% of each financial measure will vest at threshold performance.

“Remuneration for Executive Directors is structured so that the majority of total remuneration at the maximum performance level will derive from the Company’s long-term incentive arrangements”



Remuneration Report Policy Summary continued

Long-Term Incentive Plan ("LTIP")

Purpose and link to strategy	To drive the long-term delivery of the Company's strategic objectives, aid retention and to align Directors' interests with those of the Company's shareholders.		
Operation	<p>An annual award of performance share awards usually with a three-year performance and additional two-year holding period.</p> <p>Awards are subject to malus and clawback provisions for a period of three years following the vesting of the awards. Circumstances in which these provisions could be applied by the Remuneration Committee are material misstatement</p>	<p>in the Company's Financial Statements, error in assessing the performance conditions, serious misconduct by an individual or serious reputational damage to the Company or a relevant business unit.</p> <p>An additional payment (in the form of cash or shares) may be made in respect of shares which vest under LTIP awards to reflect the value of dividends which would</p>	<p>have been paid on those shares during the period up to the release of the shares (this payment may assume that dividends had been reinvested in Company shares on a cumulative basis).</p>
Opportunity	An award to any Executive Director would be limited to a maximum of 300% of salary.		
Performance measures	<p>Vesting will be subject to performance conditions as determined by the Remuneration Committee on an annual basis.</p> <p>The performance conditions will usually be some combination of relative TSR, adjusted EPS, adjusted cumulative operating cash flow and capital return measure, although the Remuneration Committee will retain</p>	<p>discretion to include alternative performance measures which are aligned to the corporate strategy.</p> <p>The Remuneration Committee may adjust the weightings of the performance conditions for each award although usually each condition would have a weighting in the range of 20% – 40% of the award.</p>	<p>Performance will usually be measured over a three-year period.</p> <p>Up to 25% of each element vests at threshold performance, usually rising on a straight-line basis for performance up to the maximum level for full payment. Below threshold performance, that element of the award will not vest.</p>

All Employee Plans

Purpose and link to strategy	To create alignment of employees' interests with those of shareholders and an awareness of the Company's share price performance.		
Operation	Under the UK Sharesave, employees (including Executive Directors) are invited to enter a savings contract of three years or five years, whereby the proceeds can be used towards	the exercise of an option granted at the time they participate. The option price can be up to a 20% discount on the share price at the time invitations to participate are issued.	An equivalent USA Plan is operated in a similar manner to the UK plan.
Opportunity	For the UK plan, shares worth up to the value of the savings an Executive Director agrees to make over the saving period at the previously	agreed option price. The savings amount is subject to the HMRC limit, currently £500 per month.	The USA Plan is limited to the monthly dollar equivalent of the UK Sharesave plan and an option price of up to a 15% discount.
Performance measures	No performance conditions apply to All Employee Plans.		

Pension

Purpose and link to strategy	To provide cost-effective long-term benefits comparable with similar roles in similar companies.	
Operation	A contribution to a defined contribution plan or paid as a cash supplement.	
Opportunity¹	Any future Executive Director appointment will have a maximum pension provision of 20% of salary.	The current Executive Directors have pension provision of 25% of salary (Chief Executive) and 20% of salary (Chief Financial Officer). ²
Performance measures	Not applicable.	

- As stated in the Remuneration Committee Chairman's letter, subsequent to the approval of this Policy Report, the Remuneration Committee determined that pension provision for any future Executive Director appointment would be aligned with the level of provision available to the workforce. This will be formally incorporated in the next Policy Report to be approved at the 2021 AGM.
- As stated in the Remuneration Committee Chairman's Letter, the annual pension allowances for the current Executive Directors will reduce with effect from 1 April 2020. Further reductions in pension provision to the level of the UK wider workforce will be completed by end of 2022.

Other benefits

Purpose and link to strategy	To provide cost-effective benefits comparable with similar roles in similar companies.	
Operation	Other benefits include medical expenses, life assurance, and a company car or cash allowance.	The Remuneration Committee may vary these benefits from time to time to suit business needs, but they will be provided on broadly similar terms to those offered to other Group employees.
Opportunity	There is no overall maximum as the level of benefits depends on the annual cost of providing individual items in the relevant	local market and the individual's specific role.
Performance measures	Not applicable.	

Remuneration Report Policy Summary continued

Shareholding requirement

Purpose and link to strategy	To align the interests of Executive Directors and shareholders, encourage a focus on long-term performance and risk management.		
Operation	These shareholding guidelines are to be built up over six years from the date of appointment.	The Remuneration Committee will review progress towards the guidelines on an annual basis, and has the discretion to	adjust the guidelines in what it feels are appropriate circumstances.
Opportunity	The guideline minimum level for Executive Directors is 300% ¹ of salary for the Chief Executive and 200% of salary for the Chief Financial Officer.	Non-Executive Directors are encouraged to hold a minimum of 7,500 shares.	
Performance measures	Not applicable.		

¹ The Policy Report contained in the Essentra Annual Report 2017 states a shareholding requirement for the Chief Executive of 200% of salary. As disclosed on our website in advance of the 2018 AGM, this requirement was increased to 300% of salary.

Non-Executive Directors

Purpose and link to strategy	To attract high-calibre Non-Executive Directors with the relevant experience and skills.		
Operation	A basic fee is payable to all Non-Executive Directors with supplementary fees for those with additional responsibilities, such as acting as Senior Independent Director or chairing a Board Committee. Fees are reviewed periodically with reference to market levels in companies of a comparable size and complexity, and taking account of the responsibilities and time commitment of each role.	No Non-Executive Director participates in the Group's incentive arrangements or pension plan or receives any other benefits other than where travel to the Company's registered office is recognised as a taxable benefit in which case a Non-Executive Director may receive the grossed-up costs of travel as a benefit.	Non-Executive Directors are entitled to reimbursement of reasonable expenses.
Opportunity	Fees for the current year are stated in the Annual Report on Remuneration. Fee increases may differ from those of the wider workforce in any particular year as they reflect changes to responsibilities and time commitments and the periodic nature of any increases.	A resolution to amend the limit in the Company's Articles of Association for aggregate Non-Executive Directors' annual fees to £1,000,000 was approved at the 2018 AGM.	
Performance measures	Not applicable.		

Annual Report on Remuneration

Lorraine Trainer
Non-Executive Director
Remuneration Committee Chairman

Membership and attendance

	Meetings during the year
Lorraine Trainer , Non-Executive Director	5 (5)
Tommy Breen , Non-Executive Director	5 (5)
Mary Reilly , Non-Executive Director	5 (5)
Ralf K. Wunderlich , Non-Executive Director	5 (5)
Nicki Demby ¹ , Non-Executive Director	3 (3)

1 Nicki Demby joined the Remuneration Committee in June 2019

Other attendees
During the year, the Chairman, Chief Executive, Chief Financial Officer, Group Human Resources Director and Director of Reward were invited by the Remuneration Committee to provide views and advice. None were present during discussions regarding their own remuneration.
The Company Secretary and General Counsel acts as Secretary to the Remuneration Committee.

In addition, services and advice were received from the following independent and expert consultants:

- Deloitte LLP (“Deloitte”), who are a member of the Remuneration Consultants Group and have signed up to its Code of Conduct, provided advice to the Remuneration Committee on the 2018 Code, the Company’s incentive plans, and on the remuneration of the Executive Directors and other senior executives within the Company. Deloitte were appointed by the Remuneration Committee who review their performance annually, and are happy with the continued advice and level of service provided. The Remuneration Committee continues to be satisfied with the advice provided and level of independence. Fees charged for the year under review are £86,960. The fees are charged on a time and expenses basis. Deloitte also provided other remuneration and tax services to the Company during 2019.
- New Bridge Street, a part of Aon Hewitt, who are a member of the Remuneration Consultants Group and have signed up to its Code of Conduct, provided advice on the Company’s long-term share incentive plans including the calculation of the TSR LTIP performance measure. Fees charged for the year under review are £20,017. The fees are charged on a time and expenses basis. The Remuneration Committee continues to be satisfied with the advice provided and level of independence. Aon Hewitt also provided actuarial advice to the Company for its USA pension scheme and are appointed as the Group’s insurance broker.

Key activities

Remuneration Committee 2019 key activities

Meetings during 2019

- approved performance measures and targets for 2019 annual bonus of Executive Directors and other Group Management Committee (GMC) members
- approved 2018 annual bonus outturn for Executive Directors and other senior management
- approved 2019 salary increases for Executive Directors and other senior management
- confirmed lapsing of 2016 LTIP award
- approved award levels, performance measures and targets for 2019 LTIP award
- reviewed the 2018 Directors’ Remuneration Report for inclusion in the 2019 Annual Report
- approved the grant for the US Stock Purchase Plan
- reviewed the appropriateness and independence of the remuneration advisers
- reviewed remuneration practices against the corporate strategy
- considered Executive Directors’ remuneration arrangements in the context of the wider UK workforce
- discussed proposed performance measures for the 2020 annual bonus for Executive Directors and other senior management
- reviewed anticipated 2019 annual bonus outturn and anticipated the vesting levels for the outstanding LTIP awards.
- reviewed the performance measures and targets for the 2019 annual bonus and outstanding LTIP awards in light of 2019’s exceptionally high level of M&A activity
- approved the introduction of Adjusted Operating Cash Flow as a performance measure for the 2020 annual bonus to replace Net Working Capital
- approved the revised weightings of performance measures in the 2020 annual bonus

The Remuneration Committee continuously monitors and reviews the Company’s relationships with its independent advisers. During the year the Committee conducted a review of its remuneration advisers. Following this review the Committee concluded that Deloitte remained both independent and appropriate and were therefore reappointed as the main advisor.

Annual Report on Remuneration continued

This section of the Remuneration Report will be subject to an advisory vote at the 2020 AGM.

Total Single Figure of Remuneration Table for 2019 (audited)

The remuneration received by Executive Directors for the year ended 31 December 2019 (and the 31 December 2018 comparative) was as follows:

	Year	Salary and fees for the year or from the date of appointment £000	Taxable benefits ¹ £000	Long-Term Incentive Plan ² £000	Bonus (cash and deferred shares) £000	Cash in lieu of pension ³ £000	Other £000	Total £000
Executive Directors								
Paul Forman ⁹	2019	639	37	244 ⁸	288	160	–	1,368
	2018	625	37	–	602	156	–	1,420
Lily Liu	2019	327	33	–	114	65	5 ¹⁰	544
	2018 ⁶	41	22 ⁴	–	–	8	–	71
Non-Executive Directors								
Paul Lester	2019	250	–	–	–	–	–	250
	2018	250	–	–	–	–	–	250
Tommy Breen	2019	61	–	–	–	–	–	61
	2018	57	–	–	–	–	–	57
Lorraine Trainer	2019	64	–	–	–	–	–	64
	2018	63	–	–	–	–	–	63
Mary Reilly	2019	77	–	–	–	–	–	77
	2018	52	–	–	–	–	–	52
Ralf K. Wunderlich	2019	57	–	–	–	–	–	57
	2018	52	–	–	–	–	–	52
Nicki Demby ⁵	2019	30	–	–	–	–	–	30
Totals	2019	1,505	70	244	402	225	5	2,451
Totals	2018	1,140	59	–	602	164	–	1,965

1 Taxable benefits comprise a fully expensed car or cash allowance plus private medical insurance and life insurance cover.

2 The share price at grant date for the 2017 LTIP was 529p. Accordingly none of the LTIP values above are attributed to share price growth since the grant date. The LTIP value for Paul Forman is based on average of share price from 1st October – 31 December 2019.

3 Paul Forman received a pension allowance of 25% of basic salary while Lily Liu received a pension allowance of 20% of basic salary. Neither Paul Forman nor Lily Liu are entitled to any benefit under the Essentra Defined Benefit Pension Scheme.

4 Benefit repayment to her former employer, as disclosed in the 2018 Annual Report.

5 Nicki Demby was appointed in June 2019.

6 Lily Liu's 2018 remuneration relates to the period from her appointment on 15 November 2018 to 31 December 2018.

7 Total remuneration paid to Directors in 2019 was £2,451,000 (2018 £1,965,000).

8 This LTIP figure includes the dividends paid between the date of grant and 31 December 2019.

9 Paul Forman is the highest paid Executive Director, this table reflects his aggregate remuneration for 2019.

10 SAYE grant on 3 April 2019. This figure is the difference between the exercise price and the share price at the date of grant.

CEO pay ratio (unaudited)

This is the first year that we are publishing our CEO pay ratio. We have elected to follow Option A of the regulations, and to calculate the ratios using the full-time equivalent pay and benefits for all UK employees in respect of 2019. We have chosen Option A as this provides a more accurate figure of the Chief Executive's pay in relation to the wider UK population; salary for the UK workforce is at 31st December 2019.

	Method	25th Percentile	50th Percentile	75th Percentile
Salary	A	19,475	25,377	37,021
Total pay	A	20,499	27,101	38,131
FY 2019	A	67:1	50:1	36:1

The salary for the employees at the above percentiles are typical salaries for performing operational roles in our factories. The roles at these quartiles are a machine operator, maintenance engineer and quality control inspector. The majority of remuneration for these roles is fixed rather than performance linked. More details of the types of roles can be found on page 25.

The ratios are calculated based on the total remuneration payable to the Chief Executive in respect of 2019, as set out in the single figure table above.

We operate consistent reward policies across the relevant elements of the UK workforce. For example, the incentive targets for the Chief Executive have been cascaded down through the management incentives, and the Chief Executive's salary increase is in line with the average of the budgeted range for the UK workforce as a whole. Notwithstanding this, the CEO pay ratio will fluctuate year-on-year, reflecting the higher proportion of variable remuneration that the Chief Executive may receive relative to other employees, the value

of which is dependant on Essentra's performance and share price movements. As a result, the Remuneration Committee does not believe it is appropriate to target a specific CEO pay ratio. However the Committee will annually assess whether the year-on-year movement in the ratio is consistent with Company performance and employee reward decisions.

Annual bonus (audited)

Under the terms of the annual bonus arrangements for 2019, Paul Forman was potentially entitled to a maximum bonus of up to 150% of basic salary and Lily Liu was potentially entitled to a maximum bonus of up to 125% of basic salary. Bonus payments are normally made one-half in cash and one-half in shares deferred for three years. There are no further performance conditions related to this deferral.

For the year ended 31 December 2019, the performance measures for the Executive Directors were Adjusted Operating Profit (50%), Net Working Capital (30%) and Personal Objectives (20%). No bonuses are payable unless 85% of the budgeted Adjusted Operating Profit is achieved. 20% and 50% of the maximum pay-out would be paid for achieving base and target performance respectively.

2019 annual bonus outturn

Performance measure	Proportion of bonus determined by measure ²	Base performance	Target performance	Stretch performance	Actual performance £m	% of maximum bonus payable
Adjusted Operating Profit	50%	£83.9m	£93.2m	£97.9m	£84.6m	22.3%
Net Working Capital ¹	30%	13.6%	13.25%	12.9%	13.9%	0%

1 Net Working Capital as % of external sales.

2 No bonus payable on any measure unless the Company has achieved the 85% of the target Adjusted Operating Profit. This target was met in 2019.

At the start of the year, the Committee set a stretching range for Adjusted Operating Profit and Net Working Capital appropriate for the portfolio held at that time. 2019 has been a year of portfolio rationalisation as Essentra has divested four businesses in addition to making three strategic acquisitions. In light of this exceptionally high volume of M&A activity, the Committee adjusted the targets to ensure measurement is on a consistent basis with the reported figures in this financial year's Annual Report. The adjustments retained the level of stretch implicit in the original targets. The Committee considered this approach carefully to ensure that management was not disincentivised from actions which enhance shareholder value and that management and shareholder interests remain aligned. The above table shows the adjusted targets.

Personal Objectives set	Achievement	Actual score
Chief Executive – Paul Forman		
Employee Engagement – Improve rating in three key underperforming areas as identified in the 2018 survey results: IT reliability, career development and personal development, overall engagement of Grades 6 & 7	The engagement results showed improvement in all areas, with specific higher levels of improvement in the areas of focus following the 2018 employee survey.	5/5
Portfolio Optimisation	The Specialist Components division was dissolved following the exceptional delivery of four divestments and transfer of two businesses into other divisions within the Group. In addition, three further acquisitions were made in the wider portfolio.	5/5
Business Process Review (BPR) – Achieve year 1 Milestones	BPR continued to make progress and the project achieved all year one milestones. All four key workstreams have met objectives within budget for the year and tracked against the project plan.	4/5
Ensure delivery of projects with net savings from Procurement and Continuous Improvement initiatives	Total savings £19.4m.	5/5
Total actual score		19/20
Chief Financial Officer – Lily Liu		
Improve employee engagement for finance function	The engagement results showed improvement in all areas, with the finance function engagement score moving from 66 to 74 overall with improvements in all areas.	5/5
Portfolio Management/Optimisation	The Specialist Components division was dissolved following the exceptional delivery of four divestments and transfer of two businesses into other divisions within the Group. In addition, three further acquisitions were made in the wider portfolio.	5/5
Review and embed finance organisation supporting business strategy.	A new Finance Leadership team has been established with a mix of external and internal promotions. A well-developed finance transformation strategy is in place with clearly defined objectives linked to the business strategy.	4/5
Review and optimise the Group effective tax rate taking into consideration any portfolio management/optimisation	Completed a review of the Group tax rate with appropriate provisions booked. The tax provision position is prudent and will result in an effective tax rate for 2019 of 19.9%. However, the pace of movement was hindered by two changes to the tax leadership team.	3/5
Total actual score		17/20
Total of bonus		Paul Forman 28.50%
Total of bonus		Lily Liu 21.25%

Annual Report on Remuneration continued

In determining the outcome of the annual bonus for 2019 the Remuneration Committee gave careful consideration to exercising its discretion including a number of matters not addressed by the mechanics of the plan. We took into account the overall shareholder experience for the year within which robust performance was delivered. The share price increased by 28.4% from 1 January to 31 December 2019. The executive team delivered significant simplification and strengthening of our portfolio of businesses, completing four disposals and three acquisitions, resulting in exceptional net gains to our shareholders in the year. Balanced against these positives, during the year the Group fully cooperated with an investigation into some sanctioned market compliance failures in the Filters business. This has led to a refresh of the compliance programme, focusing on creating a strong compliance culture. The Remuneration Committee has taken a thoughtful and balanced view and in the round we have determined that the overall outcome of the Annual Bonus is appropriate.

LTIP awards (audited)**Performance conditions for LTIP awards made in 2017**

	Condition definition	Threshold	Maximum	Actual outturn	Vesting
Relative TSR (33.33% of the total award)	TSR measured against the constituents of the FTSE 250 (excluding investment trusts index over the three years from the date of grant)	If median rank is achieved, 25% of the TSR element vests	If upper quartile rank is achieved 100% of the TSR element vests	Below median	0%
EPS (33.33% of the total award)	Adjusted EPS	26.1p for 25% of the EPS element to vest	30.7p for 100% of the EPS element to vest	21.3p	0%
Operating Cash Flow (33.33% of the total award)	Cumulative Adjusted Operating Cash Flow 2017-2019	£220.4m for 25% of the Operating Cash Flow element to vest	£270.4m for 100% of the Operating Cash Flow element to vest	£230.8m	41%

During the period from January 2017 to December 2019, there were five divestments and five acquisitions in the Group. In light of this M&A activity, the Committee adjusted EPS and Operating Cash Flow targets to ensure that they are measured on a consistent basis with the reported figures in this year's Annual Report whilst still requiring the level of stretch implicit in the original targets. This approach ensures that management is not disincentivised from actions which enhance shareholder value and that management and shareholder interests remain aligned. The above table shows the adjusted targets together with the outcome against these targets.

At the conclusion of the performance period, the Remuneration Committee discussed whether any discretion should be applied to the formulaic outturn of the LTIP. Whilst the Company's share price has fallen during the performance period, the Committee considered that this has been adequately reflected in the zero vesting of the relative TSR element of the award. The Committee also considered the various issues outlined in the 2019 annual bonus determination above. In conclusion, the Committee was comfortable that the formulaic vesting outturn of 13.53% of maximum was fair and reasonable.

Equity incentives (audited)

Details of the awards granted and outstanding during the year to the Executive Directors under the LTIP and DASB are as follows:

	Date of grant	At 1 Jan 2019	Awarded in year	Exercised/transferred in year	Lapsed in year	At 31 Dec 2019	Share price at date of grant	Earliest vesting date	Expiry date
Paul Forman									
LTIP ¹	8 Sept 17	387,076	–	–	–	387,076	529.0p	8 Sept 20	7 Sept 23
LTIP ¹	6 Apr 18	292,877	–	–	–	292,877	426.8p	6 Apr 21	6 Apr 24
LTIP ¹	13 Aug 19	–	321,241	–	–	321,241	400.4p	15 Aug 22	13 Aug 25
DASB	29 Mar 18	52,059	–	–	–	52,059	432.2p	1 Mar 21	1 Mar 21
DASB	29 Mar 19 ²	–	74,342	–	–	74,342	413.0p	1 Mar 22	1 Mar 22
Lily Liu									
LTIP ¹	13 Aug 2019	–	205,594	–	–	205,594	400.4p	15 Aug 22	13 Aug 25

1 Subject to a two-year holding period post vesting.

2 Face value of DASB award to the Chief Executive is £307,000.

A total of 1,529,082 (2018: 1,445,715) share incentive awards under the LTIP and the DASB were granted during the year ended 31 December 2019 to Executive Directors and other senior executives on the GMC.

Performance shares awards granted during the year (audited)

The following performance shares awards were granted to Executive Directors on 13 August 2019.

Executive	Type of award	Number of awards granted	Share price used to determine award	Face value	Percentage which vests at threshold
Paul Forman	Performance share	321,241	400.4p	£1,286,249 (200% of salary)	25%
Lily Liu ¹	Performance share	205,594	400.4p	£823,198 (250% of salary)	25%

1 As outlined in the 2018 Annual Report, this award comprises a standard award over shares worth 150% of salary plus a one-off additional award over shares worth 100% of salary. This latter award was to compensate Lily for the value of share awards granted by her previous employer that lapsed when she joined Essentra. The award is linked to Essentra's long-term performance, and is of a lower value than the forfeited awards.

Face value is based on the mid-market closing share price on the day preceding the grant ie 12 August 2019. The performance period for these awards is three financial years to 31 December 2021 plus an additional two-year holding period following vesting.

Performance conditions for LTIP awards made in 2019 (audited)

	Condition definition	Threshold	Maximum
Relative TSR (33.33% of the total award)	TSR measured against the constituents of the FTSE 250 (excluding investment trusts index over the three years from date of grant)	If median rank is achieved, 25% of the TSR element vests	If upper quartile rank is achieved, 100% of the TSR element vests
EPS (33.33% of the total award)	Adjusted EPS	5% for 25% of the EPS element to vest	12% for 100% of the EPS element to vest
Return on Invested Capital (33% of the total award)		9.5% for 25% of the Return On Invested Capital to vest	14.5% for 100% of the Operating Cash Flow element to vest

Directors' Report

Annual Report on Remuneration continued

Save As You Earn scheme (audited)

The Company also operates a Save As You Earn share option scheme ("SAYE"). Details of the awards granted and outstanding under the SAYE are as follows:

	Date of grant	At 1 Jan 2019	Granted	Lapsed	At 31 Dec 2019	Exercise price	Share price at date of exercise	Earliest vesting date	Expiring date
Lily Liu									
Three-year SAYE	3 April 19	-	5,503	-	5,503	327.08p	-	1 May 22	31 Oct 22

The middle market price of an ordinary share in the Company on 31 December 2019 was 434.75p. The middle market price of an ordinary share in the Company during the year ranged from 341.15p to 434.75p.

Directors' shareholdings (audited)

The beneficial interests of the current Directors in office during the year, in the issued ordinary share capital of the Company were as follows:

There have been no changes in the Directors' interests since 31 December 2019 and the date of this Report

	Beneficially owned		LTIP		DASB	SAYE
	31 Dec 2018 ¹	31 Dec 2019	Vested	Unvested	Unvested	Unvested
Executive Directors						
Paul Forman	240,000	260,000	-	1,001,194	126,401	-
Lily Liu	-	-	-	205,594	-	5,503
Non-Executive Directors						
Paul Lester	7,500	7,500	-	-	-	-
Tommy Breen	10,000	10,000	-	-	-	-
Lorraine Trainer	8,644	9,092	-	-	-	-
Ralf K. Wunderlich	136,000	136,000	-	-	-	-
Mary Reilly	7,500	7,500	-	-	-	-
Nicki Demby	-	750	-	-	-	-

1 Or date of appointment.

Paul Forman and Lily Liu are required to build up a shareholding worth 300% and 200% of salary respectively from the date of appointment. Beneficially owned shares include the unvested DASB awards and shares held directly. Current holdings as a percentage of salary are 251% for Paul Forman and 0% for Lily Liu.

Salary used is the prevailing annual salary as at 31 December 2019.

The Executive Directors are regarded as being interested in 1,033,311 (2018: 1,073,932) ordinary shares in Essentra plc currently held by the Essentra Employee Benefit Trust ("EBT") as they are, together with other Essentra employees, potential beneficiaries of the EBT.

These shares are held in order to satisfy employee entitlements relating to the Company's share plans.

As at 31 December 2019, potential and actual share issuance through employee related share plans totalled 2.88%, which is well below UK institutional shareholder limits of 10% of the Company's issued share capital.

Performance graph (unaudited)

The graph below represents the comparative Total Shareholder Return ("TSR") performance of the Company versus the FTSE 250 (excluding investment trusts) index for the last ten years. This index has been selected as it is considered the most appropriate published general index in which the Company is a constituent.

This graph shows the value, by 31 December 2019, of £100 invested in Essentra on 31 December 2009, compared with the value of £100 invested in the FTSE 250 (excl. Investment Trusts) Index.



Chief Executive remuneration table (unaudited)

	Mark Harper		Colin Day					Paul Forman			
	2010	1 Jan – 14 Apr 11	Apr – 31 Dec 11	2012	2013	2014	2015	2016	2017	2018	2019
Total remuneration (£000)	2,932	1,715	1,046	1,570	3,824	5,661	2,281	876	1,267	1,420	1,368
Annual bonus (% maximum)	100	100	100	100	100	60	46.2	0	48	64.2	30.2
LTIIP vesting (% maximum)	100	100	n/a	n/a	100	100	50	0	0	0	13.53

Mark Harper retired on 14 April 2011 and Colin Day was appointed as a Director on 1 April 2011. Colin Day retired as Chief Executive on 31 December 2016 and Paul Forman was appointed as Chief Executive on 1 January 2017.

Percentage increase in the remuneration of the Chief Executive (unaudited)

	2019 £000	2018 £000	% change Chief Executive	% change UK Group Management Committee
Salary	639	625	2.2%	4.3%
Benefits	37	37	0%	0%
Bonus	288	602	-52%	-43%

The table above shows the percentage movement in the salary, benefits and annual bonus for the Chief Executive and members of the UK GMC between the current and previous financial year.

UK senior executives have been chosen as the most appropriate comparator group, as they represent those employees eligible to participate in the same incentive plans as the Chief Executive. Group-wide figures can be distorted by different reward practices in different geographies and movements in the number of employees.

Relative importance of spend on pay (unaudited)

	2019 £m	2018 £m	% change
Staff costs ¹	287.2	293.7	-2.2%
Distributions to shareholders	54.2	54.2	0%
Revenue – total ²	974.1	1,025.6	-5.0%
Adjusted Operating Profit – total	87.5	90.7	-3.5%

1 Staff costs are as per note 5 of the Financial Statements.

2 Revenue and Adjusted Operating Profit had a reduction YOY as a result of the significant portfolio rationalisation, these were chosen as these are KPIs for Essentra.

Payment to past Directors or for loss of office (audited)

There were no payments to past Directors or payments to Directors for loss of office in respect of 2019. As outlined in the 2018 Annual Report the former CFO's LTIP award will partially vest during 2020.

Implementation of Remuneration Policy for 2020 (unaudited)

When considering the implementation of the policy for 2020, the Committee was mindful of the 2018 Code and considers that the executive remuneration framework appropriately addresses the following factors:

Clarity	We provide open and transparent disclosures both internally and externally in relation to our executive remuneration arrangements.
Simplicity	Variable remuneration arrangements for our executives and our wider workforce are simple in nature with individuals eligible for a bonus and, at more senior levels, a single long-term incentive plan. These are well understood by both participants and shareholders. The introduction of Adjusted Operating Cash Flow into the annual bonus in 2020 will add a measure that is well understood internally into our incentive program.
Predictability	Our executive remuneration framework contains maximum opportunity levels for each component of remuneration with variable incentive outcomes varying depending on the level of performance achieved against specific measures.
Alignment to culture	The performance measures used for annual bonus and LTIP awards are KPIs (as outlined on page 16) that drive behaviours that are closely aligned to our strategy and Company values.
Proportionality and risk	The Committee believes that our variable pay structures provide a fair and proportionate link between company performance and reward. In particular, the use for Executive Directors of annual bonus deferral, LTIP holding periods and shareholding requirements provide a clear link to the ongoing performance of the Company and therefore long-term alignment with stakeholders. We are also satisfied that the variable pay structures do not encourage inappropriate risk-taking. Notwithstanding this, the Committee retains an overriding discretion that allows it to adjust formulaic outcomes from incentive plans so as to guard against disproportionate outturns. Malus and clawback provisions also apply to both the annual bonus and LTIP and can be triggered in circumstances outlined below.

Executive Director Contracts

The Executive Directors have open-ended contracts with their reappointment being confirmed annually at the AGM.

Salary

Basic salary for each Executive Director is determined by the Remuneration Committee, taking into account the role, responsibilities, performance, experience of the individual and market movement. Salaries are reviewed in April each year.

Paul Forman's salary will increase by 2.4% in April 2020, in line with the average of the budgeted range for UK employees in 2020.

Lily Liu joined Essentra in 2018 on a salary below the market rate on the understanding, as highlighted in last year's Annual Report, that she may receive an above inflationary increase (or increases) as she gained experience in her role. After a full year in post, the Remuneration Committee, with input from the Chief Executive and other Board members, have assessed Lily's performance. The consensus view was that Lily's performance had been strong and that it was therefore appropriate to increase her salary to a level broadly in-line with the market median using a range of market data. Accordingly, her salary will increase by 9.9% in April 2020. Future salary increases are currently anticipated to be in line with the wider UK workforce.

	Paul Forman £	Lily Liu £
Annual Salary effective from 1 April 2020	658,560	362,000
Annual salary effective from 1 April 2019	643,125	329,280

Benefits

Executive Directors are provided with the following benefits:

- car allowance
- private medical insurance with family level cover
- life assurance cover of four times basic salary

Pension

Paul Forman currently receives a pension allowance equal to 25% of annual salary to permit him to secure pension benefits.

Lily Liu currently receives a pension allowance equal to 20% of her basic salary to permit her to secure pension benefits.

The annual value of pension allowances will be reduced by £11,900 for Paul Forman and £2,100 for Lily Liu with effect from 1 April 2020 and will be aligned with the wider UK workforce by the end of 2022. Details of the precise timetable, process and approach will be finalised as part of the Remuneration Policy Review to be approved at the 2021 AGM.

Annual bonuses

Each year, the Remuneration Committee reviews the annual bonus, to ensure the performance measures and targets remain appropriate and aligned with the Company's short-term strategy, while remaining within the appropriate risk profile.

Under the terms of the annual bonus arrangements for 2020, Paul Forman is potentially entitled to a maximum bonus of up to 150% of basic salary and Lily Liu is potentially entitled to a maximum bonus of up to 125% of basic salary. Bonus payments are normally made one-half in cash and one-half in shares in the Company, the entitlement to such shares being deferred for three years, in accordance with the rules of the DASB.

The approach to the annual bonus for 2020 will be broadly consistent with the approach taken for 2019 other than, as outlined in the Chairman of the Remuneration Committee's Letter, the introduction of Adjusted Operating Cash Flow to replace Net Working Capital and a slight reweighting of performance measures.

Annual Report on Remuneration continued

Performance criteria 2020 bonus

In line with the Adjusted Operating Profit gate introduced for 2019, there will again be no bonus payable unless 85% of the Target Adjusted Operating Profit is achieved. For achieving threshold Adjusted Operating Profit and Adjusted Operating Cash Flow, 20% of the relevant portion of the bonus will be payable.

The Remuneration Committee believes that Adjusted Operating Profit and Adjusted Operating Cash Flow targets are commercially sensitive, and will not disclose the targets on a prospective basis. The targets and actual performance against them will be disclosed on a retrospective basis in the 2020 Remuneration Report.

In addition to the financial measures, the Remuneration Committee has also set targets for Paul Forman and Lily Liu, which are designed to deliver progress by the Company towards its strategic objectives. The Committee considered the weighting of the bonus in all three areas and given the strategic drivers in 2020, have rebalanced the bonus weightings to reflect the areas of focus for both Paul and Lily. This is reflected as follows:

	Weighting (%)
Adjusted Operating Profit	40%
Adjusted Operating Cash Flow	30%
Personal and Strategic Objectives	30%

The Remuneration Committee has the discretion, within a three-year period after the determination of the bonus, to withhold or recover annual cash bonuses or DASB awards through malus and clawback provisions in specified circumstances.

These circumstances take into account where the original bonus was overpaid, due to a material misstatement in the Company's Financial Statements or due to an error in assessing the applicable performance conditions or if there has been serious misconduct by an individual or if there has been serious reputational damage to the Company or a relevant business unit.

Essentra LTIP

An award granted under LTIP consists of a conditional right to receive shares in the Company, subject to satisfaction of performance conditions. A share award under LTIP will not normally be exercisable before the third anniversary of its award and an additional two-year holding period applies, and may only be exercised to the extent that the applicable performance conditions have been satisfied.

The following LTIP awards are intended to be granted to Executive Directors during 2020.

	Paul Forman	Lily Liu
The award to be granted in April 2020	200%	150%

The LTIP awards to be granted to the Executive Directors in 2020 are structured as per below.

Measures	Weighting	Performance conditions 2020 (25% vests at threshold; 100% vests at maximum)
Relative TSR	1/3	Relative to FTSE 250 (excluding investment trusts) threshold is median; maximum is upper quartile
Adjusted EPS 2020–2022 CAGR ¹	1/3	Threshold is 5%; maximum is 12%
ROIC ^{1,2}	1/3	Threshold is 9.5%; maximum is 14.5%

1 Adjusted EPS and ROIC are subject to adjustment from portfolio management/changes.

2 For EPS and ROIC, based on current practice, we straight line on achievement from threshold to maximum.

Awards granted under the LTIP are subject to malus and clawback provisions for a period of up to three years following the vesting date of the award. Potential circumstances in which the malus and clawback provisions may be applied are consistent with those applying to annual bonus awards as described above.

Non-Executive Director fees

The fees for the Chairman are set by the Remuneration Committee, while fees for the Non-Executive Directors are determined by the Chief Executive and the Chairman.

Following an assessment of time commitments associated with particular roles, the Chairman and Chief Executive have approved an increase in the fees for the Employee Champion roles and introduced a fee for the new role for chairing the Sustainability Committee. There were no other increases. No individual was present for the discussion related to their fees.

Annual fee effective	Chairman	Non-Executive Director	Additional fee for Senior Independent Non-Executive Director	Additional fee for chairing a Committee ¹	Additional Fee for chairing the Sustainability Committee ²	Additional fee for Employee Champion ³
From 1 October 2019	250,000	52,000	10,000	13,000	11,000	10,000
From 1 April 2019	250,000	52,000	10,000	13,000	11,000	10,000

1 Applies to chairing Remuneration, and Audit and Risk Committees.

2 This was effective from 1st October 2019 date when Sustainability Committee was established.

3 The fee for the Employee Champion was increased from £5,000 to £10,000 from 1 October 2019.

Outside appointments (unaudited)

Paul Forman was appointed as a Senior Independent Director of Tate & Lyle during 2019. Paul received and retained fees of £72,656 in respect of this directorship.

Statement of shareholder voting (unaudited)

The results of shareholder voting in relation to the approval of the 2018 Directors' Remuneration Report at the 2019 AGM and the Directors' Remuneration Policy Report at the 2018 AGM were as follows:

	Annual Report on Remuneration (2019 AGM)		Remuneration Policy Report (2018 AGM)	
	No. of votes	%	No. of votes	%
Votes cast in favour	225,065,322	99.52	218,535,269	99.54
Votes cast against	1,077,739	0.48	1,010,719	0.46
Total votes cast	226,143,061		219,545,988	
Abstentions	6,066	-	540,474	-

This Report of the Remuneration Committee has been approved by the Board

By order of

Lorraine Trainer
Remuneration Committee Chairman
28 February 2020

Other Statutory Information

The Directors present their Report prepared in accordance with the Companies Act 2006, which requires the Company to provide a fair review of the business of the Group during the financial year ended 31 December 2019 and audited Financial Statements of the Company and its subsidiary undertakings for the year ended 31 December 2019. The Company's Registered Office is Avebury House, 201-249 Avebury Boulevard, Milton Keynes MK9 1AU.

In accordance with the UK Financial Conduct Authority's Listing Rules (LR 9.8.4C), the information to be included in the Annual Report and Accounts, where applicable, under LR 9.8.4 is set out in the Directors' Report.

The Directors' Report comprises pages 65 to 117, and the sections of the Annual Report incorporated by reference are as set out below:

Membership of Board during 2019 financial year	page 78
Financial instruments and financial risk management	pages 30 to 31
CO ₂ emissions	page 29
Corporate Governance Report	pages 65 to 81
Future developments of the business of the Group	pages 12 to 13
Employee diversity	page 22

Results and dividends

The profit on ordinary activities after taxation of the total Group for the year ended 31 December 2019 was £41.2m (2018: profit £28.1m).

As at 28 February 2020, the Company has paid the following dividend in respect of the year ended 31 December 2019:

	Per share p	Total £m
Interim dividend paid 30 October 2019	6.3	16.5

The Directors recommend that a final dividend of 14.4p (2018: 14.4p) per share be paid, making a total dividend distribution for the year of 20.7p (2018: 20.7p).

The final dividend, subject to shareholder approval at the AGM, will be paid on 1 June 2020 to shareholders on the register on 24 April 2020.

Directors

As at 31 December 2019 and the date of the Report, the Board of Directors comprised:

Paul Lester	Non-Executive Chairman
Paul Forman	Chief Executive
Lily Liu	Chief Financial Officer
Tommy Breen	Non-Executive Director
Nicki Demby	Non-Executive Director
Mary Reilly	Non-Executive Director
Lorraine Trainer	Non-Executive Director
Ralf K. Wunderlich	Non-Executive Director

The Company requires all Directors appointed since the last AGM to be elected at the following AGM and for all other directors to be re-elected at each AGM.

Nicki Demby was appointed as a Non-Executive Director on 1 June 2019. Having been appointed since the 2019 AGM Nicki will be putting herself forward for election at the 2020 AGM. All other directors, except for Lorraine Trainer, will be standing for re-election.

Lorraine will not be standing for re-election having previously declared her intention to retire at the 2020 AGM.

None of the Non-Executive Directors have service contracts. In accordance with the Company's Conflict of Interests policy, Directors are required to review their potential conflict of interests at least on an annual basis and to notify any changes to the Company Secretary and General Counsel as soon as possible. During 2019 the current register was approved at each Board meeting and no material conflicts of interest were identified during the year.

At no time during the year has any Director had any material interest in a contract with the Group, being a contract of significance in relation to the Group's business. A statement of Directors' interests in shares of the Company as at 31 December 2019 and as at the date of this Report is shown on page 106.

Share capital

The issued share capital of the Company is shown in note 20 of the Notes to the Financial Statements.

On 31 December 2019, there were 264,129,170 ordinary shares of 25p each in issue. There were 951,137 ordinary shares of 25p each held in treasury. The rights and obligations attaching to the Company's ordinary shares, and the provisions governing the appointment and replacement of, as well as the powers of, the Company's Directors, are set out in the Company's Articles of Association, copies of which can be obtained from Companies House in the UK or by writing to the Company Secretary.

There are no restrictions on the voting rights attaching to the Company's ordinary shares or on the transfer of securities in the Company, except, in the case of transfers of securities:

- that certain restrictions may from time to time be imposed by laws and regulations (for example, insider trading laws)
- whereby, pursuant to the Listing Rules of the Financial Conduct Authority, certain employees of the Company require approval of the Company to deal in the Company's ordinary shares

No persons hold securities in the Company carrying special rights with regard to control of the Company. The Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or on voting rights.

Unless expressly specified to the contrary in the Articles of Association of the Company, the Company's Articles of Association may be amended by special resolution of the Company's shareholders.

Substantial shareholders

As at 31 December 2019 the Company was advised of the following voting rights attaching to the Company's shares in accordance with the Disclosure and Transparency Rules:

	% of total voting rights
Prudential plc	5.86
Invesco	5.10
Heronbridge Investment Management LLP	5.09
AXA Investment Managers	4.81

Since 31 December 2019 Royal, London Asset Management Limited has notified the Company that it has voting rights attached to the Company's shares of 5.01%. There have been no other changes.

Employees

As at 31 December 2019, the Company employed 7,552 people globally and 1,331 people in the UK. Information on the Group's policies on employee recruitment, engagement and the employment of disabled persons can be found in Our people from page 20 to 26.

Political contributions

In line with Group policy, the Company made no political contributions (2018: £nil).

Environmental

The disclosures concerning CO₂ emissions required by law are included in Sustainability on page 29.

Directors' indemnities

During the year, and as at the date of this Report, qualifying third-party indemnities are in force under which the Company has agreed to indemnify the Directors and the Company Secretary and General Counsel, in addition to other senior executives who are Directors of subsidiaries of the Company, to the extent permitted by law and the Company's Articles of Association, in respect of all losses arising out of or in connection with the execution of their powers, duties and responsibilities as a Director or Officer of the Company or any of its subsidiaries, including the pension scheme trustee companies. The scope of the indemnities extends to include liabilities to third parties.

Significant agreements

The Company has committed bank facilities dated November 2017 consisting of two five-year multi-currency revolving credit facilities of £285m and €100.8m. Under the terms of these facilities, the banks can give notice to Essentra to repay outstanding amounts and cancel the commitments where there is a change of control of the Company.

Under a note purchase agreement dated 29 April 2010 relating to US\$80m senior notes due 29 April 2020 and a further note purchase agreement dated 29 November 2017 relating to a total of US\$75.0m senior notes due between 29 November 2024 and 29 November 2029, on a change of control the Company must make an offer to prepay all the notes at par, without any premium of any kind, together with accrued and unpaid interest thereon.

All of the Company's share schemes contain provisions relating to a change in control. Outstanding options and awards normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions at that time.

There are a number of other agreements, involving the Company or its subsidiaries, that take effect, alter or terminate upon a change of control of the Company following a takeover bid, such as commercial contracts and Joint Venture agreements. None are considered to be significant in terms of their potential impact on the business of the Group as a whole, to any potential bidder for the Company or Group.

Other Statutory Information continued

Annual General Meeting

The AGM of the Company will be held at Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU on 21 May 2020 at 12 noon.

In addition to the ordinary business of the AGM, resolutions in respect of the following matters of special business are included in the Notice of Annual General Meeting:

Authority to allot unissued shares

At the 2019 AGM, the Directors were granted authority to allot relevant securities up to a nominal amount of £21,916,842, which expires at the end of the forthcoming AGM.

At this year's AGM, shareholders will be asked to grant the Directors' authority to allot shares or grant rights to subscribe for or convert any security into shares: (i) up to an aggregate nominal amount of £21,931,502 representing approximately one-third of the Company's issued share capital, excluding treasury shares, at 28 February 2020 (such an amount to be reduced by the nominal amount allotted or granted under section (ii) below in excess of such sum); and (ii) comprising equity securities up to an aggregate nominal amount of £43,863,005 representing approximately two-thirds of the issued share capital, excluding treasury shares, at 28 February 2020 (such an amount to be reduced by any allotments or grants made under section (i) above) in connection with an offer by way of a rights issue.

The proposal conforms to the guidelines issued by the institutional investment protection bodies to ensure that existing shareholders' interests are safeguarded. The Directors have no present intention of exercising either of these authorities, which will expire at the end of next year's AGM (or, if earlier, the close of business on 21 July 2021) except in relation to share options.

Allotment of shares for cash

At the 2019 AGM, shareholders approved a special resolution to enable the Directors to allot shares for cash without first offering them to existing shareholders in proportion to their existing shareholdings. That approval expires at the end of the forthcoming AGM and resolutions 13 and 16 in the Notice of AGM seek to renew it.

As per previous years, the Company seeks a resolution which authorises disapplication of pre-emption rights in respect of up to an aggregate nominal amount of £3,289,725 (representing 13,158,901 ordinary shares). This aggregate nominal amount represents approximately 5% of the issued ordinary share capital of the Company (excluding treasury shares).

In addition to the above Resolution, the Company seeks a Resolution which authorises disapplication of pre-emption rights in respect of up to an aggregate nominal amount of £3,289,725 (representing 13,158,901 ordinary shares) in connection with acquisitions and other capital investments as contemplated by the Pre-Emption Group's Statement of Principles. This aggregate nominal amount represents an additional 5% of the issued ordinary share capital of the Company (excluding treasury shares).

These authorities will expire at the conclusion of the following AGM or, if earlier, on 21 July 2021. The proposal conforms to the guidelines issued by the institutional investment protection bodies to ensure that existing shareholders' interests are safeguarded.

Purchase of own shares

At the 2019 AGM, shareholders approved a special resolution to enable the Company to purchase its own shares. That approval expires at the end of the forthcoming AGM.

At this year's AGM, the Directors consider it expedient to seek shareholders' approval to enable the Company to purchase, in the market, up to 10% of its issued share capital (excluding any treasury shares) for cancellation, or to be held in Treasury, such power to apply until the end of next year's AGM (or if earlier, 21 July 2021). In accordance with the requirements of the Listing Rules of the Financial Conduct Authority, the minimum price (exclusive of expenses) which may be paid for a share is its nominal value and the maximum price (exclusive of expenses) for shares which may be paid is the highest of: (i) an amount equal to 105% of the average market value for a share for the five business days immediately preceding the date of the purchase; and (ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venues where the purchase is carried out.

The Directors have no present intention of exercising the authority to make market purchases, however the authority provides the flexibility to allow them to do so in the future. The Directors will only utilise this authority if satisfied that to do so would be in the best interests of the Company and its shareholders generally, and could be expected to result in an increase in earnings per share of the Company.

During the financial year ending 31 December 2019, 175,928 ordinary shares were transferred out of Treasury by the Company to satisfy share options under the Company's Sharesave and executive share incentive plans.

No dividends have been paid on shares while held in Treasury and no voting rights attach to the treasury shares.

External Auditor

PricewaterhouseCoopers LLP have expressed their willingness to continue to be appointed as External Auditor of the Company. Upon the recommendation of the Audit and Risk Committee, resolutions to appoint them as External Auditor and to authorise the Directors to determine their remuneration will be proposed at the AGM.

Recommendation

The Directors believe that the resolutions in the Notice of Annual General Meeting are in the best interests of the Company and its shareholders as a whole, and unanimously recommend that shareholders vote in favour of each resolution.

Derivatives

Information related to derivatives is included in the Accounting Policies on page 171 and in note 15 and note 19 to the Notes of the Financial Statements.

Going concern statement

The Directors have assessed whether the Company has adequate resources to continue in operational existence for the foreseeable future and accordingly continue to adopt the going concern basis in preparing the consolidated Financial Statements.

Information regarding the financial position of the Group, its cash flows, liquidity position, and borrowing facilities are described in the Financial Review on pages 30 to 31. As described on pages 34 to 48, a number of Principal Risks could potentially affect the Group's results and financial position. In addition, note 19 to the Financial Statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and exposures to credit, market and liquidity risk.

Cash balances and borrowings are detailed in note 22 to the Financial Statements.

Essentra is primarily funded by a series of United States Private Placement ("USPP") loan notes held by various investors, and a Revolving Credit Facility ("RCF") provided by a group of well rated banks. An \$80m USPP loan note is due to mature in April 2020 and the remaining \$75m USPP loan notes mature between November 2024 and November 2029. The RCF is made up of two tranches, £285m and €100.8m, which both mature in November 2022. At 31 December 2019 the available bank facilities totalled £370.4m (2018: £375m). Furthermore, the Group also has

- a further USPP facility for \$25m, which can be drawn from April 2020, for which the note purchase agreement has been signed in December 2019; and
- a bridging loan facility for £50m which was agreed by banks in February 2020, with an initial term of 12 months, plus a further six months at Essentra's option, and thereafter another six months at the lenders discretion

The Directors have prepared plans and forecasts for a period of at least 12 months from the date of signing these Financial Statements. Based on these, and taking into consideration the risks detailed in note 19 and the Principal Risks described on pages 34 to 48, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, and accordingly continue to adopt the going concern basis in preparing the consolidated Financial Statements. This disclosure has been prepared in accordance with the Financial Reporting Council's UK Corporate Governance Code.

Post Balance Sheet Event

In February 2020, the Company entered into an agreement with certain banks for a bridging loan facility for £50m, with an initial term of 12 months, plus a further six months at Essentra's option, and thereafter another six months at the lenders discretion.

Long-Term Viability Statement

In accordance with Provision 31 of the 2018 UK Corporate Governance Code, the Directors have assessed the longer-term viability of the Company over the three-year period to December 2022.

The assessment has been based on the Company's strategy and implementation programme, balance sheet and financing position, and the potential impact of the key risks and uncertainties described above. The Company strategy has been translated into a three-year strategic plan comprising a one-year detailed budget

and a financial forecast for the following two years. The plan will be subject to annual updates by management and review by the Board. As a consequence, the Directors have chosen a three-year time horizon for the Long-Term Viability Statement ("LTVS") as being an appropriate time frame for assessing the viability of the Company. However, the Directors have also given due consideration to any potential risks beyond this time horizon.

This assessment was informed by our judgements as to the potential financial impact of the following Principal Risks if they materialise over the three-year period:

- Failure to Achieve Acceptable Returns from the Packaging division
- Cyber Attack, including an impact on operational disruption
- Macroeconomic and Trade Deal Uncertainty (including Brexit)
- Delivery of Strategic Projects

In order to support the assessment of the viability, the Directors have considered the following realistic and plausible scenarios. The Directors have assumed that the risks in each scenario would all crystallise simultaneously. In scenario 4, the Directors have considered the worst case events from each of the selected Principal Risks.

To perform further stress testing of the Company's viability, the Directors have also considered the combined outcome of the most severe scenario (scenario 4) and a scenario assuming that the USPP debt repayment (US\$80m due in April 2020) would not be refinanced at all, i.e. the recently agreed new USPP facility of US\$25m in April 2020 (for which the note purchase agreement has been signed in December 2019) and the new £50m bridging loan facility (which was agreed in February 2020) were not available. Furthermore, the Directors assume that the Group's financing cost will increase by 20% in 2020–2022 compared to the base case, as a result of increase in credit premium.

In all the scenarios assessed, including the most severe and elevated scenarios, there is no indication of potential breaches of banking covenants and there remains sufficient liquidity headroom from the Group's current borrowing facilities.

In making the assessment, the Directors have made a number of assumptions and considerations:

- Capital markets and bank funding will continue to be available over the period
- In the event of a major risk crystallising, the Company would take corrective capital action to preserve the cash resources of the firm
- Management would be in a position to implement effective mitigation actions to reduce the impact of a potential risk event. Mitigating actions considered by management include availability of alternative sources of funding, cost rationalisation measures, working capital and capital expenditure management and potential disposal of non-core assets

Based on the viability assessment undertaken, the Directors have a reasonable expectation that the Group will be able to continue in operational existence and meet its liabilities as they fall due over the period of the assessment.

Other Statutory Information continued

Scenario 1

Level of severity tested

Failure to Achieve Acceptable Returns from the Packaging division (middle scenario)	Revenue reduction of 0.7%, 1.4% and 2.1% respectively and decline of the operating profit of 8.5%, 12.1% and 15.4% respectively for the three-year period
Cyber event with Business Continuity Impact (middle scenario)	Revenue reduction of £2.2m and decline in the operating profit of £1m with one-off exceptional cash cost of £5m in 2020
Macroeconomic and Trade Deal Uncertainty (including Brexit) (severe scenario)	Revenue reduction of 5.7% in 2020 and 2021 and decline in the operating profit of 24% and 21%, respectively. In 2022, we have resumed recovery of lost revenue and a 0.8% decline in the operating profit
Delivery of Strategic Projects (base scenario)	Decline in revenue of £0.4m, £1.2m and £2m in 2020, 2021 and 2022, respectively

Scenario 3

Level of severity tested

Failure to Achieve Acceptable Returns from the Packaging division (severe scenario)	Revenue reduction of 1.6%, 2.6% and 3.6%, respectively, and decline of the operating profit of 17.0%, 16.4% and 21.1%, respectively, for the three-year period
Cyber event with Business Continuity Impact (middle scenario)	Revenue reduction of £2.2m and decline in the operating profit of £1m with one-off exceptional cash cost of £5m in 2020
Macroeconomic and Trade Deal Uncertainty (including Brexit) (severe scenario)	Revenue reduction of 5.7% in 2020 and 2021 and decline in the operating profit of 24% and 21%, respectively. In 2022, we have resumed recovery of lost revenue and a 0.8% decline in the operating profit
Delivery of Strategic Projects (middle scenario)	Decline in revenue of £0.7m, £1.9m and £3m in 2020, 2021 and 2022, respectively

Scenario 2

Level of severity tested

Failure to Achieve Acceptable Returns from the Packaging division (severe scenario)	Revenue reduction of 1.6%, 2.6% and 3.6%, respectively, and decline of the operating profit of 17.0%, 16.4% and 21.1%, respectively, for the three-year period
Cyber event with Business Continuity Impact (severe scenario)	Revenue reduction of £4.4m and decline in the operating profit of £2m with one-off exceptional cash cost of £10m in 2020
Macroeconomic and Trade Deal Uncertainty (including Brexit) (severe scenario)	Revenue reduction of 5.7% in 2020 and 2021 and decline in the operating profit of 24% and 21%, respectively. In 2022, we have resumed recovery of lost revenue and a 0.8% decline in the operating profit
Delivery of Strategic Projects (middle scenario)	Decline in revenue of £0.7m, £1.9m and £3m in 2020, 2021 and 2022, respectively

Scenario 4

Level of severity tested

Failure to Achieve Acceptable Returns from the Packaging division (severe scenario)	Revenue reduction of 1.6%, 2.6% and 3.6%, respectively, and decline of the operating profit of 17.0%, 16.4% and 21.1%, respectively, for the three-year period
Cyber event with Business Continuity Impact (severe scenario)	Revenue reduction of £4.4m and decline in the operating profit of £2m with one-off exceptional cash cost of £10m in 2020
Macroeconomic and Trade Deal Uncertainty (including Brexit) (severe scenario)	Revenue reduction of 5.7% in 2020 and 2021 and decline in the operating profit of 24% and 21%, respectively. In 2022, we have resumed recovery of lost revenue and a 0.8% decline in the operating profit
Delivery of Strategic Projects (severe scenario)	Decline in revenue of £2.7m, £22.5m and £34.2m in 2020, 2021 and 2022, respectively

Directors' statement as to disclosure of information to the External Auditor

As required by Section 418(2) of the Companies Act 2006, the Directors who were members of the Board at the time of approving this Report, having made enquiries of fellow Directors and of the External Auditor, confirm that:

- as far as each Director is aware, there is no relevant audit information of which the Company's External Auditor is unaware
- each Director has taken all reasonable steps that they ought to have taken as a Director to ascertain any relevant audit information, and to ensure that the Company's External Auditor is aware of that information
- the Strategic Report and Directors' Report, including the Report of the Remuneration Committee, were approved by the Board on 28 February 2020

By order of the Board

Jon Green
Company Secretary
28 February 2020

Statement of Directors' Responsibilities in Respect of the Financial Statements

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have prepared the Group Financial Statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and parent company Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 *Reduced Disclosure Framework*, and applicable law). In preparing the Group Financial Statements, the Directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board ("IASB"). Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of the profit or loss of the Group and parent company for that period. In preparing the Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently
- state whether applicable IFRSs as adopted by the European Union and IFRSs issued by IASB have been followed for the Group Financial Statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the Company Financial Statements, subject to any material departures disclosed and explained in the Financial Statements
- make judgements and accounting estimates that are reasonable and prudent
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group and parent company will continue in business

The Directors are also responsible for safeguarding the assets of the Group and parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and parent company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and parent company and enable them to ensure that the Financial Statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation.

The Directors are responsible for the maintenance and integrity of the parent company's website. Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

Directors' confirmations

Each of the Directors, whose names and functions are listed in Directors' Report confirm that, to the best of their knowledge:

- the parent company Financial Statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 *Reduced Disclosure Framework*, and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the Company
- the Group Financial Statements, which have been prepared in accordance with IFRSs as adopted by the European Union – Dual IFRS (European Union and IASB), give a true and fair view of the assets, liabilities, financial position and profit of the group
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Group and parent company, together with a description of the Principal Risks and uncertainties that it faces

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Group and parent company's auditors are unaware
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group and parent company's auditors are aware of that information

Paul Forman
Chief Executive

Lily Liu
Chief Financial Officer
28 February 2020

Financial Statements



Consolidated Income Statement

For the year ended 31 December 2019

	Note	2019 £m	2018 £m
Revenue	1	974.1	1,025.6
Operating profit before intangible amortisation and exceptional and other adjusting items		87.5	90.7
Amortisation of acquired intangible assets		(22.9)	(22.7)
Exceptional and other adjusting items	2	15.4	(20.8)
Operating profit		80.0	47.2
Finance income	3	2.1	1.7
Finance expense	3	(16.6)	(12.6)
Profit before tax		65.5	36.3
Income tax expense	4	(24.3)	(8.2)
Profit for the year		41.2	28.1
Attributable to:			
Equity holders of Essentra plc		38.4	24.3
Non-controlling interests		2.8	3.8
Profit for the year		41.2	28.1
Earnings per share attributable to equity holders of Essentra plc:			
Basic	6	14.7p	9.3p
Diluted	6	14.5p	9.2p
Earnings per share from continuing operations attributable to equity holders of Essentra plc:			
Basic	6	14.7p	9.3p
Diluted	6	14.5p	9.2p

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

	Note	2019 £m	2018 £m
Profit for the year		41.2	28.1
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit pension schemes	18	(4.9)	2.7
Deferred tax income/(expense) on remeasurement of defined benefit pension schemes	4,16	1.0	(0.4)
		(3.9)	2.3
Items that may be reclassified subsequently to profit or loss:			
Effective portion of changes in fair value of cash flow hedges:			
Net change in fair value of cash flow hedges transferred to the income statement		0.8	0.6
Effective portion of changes in fair value of cash flow hedges		(0.6)	(0.2)
Foreign exchange translation differences:			
Attributable to equity holders of Essentra plc:			
Arising on translation of foreign operations		(42.9)	10.1
Arising on effective net investment hedges		7.5	(5.6)
Income tax income/(expense)	4	1.6	(0.2)
Attributable to non-controlling interests		(0.6)	0.1
		(34.2)	4.8
Other comprehensive income for the year, net of tax		(38.1)	7.1
Total comprehensive income for the year		3.1	35.2
Attributable to:			
Equity holders of Essentra plc		0.9	31.3
Non-controlling interests		2.2	3.9
Total comprehensive income for the year		3.1	35.2

Consolidated Balance Sheet

At 31 December 2019

	Note	31 December 2019 £m	31 December 2018 £m
Assets			
Property, plant and equipment	7	276.0	282.2
Lease right-of-use asset	9	43.4	–
Intangible assets	8	486.3	528.2
Long-term receivables		5.6	9.6
Deferred tax assets	16	13.6	14.8
Retirement benefit assets	18	16.9	18.5
Total non-current assets		841.8	853.3
Inventories	10	113.1	119.7
Income tax receivable		7.0	2.9
Trade and other receivables	11,19	166.9	188.8
Derivative assets	15,19	0.8	0.3
Other financial assets		6.2	–
Cash and cash equivalents	12,19,22	70.4	65.8
Total current assets		364.4	377.5
Assets in disposal group held for sale	24	–	41.8
Total assets		1,206.2	1,272.6
Equity			
Issued share capital	20	66.0	66.0
Merger relief reserve		298.1	298.1
Capital redemption reserve		0.1	0.1
Other reserve	21	(132.8)	(132.8)
Cash flow hedging reserve		0.3	0.1
Translation reserve		(11.0)	22.8
Retained earnings	21	312.4	338.3
Attributable to equity holders of Essentra plc		533.1	592.6
Non-controlling interests		7.7	11.6
Total equity		540.8	604.2
Liabilities			
Interest bearing loans and borrowings	14,19,22	249.0	311.2
Lease liabilities	22	39.3	–
Retirement benefit obligations	18	34.3	32.4
Provisions	17	6.0	20.7
Other financial liabilities	19	3.4	2.6
Deferred tax liabilities	16	45.3	50.5
Total non-current liabilities		377.3	417.4
Interest bearing loans and borrowings	14,19,22	60.7	0.1
Lease liabilities	22	11.4	–
Derivative liabilities	15,19	0.3	0.2
Income tax payable		37.9	41.8
Trade and other payables	13,19	174.5	199.5
Provisions	17	3.3	5.3
Total current liabilities		288.1	246.9
Liabilities in disposal group held for sale	24	–	4.1
Total liabilities		665.4	668.4
Total equity and liabilities		1,206.2	1,272.6

The consolidated financial statements on pages 119 to 168 were approved by the Board of Directors on 28 February 2020 and were signed on its behalf by:

Paul Forman
Chief Executive

Company registration no: 05444653

Lily Liu
Chief Financial Officer

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	2019								
	Issued capital £m	Merger relief reserve £m	Capital redemption reserve £m	Other reserve £m	Cash flow hedging reserve £m	Translation reserve £m	Retained earnings £m	Non-controlling interests £m	Total equity £m
At 1 January 2019	66.0	298.1	0.1	(132.8)	0.1	22.8	338.3	11.6	604.2
Impact on adoption of IFRS 16							(5.2)	–	(5.2)
Restated total equity at the beginning of the financial year	66.0	298.1	0.1	(132.8)	0.1	22.8	333.1	11.6	599.0
Profit for the year							38.4	2.8	41.2
Other comprehensive income					0.2	(33.8)	(3.9)	(0.6)	(38.1)
Total comprehensive income for the year	–	–	–	–	0.2	(33.8)	34.5	2.2	3.1
Acquisition of non-controlling interest							(6.3)	(5.3)	(11.6)
Share options exercised							0.4	–	0.4
Share option expense							4.4	–	4.4
Tax relating to share-based incentives							0.5	–	0.5
Dividends paid							(54.2)	(0.8)	(55.0)
At 31 December 2019	66.0	298.1	0.1	(132.8)	0.3	(11.0)	312.4	7.7	540.8

	2018								
	Issued capital £m	Merger relief reserve £m	Capital redemption reserve £m	Other reserve £m	Cash flow hedging reserve £m	Translation reserve £m	Retained earnings £m	Non-controlling interests £m	Total equity £m
At 1 January 2018	66.0	298.1	0.1	(132.8)	(0.3)	18.5	362.7	8.1	620.4
Impact on adoption of IFRS 9							(2.2)	(0.1)	(2.3)
Restated total equity at the beginning of the financial year	66.0	298.1	0.1	(132.8)	(0.3)	18.5	360.5	8.0	618.1
Profit for the year							24.3	3.8	28.1
Other comprehensive income					0.4	4.3	2.3	0.1	7.1
Total comprehensive income for the year	–	–	–	–	0.4	4.3	26.6	3.9	35.2
Share options exercised							0.1	–	0.1
Share option expense							5.2	–	5.2
Tax relating to share-based incentives							0.1	–	0.1
Dividends paid							(54.2)	(0.3)	(54.5)
At 31 December 2018	66.0	298.1	0.1	(132.8)	0.1	22.8	338.3	11.6	604.2

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Note	2019 £m	2018 £m
Operating activities			
Profit for the year		41.2	28.1
Adjustments for:			
Income tax expense	4	24.3	8.2
Net finance expense	3	14.5	10.9
Intangible amortisation	2,8	23.8	23.2
Exceptional and other adjusting items	2	(15.4)	20.8
Depreciation of property, plant and equipment	7	35.5	35.4
Lease right-of-use asset depreciation	9	11.3	–
Impairment of fixed assets		0.5	–
Share option expense	5,18	3.9	4.8
Hedging activities and other movements		0.4	1.2
Increase in inventories		(1.1)	(8.0)
Decrease in trade and other receivables		7.3	5.5
(Decrease)/increase in trade and other payables		(16.5)	8.4
Cash outflow in respect of exceptional and other adjusting items		(24.6)	(20.8)
Adjustment for pension contributions		(1.3)	(1.0)
Movement in provisions		(1.3)	(1.1)
Cash inflow from operating activities		102.5	115.6
Income tax paid		(26.1)	(16.5)
Net cash inflow from operating activities		76.4	99.1
Investing activities			
Interest received		1.3	1.2
Acquisition of property, plant and equipment		(48.4)	(58.2)
Proceeds from sale of property, plant and equipment		2.6	9.3
Payments for intangible assets		(10.5)	(3.0)
Acquisition of businesses net of cash acquired	24	(26.1)	(4.9)
Proceeds from sale of businesses net of cash disposed	24	113.7	0.9
Short-term investments		(0.6)	–
Net cash inflow/(outflow) from investing activities		32.0	(54.7)
Financing activities			
Interest paid		(14.6)	(10.7)
Dividends paid to equity holders		(54.2)	(54.2)
Dividends paid to non-controlling interests		(0.8)	(0.3)
Acquisition of non-controlling interests		(11.6)	–
Repayments of short-term loans		(0.1)	(0.4)
Repayments of long-term loans		(207.3)	(101.4)
Proceeds from long-term loans		197.3	137.0
Lease liability principal repayments		(12.4)	–
Proceeds from sale of employee trust shares		0.4	0.1
Net cash outflow from financing activities		(103.3)	(29.9)
Net increase in cash and cash equivalents	22	5.1	14.5
Net cash and cash equivalents at the beginning of the year			
Net increase in cash and cash equivalents		5.1	14.5
Net effect of currency translation on cash and cash equivalents		(0.9)	(0.3)
Net cash and cash equivalents at the end of the year	12,22	70.4	66.2

Accounting Policies

a Basis of preparation

The consolidated financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the European Union ("EU") in accordance with EU law (IAS Regulation EC 1606/2002) ("adopted IFRS") and International Financial Reporting Standards as issued by the International Accounting Standards Board, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The Company has elected to prepare its individual company financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"); these are presented on pages 169 to 179.

The financial statements are prepared under the historical cost convention except for derivatives which are stated at fair value and retirement benefit obligations which are valued in accordance with IAS 19 *Employee Benefits*.

The preparation of financial statements that conform with adopted IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expense during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from those estimates.

For the purposes of these financial statements "Essentra" or "the Group" means Essentra plc ("the Company") and its subsidiaries.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and future periods if relevant.

On 14 January 2019, Essentra disposed of its Pipe Protection Technologies business ("PPT") for US\$48.0m (£37.5m), free of cash and debt. The assets and liabilities of PPT had been presented as held for sale on the balance sheet as at 31 December 2018.

The accounting policies used in the preparation of these financial statements are detailed below. These policies have been consistently applied to all periods presented.

Information regarding the financial position of the Group, its cash flows, liquidity position, and borrowing facilities are described in the Financial Review on pages 30 and 31. In addition, note 19 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and exposures to credit, market and liquidity risk. Cash balances and borrowings are detailed in note 22.

Essentra is primarily funded by a series of US Private Placement Loan Notes from various financial institutions totalling US\$155m and syndicated multi-currency 5-year revolving credit facilities of £285.0m and €100.8m from its banks. The series of Loan Notes have original maturities ranging from seven to twelve years and the revolving credit facilities mature in November 2022. At 31 December 2019, the available bank facilities totalled £370.4m (2018: £375.0m) of which £194.3m (2018: £193.1m) was drawn down. In addition, uncommitted and overdraft facilities are maintained to provide short-term flexibility. In April 2020 \$80m of US Private Placement Loan Notes are due to be repaid and so in February 2020, the Company entered into an agreement with certain banks for a bridging loan facility for £50m, with an initial term of 12 months, plus a further six months at Essentra's option, and thereafter another six months at the lenders' discretion. Furthermore in December 2019, the Company entered into a note purchase agreement for a new USPP facility for \$25m (\$15m due in April 2027 and \$10m due in April 2030), which will be available for drawdown in April 2020.

The Directors have prepared plans and forecasts for a period of at least twelve months from the date of signing these financial statements. Based on these, and taking into consideration the risks detailed in note 19, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, and accordingly have adopted the going concern basis in preparing the consolidated financial statements. This disclosure has been prepared in accordance with the Financial Reporting Council's UK Corporate Governance Code.

Changes in accounting policies

In the current financial year, Essentra adopted the following pronouncements

IFRS 16 *Leases*

The Group has adopted IFRS 16 *Leases* from 1 January 2019. The adoption of this standard has a material effect on the Group's financial statements, as disclosed in the Group's 2018 consolidated financial statements. The quantitative impact of IFRS 16 on the Group's retained earnings at 1 January 2019 was a reduction of £5.2m.

IFRS 16 *Leases* which is effective from 1 January 2019, eliminates the classification of leases as either operating leases or finance leases and introduces a single lessee accounting model under which a lessee is required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value, and present depreciation of lease right-of-use assets separately from interest as a result of unwinding of discount on lease liabilities in the income statement.

The Group has performed the impact assessment of adopting this accounting standard, which involved collating information on lease obligations and contractual arrangements across the Group. This data was then used to compare the impact of the new standard under different transitional options.

The Group has decided to select the modified retrospective approach on transition primarily on grounds of practicality. Under this approach, comparative information is not restated and the impact of adopting IFRS 16 is presented as an opening retained earnings adjustment as at 1 January 2019.

a. Basis of preparation continued

Under this transition option a methodology for determining the incremental borrowing rate has been developed to calculate the initial lease liability for each lease. This methodology incorporates three key elements: risk-free rate (reflecting specific country and currency), credit spread (reflecting the specific risk for each subsidiary within the Group) and an asset class adjustment (reflecting the variation in risk between asset categories).

Approximately 85% of the Group's future lease obligations under IAS 17 relate to property leases and as a consequence makes up the majority of the impact of adopting IFRS 16.

The Group has also elected not to reassess whether a contract contains a lease at the end of the date of initial application, but to instead apply the requirements of IFRS 16 to contracts that were previously identified as leases under IAS 17 and IFRIC 4. Additionally, the Group has elected not to apply IFRS 16 to contracts that were not identified as containing a lease under IAS 17 and IFRIC 4.

The Group has also elected to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application and lease contracts for which the underlying asset is of low value. The Group has leases of certain equipment (e.g. printing and photocopying machines) that are considered of low value.

(i) The Group's leasing activities and how these are accounted for

The Group leases various properties, equipment and cars. Rental contracts are typically made for fixed periods of 1 to 20 years, but might have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets cannot be used as security for borrowing purposes.

Following the adoption of IFRS 16, effective from 1 January 2019 the Group's non-current assets include right-of-use assets from asset leasing arrangements. Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the right-of-use asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

(ii) Variable lease payments

The Group has certain assets which may include variable lease payments based on usage, although this is a small proportion of the Group's assets. These include vehicles, with variable lease payments based on mileage or equipment such as printers, of which the lease payments vary based on their usage. The variable lease payments are not material for the Group.

Any future variable payment increase that requires either speculation or an estimate is not included. Future lease payments should then be applied only when they are known, with no change to the discount rate.

(iii) Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

Accounting Policies continued

a. Basis of preparation continued

Transition to IFRS 16

The impact on the balance sheet (increase/(decrease)) as at 1 January 2019 is as follows:

	£m
Assets	
Right-of-use assets	41.3
Prepayments and deferred income	(0.4)
Liabilities	
Lease liabilities	(59.4)
Onerous lease provision	9.3
Accruals and deferred income	2.8
Net deferred tax liabilities	1.2
Net impact on equity	(5.2)

The impact on the income statement for 2019 and the estimated impact on the income statement (increase/(decrease) in profit) for 2018 had IFRS 16 always been in place is as follows:

	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
Depreciation expense	(11.2)	(9.7)
Operating lease expense	13.5	11.8
Operating profit	2.3	2.1
Finance costs	(2.1)	(2.2)
Income tax expense	–	0.1
Impact on profit after tax for the year	0.2	–

Under IFRS 16, the Group's operating profit increased, while its interest expense also increased. This is due to the change in the accounting for expenses of leases that were previously classified as operating leases under IAS 17.

In the financial year ended 31 December 2019, Essentra adopted the following pronouncements:

Other standards and interpretations

The Group also adopted the following new pronouncements during 2019, which did not have any impact on the Group's financial statement:

- IFRIC 23 *Uncertainty over Income Tax Treatments* addresses how to reflect uncertainty in accounting for income taxes, providing guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances.
- Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement* specify that in the event of a plan amendment, curtailment or settlement during a reporting period, an entity is required to use updated information to determine current service cost and net interest for the period following such an event.

b. Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by Essentra. Control exists when Essentra is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the financial statements from the date that control commences until the date that control ceases.

(ii) Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expense arising from intragroup transactions are eliminated in preparing the consolidated financial statements.

c. Foreign currency

Items included in the financial statements of the Group's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates ('functional currency'). The consolidated financial statements are prepared in sterling (functional currency of the parent company).

(i) Foreign currency transactions

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into sterling at the exchange rate ruling at that date and recognised in the income statement unless hedge accounting criteria apply (see policy for financial instruments).

(ii) Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated into sterling at the exchange rate ruling at the balance sheet date. The revenues and expenses of foreign operations are translated into sterling at average exchange rates.

(iii) Net investment in foreign operations

Exchange differences on retranslation at the closing rate of the opening balances of overseas entities are taken to other comprehensive income, as are exchange differences arising on related foreign currency borrowings and derivatives designated as net investment hedges, to the extent that they are effective. Other exchange differences are taken to the income statement. Differences arising prior to 1 January 2004 are included in retained earnings.

d. Financial instruments

Interest bearing loans and borrowings and other financial liabilities (excluding derivatives) are held at amortised cost, unless they are included in a hedge accounting relationship. See note 15 for separate disclosure of hedge types.

Derivatives are measured initially at fair value. Subsequent measurement in the financial statements depends on the classification of the derivative as follows:

(i) Fair value hedges

Where a derivative is used to hedge the foreign exchange exposure of a monetary asset or liability, any gain or loss on the derivative is recognised in the income statement.

(ii) Cash flow hedges

Where a derivative is designated as a hedging instrument in a cash flow hedge, the change in fair value is recognised in other comprehensive income to the extent that it is effective and any ineffective portion is recognised in the income statement. Where the underlying transaction results in a financial asset, accumulated gains and losses are recognised in the income statement in the same period as the hedged item affects profit or loss. Where the hedged item results in a non-financial asset the accumulated gains and losses previously recognised in other comprehensive income are included in the initial carrying value of the asset.

(iii) Hedges of net investment in foreign operations

The gain or loss on an instrument used to hedge a net investment in a foreign operation that is deemed effective is recognised in other comprehensive income. Any ineffective portion is recognised in the income statement.

(iv) Unhedged derivatives

Unhedged derivatives are charged/credited to the profit and loss.

e. Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Previously revalued properties were treated as being held at deemed cost upon transition to adopted IFRS.

Where parts of an item of property, plant and equipment or other assets have different useful lives, they are accounted for as separate items. The carrying values of property, plant and equipment and other assets are periodically reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

Property, plant and equipment are depreciated over their estimated remaining useful lives on a straight line basis at the following annual rates:

Land and buildings – Freehold land	Not depreciated
Land and buildings – Buildings	2% or life of lease if shorter
Plant and machinery	7–20%
Fixtures, fittings and equipment	10–33%

The assets' useful lives and residual values are reviewed, and adjusted if appropriate, at each balance sheet date.

Accounting Policies continued

f. Lease liabilities and lease right-of-use assets

Rentals associated with leases that are of low-value or less than 12 months in length are expensed to the income statement on a straight line basis. The associated lease incentives are amortised in the income statement over the life of the lease.

Leases greater than 12 months in length, and those not of low-value, are recognised as a lease right-of-use asset with the associated future lease payment terms recognised as a lease liability. The right-of-use assets and the associated lease liabilities are recognised by unwinding the future lease payments at the rate implicit to the lease or, if the rate implicit to the lease cannot be readily determined, at the relevant incremental borrowing rate.

The lease right-of-use assets are amortised over their useful economic lives or the lease term, whichever is shorter. The lease liabilities are derecognised by applying the future lease payments.

g. Intangible assets

(i) Goodwill

Goodwill is stated at cost less any impairment losses.

Acquisitions are accounted for using the purchase method. For acquisitions that have occurred since 1 January 2004, goodwill represents the difference between the fair value of the assets given in consideration and the fair value of identifiable assets, liabilities and contingent liabilities of the acquiree. For acquisitions made before 1 January 2004, goodwill is included on the basis of its deemed cost, which represents the amount previously recorded under UK GAAP.

Since 1 January 2010, the Group has expensed costs attributable to acquisitions in the income statement. Given their one-off nature, these costs are generally presented within exceptional and other adjusting items.

(ii) Research and development

Research costs are expensed to the income statement in the year in which they are incurred.

Development costs relating to new products are capitalised when the Group is able to demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during development.

(iii) Acquired intangible assets

An intangible asset acquired in a business combination is recognised at fair value to the extent it is probable that the expected future economic benefits attributable to the asset will flow to the Group and that its cost can be measured reliably. Intangible assets principally relate to customer relationships, which are valued using discounted cash flows based on historical customer attrition rates, and developed technology, which is valued using an income approach. The cost of intangible assets is amortised through the income statement on a straight line basis over their estimated useful economic life.

(iv) Other intangible assets

Other intangible assets which are not acquired through a business combination ("non-acquired intangible assets") are recognised at cost to the extent it is probable that the expected future economic benefits attributable to the asset will flow to the Group and that its cost can be measured reliably, and amortised on a straight line basis over their estimated useful economic life.

Intangibles are amortised over their estimated remaining useful lives on a straight line basis at the following annual rates:

Goodwill	Not amortised
Customer relationships	6-12%
Other intangibles – research and development	7-20%
Other intangibles – development of e-commerce	10-20%
Other intangibles – software and software development	10-20%

h. Impairment

All assets are reviewed regularly to determine whether there is any indication of impairment. Goodwill is tested for impairment annually.

An impairment loss is recognised whenever the carrying amount of a non-financial asset or the cash generating unit to which it belongs exceeds its recoverable amount, being the greater of value in use and fair value less costs to sell, and is recognised in the income statement. Value in use is estimated based on future cash flows discounted using a pre-tax discount rate based upon the Group's weighted average cost of capital.

Financial assets were assessed for impairment using the expected credit loss model which requires expected credit losses and changes to expected credit losses at each reporting date to reflect changes in credit risk since initial recognition.

i. Inventories

Inventories are valued at the lower of cost (on a first in, first out basis) and net realisable value. For work-in-progress and finished goods, cost includes an appropriate proportion of labour cost and overheads.

j. Cash and cash equivalents

Cash and cash equivalents comprise cash balances and fixed term investments whose maturities are three months or less from the date of acquisition. Bank overdrafts repayable on demand form an integral part of Essentra's cash management and are included as part of cash and cash equivalents in the statement of cash flows.

k. Loans and borrowings

Loans and borrowings are initially measured at cost (which is equal to fair value at inception) and are subsequently measured at amortised cost using the effective interest method.

l. Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost, which is generally equivalent to recognition at nominal value less impairment loss calculated using the expected loss model.

The Group applies the simplified model to recognise lifetime expected credit losses for its trade receivables and other receivables, including those due in greater than 12 months, by making an accounting policy election. The expected loss rate estimated for each ageing period is as follows: Current: 0.5%, Overdue 1-30 days: 1%, Overdue 31-60 days: 5%, Overdue 61-90 days: 10%, Overdue 91-180 days: 25%, Overdue 181-360 days: 50% and Overdue over 360 days: 100%.

m. Trade and other payables

Trade payables are non-interest bearing and are recognised initially at fair value and subsequently at amortised cost.

n. Catalogue costs

The costs associated with the production and printing of catalogues are expensed to the income statement when access is received to those goods.

o. Income tax

Income tax in the income statement comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year using the applicable tax rates enacted or substantively enacted at the balance sheet date and any adjustment to tax payable in prior years. Deferred tax is provided, using the balance sheet liability method, on temporary differences arising between the tax bases and the carrying amounts of assets and liabilities in the financial statements. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they will not reverse in the foreseeable future.

Deferred tax is determined using tax rates that are expected to apply when the related deferred tax asset or liability is settled, using the applicable tax rates enacted or substantively enacted at the balance sheet dates.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profit will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefits will be realised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against liabilities and when they relate to income taxes levied by the same tax authority and the Group intends to settle its current tax assets and liabilities on a net basis.

p. Revenue

Revenue from the sale of goods is recognised in the income statement net of expected discounts, rebates, refunds, credits, price concessions or other similar items, when the associated performance obligation has been satisfied, and control of the goods has been transferred to the customer.

A significant part of the Group's businesses sell goods on an ex-works basis, where the Group as seller makes its goods ready for collection at its premises on an agreed upon sales date and the buyer incurs all transportation and handling costs and bears the risks for bringing the goods to their chosen destination.

Where the Group operates non ex-works terms with customers, revenue is recognised when the control of the goods has been transferred to the customer. These terms include consignment stock agreements, where revenue is recognised upon the customer removing goods from consignment stock.

Each customer arrangement/contract is assessed to identify the performance obligations being provided to the customer. Where distinct performance obligations are deemed to exist, an element of revenue is apportioned to that obligation.

Accounting Policies continued

q. Finance income and expense

Finance income and expense is recognised in the income statement as it accrues.

r. Segment reporting

A segment is identified on the basis of internal reports that are regularly reviewed by the Group Management Committee in order to allocate resources to the segment and assess its performance.

s. Pensions

(i) Defined contribution schemes

Obligations for contributions to defined contribution pension schemes are expensed to the income statement as incurred.

(ii) Defined benefit schemes

The significant pension schemes in Europe and the USA have been accounted for on a defined benefit basis.

The net obligations in respect of defined benefit pension schemes are calculated separately for each scheme by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any scheme assets is deducted. The discount rate is the yield at the balance sheet date on AA credit-rated bonds that have maturity dates approximating to the terms of Essentra's obligations. The calculation is performed by a qualified independent actuary using the projected unit credit method. Net interest on defined benefit assets is presented within finance income, and net interest on defined benefit liabilities is presented within finance expense.

Actuarial gains and losses that have arisen are recognised in full in the consolidated statement of comprehensive income.

The amounts charged to operating profit are the current service cost, past service cost (including curtailments) and gains and losses on settlement.

The value of a net pension asset is limited to the amount that may be recovered either through reduced contributions or agreed refunds from the scheme.

t. Share-based payments

Essentra operates equity-settled, share-based incentive plans. A charge is made in the income statement based on the fair value of option awards using the Monte Carlo or binomial valuation models and relevant quoted share price information with a corresponding increase in equity. The fair value is measured at grant date and spread over the period between grant date and vesting date of the options. The amount recognised as an expense will be adjusted to reflect the actual number of share options that vest with the exception of options that fail to vest because market conditions are not met.

u. Exceptional and other adjusting items

The exceptional and other adjusting items are separately presented from other items by virtue of their nature, size and/or incidence (considered for each operating segment). They are shown as a separate line item within operating profit on the face of the income statement in order for the reader to obtain a clearer understanding of the underlying results of the ongoing Group's operations, by excluding the impact of items which, in management's view, do not form part of the Group's underlying operating results, such as gains, losses or costs arising from business acquisition and disposal activities, significant restructuring and closure costs and other items which are non-recurring or one-off in nature (such as the costs of fundamental strategic review and reorganisation). Operating profit before exceptional and other adjusting items and acquired intangible amortisation is called adjusted operating profit, which forms the primary basis of management's review and assessment of operational performance of the Group's businesses.

(i) Gains/losses and transaction costs relating to acquisitions and disposals of businesses

In 2019, Essentra disposed of the Pipe Protection Technologies, Speciality Tapes, Extrusion and Card Solutions businesses, incurring one-off gains and losses on those transactions. Further one-off costs (such as professional fees) were incurred on the aforementioned disposals and as a result of acquisitions of Nekicesa and Innovative Components (refer to note 24).

In 2018, Essentra incurred one-off costs (such as professional fees) as a result of acquisitions of Micro Plastics and Nolato Hertila and disposals of Swiftbrook and Pipe Protection Technologies (refer to note 24).

(ii) Acquisition integration and restructuring costs

Costs relating to the integration of acquired businesses and restructuring associated with acquisitions.

(iii) Other exceptional items

In 2019, this represented credits arising on the release of exceptional provisions previously created as a result of Packaging and Specialist Components restructuring (releasing closure provisions relating to the following sites: Largo and Kilmarnock in Packaging and Speciality Tapes Nottingham in Specialist Components), a credit has been recognised relating to the release of a lease liability, originally provided for as part of the closure of the Newport Cartons business in 2017 partially offset by costs, costs in relation to Group Finance function and Specialist Components restructuring and costs relating to the review, investigation and expected penalties relating to the compliance of certain group companies' export activities within US laws.

u. Exceptional and other adjusting items continued

In 2018, this represented costs arising from central management team restructuring, Packaging and Specialist Components restructuring (closure of the following sites: Largo and Kilmarnock in Packaging and Speciality Tapes Nottingham in Specialist Components), amounts in respect of the strategic review undertaken during the period and associated reorganisation costs, an exceptional past service cost arising from the UK defined benefit scheme (see note 18) and an adjustment on contingent deferred considerations on a prior acquisition.

v. Investment in own shares

The shares held in the Essentra Employee Benefit Trust for the purpose of fulfilling obligations in respect of share option plans are treated as belonging to the Company and are deducted from its retained earnings. The cost of shares held directly (treasury shares) are also deducted from retained earnings.

w. Provisions

A provision is recognised when there is a probable legal or constructive obligation as a result of a past event and a reliable estimate can be made of the outflow of resources that will be required to settle the obligation. The outflow is the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date.

x. Government grants

Government grants are recognised when it is reasonable to expect that the grants will be received and that all related conditions will be met, usually on submission of a valid claim for payment. Government grants in respect of capital expenditure are included within the carrying amount of the related property, plant and equipment, and are released to profit or loss on a straight line basis over the expected useful lives of the relevant assets. Grants of a revenue nature are credited to profit or loss so as to match them with the expenditure to which they relate.

y. Net debt

Net debt is defined as cash and cash equivalents and short-term liquid investments, net of lease liabilities, interest bearing loans and borrowings.

z. Dividends

Dividends are recognised as a liability in the period in which they are approved by the shareholders of the Company (final dividend) or paid (interim dividend).

aa. Assets and disposal groups held-for-sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use. Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held-for-sale and subsequent gains and losses on remeasurement are recognised in profit or loss.

Critical Accounting Judgements and Estimates

The following provides information on those policies that management considers critical because of the level of judgement and estimation required which often involves assumptions regarding future events which can vary from what is anticipated. The Directors believe that the financial statements reflect appropriate judgements and estimates and provide a true and fair view of Essentra's performance and financial position.

Accounting Estimates

(i) Business combinations and intangible assets

IFRS 3 requires the identification of acquired intangible assets as part of a business combination. The methods used to value such intangible assets require the use of estimates and judgements such as customer attrition, cash flow generation from the existing relationships with customers and returns on other assets. Future results are impacted by the amortisation periods adopted and changes to the estimated useful lives would result in different effects on the income statement and balance sheet.

Goodwill is not amortised but is tested annually for impairment, along with the finite-lived intangible assets and other assets of the Group's cash generating units. Tests for impairment are based on discounted cash flows and assumptions (including discount rates, timing and growth prospects) which are inherently subjective. An estimate is also required in identifying the events which indicate potential impairment, and in assessing fair value of individual assets when allocating an impairment loss in a cash-generating unit or groups of cash-generating units. The Group performs various sensitivity analyses in respect of the tests for impairment, as detailed in note 8.

The useful lives of the Group's finite-lived intangible assets are reviewed following the tests for impairment annually.

Judgement may also be required in determining the fair value of other assets acquired and liabilities (including contingent liabilities) assumed.

(ii) Pensions

Essentra accounts for its defined benefit pension schemes in accordance with IAS 19. The application of IAS 19 requires the exercise of judgement in relation to the assumptions used and for each assumption there is a range of possible outcomes (see note 18). In consultation with Essentra's actuaries, management decides the point within those ranges that most appropriately reflects Essentra's circumstances. Small changes to these assumptions can have a significant impact on valuations. The Group performs a sensitivity analysis for the significant assumptions used in determining post-employment costs and liabilities, as detailed in note 18.

(iii) Taxation

Liabilities for tax contingencies require management judgements and estimates in respect of tax audit issues and exposures in each of the jurisdictions in which it operates. Management is also required to make an estimate of the current tax liability together with an assessment of the temporary differences which arise as a consequence of different accounting and tax treatments. Where management conclude a tax position is uncertain, a current tax liability is held for anticipated taxes that are considered probable based on the information available.

Key judgement areas for the Group include the pricing of intercompany goods and services as well as the tax consequences arising from restructuring operations. Included in the tax payable is a liability of £15.3m (2018: £17.7m) for transfer pricing matters and £18.7m (2018: £17.7m) for other uncertain tax positions. The movement is due to adjustments for current year transactions, foreign exchange movements, expiry of statute of limitations following the passage of time and agreement reached with tax authorities on previous matters.

In April 2019, the European Commission issued its decision in a state aid investigation into the Group Financing Exemption in the UK controlled foreign company rules. The European Commission found that part of the Group Financing Exemption, which was introduced in legislation by the UK Government in 2013, constitutes state aid. In common with other UK-based international companies whose arrangements were in line with UK CFC legislation Essentra may be affected by the ultimate outcome of this investigation.

In June 2019 the UK Government and other UK-based international companies, including Essentra, appealed to the General Court of the European Union against the decision. In the meantime, the UK Government is required to follow the decision as it stands and assess the impact on UK companies and ultimately issue collection proceedings. Essentra is currently subject to an information request from HMRC in regard to this matter and the potential amount payable for this risk as at 31 December 2019, excluding interest, is estimated to be to between £nil and £16m depending on the outcome of the legal appeal process and the basis of calculation. The final impact on the Group remains very uncertain but based on the current legal analysis the Group does not consider any provision to be required for this risk.

Management may engage with professional advisors in making their assessment and, if appropriate, will liaise with the relevant taxation authorities to resolve the matter. The tax liability is reassessed in each period to reflect management's best estimate in light of information available. If the final outcome of these matters differs to the liability held in the financial statements, the difference may impact the income tax charge/(credit) in the year the matter is concluded.

Accounting Estimates continued

(iv) Leases and lease right-of-use assets

A key judgement on adoption of IFRS 16 is determining the incremental borrowing rates to be applied as at 1 January 2019. Management considers all factors that incorporate the three key elements: risk-free rate, credit spread and an adjustment to asset class. Increasing or decreasing the incremental borrowing rate by 1% will not have a material impact to the Group.

Another key judgement in determining the right-of-use asset and lease liability is establishing whether it is reasonably certain that an option to extend the lease will be exercised. Distinguishing whether a lease will be extended or otherwise will have a material impact on the value of the right-of-use assets and lease liabilities recognised on the balance sheet, but may not have a material impact on the income statement.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

(v) Compliance with US sanctions legislation

During the current year, the Group recognised certain costs in relation to a review of the compliance of certain group companies' export activities (in the Filters division) with US laws, for which the Group is co-operating fully with the US Government. As a result of the investigations conducted by the Group in response to US Government enquiries, the Group has made a voluntary disclosure to the US Office of Foreign Assets Control. During the year, the Group provided for its current estimate of the expected financial penalties for sanction compliance failures, amounting to £2.3m. In arriving at this estimate, management received professional advice from external consultants which took into account past experiences from previous cases. As the Group continues to liaise with the US authorities, this estimate is subject to potential variability. Further details are included within note 2.

Accounting Judgements

(i) Exceptional and other adjusting items

Judgement is required to determine whether items should be included within exceptional and other adjusting items by virtue of their size or incidence. Details of the items categorised as exceptional are disclosed in note 2.

Notes

1. Segment analysis

In accordance with IFRS 8, Essentra has determined its operating segments based upon the information reported to the Group Management Committee.

The operating segments are as follows:

Components is a global market leading manufacturer and distributor of plastic injection moulded, vinyl dip moulded and metal items.

Packaging is one of only two multi-continental suppliers of a full secondary packaging range to the health and personal care sectors.

Filters is the only global independent supplier of innovative cigarette filters and related solutions to the tobacco industry.

Specialist Components comprised the following smaller businesses of Essentra:

- The **Extrusion** business is a leading custom profile extruder located in the Netherlands which offers a complete design and production service.
- The **Pipe Protection Technologies** business specialises in the manufacture of high performance innovative products from commodity resins to engineering-grade thermoplastics and polymer alloys for use in the oil & gas industry.
- The **Speciality Tapes** business has expertise in coating multiple adhesive systems in numerous technologies, and its products range from foam, magnetic, finger lift and acrylic high bond tapes to hook and loop and non-skid foam.
- The **Card Solutions** business is a leading European provider of ID card printers, systems and accessories to direct and trade customers.

With effect from 1 January 2019 the Group has altered the organisational structure by transferring the Speciality Tapes Express distribution locations in the US from the Components division into the Specialist Components division. In addition in the second half of 2019, the Tear Tapes business has been transferred into the Filters division and the Industrial Supply business has been transferred into the Components division, at which point there were no more businesses within the Specialist Components division. As a consequence, segmental information for the year ended 31 December 2018 has been restated to reflect these changes.

During the year ended 31 December 2019, the Group disposed of the Extrusion, Pipe Protection Technologies, Card Solutions and Speciality Tapes businesses. Further details of this can be found in note 24.

The adjusted operating profit/loss presented for each operating segment includes the effect of allocation of certain functional costs such as finance, human resources, legal and IT, as well as costs relating to management of the divisions on an internal management methodology.

As explained within the accounting policies, the comparative information is not restated for IFRS 16.

1. Segment analysis continued

2019

	Components £m	Packaging £m	Filters £m	Specialist Components £m	Eliminations £m	Central Services ¹ £m	Total £m
External revenue	283.1	352.7	303.3	35.0	–	–	974.1
Intersegment revenue	0.2	–	0.3	0.2	(0.7)	–	–
Total revenue	283.3	352.7	303.6	35.2	(0.7)	–	974.1
Operating profit/(loss) before intangible amortisation and exceptional and other adjusting items	60.3	15.1	36.2	4.8	–	(28.9)	87.5
Amortisation of acquired intangible assets	(9.3)	(12.7)	(0.1)	(0.8)	–	–	(22.9)
Exceptional and other adjusting items	(1.6)	7.4	(9.2)	19.7	–	(0.9)	15.4
Operating profit/(loss)	49.4	9.8	26.9	23.7	–	(29.8)	80.0
Segment assets	164.1	218.9	193.9	–	–	28.1	605.0
Intangible assets	171.1	283.6	22.3	–	–	9.3	486.3
Unallocated items ²	–	–	–	–	–	114.9	114.9
Total assets	335.2	502.5	216.2	–	–	152.3	1,206.2
Segment liabilities	54.1	89.2	59.0	–	–	35.6	237.9
Unallocated items ²	–	–	–	–	–	427.5	427.5
Total liabilities	54.1	89.2	59.0	–	–	463.1	665.4
Other segment items							
Capital expenditure (cash spend)	14.1	13.5	16.8	0.6	–	13.9	58.9
Depreciation	7.4	12.0	10.7	0.1	–	5.3	35.5
Average number of employees	2,409	3,251	1,730	387	–	221	7,998

1 Central Services includes executive and non-executive management, group finance, tax, treasury, legal, group assurance, human resources, information technology, corporate development, investor relations and other services provided centrally to support the operating segments.

2 The unallocated assets relate to income and deferred tax assets, retirement benefit assets, derivatives, short-term investments, loan receivables and cash and cash equivalents. The unallocated liabilities relate to interest bearing loans and borrowings, retirement benefit obligations, derivatives, deferred tax liabilities and income tax payable. Intersegment transactions are carried out on an arm's length basis.

1. Segment analysis continued

							2018 (restated)
	Components £m	Packaging £m	Filters £m	Specialist Components £m	Eliminations £m	Central Services ¹ £m	Total £m
External revenue	279.3	342.2	298.8	105.3	–	–	1,025.6
Intersegment revenue	0.5	0.1	0.6	1.7	(2.9)	–	–
Total revenue	279.8	342.3	299.4	107.0	(2.9)	–	1,025.6
Operating profit/(loss) before intangible amortisation and exceptional and other adjusting items	61.0	5.4	35.1	10.9	–	(21.7)	90.7
Amortisation of acquired intangible assets	(8.6)	(12.6)	–	(1.5)	–	–	(22.7)
Exceptional and other adjusting items	(1.7)	(7.4)	(1.3)	(4.1)	–	(6.3)	(20.8)
Operating profit/(loss)	50.7	(14.6)	33.8	5.3	–	(28.0)	47.2
Segment assets ³	146.4	182.6	194.8	70.4	–	32.5	626.7
Intangible assets ³	167.8	296.7	22.0	51.7	–	–	538.2
Unallocated items ²	–	–	–	–	–	107.7	107.7
Total assets	314.2	479.3	216.8	122.1	–	140.2	1,272.6
Segment liabilities ³	43.7	86.0	62.1	14.0	–	26.4	232.2
Unallocated items ²	–	–	–	–	–	436.2	436.2
Total liabilities	43.7	86.0	62.1	14.0	–	462.6	668.4
Other segment items							
Capital expenditure (cash spend)	8.4	21.0	11.9	4.2	–	15.7	61.2
Depreciation	7.8	10.0	8.7	6.0	–	2.9	35.4
Average number of employees	2,390	3,169	1,514	938	–	228	8,239

1 Central Services includes executive and non-executive management, group finance, tax, treasury, legal, group assurance, human resources, information technology, corporate development, investor relations and other services provided centrally to support the operating segments.

2 The unallocated assets relate to income and deferred tax assets, retirement benefit assets, derivatives, short-term investments, loan receivables and cash and cash equivalents. The unallocated liabilities relate to interest bearing loans and borrowings, retirement benefit obligations, derivatives, deferred tax liabilities and income tax payable. Intersegment transactions are carried out on an arm's length basis.

3 Intangible assets, segment assets and segment liabilities in 2018 include the assets and liabilities of the disposal group held for sale.

Continuing operations' net finance expense of £14.5m (2018: £10.9m) and income tax expense of £24.3m (2018: £8.2m) cannot be meaningfully allocated by segment.

No customer accounted for more than 10% of revenue in either 2019 or 2018. Analysed by destination, revenue to Europe & Africa is £481.0m (2018: £477.4m), revenue to Americas is £296.4m (2018: £340.2m) and revenue to Asia and Middle East is £196.7m (2018: £208.0m). Revenue to the UK is £97.2m (2018: £105.8m), with other significant countries being the USA with revenue of £221.0m (2018: £264.6m), Ireland £50.9m (2018: £52.5m) and Germany £52.5m (2018: £51.4m). Non-current assets in the UK total £166.8m (2018: £153.5m), with the other significant location being the USA with £293.6m (2018: £334.6m).

2. Net operating expense

	2019 £m	2018 £m
Changes in inventories of finished goods and work-in-progress	3.9	(2.0)
Raw materials and consumables	401.9	438.2
Personnel expense ¹ (note 5)	287.1	293.7
Depreciation of property, plant and equipment	35.5	35.4
Profit on sale of property, plant and equipment	(0.2)	(3.1)
Depreciation of lease right-of-use assets	11.3	–
Amortisation of intangible assets	23.8	23.2
Exceptional and other adjusting items ¹	(15.4)	20.8
Operating lease expense	0.7	14.4
Exchange differences recognised in profit or loss	(0.3)	(0.4)
Other operating expenses	145.8	158.2
Net operating expenses	894.1	978.4

¹ In addition to the above, personnel expense totalling £2.9m (2018: £8.2m) was charged to exceptional and other adjusting items during the year.

No income or expense (2018: £nil) was recognised in operating expense during the year in respect of ineffective cash flow hedges. Essentra's hedges of net investments were also entirely effective in 2019 and 2018, and therefore no hedge ineffectiveness has been recognised in net operating expense in 2019 (2018: £nil). Research and development expenses (including relevant staff costs) charged to profit or loss during the year amounted to £3.6m (2018: £4.6m). Other operating expenses include manufacturing, selling, general and administrative overheads.

Exceptional and other adjusting items

	2019 £m	2018 £m
(Gains)/losses and transaction costs relating to acquisitions and disposals of businesses ¹	(15.9)	4.9
Acquisition integration and restructuring costs ²	0.7	0.2
Other ³	(0.2)	15.7
Exceptional and other adjusting items	(15.4)	20.8

The exceptional and other adjusting items are separately presented from other items by virtue of their nature, size and/or incidence (considered for each operating segment). They are shown as a separate line item within operating profit on the face of the consolidated income statement in order for the reader to obtain a clearer understanding of the underlying results of the ongoing Group's operations, by excluding the impact of items which, in management's view, do not form part of the Group's underlying operating results, such as gains, losses or costs arising from business acquisition and disposal activities, significant restructuring and closure costs and other items which are non-recurring or one-off in nature (such as the costs of fundamental strategic review and reorganisation). Operating profit before exceptional and other adjusting items and acquired intangible amortisation is called adjusted operating profit, which forms the primary basis of management's review and assessment of operational performance of the Group's businesses.

¹ Gains/losses and transaction costs relating to acquisitions and disposals of businesses are made up of £8.9m gain on the disposal of Pipe Protection Technology, £14.9m gain on disposal of Speciality Tapes, offset by a £3.0m loss on disposal of the Extrusion business, £1.3m loss on disposal of the Card Solutions business, £1.5m costs incurred in establishing the Filters China joint venture, £0.1m costs incurred in acquiring non-controlling interest of Dubai, £0.9m costs incurred acquiring Innovative Components and £0.8m costs incurred acquiring Nekicesa. The remaining £0.3m relates to costs incurred to date in pursuit of acquisition targets.

In 2018 there was a net loss of £2.5m relating to the disposal of the Swiftbrook paper merchant business in July 2018, £0.1m of costs in relation to the acquisition of Nolato Hertila which completed on 5 July 2018, £1.1m relating to the effect of unwinding the fair value adjustment on inventory in relation to the acquisitions of Micro Plastics and Nolato Hertila and £1.9m of transaction costs relating to ongoing acquisition and disposal projects and release of £0.7m of deferred consideration relating to a prior acquisition.

² Acquisition integration and restructuring costs relate to the integration of; Hertila, acquired in 2018, Innovative Components, acquired in 2019, and Nekicesa, acquired in 2019, into the existing business. Included within the total is £0.1m credit relating to a release of Micro Plastics integration costs accrued.

³ Other exceptional items in 2019 of £0.2m gain relate to:

- £6.2m credit relating to the release of onerous lease provisions, originally provided for as part of the closure of the Newport Cartons business in 2017, as a result of lease surrender being agreed with the lessor.
- £2.9m credit relating to the release of excess restructuring and closure provisions relating to the closure of the Largo and Kilmarnock sites within the Packaging division and Speciality Tapes business at Nottingham within the now dissolved Specialist Components division.
- £0.6m cost in relation to the restructure of the Group Finance function. The programme represents an initiative to streamline and restructure the Finance function, in line with managements vision of the future of the Finance function.

2. Net operating expense continued

- £7.5m of cost in relation to a review of the compliance of certain group companies' export activities (in the Filters division) with US laws, for which the Group is co-operating fully with the US Government. As a result of the investigations conducted by the Group in response to US Government enquiries, the Group has made a voluntary disclosure to the US Office of Foreign Assets Control. During the year, the Group provided for its current estimate of the expected financial penalties for sanction compliance failures, amounting to £2.3m. In arriving at this estimate, management received professional advice from external consultants which took into account past experiences from previous cases. In addition, £3.2m of external advisory and consultancy costs involved in investigations conducted by the Group and £0.4m of costs of external resources for direct remediation actions were incurred. As a result of impact on trading transactions with certain customers, impairment losses of certain related assets (inventories, trade receivable and property, plant and equipment) amounting to £1.6m were also recognised during the year.
- £0.7m restructuring cost relating to personnel within the now dissolved Specialist Components division not retained within the business.
- £0.1m in relation to Filters restructuring.

The tax effect of the exceptional items is a charge of £14.9m (2018: £2.3m credit).

Auditor's remuneration

	2019 £m	2018 £m
Audit of these financial statements	0.2	0.2
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries of the Company	1.6	1.2
Audit-related assurance services ¹	0.2	0.2
	2.0	1.6

¹ These mainly relate to review of the half year financial statements. In addition, non-audit services primarily relate to tax services outside the EU for which fees in the year total less than £0.05m (2018: less than £0.05m).

3. Net finance expense

	2019 £m	2018 £m
Finance income		
Bank deposits	0.8	0.5
Other finance income	0.8	0.7
Net interest on net pension scheme assets (note 18)	0.5	0.5
	2.1	1.7
Finance expense		
Interest on loans and overdrafts	(12.2)	(10.8)
Amortisation of bank facility fees	(0.8)	(0.7)
Other finance expense	(0.3)	–
Net interest on net pension scheme liabilities (note 18)	(1.2)	(1.1)
Interest on leases	(2.1)	–
	(16.6)	(12.6)
Net finance expense	(14.5)	(10.9)

4. Income tax

	2019 £m	2018 £m
Amounts recognised in the consolidated income statement		
Current tax	19.9	14.1
Prior years' tax	(0.4)	0.7
Deferred tax (note 16)	4.6	(5.0)
Prior years' deferred tax (note 16)	0.2	(1.6)
Income tax expense	24.3	8.2
Amounts recognised in the consolidated statement of comprehensive income		
Deferred tax (credit)/expense on remeasurement of defined benefit pension schemes	(1.0)	0.4
Income tax (credit)/expense in respect of foreign exchange	(1.6)	0.2
Income tax (credit)/expense	(2.6)	0.6

Factors affecting income tax for the year

Essentra operates in many countries and is subject to income tax in many different jurisdictions (the most significant jurisdictions being the UK, USA, Singapore, Hungary, Thailand and Indonesia). Essentra calculates its average expected tax rate as a weighted average of the applicable corporate income tax rates in the tax jurisdictions in which it operates.

	2019 £m	2018 £m
Profit before income tax	65.5	36.3
Tax at weighted average tax rate (2019: 16.9%; 2018: 18.5%) ¹	11.1	6.7
Effects of:		
Permanent disallowable items (including exceptional costs) ²	2.4	1.1
Disposal of entities ³	8.8	–
Overseas state and local tax ⁴	(0.4)	1.8
Unrecognised tax attributes (utilised)/arising ⁵	(1.4)	1.1
Adjustments in respect of prior years	(0.2)	(1.0)
Withholding tax (including on unremitted earnings) ⁶	1.0	1.3
Change in tax rates ⁷	0.3	–
Other items ⁸	2.7	(2.8)
Income tax expense	24.3	8.2

Income tax expense in the UK is £1.4m (2018: £2.6m credit). The tax effect on exceptional items is included within note 2.

1 The change in the weighted average applicable tax rate is caused by a change in the geographical balance of the Group's profits and changes in corporate tax rates in these geographies.

2 This primarily includes depreciation on assets not qualifying for capital allowances and costs incurred in connection with acquisition and disposals of businesses. Permanent disallowable items may vary in future years dependent on the nature of future expenditure.

3 The disposal of the Pipe Protection Technologies, Extrusion and Speciality Tapes businesses in 2019 gave rise to taxable gains, the basis of which is different to the accounting gains.

4 The reduction in the year is largely driven by the gains on disposal which increase the Group's ability to access tax credits that reduce the impact of the US Global Intangible Low Taxed Income provisions.

5 See further information regarding deferred tax asset recognition at note 16.

6 Essentra is able to control the timing and amount of remitted earnings so this amount may vary in future years.

7 This reflects the impact of differences in substantively enacted, or enacted corporate tax rates, for future periods to those of the current period.

8 Release/recognition of provisions for uncertain tax positions following challenges raised by local tax authorities and the settlement of open tax audits and expiry of statute of limitations and sundry items.

5. Personnel expense

	2019 £m	2018 £m
Wages and salaries	247.5	254.7
Social security expense	26.0	25.4
Pension expense (note 18)	9.7	8.8
Share option expense (note 18)	3.9	4.8
Total personnel expense	287.1	293.7

In addition to the above, personnel expense totalling £2.9m (2018: £8.2m) was charged to exceptional and other adjusting items during the year. The Annual Report on Remuneration on pages 101 to 111 sets out information on Directors' remuneration.

Key management remuneration

	2019 £m	2018 £m
Short-term employee benefits	5.6	6.0
Post-employment benefits	0.8	0.5
Share-based payments	2.3	3.2
Termination benefits	0.3	0.8
	9.0	10.5

Essentra considers key management personnel to be the Directors and the members of the Group Management Committee. The amounts disclosed are on the same basis as those used to determine the relevant amounts disclosed in the Annual Report on Remuneration.

6. Earnings per share

	2019 £m	2018 £m
Earnings		
Earnings attributable to equity holders of Essentra plc	38.4	24.3
Adjustments		
Amortisation of acquired intangible assets	22.9	22.7
Exceptional and other adjusting items	(15.4)	20.8
	7.5	43.5
Tax charge/(relief) on adjustments	9.8	(7.4)
Adjusted earnings	55.7	60.4
Weighted average number of shares		
Basic weighted average ordinary shares outstanding (million)	262.0	261.9
Dilutive effect of employee share option plans (million)	3.6	2.7
Diluted weighted average ordinary shares (million)	265.6	264.6
Earnings per share (pence)		
Basic earnings per share	14.7p	9.3p
Adjustment	6.6p	13.8p
Basic adjusted earnings per share	21.3p	23.1p
Diluted earnings per share	14.5p	9.2p
Diluted adjusted earnings per share	21.0p	22.8p

Adjusted earnings per share is provided to reflect the underlying earnings performance of Essentra.

The basic weighted average number of ordinary shares in issue excludes shares held in treasury and shares held by an employee benefit trust.

7. Property, plant and equipment

	2019			
	Land and buildings £m	Plant and machinery £m	Fixtures, fittings and equipment £m	Total £m
Cost				
Beginning of year	89.9	409.3	77.7	576.9
Acquisitions (note 24)	10.6	3.1	0.3	14.0
Business disposals (note 24)	(18.0)	(33.8)	(2.3)	(54.1)
Additions	4.5	33.2	11.8	49.5
Disposals	(1.7)	(13.3)	(5.6)	(20.6)
Transfers	0.2	(1.5)	(1.7)	(3.0)
Currency translation	(3.6)	(12.2)	(1.3)	(17.1)
End of year	81.9	384.8	78.9	545.6
Accumulated depreciation and impairment				
Beginning of year	20.9	232.6	41.2	294.7
Business disposals (note 24)	(7.6)	(22.2)	(2.0)	(31.8)
Charge in period	2.7	24.5	8.3	35.5
Disposals	(1.2)	(11.4)	(5.6)	(18.2)
Transfers	–	–	(0.5)	(0.5)
Impairment	–	0.2	0.5	0.7
Currency translation	(1.4)	(8.3)	(1.1)	(10.8)
End of year	13.4	215.4	40.8	269.6
Net book value at end of year	68.5	169.4	38.1	276.0
<hr/>				
	2018			
	Land and buildings £m	Plant and machinery £m	Fixtures, fittings and equipment £m	Total £m
Cost				
Beginning of year	98.2	418.8	61.0	578.0
Acquisitions (note 24)	–	0.4	0.1	0.5
Additions	3.3	36.4	18.7	58.4
Disposals	(3.3)	(24.5)	(1.8)	(29.6)
Transfers to assets held for sale	(10.4)	(31.1)	(1.2)	(42.7)
Transfers	(0.1)	–	0.1	–
Currency translation	2.2	9.3	0.8	12.3
End of year	89.9	409.3	77.7	576.9
Accumulated depreciation and impairment				
Beginning of year	19.7	238.4	36.8	294.9
Charge in period	3.1	25.4	6.9	35.4
Disposals	(1.3)	(20.0)	(2.1)	(23.4)
Transfers to assets held for sale	(1.5)	(17.9)	(1.1)	(20.5)
Transfers	0.1	(0.1)	–	–
Impairment	0.1	1.8	–	1.9
Currency translation	0.7	5.0	0.7	6.4
End of year	20.9	232.6	41.2	294.7
Net book value at end of year	69.0	176.7	36.5	282.2

7. Property, plant and equipment continued

Included within land and buildings, plant and machinery and fixtures, fittings and equipment are assets in the course of construction of £24.0m (2018: £12.2m) which were not depreciated during the year.

Contractual commitments to purchase property, plant and equipment amounted to £2.0m at 31 December 2019 (2018: £3.1m). Contractual commitments to lease property, plant and equipment amounted to £5.1m at 31 December 2019 (2018: £nil). The net book value of assets under finance lease amounted to £nil as at 31 December 2019 (2018: £0.9m).

Impairment charge in 2018 of £1.9m related primarily to the closure of the Kilmarnock site within the Packaging division and the Speciality Tapes business at Nottingham within the Specialist Components division. The assets were written down to their recoverable amount, which represented fair value less cost of disposal.

8. Intangible assets

	2019			
	Goodwill £m	Customer relationships £m	Other intangible assets £m	Total £m
Cost				
Beginning of year	370.8	430.3	17.1	818.2
Acquisitions (note 24)	12.6	13.3	0.7	26.6
Business disposals (note 24)	(34.5)	(27.0)	–	(61.5)
Additions	–	–	10.5	10.5
Disposals	–	–	(7.3)	(7.3)
Transfer	–	–	3.0	3.0
Currency translation	(9.9)	(14.5)	(0.2)	(24.6)
End of year	339.0	402.1	23.8	764.9
Amortisation and impairment				
Beginning of year	31.9	246.7	11.4	290.0
Business disposals (note 24)	(3.0)	(17.6)	–	(20.6)
Charge for the year	–	21.9	1.9	23.8
Transfer	–	–	0.5	0.5
Disposal	–	–	(7.3)	(7.3)
Currency translation	(0.6)	(7.2)	–	(7.8)
End of year	28.3	243.8	6.5	278.6
Net book value at end of year	310.7	158.3	17.3	486.3

8. Intangible assets continued

2018

	Goodwill £m	Customer relationships £m	Other intangible assets £m	Total £m
Cost				
Beginning of year	373.5	421.6	13.6	808.7
Acquisitions (note 24)	2.0	3.4	–	5.4
Additions	–	–	3.2	3.2
Disposals	(1.3)	(1.5)	–	(2.8)
Transfers to assets held for sale	(10.2)	–	–	(10.2)
Currency translation	6.8	6.8	0.3	13.9
End of year	370.8	430.3	17.1	818.2
Amortisation and impairment				
Beginning of year	31.2	219.7	10.1	261.0
Disposals	–	(0.5)	–	(0.5)
Charge for the year	–	22.1	1.1	23.2
Transfers to assets held for sale	(0.2)	–	–	(0.2)
Impairment	–	0.8	–	0.8
Currency translation	0.9	4.6	0.2	5.7
End of year	31.9	246.7	11.4	290.0
Net book value at end of year	338.9	183.6	5.7	528.2

Other intangible assets principally comprise trade names acquired with Reid Supply, developed technology acquired with Richco, order backlog, software development and e-Commerce development costs. Amortisation of intangible assets arising from business combinations (“acquired intangible assets”) is presented separately on the face of the consolidated income statement. During the year ended 31 December 2019 software and development costs previously classified within Plant, Property and Equipment has been transferred into intangibles.

The e-Commerce development and software development costs were not acquired through a business combination, and their amortisation is included within operating profit before amortisation of acquired intangibles and exceptional and other adjusting items as presented on the face of the consolidated income statement.

The weighted average remaining useful lives of customer relationships and other intangible assets at the end of the year were 7.9 years and 6.3 years (2018: 8.8 years and 9.4 years) respectively.

Essentra tests intangible assets annually for impairment, or more frequently if there are indications of impairment. A discounted cash flow analysis is computed to compare the discounted estimated future operating cash flows to the net carrying value of the goodwill and other intangible and tangible assets for each cash generating unit or group of cash generating units as appropriate.

8. Intangible assets continued

Goodwill is allocated to groups of cash generating units, being the operating segments. During the year the Specialist Components division was dissolved. The remaining businesses within the Specialist Components division, Essentra Industrial Supply (Reid) and Tear Tapes, were transferred to the Components and Filters divisions respectively along with any associated goodwill. Goodwill is allocated to groups of cash generating units, being the operating segments, with the allocation as at 31 December 2018 now restated, as follows:

	Goodwill	
	2019 £m	2018 (restated) £m
Components	98.5	94.4
Packaging	190.5	191.3
Filters	21.7	21.7
Specialist Components	–	31.5
	310.7	338.9

Intangible assets, apart from goodwill, are allocated to the businesses to which they relate as shown below:

Business	Operating segment	Customer relationships and other intangible assets	
		2019 £m	2018 £m
Components – Businesses of former Moss and Skiffy	Components	10.7	12.3
Components – Businesses of former Richco	Components	22.6	26.9
Components – Business of former Mesan	Components	4.6	6.1
Components – Business of former Abric	Components	8.6	9.9
Components – Business of former MicroPlastics	Components	4.5	5.0
Components – Industrial Supply	Components	3.5	4.6
Components – Innovative Components	Components	8.1	–
Components – e-Commerce development costs	Components	5.2	2.9
Components – Other businesses	Components	4.8	5.7
Security (Card Solutions)	Specialist Components	–	1.1
Speciality Tapes	Specialist Components	–	9.1
Packaging – Americas	Packaging	31.9	37.0
Packaging – Asia	Packaging	1.5	1.7
Packaging – Europe	Packaging	55.5	66.7
Packaging – Nekicesa	Packaging	4.2	–
Filters	Filters	0.6	0.3
Not allocated to divisions – software and development costs	Central	9.3	–
		175.6	189.3

At 31 December 2019, management has performed an impairment review of the assets in each division. Following the impairment assessment, no impairment loss was recognised in 2019.

The impairment assessment for intangible assets (excluding goodwill) and property, plant and equipment is performed on the cash generating units within the divisions. The cash generating units are primarily the manufacturing sites. Goodwill is tested at the divisional level, which is the level that management monitor goodwill at. The recoverable amount is estimated on the basis of value in use, ie discounted cash flow projection expected to be generated by the group of cash generating units. For assets in the cash generating units assessed to be impaired, their fair value less costs to sell is also considered in determining the impairment loss to be recognised, if any. In these cases, the fair value less costs to sell is based on estimated market prices reflecting the age and condition of the asset.

8. Intangible assets continued

The impairment tests for goodwill and intangible assets are based on the business plan (the "Plan"). Cash flow projections are over five years using Plan for the first year and subsequent years based on the Group's Strategic Plan. The Groups impairment test incorporates the following assumptions and changes in the current year:

- Impairment reviews now take into account the impact of IFRS 16 in both the calculation of discounted cash flows and the asset base.
- Filters was tested for impairment for the first time as it now holds goodwill due to the transfer of Tear Tapes from the Specialist Components division.
- Specialist Components has now been dissolved and is therefore no longer part of the impairment assessment.
- The key assumptions in the cash flow projections for the Plan are the revenue growth and operating margin for each division. Operating margin is primarily based on the levels achieved in 2019, which are disclosed in note 1, adjusted by targets set for revenue expansion and cost control and reduction for each individual division within the Plan period. The key assumptions underlying the estimation of cash flow projections for value in use are operating profit margin and revenue growth assumptions. The values assigned to these assumptions represent management's assessment of market condition and scope for cost and profitability improvement, taking into account realisable synergies resulting from integration activities. The compound annual revenue growth rate assumption across all three divisions for the next five years ranges from 3.3% to 6.4%. The average operating profit margin assumption for the next five years included within the Packaging division impairment assessment ranges from 8.0% to 11.7%. In respect of Components and Filters, the combined average operating profit margin over the five year forecast period is assumed to improve by 100 bps from 2019.
- In relation to the test for the Components and Filters divisions, cash flows beyond the Plan period are based on Plan cash flows with growth rates specific to each business during the Plan period of up to 6.5%.
- The estimated cash flows are discounted using a pre-tax discount rate based upon Essentra's estimated post-tax weighted average cost of capital of 7.5% (2018: 7.7%). The specific pre-tax discount rates applied for each group of cash generating units to which significant goodwill is allocated are as follows: 9.0% for Packaging, 9.7% for Components and 9.5% for Filters (2018: 8.8% for Packaging and 9.6% for Components).
- In relation to the test for the Packaging division, management carried out a detailed assessment of the growth and profit margin assumptions for each of the next four years after the Plan period, and applied a terminal growth rate of 1.5% (2018: 2.0%) subsequently. The growth and profit margin assumptions are based on management's assessment of market condition and scope for cost and profitability improvement, taking into account realisable synergies following the recent integration activities.

The following change to key assumptions will cause the carrying amount to exceed the recoverable amount in the Packaging division:

- An increase in discount rate of 380 basis points
- A reduction of 610 basis points in the operating profit margin in the terminal year
- A reduction of 540 basis points in the terminal growth rate

Management considered the following reasonably possible changes in the key assumptions, and the associated impact on the impairment assessment, in relation to the Packaging division:

- A 1.2% increase in discount rate would reduce headroom to £164.0m
- A 1.5% reduction in the terminal growth rate (ie to assume no growth) would reduce headroom to £166.0m
- A 1.5% reduction in each year's growth rate would reduce headroom to £252.9m
- A 2.7% reduction in operating profit margin in the terminal year would reduce headroom to £159.4m

9. Lease right-of-use assets

	2019			
	Land and buildings £m	Plant and machinery £m	Fixtures, fittings and equipment £m	Total £m
Cost				
Beginning of year	83.2	11.1	0.2	94.5
Additions	10.6	2.6	0.1	13.3
Terminations	(4.4)	(2.0)	(0.1)	(6.5)
Acquisitions (note 24)	0.3	3.5	–	3.8
Business disposals (note 24)	(2.6)	(0.2)	–	(2.8)
Currency translation	(2.7)	(0.4)	–	(3.1)
End of year	84.4	14.6	0.2	99.2
Accumulated depreciation				
Beginning of year	48.2	4.8	0.2	53.2
Charge for the year	8.2	3.1	–	11.3
Terminations	(2.9)	(2.0)	(0.1)	(5.0)
Business disposals (note 24)	(1.6)	(0.2)	–	(1.8)
Currency translation	(1.7)	(0.2)	–	(1.9)
End of year	50.2	5.5	0.1	55.8
Net book value at end of year	34.2	9.1	0.1	43.4

The income statement shows the following amounts relating to leases:

	2019 £m	2018 £m
Interest expense (included in finance cost)	2.1	–
Expense relating to short-term leases (included in cost of goods sold and administrative expenses)	0.2	–
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in operating expenses)	0.2	–
	2.5	–

The lease expenses for short-term leases for the year ending 31 December 2020 is expected to be similar to the expense as disclosed above.

9. Lease right-of-use assets continued

Operating lease (IAS 17) commitments and opening lease liabilities reconciliation:

	£m
IAS 17 future operating lease commitments based on gross cash flows as at 31 December 2018	62.3
Add: adjustments due to different treatment of extension and termination options	7.8
(Less): contracts to which the short-term leases exemption has been applied	(0.7)
(Less): contracts to which the low-value leases exemption has been applied	(0.3)
(Less): service/non-lease components of the lease contracts	(1.8)
	67.3
Discounted using the Group's incremental borrowing rate	(7.9)
Lease liability recognised as at 1 January 2019	59.4
Of which are:	
IFRS 16 lease liability due within one year	11.7
IFRS 16 lease liability due after one year	47.7
Total	59.4

The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 3.9%.

10. Inventories

	2019 £m	2018 £m
Raw materials and consumables	45.9	51.3
Work-in-progress	9.9	11.0
Finished goods and goods held for resale	57.3	57.4
	113.1	119.7

Inventories with a total value of £0.9m (2018: £1.5m) were written down as a result of site closures and a review of the compliance of certain group companies' export activities (in the Filters division).

On 31 December 2019, inventories of £nil (2018: £3.4m) have been transferred into a disposal group held for sale, see note 24.

11. Trade and other receivables

	2019 £m	2018 £m
Trade receivables	140.0	150.0
Other receivables	16.4	25.9
Prepayments and accrued income	10.5	12.9
	166.9	188.8

On 31 December 2019, trade and other receivables of £nil (2018: £5.8m) have been transferred into a disposal group held for sale, see note 24.

12. Cash and cash equivalents

	2019 £m	2018 £m
Bank balances	62.6	61.9
Short-term bank deposits and investments	7.8	3.9
Cash and cash equivalents	70.4	65.8
Amount in disposal group held for sale	–	0.4
Cash and cash equivalents in the statement of cash flows	70.4	66.2

13. Trade and other payables

	2019 £m	2018 £m
Trade payables	108.3	124.3
Other tax and social security contributions	8.0	8.2
Other payables	14.3	18.3
Accruals and deferred income	43.9	48.7
	174.5	199.5

On 31 December 2019, trade and other payables of £nil (2018: £4.1m) have been transferred into a disposal group held for sale, see note 24.

14. Interest-bearing loans and borrowings

	2019 £m	2018 £m
Non-current liabilities		
Unsecured bank loans	192.5	190.6
US Private Placement Loan Notes	56.5	120.6
	249.0	311.2
Current liabilities		
Other unsecured loans	0.1	–
US Private Placement Loan Notes	60.6	–
Finance lease liabilities	–	0.1
	60.7	0.1

At 31 December 2019, the Group had £135.0m (2018: £135.0m), and €70.0m (2018: €65.0m) of unsecured bank loans drawn in sterling and euros at floating rates of interest set by reference to LIBOR. Essentra's \$155.0m US Private Placement Loan Notes are at a weighted average interest rate of 5.26% per annum (2018: 5.26%).

In April 2020 \$80m of US Private Placement Loan Notes are due to be repaid and so in February 2020, the Company entered into an agreement with certain banks for a bridging loan facility for £50m, with an initial term of 12 months, plus a further six months at Essentra's option, and thereafter another six months at the lenders' discretion. Furthermore in December 2019, the Company entered into a note purchase agreement for a new USPP facility for \$25m (\$15m due in April 2027 and \$10m due in April 2030), which will be available for drawdown in April 2020.

The currency profile of the carrying and nominal values of Essentra's loans and borrowings is as follows:

	2019		2018	
	Carrying value £m	Nominal value £m	Carrying value £m	Nominal value £m
Sterling	133.7	135.0	133.3	135.0
US dollar	117.1	117.4	120.6	121.1
Euro	58.9	59.4	57.4	58.1
	309.7	311.8	311.3	314.2

The difference between the total nominal and carrying value of loans and borrowings relates to the amortised value of prepaid facility fees of £2.1m (2018: £2.9m).

15. Derivatives

Essentra uses derivatives to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. In accordance with its Treasury policy, Essentra does not hold or issue derivatives for trading purposes.

	Assets		Liabilities	
	Fair values £m	Contractual or notional amounts £m	Fair values £m	Contractual or notional amounts £m
At 31 December 2019				
<i>Derivatives held in cash flow hedges</i>				
Forward foreign exchange contracts	0.8	27.0	0.3	16.5
	0.8	27.0	0.3	16.5

	Assets		Liabilities	
	Fair values £m	Contractual or notional amounts £m	Fair values £m	Contractual or notional amounts £m
At 31 December 2018				
<i>Derivatives held in net investment hedges</i>				
Forward foreign exchange contracts	0.1	3.4	(0.1)	8.8
<i>Derivatives held in cash flow hedges</i>				
Forward foreign exchange contracts	0.2	10.0	(0.1)	19.8
	0.3	13.4	(0.2)	28.6

Cash flow hedges are hedges of the currency risk exposure to variability in cash flows. They relate to trading transactions and interest payments denominated in foreign currencies.

Hedges of net investments are hedges of the currency risk exposure to changes in the carrying value of net investments in foreign operations.

The net fair value gains or losses on open forward foreign exchange contracts that hedge foreign currency risk of anticipated future sales, purchases and interest payments are accounted for as cash flow hedges. The fair value will be transferred to the consolidated income statement when the forecast transactions occur. All of the hedged transactions are expected to occur over the next 15 months and all derivative instruments mature within the next 15 months.

Essentra had US dollar and euro denominated borrowings which it designated as hedges of its net investments in subsidiary undertakings. The exchange gains of £3.7m (2018: losses of £6.3m) on the US dollar borrowings and the gains of £3.9m (2018: gains of £0.9m) on the euro borrowings were recognised in other comprehensive income. In addition, certain foreign exchange contracts were also designated as hedges of the Group's net investments in foreign operations.

Finance income and expense arising on financial assets and financial liabilities held at amortised cost are those amounts, excluding interest on pension scheme assets and interest on pension scheme liabilities, detailed in note 3.

16. Deferred tax

Deferred tax assets and liabilities (including amounts relating to disposal group held-for-sale) are attributable to the following:

	2019				2018			
	Assets £m	Liabilities £m	Net £m	Income Statement: Charge/ (Credit) £m	Assets £m	Liabilities £m	Net £m	Income Statement: Charge/ (Credit) £m
Property, plant and equipment ¹	(8.1)	13.0	4.9	2.5	(4.9)	13.4	8.5	(1.6)
Intangible assets ²	–	41.1	41.1	(2.8)	–	47.6	47.6	(2.8)
Employee benefits ³	(10.1)	2.9	(7.2)	0.3	(8.7)	3.2	(5.5)	(0.1)
Other ⁴	(14.9)	7.8	(7.1)	4.8	(21.2)	6.3	(14.9)	(2.1)
Tax (assets)/liabilities	(33.1)	64.8	31.7	–	(34.8)	70.5	35.7	–
Set off of tax	19.5	(19.5)	–	–	20.0	(20.0)	–	–
Net tax (assets)/liabilities	(13.6)	45.3	31.7	–	(14.8)	50.5	35.7	–
Total income statement charge/(credit)	–	–	–	4.8	–	–	–	(6.6)

1 A deferred tax liability arises on property, plant and equipment as the tax value of assets is lower than the corresponding accounting value. This arises as tax deductions are determined by the applicable tax laws in each country the Group operates in whereas accounting depreciation is calculated in line with the Group's accounting policy.

2 A deferred tax liability is provided on temporary differences arising on the Group's intangible assets as in the majority of cases the local tax authorities do not allow deduction for amortisation of these intangible assets. The movement during the period is due to the acquisition and disposal activities of the Group offset by reducing intangible asset value from the amortisation charge for the year.

3 This represents deferred tax on the Group's defined benefit pension schemes and share-based incentives.

4 This includes expenditure that will be deductible in future periods for tax purposes when the amounts are settled in cash, tax losses expected to be utilised in future periods and withholding tax on overseas earnings from Group companies expected to be remitted in the foreseeable future of £6.2m (2018: £5.7m).

Movements in the year:

	2019 Total Net £m	2018 Total Net £m
Beginning of the year	35.7	39.6
Charge/(credit) to the income statement in respect of current year	4.6	(5.0)
Charge/(credit) to the income statement in respect of prior years	0.2	(1.6)
Credit to reserves on foreign exchange movements	–	(0.1)
(Credit)/charge to other comprehensive income	(1.0)	0.4
Credit to reserves on share-based incentives	(1.0)	(0.5)
Reclassification – IFRS 16 adjustment (Prior year IFRS 9)	(1.2)	(0.4)
Reclassification to current tax	(1.0)	–
Acquisitions and disposals	(2.8)	2.4
Currency translation	(1.8)	0.9
End of year	31.7	35.7

No deferred tax liability is provided in respect of unremitted earnings of foreign subsidiaries where Essentra is able to control the remittance of earnings and it is probable that such earnings will not be remitted in the foreseeable future, or where no liability would arise on the remittance. At the year ended 31 December 2019 it was expected that earnings from certain overseas Group companies will be remitted and a deferred tax liability of £6.2m (2018: £5.7m) has been recognised accordingly. This represents withholding taxes payable on the remittance of these earnings under local tax laws. The amount of temporary differences associated with investments in subsidiaries and branches for which deferred tax liabilities have not been recognised is £134.0m as at 31 December 2019 (2018: £127.1m), and the associated amount of unrecognised deferred tax is £15.2m (2018: £14.1m).

Based on available information, Management determined whether it is probable for some or all of the deferred tax assets to be recognised. In determining this Management considered the cumulative losses in prior years, the history of tax losses, the manner in which assets can be used (including time limitations under local laws), future earnings potential and expectation of future reversal of taxable temporary differences. Following Management assessment, gross deferred tax assets of £0.2m (2018: £0.2m) in respect of capital losses and unutilised tax losses of £27.3m (2018: £27.6m) have not been recognised as their realisation is not probable. The capital losses have an unlimited expiry date. The tax losses expire as follows: £3.4m within 5 years, £1.9m in 5 – 10 years, £0.2m in over 10 years and £21.8m with no expiry. If future conditions change the amount of unrecognised deferred tax assets will be reassessed. This may impact the income tax expense/(credit) in the year of remeasurement.

17. Provisions

	2019		
	Reorganisation £m	Other £m	Total £m
Beginning of year	17.0	9.0	26.0
Impact on adoption of IFRS 16	(7.6)	(1.7)	(9.3)
Provisions made during year	–	3.4	3.4
Provisions released during year	(8.2)	(1.3)	(9.5)
Utilised during year	(1.0)	–	(1.0)
Currency translation	(0.2)	(0.1)	(0.3)
End of year	–	9.3	9.3
Non-current	–	6.0	6.0
Current	–	3.3	3.3
End of year	–	9.3	9.3

	2018		
	Reorganisation £m	Other £m	Total £m
Beginning of year	15.0	9.8	24.8
Provisions made during year	6.7	–	6.7
Provisions released during year	–	–	–
Utilised during year	(4.7)	(1.0)	(5.7)
Transfer	–	(0.1)	(0.1)
Currency translation	–	0.3	0.3
End of year	17.0	9.0	26.0
Non-current	12.8	7.9	20.7
Current	4.2	1.1	5.3
End of year	17.0	9.0	26.0

Reorganisation provisions are generally held against restructuring and redundancy costs, primarily related to the integration of acquired businesses and restructuring associated with acquisitions. Reorganisation provisions made during 2018 primarily related to the exceptional restructuring costs arising from the closure of sites in Packaging and Specialist Components.

Other provisions relate primarily to vacant properties, lease dilapidations, employees' compensation claims, regulatory claims and other claims.

Non-current provisions are generally provisions for vacant properties and lease dilapidations which are expected to be utilised within the next 10 years. The timing of the utilisation of the lease dilapidations assumes the business continues to operate based on the most up to date business plan. The release of other provisions during the year relates mostly to claims and property-related provisions.

18. Employee benefits

Post-employment benefits

The Group operates a number of defined benefit and defined contribution pension schemes around the world covering many of its employees. The Group also has a number of other post-employment obligations in certain countries, some of which are required under local law.

The defined benefit plans are administered by boards of trustees and the assets are held independently from Essentra. The boards of trustees comprise member nominated trustees, employer nominated trustees and independent advisory trustees. The articles of the plans prohibit a majority on the boards to be established by either the member or employer nominated trustees.

Pension costs of the defined benefit schemes are assessed in accordance with the advice of independent professionally qualified actuaries. Full triennial actuarial valuations were carried out on the principal European defined benefit schemes as at 5 April 2018 and annual actuarial valuations are performed on the principal US defined benefit schemes. The assets and liabilities of the defined benefit schemes have been updated to the balance sheet date from the most recently completed actuarial valuations taking account of the investment returns achieved by the schemes and the level of contributions.

The principal European defined benefit schemes entitle remaining members to a pension calculated on 1.25% or 2% of their capped final pensionable pay multiplied by the number of pensionable years of service. Some members have historical entitlements to accrual rates of 1.67%-1.9% and 3% for certain tranches of their service. The principal US defined benefit schemes entitle certain participating employees to annuity benefits equal to 50% of final average pensionable salary, reduced for years of service less than 30, and other participating employees to annuity benefits equal to \$49 per month for each year of service.

The amounts included in the consolidated financial statements are as follows:

	2019 £m	2018 £m
Amounts expensed against operating profit		
Defined contribution schemes	7.5	7.1
Defined benefit schemes – current service cost	1.7	1.5
Defined benefit schemes – past service cost	–	2.2
Defined benefit schemes – curtailment gain	–	(0.2)
Other post-employment obligations	0.5	0.4
Total operating expense	9.7	11.0
Amounts included as finance (income)/expense		
Net interest on defined benefit scheme assets (note 3)	(0.5)	(0.5)
Net interest on defined benefit scheme liabilities (note 3)	1.2	1.1
Net finance expense	0.7	0.6
Amounts recognised in the consolidated statement of comprehensive income		
Return on defined benefit scheme assets excluding amounts in net finance income	(29.6)	14.1
Impact of changes in assumptions and experience to the present value of defined benefit scheme liabilities	34.5	(16.8)
Remeasurement of defined benefit schemes	4.9	(2.7)

The defined benefit schemes past service cost of £nil (2018: £2.2m) relating to GMP equalisation has been included within exceptional and other adjusting items (see note 2).

During 2015, the principal defined benefit pension schemes in the UK and the USA were closed to future accrual. Following the closure of the Group's principal defined benefit pension schemes to future accruals, the schemes are funded by the Group's subsidiaries and employees are not required to make any further contribution. The funding of these schemes is based on separate actuarial valuations for funding purposes for which the assumptions may differ from those used in the valuation for IAS 19 purposes.

18. Employee benefits continued

The principal assumptions used by the independent qualified actuaries for the purposes of IAS 19 are as follows:

	2019		2018	
	Europe	USA	Europe	USA
Increase in salaries (pre-2010) ¹	n/a	n/a	n/a	n/a
Increase in salaries (post-2010) ¹	n/a	n/a	n/a	n/a
Increase in pensions ¹				
at RPI capped at 5%	2.90%	n/a	3.10%	n/a
at CPI capped at 5%	2.10%	n/a	2.20%	n/a
at CPI minimum 3%, capped at 5%	3.10%	n/a	3.10%	n/a
at CPI capped at 2.5%	1.90%	n/a	1.90%	n/a
Discount rate	2.10%	3.15%	2.90%	4.25%
Inflation rate – RPI	3.00%	n/a	3.20%	n/a
Inflation rate – CPI	2.10%	n/a	2.20%	n/a

¹ For service prior to April 2010, pension at retirement is linked to salary at retirement. For service after April 2010, pension is linked to salary at April 2010 with annual increases capped at 3%.

Due to the timescale covered, the assumptions applied may not be borne out in practice.

The life expectancy assumptions (in number of years) used to estimate defined benefit obligations at the year end are as follows:

	2019		2018	
	Europe	USA	Europe	USA
Male retiring today at age 65	22.3	20.6	22.4	20.6
Female retiring today at age 65	24.2	22.6	24.2	22.7
Male retiring in 20 years at age 65	23.7	22.2	23.8	22.3
Female retiring in 20 years at age 65	25.6	24.1	25.8	24.2

The allocation of assets between different classes of investment is reviewed regularly and is a key factor in the trustees' investment policies. The allocation of assets is arrived at taking into consideration current market conditions and trends, the size of potential returns relative to investment risk and the extent to which asset realisation needs to match liability maturity. There are risks underlying these considerations. If asset returns fall below the returns required for scheme assets to match the present value of scheme liabilities, a scheme deficit results. Persistent deficits represent an obligation the Group has to settle through increased cash contributions. If asset maturities are not properly matched with liability maturities, there is also the risk that the Group could be required to make unplanned short-term cash contributions to resolve resulting liquidity issues. Scheme assets are invested by the trustees in asset classes and markets that are considered to be reasonably liquid, so through this matching liquidity risk is considered to be sufficiently mitigated.

18. Employee benefits continued

The fair value of scheme assets, which are not intended to be realised in the short-term and may be subject to significant change before they are realised, and the present value of the pension scheme liabilities, which are derived from cash flow projections over long periods and are therefore inherently uncertain, are:

	2019				
		Europe £m		USA £m	Total £m
Equities	27%	61.6	57%	31.7	93.3
Bonds/LDI	73%	169.1	43%	23.9	193.0
Other	–	1.2	–	0.3	1.5
Fair value of scheme assets		231.9		55.9	287.8
Present value of scheme liabilities		(218.5)		(82.7)	(301.2)
Net retirement benefit assets/(obligations)		13.4		(26.8)	(13.4)

	2018				
		Europe £m		USA £m	Total £m
Equities	26%	55.3	57%	29.7	85.0
Bonds/LDI	74%	154.2	41%	21.0	175.2
Other	–	0.3	2%	0.8	1.1
Fair value of scheme assets		209.8		51.5	261.3
Present value of scheme liabilities		(194.7)		(77.5)	(272.2)
Net retirement benefit assets/(obligations)		15.1		(26.0)	(10.9)

The equity, corporate bond and government bond assets are either direct investments or investments made via a managed fund for those asset classes. All of these assets have a quoted market price in an active market. The other asset class relates primarily to property and hedge funds, which are valued at their cumulative unit offer price. No direct investment in property is held. No plan assets are invested directly in the shares of Essentra plc.

The pension surplus in Europe is not restricted as the asset is considered realisable on the basis of the Group's unconditional right to a refund.

The average expected duration of the Group's European defined benefit pension liability at 31 December 2019 is 18.0 years (2018: 18.0 years).

The average expected duration of the Group's US defined benefit pension liability at 31 December 2019 is 12.4 years (2018: 11.7 years).

The Group's contributions to its defined benefit pension schemes are determined in consultation with trustees, taking into consideration actuarial advice, investment conditions and other local conditions and practices. The outcome of these consultations can impact the timing of future cash flows. In 2020, the Group expects to make defined benefit contributions of \$6.2m to its US schemes and £0.7m in respect of the Group's European schemes.

18. Employee benefits continued

Movement in fair value of post-employment obligations during the year

	2019				2018			
	Defined benefit pension scheme assets £m	Defined benefit pension scheme liabilities £m	Other £m	Total £m	Defined benefit pension scheme assets £m	Defined benefit pension scheme liabilities £m	Other £m	Total £m
Beginning of year	261.3	(272.2)	(3.0)	(13.9)	280.6	(291.3)	(2.7)	(13.4)
Current service cost and administrative expense	(1.7)	–	(0.5)	(2.2)	(1.5)	–	(0.4)	(1.9)
Past service cost	–	–	–	–	–	(2.2)	–	(2.2)
Employer contributions	3.4	0.1	–	3.5	2.6	0.1	–	2.7
Return on plan assets excluding amounts in net finance income	29.6	–	–	29.6	(14.1)	–	–	(14.1)
Actuarial losses arising from change in financial assumptions	–	(38.1)	(0.2)	(38.3)	–	20.3	0.2	20.5
Actuarial gains arising from change in demographic assumptions	–	3.0	–	3.0	–	0.8	–	0.8
Actuarial gains arising from experience adjustment	–	0.8	–	0.8	–	(4.5)	–	(4.5)
Finance income/(expense)	8.1	(8.6)	(0.2)	(0.7)	7.5	(8.0)	(0.1)	(0.6)
Benefits paid	(11.2)	11.2	–	–	(16.7)	16.7	–	–
Curtailments	–	–	–	–	–	0.1	0.1	0.2
Currency translation	(1.7)	2.6	(0.1)	0.8	2.9	(4.2)	(0.1)	(1.4)
Business disposals	–	–	–	–	–	–	–	–
End of year	287.8	(301.2)	(4.0)	(17.4)	261.3	(272.2)	(3.0)	(13.9)

Sensitivity

For the significant assumptions used in determining defined benefit costs and liabilities, the following sensitivity analysis gives the estimate of the impact on the measurement of the scheme liabilities as at 31 December 2019.

	(Increase)/decrease in schemes net liabilities		
	Europe £m	US £m	Total £m
0.5% decrease in the discount rate	(21.3)	(5.3)	(26.6)
1.0% increase in the rate of inflation	19.3	n/a	19.3
1.0% increase in rate of salary/pension increases	n/a	n/a	n/a
1 year increase in life expectancy	(8.9)	(2.6)	(11.5)
1 year decrease in life expectancy	8.9	n/a	8.9
0.5% increase in the discount rate	18.7	4.7	23.4
1.0% decrease in rate of salary/pension increases	n/a	n/a	n/a
1.0% decrease in the rate of inflation	(15.8)	n/a	(15.8)

Share-based incentives

Essentra operates equity-settled share-based incentive plans for its Executive Directors and employees. The total expense in respect of these plans during the year was £4.4m (2018: £5.2m), of which £0.5m (2018: £0.4m) in relation to senior management restructuring was included within exceptional operating costs. Details of these plans are set out on the next page:

18. Employee benefits continued

Share options outstanding

	2019											
	At 1 Jan 2019	Weighted average exercise price	Granted during the year	Weighted average exercise price	Lapsed during the year	Weighted average exercise price	Exercised during the year	Weighted average exercise price	At 31 Dec 2019	Weighted average exercise price	Exercisable at 31 Dec 2019	Weighted average exercise price
LTIP Part A	921,994	551.4p	–	–	(369,927)	808.9p	(172,870)	214.2p	379,197	453.9p	379,197	453.9p
LTIP Part B	4,347,600	–	2,531,573	–	(768,837)	–	(4,607)	–	6,105,729	–	–	–
DASB	223,038	–	236,361	–	–	–	(36,014)	–	423,385	–	1,143	–
SAYE 3-year plan	555,730	430.7p	637,870	327.1p	(338,547)	419.4p	(3,058)	407.2p	851,995	357.7p	–	–
SAYE 5-year plan	216,874	449.0p	175,269	327.1p	(205,322)	428.0p	–	–	186,821	357.7p	–	–
US SAYE 2-year plan	108,332	372.2p	25,389	359.2p	(52,358)	375.6p	–	–	81,363	365.6p	21,239	442.0p
	6,373,568		3,606,462		(1,734,991)		(216,549)		8,028,490		401,579	

	2018											
	At 1 Jan 2018	Weighted average exercise price	Granted during the year	Weighted average exercise price	Lapsed during the year	Weighted average exercise price	Exercised during the year	Weighted average exercise price	At 31 Dec 2018	Weighted average exercise price	Exercisable at 31 Dec 2018	Weighted average exercise price
LTIP Part A	1,203,978	628.4p	–	–	(241,598)	997.0p	(40,386)	180.8p	921,994	551.4p	583,847	390.9p
LTIP Part B	2,923,936	–	2,188,832	–	(736,793)	–	(28,375)	–	4,347,600	–	25,324	–
DASB	71,765	–	228,473	–	–	–	(77,200)	–	223,038	–	–	–
SAYE 3-year plan	603,283	462.1p	217,436	407.2p	(263,560)	482.9p	(1,429)	430.0p	555,730	430.7p	–	–
SAYE 5-year plan	198,282	482.6p	151,988	407.2p	(131,351)	451.5p	(2,045)	430.0p	216,874	449.0p	–	–
US SAYE 2 year plan	65,785	439.3p	48,706	324.5p	(6,159)	711.5p	–	–	108,332	372.2p	24,468	367.0p
	5,067,029		2,835,435		(1,379,461)		(149,435)		6,373,568		633,639	

The exercise prices of options outstanding at the end of the year range from nil to 692.0p.

The weighted average share price at the date of exercise for options exercised during the year was 408.5p (2018: 464.5p). The following table shows the weighted average fair value at the date of grant for options granted during the year:

	LTIP Part A	LTIP Part B	DASB	SAYE 3-year plan	SAYE 5-year plan
Year ended 31 December 2019	n/a	295.5p	346.4p	100.1p	82.7p
Year ended 31 December 2018	n/a	284.9p	373.6p	85.2p	69.9p

18. Employee benefits continued

Fair value model inputs for cumulative share options awarded

	2019				
	LTIP Part A	LTIP Part B	DASB	SAYE 3-year plan	SAYE 5-year plan
Weighted average fair value at grant	103.4p	319.2p	359.8p	106.7p	89.9p
Weighted average share price at grant	453.9p	441.9p	418.3p	441.4p	443.4p
Weighted average exercise price	453.9p	–	–	357.7p	430.1p
Weighted average volatility	33.7%	35.5%	40.4%	40.5%	35.5%
Weighted average dividend yield	2.53%	4.77%	4.96%	4.75%	4.83%
Weighted risk free rate	0.88%	0.47%	0.73%	0.65%	0.83%
Expected employee retention rates	88.2%	90.0%	100.0%	88.7%	86.7%
Expected term	3.20 years	3.00 years	3.00 years	3.10 years	5.20 years
Valuation model	Binomial	Monte Carlo	Binomial	Binomial	Binomial

	2018				
	LTIP Part A	LTIP Part B	DASB	SAYE 3-year plan	SAYE 5-year plan
Weighted average fair value at grant	115.5p	379.1p	407.4p	120.4p	102.6p
Weighted average share price at grant	551.4p	521.1p	465.9p	501.6p	505.1p
Weighted average exercise price	551.4p	–	–	430.7p	449.0p
Weighted average volatility	31.8%	39.3%	39.7%	41.3%	34.3%
Weighted average dividend yield	2.77%	4.18%	4.61%	4.22%	4.32%
Weighted risk free rate	0.91%	0.58%	0.86%	0.55%	1.04%
Expected employee retention rates	85.1%	93.3%	100.0%	84.9%	79.5%
Expected term	3.20 years	3.00 years	3.00 years	3.00 years	5.00 years
Valuation model	Binomial	Monte Carlo	Binomial	Binomial	Binomial

Where relevant, market conditions are taken into account in determining the fair value of the awards at grant date. The three year average historic volatility at grant date has been used as the volatility input for the LTIP Part A, LTIP Part B, DASB and SAYE 3 year awards, and the five year average historic volatility at grant date has been used as the volatility input for the SAYE 5 year award.

	2019 and 2018				
	LTIP Part A	LTIP Part B	DASB	SAYE 3-year plan	SAYE 5-year plan
Contractual life	3 – 10 years	3 – 6 years	3 years	3 years	5 years

Details of the vesting conditions of the LTIP Part A, LTIP Part B and DASB share option schemes are set out in the Annual Report on Remuneration on pages 101 to 111.

19. Financial risk management

Essentra's activities expose the business to a number of key financial risks which have the potential to affect its ability to achieve its business objectives.

The Board has overall responsibility for Essentra's system of internal control and financial risk management and for reviewing the effectiveness of this system. Such a system can only be designed to mitigate, rather than eliminate, the risk of failure to achieve business objectives and can therefore only provide reasonable, and not absolute, assurance against material misstatement or loss.

Essentra has a centralised treasury function to manage funding, liquidity and exposure to interest rate and foreign exchange risk. Treasury policies are approved by the Board and cover the nature of the exposure to be hedged, the types of derivatives that may be employed and the criteria for investing and borrowing cash. Essentra uses derivatives only to manage currency and interest rate risk arising from underlying business activities. No transactions of a speculative nature are undertaken. The Treasury function is subject to periodic independent reviews by the Group Assurance function. Underlying policy assumptions and activities are reviewed by the Treasury Committee.

Controls over exposure changes and transaction authenticity are in place and dealings are restricted to those banks with the relevant combination of geographical presence, expertise and suitable credit rating.

The following describes Essentra's financial risk exposure and management from a quantitative and qualitative perspective.

i) Credit risk

Credit risk is the risk of financial loss if a customer or counterparty to a financial asset or liability fails to meet its contractual obligations, and arises principally from trade receivables and cash and cash equivalents. Essentra has no significant individual concentrations of credit risk. The following is an overview of how Essentra manages its credit risk exposures.

Trade and other receivables

Essentra's exposure to credit risk is driven by the profile of its customers. This is influenced by the demographics of the customer base, including the industry and country in which customers operate.

Essentra monitors significant customers' credit limits and recognises an impairment of trade receivables in specific instances where a customer's credit standing has deteriorated to the extent that a credit default is considered probable. Following implementation of IFRS 9, Essentra also recognises an expected credit loss impairment of trade receivables through an accounting policy election, whereby default losses are expected for each receivables ageing category as follows: Current: 0.5%, Overdue 1-30 days: 1%, Overdue 31-60 days: 5%, Overdue 61-90 days: 10%, Overdue 91-180 days: 25%, Overdue 181-360 days: 50% and Overdue over 360 days: 100%.

Trade receivables were assessed for impairment using the expected credit loss model which requires expected credit losses and changes to expected credit losses at each reporting date to reflect changes in credit risk since initial recognition.

As at 31 December 2019, gross trade receivables (including amounts relating to disposal group held for sale) were £145.3m (2018: £161.9m) of which £30.5m (2018: £34.6m) were past due. The ageing analysis of trade receivables is as follows:

	2019 £m	2018 £m
1-60 days	23.6	26.8
61-180 days	3.4	3.7
181-360 days	1.8	1.6
360+ days	1.7	2.5
	30.5	34.6

As at 31 December 2019, the combined specific and expected credit loss impairment of trade receivables was of £5.3m (2018: £6.6m). The analysis of the combined impairment based on the underlying receivables is as follows:

	2019 £m	2018 £m
Current	0.6	0.7
1-60 days	0.4	0.6
61-180 days	0.8	0.9
181-360 days	1.8	0.8
360+ days	1.7	3.6
	5.3	6.6

19. Financial risk management continued

The movement in the provision for impaired receivables (including amounts relating to disposal group held for sale) is as follows:

	2019 £m	2018 £m
Beginning of year	6.6	7.2
Impaired receivables acquired	(1.2)	–
Impairment loss recognised	1.3	2.7
Business disposals	(0.4)	–
Utilisation	(1.0)	(3.3)
End of year	5.3	6.6

Derivative assets

Credit risk with respect to derivatives is controlled by limiting transactions to major banking counterparties where internationally agreed standard form documentation exists. The credit ratings of these counterparties are monitored regularly.

Cash and cash equivalents

Credit risk relating to cash and cash equivalents is monitored daily, on a counterparty by counterparty basis. The credit limits imposed specify the maximum amount of cash which can be invested in, or with, any single counterparty. These limits are determined by geographic presence, expertise and credit rating. Essentra monitors the credit ratings of counterparties.

The following credit risk table provides information regarding the credit risk exposure of Essentra by classifying derivative assets, short-term investments and cash and cash equivalents (including amounts relating to disposal group held for sale) according to credit ratings of the counterparties. AAA is the highest possible rating and all of the assets are neither impaired nor past due.

	2019						Total £m
	AAA £m	AA £m	A £m	BBB £m	BB £m	Not rated £m	
Derivative assets	–	0.1	0.7	–	–	–	0.8
Short-term investments	–	–	–	0.6	–	–	0.6
Cash and cash equivalents	4.4	1.6	51.5	9.8	1.5	1.6	70.4
	4.4	1.7	52.2	10.4	1.5	1.6	71.8

	2018						Total £m
	AAA £m	AA £m	A £m	BBB £m	BB £m	Not rated £m	
Derivative assets	–	–	0.2	0.1	–	–	0.3
Cash and cash equivalents	2.1	1.0	47.2	12.7	1.9	1.3	66.2
	2.1	1.0	47.4	12.8	1.9	1.3	66.5

Essentra's maximum credit risk exposure is £239.4m (2018: £257.7m) and no collateral is held against this amount (2018: £nil).

ii) Market price risk

Market price risk is the risk that changes in foreign exchange rates and interest rates will affect income or the value of financial assets and liabilities. Essentra has produced a sensitivity analysis that shows the estimated change to the income statement and equity of a 1%, 5% or 10% weakening or strengthening in sterling against all other currencies or an increase or decrease of 50 basis points ("bps"), 100bps and 200bps in market interest rates. The amounts generated from the sensitivity analysis are estimates and actual results in the future may materially differ.

Essentra is exposed to two types of market price risk: currency risk and interest rate risk.

a) Currency risk

Essentra publishes its consolidated financial statements in sterling but conducts business in several foreign currencies. Therefore it is subject to currency risk due to exchange rate movements which affect the translation of results and underlying net assets of its operations and their transaction costs.

Hedge of net investment in foreign operations

The majority of Essentra's net assets are in currencies other than sterling. The Company's normal policy is to limit the translation exposure and the resulting impact on shareholders' funds through measures such as borrowing in those currencies in which the Group has significant net assets. Essentra's US dollar denominated assets were approximately 46% (2018: 36%) hedged by the US dollar denominated borrowings. Essentra's euro denominated assets were approximately 32% hedged by the euro denominated borrowings (2018: 30%).

19. Financial risk management continued

Transaction exposure hedging

The majority of Essentra's transactions are carried out in the functional currencies of its operations and therefore transaction exposure is limited. However, where such exposure does occur, Essentra uses forward foreign currency contracts to hedge its exposure to movements in exchange rates on its highly probable forecast foreign currency sales and purchases over a period of up to 18 months.

Essentra does not formally define the proportion of highly probable forecast sales and purchases to hedge, but agrees an appropriate percentage on an individual basis with each business by reference to the Group's risk management policies and prevailing market conditions. The Group documents currency derivatives used to hedge its forecast transactions as cash flow hedges. To the extent that cash flow hedges are effective, gains and losses are recognised in other comprehensive income until the forecast transaction occurs, at which point the gains and losses are transferred either to the income statement or to the non-financial asset acquired.

The following table shows Essentra's sensitivity to a 1%, 5% and 10% weakening or strengthening in sterling against all currencies. To calculate the impact on the income statement for the year all currencies' average rates have been increased or decreased by 1%, 5% or 10%. The translational effect on equity is limited as a proportion of US dollar and euro exposure is hedged. Accordingly the effect on equity is calculated by increasing or decreasing the closing rate of all currencies with an adjustment for the movement in currency hedges. It is assumed that all net investment and cash flow hedges will continue to be 100% effective.

	2019					
	Weakening in sterling			Strengthening in sterling		
	10% £m	5% £m	1% £m	10% £m	5% £m	1% £m
Impact on the income statement – gain/(loss)	6.0	2.8	0.5	(4.9)	(2.6)	(0.5)
Impact on equity – gain/(loss)	58.9	27.9	5.4	(48.2)	(25.2)	(5.2)

	2018					
	Weakening in sterling			Strengthening in sterling		
	10% £m	5% £m	1% £m	10% £m	5% £m	1% £m
Impact on the income statement – gain/(loss)	5.2	2.5	0.5	(4.3)	(2.2)	(0.5)
Impact on equity – gain/(loss)	66.0	31.3	6.0	(54.0)	(28.3)	(5.9)

b) Interest rate risk

Essentra's strategy is to ensure that at least 30% of the total debt with maturities of more than one year is protected with fixed interest rates or approved interest rate derivatives.

The following table shows Essentra's sensitivity to a 50bps, 100bps and 200bps decrease or increase in sterling, US dollar and euro interest rates. To calculate the impact on the income statement for the year, the interest rates on all external floating rate interest bearing loans and borrowings have been increased or decreased by 50bps, 100bps or 200bps and the resulting increase or decrease in the net interest charge has been adjusted for the effect of Essentra's interest rate derivatives.

	2019					
	Decrease in interest rates			Increase in interest rates		
	200bps £m	100bps £m	50bps £m	200bps £m	100bps £m	50bps £m
Impact on the income statement – gain/(loss)	4.2	2.1	1.1	(4.2)	(2.1)	(1.1)

	2018					
	Decrease in interest rates			Increase in interest rates		
	200bps £m	100bps £m	50bps £m	200bps £m	100bps £m	50bps £m
Impact on the income statement – gain/(loss)	3.9	2.0	1.0	(3.9)	(2.0)	(1.0)

See note 14 for interest rate disclosure on loans and borrowings.

19. Financial risk management continued

iii) Liquidity risk

Liquidity risk is the risk that Essentra, although solvent, will encounter difficulties in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Essentra's objective is to maintain a balance between continuity of funding and flexibility. Essentra is primarily funded by a series of US Private Placement Loan Notes from various financial institutions totalling US\$155m and syndicated multi-currency 5-year revolving credit facilities of £285.0m and €100.8m from its banks. The series of Loan Notes have original maturities ranging from seven to twelve years and the revolving credit facilities mature in November 2022. At 31 December 2019, the available bank facilities totalled £370.4m (2018: £375.0m) of which £194.3m (2018: £193.1m) was drawn down. In addition, uncommitted and overdraft facilities are maintained to provide short-term flexibility.

In December 2019, the Company entered into a note purchase agreement for a new USPP facility for \$25m (\$15m due in April 2027 and \$10m due in April 2030), which will be available for drawdown in April 2020.

In April 2020 \$80m of US Private Placement Loan Notes are due to be repaid. In February 2020, the Company entered into an agreement with certain banks for a bridging loan facility for £50m, with an initial term of 12 months, plus a further six months at Essentra's option, and thereafter another six months at the lenders' discretion.

Amounts drawn by Essentra on its committed facilities are subject to standard banking covenants. The financial covenants require the net debt to EBITDA ratio to be less than 3.0x and interest cover to be greater than 3.5x. There has been no covenant breach during the period.

Essentra's available undrawn committed facilities at 31 December were:

	2019 £m	2018 £m
Expiring after two years	176.1	181.9

Any loans drawn on these facilities would bear interest at floating rates with reference to LIBOR for the currency and period of the loan.

The maturity of Essentra's financial liabilities (including amounts relating to disposal group held for sale), including estimated interest payments, is analysed below.

	2019						
	Fair value £m	Carrying amount £m	Contractual cash flows £m	<1 yr £m	1–2 yrs £m	2–5 yrs £m	>5 yrs £m
Unsecured bank loans	194.3	192.5	204.5	3.5	3.5	197.5	–
US Private Placement Loan Notes	121.1	117.1	139.7	65.0	2.6	22.9	49.2
Derivative liabilities	0.3	0.3	0.3	0.3	–	–	–
Trade and other payables	121.7	122.6	122.6	122.6	–	–	–
Lease liabilities	50.7	50.7	57.2	13.2	10.9	20.8	12.3
Other unsecured loans	0.1	0.1	0.1	0.1	–	–	–
Deferred consideration	4.3	4.3	4.3	0.9	2.2	1.2	–
	492.5	487.6	528.7	205.6	19.2	242.4	61.5

	2018						
	Fair value £m	Carrying amount £m	Contractual cash flows £m	<1 yr £m	1–2 yrs £m	2–5 yrs £m	>5 yrs £m
Unsecured bank loans	193.0	190.6	205.1	3.1	3.1	198.9	–
US Private Placement Loan Notes	120.5	120.6	150.5	6.4	67.0	8.0	69.1
Derivative liabilities	0.2	0.2	0.2	0.2	–	–	–
Trade and other payables	146.7	146.7	146.7	146.7	–	–	–
Finance lease liabilities	0.1	0.1	0.1	0.1	–	–	–
Deferred consideration	3.9	3.9	3.9	1.3	–	1.3	1.3
	464.4	462.1	506.5	157.8	70.1	208.2	70.4

Total trade and other payables (including amounts relating to disposal group held for sale) carried at £174.5m (2018: £203.6m) including accruals and deferred income of £43.9m (2018: £48.7m) and other taxes and social security contributions of £8.0m (2018: £8.2m) which are not financial liabilities and are therefore excluded from the above analysis. All trade and other payables are due to be settled in less than six months.

The fair value of the unsecured bank loans is the same as the carrying amount as the loans are at floating rate, except for unamortised facility fees. The fair value of the US Private Placement Loan Notes is estimated by discounting the future cash flows (interests and principal) at the prevailing market rates. The fair value of the trade and other payables approximate the carrying amount as they are due to be settled within six months.

19. Financial risk management continued

Total financial assets and liabilities

The table below sets out Essentra's accounting categories and fair value for each class of financial asset and liability (including amounts relating to disposal group held for sale).

	2019			2018		
	Fair value £m	Amortised cost £m	Total carrying value £m	Fair value £m	Amortised cost £m	Total carrying value £m
Level 1 of fair value hierarchy						
Trade and other receivables	–	162.0	162.0	–	191.2	191.2
Cash and cash equivalents	–	70.4	70.4	–	66.2	66.2
Other financial assets	–	6.2	6.2	–	–	–
Interest bearing loans and borrowings	–	(309.7)	(309.7)	–	(311.3)	(311.3)
Lease liabilities	–	(50.7)	(50.7)	–	–	–
Trade and other payables	–	(121.7)	(121.7)	–	(144.4)	(144.4)
Level 2 of fair value hierarchy						
Derivative assets	0.8	–	0.8	0.3	–	0.3
Derivative liabilities	(0.3)	–	(0.3)	(0.2)	–	(0.2)
Level 3 of fair value hierarchy						
Trade and other payables	(3.4)	–	(3.4)	(1.3)	–	(1.3)
Other non-current financial liabilities	(0.9)	–	(0.9)	(2.6)	–	(2.6)
	(3.8)	(243.5)	(247.3)	(3.8)	(198.3)	(202.1)

Total trade and other receivables (including amounts relating to disposal group held for sale) carried at £172.5m (2018: £204.2m) include prepayments of £10.5m (2018: £13.0m) which are not financial assets and are therefore excluded from the above analysis. Fair values of forward foreign exchange contracts and cross currency swaps have been calculated at year end forward exchange rates compared to contracted rates. These are determined to be level 2 in the fair value hierarchy.

Included within trade and other payables and other non-current financial liabilities, which is classified as level 3 in the fair value hierarchy, is the deferred consideration of £4.3m relating to the acquisitions of Micro Plastics and Innovative Components (2018: £3.9m). There are no non-recurring fair value measurements. During the year, a fair value gain of £nil (2018: fair value gain of £nil) in respect of financial instruments at level 3 fair value hierarchy was recognised within exceptional items (see note 2), and £nil (2018: £nil) was settled in cash. No other fair value gains or losses were recorded in profit or loss and other comprehensive income.

Included within interest bearing loans and borrowings are \$155m (2018: \$155m) US Private Placement Loan Notes. The Loan Notes are held at amortised cost with a carrying value of £117.1m (2018: £120.6m). The Group estimates that the total fair value of the Loan Notes at 31 December 2019 is £121.1m (2018: £120.5m).

All other financial assets are held at amortised cost and mostly have short terms to maturity. For this reason, their carrying amounts at the reporting date approximate the fair values. Unsecured bank loans, included within interest bearing loans and borrowings, incur interest at floating rates and as a result their carrying amounts also approximate their fair values at the reporting date.

The table below shows the amount of bank overdrafts offset against the bank balances under enforceable master netting agreements with banks (including amounts relating to disposal group held for sale):

	Gross amount of recognised financial assets £m	Gross amount of recognised financial liabilities set off in the balance sheet £m	Net amount of financial assets presented in the balance sheet £m
Cash and cash equivalents:			
At 31 December 2019	73.6	(3.2)	70.4
At 31 December 2018	68.1	(1.9)	66.2

19. Financial risk management continued

iv) Capital structure

Essentra defines its capital structure as its equity and non-current interest bearing loans and borrowings, and aims to manage this to safeguard its ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits for other stakeholders.

Essentra sets the amount of capital in proportion to risk. Essentra manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, Essentra may return capital to shareholders through dividends and share buybacks, issue new shares or sell assets to reduce debt.

Essentra monitors its capital structure on the basis of the medium-term net debt-to-EBITDA ratio. EBITDA is defined as operating profit before depreciation and other amounts written off property, plant and equipment, share option expense, intangible amortisation and exceptional and other adjusting items. For 2019 the ratio includes the impact of IFRS 16. In the absence of adjustments for IFRS 16 the net debt to EBITDA ratio would have been 1.9.

The net debt-to-EBITDA ratios at 31 December were as follows.

	Note	2019 £m	2018 £m
Net debt		284.4	240.1
Operating profit before intangible amortisation and exceptional and other adjusting items		87.5	90.7
Plus depreciation and other amounts written off property, plant and equipment, and amortisation of non-acquired intangible assets		48.2	35.9
Plus share option expense	18	3.9	4.8
EBITDA		139.6	131.4
Net debt-to-EBITDA ratio		2.0	1.8

20. Issued share capital

	2019 £m	2018 £m
Issued, authorised and fully paid ordinary shares of 25p (2018: 25p) each	66.0	66.0
Number of ordinary shares in issue		
Beginning of year	264,129,170	264,129,170
End of year	264,129,170	264,129,170

At 31 December 2019, the Company held 951,137 (2018: 1,127,065) of its own shares with a nominal value of £0.2m (2018: £0.3m) in treasury. This represents 0.4% (2018: 0.4%) of the number of ordinary shares in issue.

21. Reserves

Within retained earnings the Company has deducted the value of own shares purchased for an employee trust and treasury shares held by the Company with a total cost of £10.4m (2018: £11.1m).

Employee trust shares are ordinary shares of the Company held in an employee benefit trust. The purpose of this trust is to hold shares in the Company for subsequent transfer to Executive Directors and employees relating to deferred share awards and options granted under the Company's share-based incentive plans. Full details are set out in the Annual Report on Remuneration on pages from 101 to 111. The assets, liabilities and expenditure of the trust have been incorporated in these Financial Statements. At 31 December 2019, the trust held 1,033,311 (2018: 1,073,932) shares, upon which dividends have been waived, with an aggregate nominal value of £0.3m (2018: £0.3m) and market value of £4.5m (2018: £3.7m).

The other reserve relates to the Group reorganisation, which took place as part of the de-merger from Bunzl plc. It represents the difference between Essentra plc's share capital and Essentra International Limited's share capital and share premium on 6 June 2005 and is not distributable.

22. Analysis of net debt

	1 Jan 2019 £m	Impact on adoption of IFRS 16 £m	Cash flow £m	Business combinations £m	Lease additions £m	Exchange movements £m	Non-cash movements £m	31 Dec 2019 £m
Cash at bank and in hand	62.3	–	0.8	–	–	(0.5)	–	62.6
Short-term deposits and investments	3.9	–	4.3	–	–	(0.4)	–	7.8
Cash and cash equivalents in the statement of cash flows	66.2	–	5.1	–	–	(0.9)	–	70.4
Debt due within one year	(0.1)	–	0.1	–	–	–	(60.7)	(60.7)
Debt due after one year	(311.2)	–	10.0	(13.8)	–	6.1	59.9	(249.0)
Other financial assets	5.0	–	0.6	–	–	–	–	5.6
Lease liabilities due within one year	–	(11.7)	14.5	(0.5)	(1.6)	0.3	(12.4)	(11.4)
Lease liabilities due after one year	–	(47.7)	–	(1.7)	(11.7)	1.1	20.7	(39.3)
Net debt	(240.1)	(59.4)	30.3	(16.0)	(13.3)	6.6	7.5	(284.4)

The non-cash movements in debt due after one year represent the amortisation of prepaid facility fees £0.8m offset by £60.7m of debt moving to debt due within one year. The net non-cash movement in lease liabilities represents early lease terminations £10.4m offset by interest on leases £2.1m. During the year £20.7m of lease liabilities moved from due after one year to due within one year.

Included within other financial assets is £5.0m of loan receivables arising from the disposal of Porous Technologies and £0.6m of short-term liquid investments. In the year ended 31 December 2019, the loan receivable arising from the disposal of Porous Technologies moved from non-current to current assets.

	1 Jan 2018 £m	Impact on adoption of IFRS 16 £m	Cash flow £m	Business combinations £m	Lease additions £m	Exchange movements £m	Non-cash movements £m	31 Dec 2018 £m
Cash at bank and in hand	48.0	–	14.5	–	–	(0.2)	–	62.3
Short-term deposits and investments	4.0	–	–	–	–	(0.1)	–	3.9
Cash and cash equivalents in the statement of cash flows	52.0	–	14.5	–	–	(0.3)	–	66.2
Debt due within one year	(0.5)	–	0.4	–	–	–	–	(0.1)
Debt due after one year	(267.1)	–	(35.6)	–	–	(7.7)	(0.8)	(311.2)
Loan receivable (arising from the disposal of Porous Technologies)	5.0	–	–	–	–	–	–	5.0
Net debt	(210.6)	–	(20.7)	–	–	(8.0)	(0.8)	(240.1)

The non-cash movements in 2018 represent the amortisation in prepaid facility fees.

23. Commitments

Operating leases

At 31 December Essentra had the following future minimum lease payments under non-cancellable operating leases:

	2019 £m	2018 £m
Payable within one year	0.3	13.6
Payable between one and five years	0.2	35.1
Payable after five years	–	13.6
	0.5	62.3

24. Acquisitions and disposals

Acquisition of minority stake in Essentra (MEA) Pte. Ltd

On 19 March 2019, Essentra acquired the 49% minority interest in its Filters operation based in Dubai, Essentra (MEA) Pte. Ltd, from Aberdeen International FZE (part of the BBM Bommidala group) for a cash consideration of £11.6m. Essentra (MEA) Pte. Ltd is the holding company of Essentra FZE, which undertakes the Company's Filters activities in Dubai.

Establishment of joint venture China Tobacco Essentra (Xiamen) Filters Co., Ltd.

On 27 November 2019, Essentra signed an agreement for the establishment of a new joint venture company in China, China Tobacco Essentra (Xiamen) Filters Co., Ltd. Essentra holds a 49% interest in this company. As at 31 December 2019 the new joint venture held nil net assets.

Acquisition of Micro Plastics

On 12 December 2017 Essentra acquired 100% of the share capital of Micro Plastics Inc. The transaction was settled with cash consideration of £19.7m and deferred consideration of £3.7m. During 2019 £1.2m of deferred consideration was paid out to the vendor, with the remainder to be paid in the future.

Acquisition of Innovative Components

On 26 June 2019, Essentra acquired 100% of the share capital of Innovative Components Inc. and Componentes Innovadores Limitada (together "Innovative Components"). Innovative Components is a leading manufacturer and distributor of knobs, pins and handles in North America for a broad range of end-markets, and is reported under the Company's Components division.

On acquisition the assets and liabilities of the business acquired were adjusted to reflect their fair value to Essentra. Due to the timing of the transaction, the purchase price allocations including the split between goodwill and intangible assets and fair value adjustments are provisional and subject to finalisation for up to one year from the date of acquisition.

A deferred consideration of £2.0m was recognised and will be settled in two equal instalments on the first and second anniversary from the acquisition date.

Had the acquisition been completed on 1 January 2019, the contribution to the Group's revenue and operating profit would have been £4.6m and £1.0m higher respectively.

An estimate of related transaction costs of £0.9m were recognised in the consolidated income statement in exceptional and other adjusting items.

Acquisition of Nekicesa

On 6 September 2019, Essentra acquired 100% of the share capital of Nekicesa Packaging S.L. ("Nekicesa"). Nekicesa is one of the leading converters of folding cartons supplying the pharmaceutical end-market in Spain and is reported under the Packaging division.

On acquisition the assets and liabilities of the business acquired were adjusted to reflect their fair value to Essentra. Due to the timing of the transaction, the purchase price allocations including the split between goodwill and intangible assets and fair value adjustments are provisional and subject to finalisation for up to one year from the date of acquisition.

Had the acquisition been completed on 1 January 2019, the contribution to the Group's revenue and operating profit would have been £15.0m and £1.8m higher respectively.

An estimate of related transaction costs of £0.8m were recognised in the consolidated income statement in exceptional and other adjusting items.

24. Acquisitions and disposals continued

The fair value of assets and liabilities acquired as part of the acquisition of Innovative Components and Nekicesa are detailed below:

	Nekicesa £m	Innovative Components £m	Total £m
Intangible assets	4.5	9.5	14.0
Property, plant and equipment	13.6	0.4	14.0
Lease right-of-use asset	3.5	0.3	3.8
Inventories	2.3	2.0	4.3
Trade and other receivables	3.3	1.0	4.3
Cash and cash equivalents	0.8	0.2	1.0
Deferred tax	(2.4)	(2.6)	(5.0)
Debt	(13.8)	–	(13.8)
Trade and other payables	(3.2)	(0.7)	(3.9)
Lease liabilities	(3.1)	(0.3)	(3.4)
	5.5	9.8	15.3
Goodwill	4.8	7.8	12.6
Consideration	10.3	17.6	27.9
Satisfied by:			
Cash consideration	10.3	15.6	25.9
Deferred consideration	–	2.0	2.0
	10.3	15.6	25.9
Cash and cash equivalents acquired	(0.8)	(0.2)	(1.0)
Net cash outflow in respect of the acquisition	9.5	15.4	24.9

Goodwill represents the expected operating and financial synergies, and the value of an assembled workforce. Goodwill is not deductible for tax purposes.

Fair values of assets and liabilities, including property, plant and equipment, acquired for Nekicesa are provisional and subject to change as the Group is still permitted to make fair value adjustments up until 12 months after the date of acquisition.

Disposals

On 14 January 2019, Essentra divested of its Pipe Protection Technologies business ("PPT") to certain wholly-owned subsidiaries of National Oilwell Varco, Inc. This disposal resulted in a gain before tax of £11.2m, which has been recognised within exceptional and other adjusting items. Related transaction costs of £2.3m were also recognised in the consolidated income statement in exceptional and other adjusting items. As at the 2018 year end the assets and liabilities for this business were in a disposal group held for sale.

On 11 June 2019, Essentra divested of its Extrusion business to Inter Primo A/S. This disposal resulted in a loss before tax of £1.8m, which has been recognised within exceptional and other adjusting items. Related transaction costs of £1.2m were also recognised in the consolidated income statement in exceptional and other adjusting items.

On 28 June 2019, Essentra divested of its Speciality Tapes business ("ST") to OpenGate Capital. This disposal resulted in a gain before tax of £20.0m, which has been recognised within exceptional and other adjusting items. Related transaction costs of £5.1m were also recognised in the consolidated income statement in exceptional and other adjusting items.

On 23 July 2019, Essentra divested of its Cards Solution business to Barcodes, Inc. This disposal resulted in a loss before tax of £1.1m, which has been recognised within exceptional and other adjusting items. Related transaction costs of £0.2m were also recognised in the consolidated income statement in exceptional and other adjusting items.

24. Acquisitions and disposals continued

The disposal proceeds, nets assets disposed and gains arising from the movement in foreign currency exchange from the divestment of the PPT, Extrusion, Speciality Tapes and Card Solutions businesses were as follows:

	Pipe Protection Technologies £m	Extrusion £m	Speciality Tapes £m	Card Solutions £m	Total £m
Goodwill	10.1	3.7	27.4	0.4	41.6
Other intangible assets	–	–	8.6	0.8	9.4
Property, plant and equipment	22.2	11.9	10.4	–	44.5
Lease right-of-use asset	0.9	0.1	–	–	1.0
Inventories	3.4	2.6	3.9	1.1	11.0
Trade and other receivables	5.6	4.4	4.3	1.5	15.8
Cash and cash equivalents	0.3	0.8	0.4	–	1.5
Deferred tax	(1.8)	–	(5.8)	(0.2)	(7.8)
Trade and other payables	(2.5)	(4.4)	(2.5)	(0.9)	(10.3)
Lease liabilities	(1.1)	(0.1)	–	–	(1.2)
	37.1	19.0	46.7	2.7	105.5
Reclassification of gains from movement in foreign currency exchange	(9.8)	(2.9)	(5.9)	–	(18.6)
Gain/(loss) on disposal before transaction costs	11.2	(1.8)	20.0	(1.1)	28.3
Disposal proceeds	38.5	14.3	60.8	1.6	115.2
Satisfied by:					
Cash consideration	37.5	14.3	60.8	1.6	114.2
Deferred consideration	1.0	–	–	–	1.0
Cash consideration	37.5	14.3	60.8	1.6	114.2
Deferred consideration received	1.0	–	–	–	1.0
Cash and cash equivalents disposed	(0.3)	(0.8)	(0.4)	–	(1.5)
Net cash inflow from disposals of businesses	38.2	13.5	60.4	1.6	113.7

At 31 December 2018, the total assets and total liabilities for PPT were included within assets held for sale. Details can be found in the Essentra Annual Report 2018.

The total gains of £28.3m before transaction costs represent the pre-tax gain on disposal.

The total gains of £18.6m arising from the movement in foreign currency exchange have been reclassified and reported within the consolidated income statement as part of the exceptional and other adjusting items arising on the disposal of businesses.

25. Dividends

	Per share		Total	
	2019 p	2018 p	2019 £m	2018 £m
2018 interim: paid 31 October 2018		6.3		16.5
2018 proposed final: paid 3 June 2019		14.4		37.7
2019 interim: paid 30 October 2019	6.3		16.5	
2019 proposed final: payable 1 June 2020	14.4		37.7	
	20.7	20.7	54.2	54.2

26. Related parties

Other than the compensation of key management (note 5), the acquisition of minority stake in Essentra (MEA) Pte. Ltd (note 24) and the establishment of joint venture China Tobacco Essentra (Xiamen) Filters Co., Ltd. (note 24), Essentra has not entered into any material transactions with related parties since the last Annual Report.

ITC Essentra Limited is 50% owned by the Group. The results were fully consolidated within the Group's financial statements as it is deemed Essentra has control by virtue of having control of the Board. As at 31 December 2019 the entity had gross assets of £25.9m (2018: £21.6m), gross liabilities of £10.4m (2018: £8.1m), operating profit of £6.3m (2018: £4.8m) and movement in cash of £3.8m (2018: £0.1m).

27. Post balance sheet events

In February 2020, the Company entered into an agreement with certain banks for a bridging loan facility for £50m, with an initial term of 12 months, plus a further six months at Essentra's option, and thereafter another six months at the lenders' discretion.

28. Parent company

Essentra plc is a limited company incorporated and domiciled in the United Kingdom. It operates as the ultimate parent company of the Essentra Group. Its registered office is Avebury House, 201-249 Avebury Boulevard, Milton Keynes, MK9 1AU, United Kingdom. The principal subsidiary undertakings of Essentra plc are listed in note 10 to the Essentra plc Company Financial Statements.

29. Adjusted measures

Management reviews the adjusted operating profit and operating cash flow as measures of the performance of the business. Adjusted operating profit is stated before amortisation of acquired intangible assets and exceptional and other adjusting items which are considered not relevant to measuring the underlying performance of the business. Operating cash flow is defined as adjusted operating profit before depreciation, share option expense and other non-cash items, less working capital movements and net capital expenditure as shown below:

	2019 £m	2018 £m
Operating profit	80.0	47.2
Amortisation of acquired intangible assets	22.9	22.7
Exceptional and other adjusting items	(15.4)	20.8
Adjusted operating profit	87.5	90.7
Depreciation	35.5	35.4
Lease right-of-use asset depreciation	11.3	–
Amortisation of non-acquired intangible assets	0.9	0.5
Share option expense	3.9	4.8
Other non-cash items	(0.4)	0.1
Working capital movements	(10.3)	5.9
Net capital expenditure ¹	(56.6)	(60.2)
Operating cash inflow – adjusted	71.8	77.2

¹ Net capital expenditure within adjusted operating cash flow excludes £0.3m (2018: £8.3m) of exceptional property, plant and equipment disposal proceeds realised during site closures.

Essentra plc Company Balance Sheet

At 31 December 2019

	Note	2019 £m	2018 £m
Fixed assets			
Investment in subsidiary undertaking	2,10	464.6	460.2
Current assets			
Debtors	3	273.4	329.5
Current liabilities			
Creditors: amounts falling due within one year	4	(61.5)	(1.0)
Net current assets		211.9	328.5
Non-current liabilities			
Creditors: amounts falling due after more than one year	5,6	(56.5)	(120.6)
Net assets		620.0	668.1
Capital and reserves			
Issued share capital	7	66.0	66.0
Merger relief reserve		298.1	298.1
Capital redemption reserve		0.1	0.1
Profit and loss account	8	255.8	303.9
Shareholders' funds: equity interests		620.0	668.1

The profit attributable to the equity holders included in the accounts of the Company is £1.3m (2018: profit of £1.0m).

The Company Financial Statements on pages 169 to 179 were approved by the Board of Directors on 28 February 2020 and were signed on its behalf by:

Paul Forman **Lily Liu**
Chief Executive **Chief Financial Officer**

Essentra plc Company Statement of Changes in Equity

For the year ended 31 December 2019

	Profit and loss account					Total equity £m
	Issued share capital £m	Merger relief reserve £m	Capital redemption reserve £m	Retained earnings £m	Own shares £m	
1 January 2019	66.0	298.1	0.1	315.0	(11.1)	668.1
Profit for year				1.3		1.3
Total comprehensive income for the year	–	–	–	1.3	–	1.3
Shares issued to satisfy employee share option exercises				(0.7)	0.7	–
Share options exercised				0.4		0.4
Share-based payments				4.4		4.4
Dividends paid				(54.2)		(54.2)
31 December 2019	66.0	298.1	0.1	266.2	(10.4)	620.0

	Profit and loss account					Total equity £m
	Issued share capital £m	Merger relief reserve £m	Capital redemption reserve £m	Retained earnings £m	Own shares £m	
1 January 2018	66.0	298.1	0.1	364.0	(12.2)	716.0
Profit for year				1.0		1.0
Total comprehensive income for the year	–	–	–	1.0	–	1.0
Shares issued to satisfy employee share option exercises				(1.1)	1.1	–
Share options exercised				0.1		0.1
Share-based payments				5.2		5.2
Dividends paid				(54.2)		(54.2)
31 December 2018	66.0	298.1	0.1	315.0	(11.1)	668.1

Essentra plc Company Accounting Policies

a Authorisation of financial statements and statement of compliance with FRS 101

The parent company financial statements of Essentra plc ("the Company") for the year ended 31 December 2019 were authorised for issue by the Board of Directors on 28 February 2020 and the balance sheet was signed on the Board's behalf by Paul Forman and Lily Liu. Essentra plc is a public limited company that is incorporated, domiciled and has its registered office in England and Wales. The Company's ordinary shares are publicly traded on the London Stock Exchange and it is not under the control of any single shareholder. These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101).

The profit and loss account of the Company is not presented as permitted by Section 408 of the Companies Act 2006.

b Basis of preparation

The Company transitioned to FRS 101 from the UK Generally Accepted Accounting Practice during the year ended 31 December 2015. No adjustments were required as part of this transition.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- the requirements of paragraph 45(b) and 46-52 of IFRS 2 *Share-Based Payment*;
- the requirements of paragraphs 62, B64(b), B64(e), B64(g), B64(h), B64(j) to B64(m), b64(n) (ii), B64(o) (ii), B64(p), B64(q) (ii), B66 and B67 of IFRS 3 *Business Combinations*;
- the requirement of IFRS 7 *Financial Instruments: Disclosures*;
- the requirement of paragraphs 91-99 of IFRS 13 *Fair Value Measurement*;
- the requirement in paragraph 38 of IAS 1 *Presentation of Financial Statements* to present comparative information in respect of paragraph 79(a) (iv) of IAS 1, paragraph 73(e) of IAS 16 *Property, Plant and Equipment* and paragraph 118(e) of IAS 38 *Intangible Assets*;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 *Presentation of Financial Statements*;
- the requirements of IAS 7 *Statement of Cash Flows*;
- the requirements of paragraphs 30 and 31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*;
- the requirements of paragraph 17 of IAS 24 *Related Party Disclosures*;
- the requirements in IAS 24 *Related Party Disclosures* to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
- the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 *Impairment of Assets*.

Where required, equivalent disclosures are given in the consolidated financial statements.

These accounts have been prepared in accordance with The Companies Act 2006 as applicable to companies using FRS 101 and are prepared on a going concern basis.

These accounts are prepared under the historical cost convention.

The following principal accounting policies have been consistently applied.

c Investment in subsidiary undertaking

Investment in subsidiary undertaking is held at cost less any provision for impairment. The Company assesses at each balance sheet date whether the investment in its subsidiary has been impaired.

d Share-based payments

The fair value of share options is measured at grant date. It is recognised as an addition to the cost of investment in the subsidiary in which the relevant employees work over the expected period between grant and vesting date of the options, with a corresponding adjustment to reserves. Detailed disclosures for the share-based payment arrangements of the Company are provided in note 18 to the consolidated financial statements.

e Own shares

The shares held in the Essentra Employee Benefit Trust for the purpose of fulfilling obligations in respect of share incentive plans are treated as belonging to the Company and are deducted from its retained earnings. The cost of shares held directly (treasury shares) is also deducted from retained earnings.

Financial Statements

Essentra plc Company Accounting Policies continued

f Dividends

Dividend distributions to the Company's shareholders are recognised as a liability in the period in which they are approved by the shareholders of the Company (final dividend) or paid (interim dividend).

Dividend income is recognised when the right to receive payment is established.

g Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account. Exchange differences arising from movements in spot rates are included in the profit and loss account as exchange gains or losses, while those arising from the interest differential elements of forward currency contracts are included in external interest income or expense.

h Financial assets

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period which are classified as non-current assets. The Company's financial assets at amortised cost comprise receivables in the balance sheet.

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Interest income is recognised accordingly using the effective interest method.

i Financial liabilities

Interest bearing loans and borrowings and other financial liabilities (excluding derivatives) are initially recognised at fair value net of transaction costs incurred. They are subsequently held at amortised cost using the effective interest method. Any difference between the proceeds, net of transaction costs, and the settlement or redemption of borrowings is recognised in profit or loss over the term of the borrowings.

The Company holds financial instruments which hedge the net investments in the foreign operations of its subsidiary undertakings. Gains and losses on these instruments are recognised in the profit and loss account of the Company.

j Taxation

Income tax in the profit and loss account comprises current and deferred tax. Income tax is recognised in the profit and loss account except to the extent that it relates to items recognised in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year using the applicable tax rates enacted or substantively enacted at the balance sheet date and any adjustment to tax payable in prior years.

Deferred tax is provided, using the balance sheet liability method, on temporary differences arising between the tax bases and the carrying amounts of assets and liabilities in the financial statements. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they will not reverse in the foreseeable future. Deferred tax is determined using tax rates that are expected to apply when the related deferred tax asset or liability is settled, using the applicable tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profit will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Essentra plc Company Notes

1. Net operating charges

The auditor was paid £5,125 (2018: £5,125) for the statutory audit of the Company. Fees paid to the Company's auditor for services other than the statutory audit of the Company are disclosed in note 2 to the consolidated financial statements.

The Directors' remuneration, which was paid by Essentra International Limited, is disclosed in the Annual Report on Remuneration on page 102.

2. Investment in subsidiary undertaking

	Investment in subsidiary undertaking	
	2019 £m	2018 £m
Beginning of year	460.2	455.0
Additions	4.4	5.2
End of year	464.6	460.2

3. Debtors

	2019 £m	2018 £m
Amounts receivable from subsidiary undertakings	273.4	329.5
	273.4	329.5

4. Creditors: amounts falling due within one year

	2019 £m	2018 £m
Accruals and deferred income	0.7	0.9
Corporate taxes	0.2	0.1
US Private Placement Loan Notes	60.6	–
	61.5	1.0

5. Creditors: amounts falling due after more than one year

	2019 £m	2018 £m
US Private Placement Loan Notes	56.5	120.6
	56.5	120.6

6. Maturity of financial liabilities

	Non bank loans	
	2019 £m	2018 £m
Debt can be analysed as falling due:		
Within one year	60.6	–
Between one and five years	14.8	62.0
More than five years	41.7	58.6
	117.1	120.6

7. Issued share capital

	2019 £m	2018 £m
Issued, authorised and fully paid ordinary shares of 25p (2018: 25p) each	66.0	66.0
	66.0	66.0

Number of ordinary shares in issue	2019	2018
At beginning and end of year	264,129,170	264,129,170

At 31 December 2019, the Company held 951,137 (2018: 1,127,065) of its own shares in treasury.

8. Reserves

As permitted by Section 408 of the Companies Act 2006, the profit and loss account of the Company has not been separately presented in these Financial Statements. The profit attributable to equity holders included in the accounts of the Company is £1.3m (2018: profit of £1.0m).

Included in the profit and loss account are accumulated share-based payments of £47.9m (2018: £43.5m) which are credited directly to reserves. Full details of these share-based payments are set out in the Annual Report on Remuneration on pages 101 to 111.

9. Dividends

	Per share		Total	
	2019 p	2018 p	2019 £m	2018 £m
2018 interim: paid 31 October 2018		6.3		16.5
2018 proposed final: paid 3 June 2019		14.4		37.7
2019 interim: paid 30 October 2019	6.3		16.5	
2019 proposed final: payable 1 June 2020	14.4		37.7	
	20.7	20.7	54.2	54.2

10. Subsidiary undertakings

The companies named below (including dormant entities) are subsidiary undertakings of Essentra plc and are included in the consolidated Financial Statements of the Group. The investments in the companies below relate to ordinary shares or common stock. The principal country in which each company operates is the country of incorporation.

All entities below are wholly owned subsidiaries of the Group except for ITC Essentra Limited (India) (50% owned) and China Tobacco Essentra (Xiamen) Filters Co., Ltd (49% owned). The ownership held by the Group in these companies are through holding of ordinary shares in these companies and they are accounted for as subsidiaries of the Group in the consolidated Financial Statements due to a control achieved via board membership.

Essentra International Limited is the only direct subsidiary of Essentra plc.

	Country of incorporation	Principal activity	Address of registered office
Essentra (Bangor) Ltd.	UK	Manufacturing	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
Essentra Components Limited	UK	Manufacturing	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
Essentra Filter Products Limited	UK	Manufacturing	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
Essentra Packaging Limited	UK	Manufacturing	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
Essentra Packaging & Security Limited	UK	Manufacturing	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
ESNT Filter Products Limited	UK	Holding Company	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
ESNT Holdings (No.1) Limited	UK	Holding Company	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
ESNT Holdings (No.2) Limited	UK	Holding Company	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
ESNT International Limited	UK	Holding Company	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
ESNT Packaging & Securing Solutions Limited	UK	Holding Company	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
Essentra Filter Products International Limited	UK	Holding Company	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
Essentra International Limited	UK	Holding Company	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
Essentra Overseas Limited	UK	Holding Company	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
Essentra Pension Trustees Limited	UK	Pension Trustee	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
Essentra Finance Limited	UK	Treasury activities	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
Essentra (Kilmarnock) Ltd.	UK	Non-trading	4th Floor, 115 George Street, Edinburgh, Scotland, EH2 4JN
Essentra (Northampton) Ltd.	UK	Non-trading	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
Essentra Services Limited	UK	Non-trading	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
Filtrona Limited	UK	Non-trading	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
P. P. Payne Limited	UK	Non-trading	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
Alliance Plastics Limited	UK	Dormant	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
Cigarette Components Limited	UK	Dormant	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
ESNT Components Limited	UK	Dormant	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU

10. Subsidiary undertakings continued

	Country of incorporation	Principal activity	Address of registered office
ESNT Limited	UK	Dormant	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
Filtrona Custom Moulding Limited	UK	Dormant	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
North West Plastics Limited	UK	Dormant	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
Skiffy Limited	UK	Dormant	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
Stera Tape Limited	UK	Dormant	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
Essentra (Great Harwood) Ltd.	UK	Dissolved – 4th February 2020	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
Essentra (Hull) Ltd.	UK	Dissolved – 4th February 2020	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
Essentra (Kimbolton) Ltd.	UK	Dissolved – 4th February 2020	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
Essentra Filter Products Inc	US	Manufacturing	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
Essentra Packaging Inc	US	Manufacturing	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
Essentra Plastics LLC	US	Manufacturing	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
Essentra Packaging Puerto Rico, Inc.	US	Manufacturing	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
Essentra Packaging US Inc	US	Manufacturing	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
Innovative Components, Inc.	US	Manufacturing	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
Micro Plastics, Inc.	US	Manufacturing	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
Essentra Components Inc	US	Distribution	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
Essentra Components Japan Inc	US	Distribution	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
ESNT Holdings Inc	US	Holding Company	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
ESNT (Porous) Holdings Inc.	US	Holding Company	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
ESNT US Holdings Corp	US	Holding Company	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
Essentra Corporation	US	Holding Company	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
Essentra Holdings Corp. (DE)	US	Holding Company	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
US NewCo LLC	US	Holding Company	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
ESNT Components Co.	US	Non-trading	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
US LLC 2, LLC	US	Non-trading	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
Essentra Components BV	Netherlands	Distribution	Den Belleman 9, 5571 NR Bergeyk, Netherlands
Essentra Packaging B.V.	Netherlands	Distribution	Celsiusweg 37, 8912 AM, Leeuwarden, Netherlands
Blue NewCo 1 B.V.	Netherlands	Holding Company	Gustav Mahlerplein 68, 1082 MA, Amsterdam, Netherlands

10. Subsidiary undertakings continued

	Country of incorporation	Principal activity	Address of registered office
Blue NewCo 2 B.V.	Netherlands	Holding Company	Gustav Mahlerplein 68, ITO Tower 9th floor, MA Amsterdam, 1082, Netherlands
Blue NewCo 3 B.V.	Netherlands	Holding Company	Gustav Mahlerplein 68, Ito Tower, 9th Floor, 1082 MA, Amsterdam, Netherlands
Blue NewCo 4 B.V.	Netherlands	Holding Company	Gustav Mahlerplein 68, Ito Tower, 9th Floor, 1082 MA, Amsterdam, Netherlands
ESNT Holdings Cooperatie 1 W.A.	Netherlands	Holding Company	Celsiusweg 37, 8912 AM, Leeuwarden, Netherlands
ESNT Holdings (Netherlands) BV	Netherlands	Holding Company	Den Belleman 9, 5571 NR, Bergeijk, Netherlands
Essentra BV	Netherlands	Holding Company	Celsiusweg 37, 8912 AM, Leeuwarden, Netherlands
Essentra Holdings Cooperative WA	Netherlands	Holding Company	Den Belleman 9, 5571 NR, Bergeijk, Netherlands
Essentra Holdings (No.2) Cooperative WA	Netherlands	Holding Company	Den Belleman 9, 5571 NR, Bergeijk, Netherlands
Essentra International BV/LLC	Netherlands	Holding Company	Den Belleman 9, 5571 NR, Bergeijk, Netherlands
ESNT Holding BV	Netherlands	Non-trading	Den Belleman 9, 5571 NR, Bergeijk, Netherlands
ESNT Holdings Cooperatie 2 W.A.	Netherlands	Non-trading	Celsiusweg 37, 8912 AM, Leeuwarden, Netherlands
Fijnmechanica Surhuisterveen B.V.	Netherlands	Non-trading	Celsiusweg 37, 8912 AM, Leeuwarden, Netherlands
Linde Vouwkartonnage B.V.	Netherlands	Non-trading	Hanzeweg 14, 7591 BK, Denekamp, Netherlands
Richco Benelux BV	Netherlands	Non-trading	Beeldschermweg 5-3, 3821 AH Amersfoot, Netherlands
Skiffy BV	Netherlands	Non-trading	Den Belleman 9, 5571 NR, Bergeijk, Netherlands
Essentra Packaging Ireland Limited	Ireland	Manufacturing	8 Airways Industrial Estate, Dublin 17, Ireland
ESNT (Cherry Orchard) Holdings Limited	Ireland	Holding Company	8 Airways Industrial Estate, Dublin 17, Ireland
C.B. Packaging Limited	Ireland	Non-trading	8 Airways Industrial Estate, Dublin 17, Ireland
ESNT (Cherry Orchard) Limited	Ireland	Non-trading	8 Airways Industrial Estate, Dublin 17, Ireland
ESNT Finance Ireland Limited	Ireland	Non-trading	7 Airways Industrial Estate, Cloghran, Dublin 17, D17 RR88, Ireland
Essentra Finance (Euro) Ireland Limited	Ireland	Non-trading	7 Airways Industrial Estate, Cloghran, Dublin 17, D17 RR88, Ireland
Essentra Pte.Ltd	Singapore	Distribution	36 Robinson Road #17-01, City House, Singapore, 068877, Singapore
Essentra Filter Products Leasing Pte. Ltd	Singapore	Leasing Company	238A Thomson Road, #25-04/05 Novena Square, Singapore, 307684, Singapore
Essentra (MEA) Pte. Ltd	Singapore	Holding Company	36 Robinson Road, #17-01 City House, Singapore, 068877, Singapore
Essentra Filter Products Development Co. Pte. Ltd	Singapore	Non-trading	238A Thomson Road, #25-04/05 Novena Square, Singapore, 307684, Singapore
Essentra Components GmbH	Austria	Holding Company	Schubertring 6, 1010 Wien, Austria
Essentra Pty Ltd	Australia	Treasury activities	32 Clyde Street, Rydalmere NSW 2116, Australia
Essentra Industria E Comercio LTDA	Brazil	Manufacturing	Room 7, No 1000 Avenida Emilio Marconato, Centro Comercial, Chacara Primavera, Jaguariuna, Sao Paulo, 13.916-074, Brazil
Essentra Limited	Canada	Manufacturing	2538 Spears Road, Oakville ON L6L 5K9, Canada
China Tobacco Essentra (Xiamen) Filters Co., Ltd	China	Non-trading	Floor 2 No.289 Binshui Road, Qiaoying Street, Jimei District, Xiamen City, China
Essentra Precision Machinery Components (Ningbo) Co. Ltd.	China	Manufacturing	99 Huanghai Road, Beilun District, Ningbo, Zhejiang Province, China
Essentra Trading (Ningbo) Co. Ltd	China	Distribution	No.99 Huanghai Road, Beilun District, Ningbo, Zhejiang Province, China
Essentra Components International Trading (Shanghai) Co Ltd	China	Holding Company	Room 347, Xinmaolou Building, 2 Taizhong South Road, China (Shanghai) Pilot Free Trade Zone, Pudong New Area, Shanghai, 200120, China
Essentra Plastic Trading (Ningbo) Co. Ltd	China	Holding Company	99 Huanghai Road, Beilun District, Ningbo, Zhejiang, China
Componentes Innovadores Limitada	Costa Rica	Manufacturing	Cartago-Cartago Parque Industrial Y Zona Franca Zeta, Cartago, Edificios, 48C3 48C4, Costa Rica
Essentra Components sro	Czech Republic	Holding Company	Vide?ská 101/119, Dolní Heršpice, Brno, 619 00, Czech Republic

10. Subsidiary undertakings continued

	Country of incorporation	Principal activity	Address of registered office
Essentra Packaging S.a.r.l.	France	Holding Company	F-27200, Sarreguemines, Rue Guillaume, Schoettke, France
Essentra Components SAS	France	Non-trading	280 rue de la Belle Étoile, 95700, Roissy, France
Essentra International GmbH	Germany	Holding Company	Filmstr. 5, 06766, Bitterfeld-Wolfen, Germany
Essentra Components GmbH	Germany	Manufacturing	Herrenpfad Süd 36, 41334, Nettetal, Germany
Essentra Packaging GmbH	Germany	Manufacturing	Filmstrasse. 5, D-06766, Edisonstrasse, Wolfen, Germany
Essentra (Hong Kong) Limited	Hong Kong	Non-trading	36/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong
Essentra Components Kft	Hungary	Holding Company	2040 Budaors Gyar u. 2., Hungary
Essentra Filter Products Kft	Hungary	Manufacturing	2310 Szigetszentmiklos, Leshegy ut 30, Hungary
PT Essentra	Indonesia	Manufacturing	Jalan Berbek Industri 1, 18-20 Surabaya Industrial Estate Rungkut (SIER), Sidoarjo, 61256, Indonesia
Essentra (India) Private Limited	India	Manufacturing	Survey No. 46, Jala Hobli, Dodajala Village, Bangalore North – 562 157, Karnataka, India
ITC Essentra Limited	India	Manufacturing	Doddajala Post, Yarthiganahally, (via) Bettahalasur, Bangalore North, 562 157, India
ESNT Holdings SpA	Italy	Holding Company	Podenzano (PC), Loc.I Casoni Fraz. Gargia, Via Copernico no. 54, 29027, Italy
Essentra Packaging Srl	Italy	Distribution	Via Copernico n.54, Loc. 1 Casoni Fraz., Gariga, 29027, Podenzano, Italy, Italy
Essentra Components srl	Italy	Non-trading	Via Massarenti, 1 Loc, 1 Maggio, 40013, Castel Maggiore, Italy
Essentra Filter Products Spa	Italy	Non-trading	Studio De Vivo SCIS, 84123 Salerno, Corso, Garibaldi n. 143, Italy
Essentra Packaging Luxembourg Sarl	Luxembourg	Non-trading	8-10, Avenue de la Gare, L-1610, Luxembourg
Abric Encode Sdn Bhd	Malaysia	Manufacturing	Unit 1110 Block A, Pusat Dagangan Phileo Damansara II, 15 Jalan 16/11 Off Jalan Damansara, 46350 Petaling Jaya, Selangor Darul Ehsan, Malaysia
Essentra Malaysia Sdn Bhd	Malaysia	Non-trading	Unit 1110 Block A, Pusat Dagangan Phileo Damansara II, 15 Jalan 16/11 Off Jalan Damansara, 46350 Petaling Jaya, Selangor Darul Ehsan, Malaysia
Essentra Asia Sdn Bhd	Malaysia	Non-trading	Unit D – 3A – 10, 4th Floor, Greentown Square, Jalan Dato' Seri Ahmed Said, 30450 Ipoh, Perak, Malaysia
Essentra Components SEA (M) SDN BHD	Malaysia	Non-trading	D5-5-6, Solaris Dutamas 1, Jalan Dutamas 1, 50480, Kuala Lumpur, Malaysia
Essentra Components S. de R.L de C.V.	Mexico	Manufacturing	Carretera a Huinala #510, Apodaca, NL 66640, Mexico
ESNT Limited	New Zealand	Services	Quigg Partners, Floor 7, 36 Brandon Street, Wellington Central, Wellington, 6011, New Zealand
Essentra Filter Products S.A.	Paraguay	Distribution	Calle 12, Acacary, Ciudad del Este, Paraguay
Essentra Sp. z o.o.	Poland	Non-trading	11 Lakowa Street, 90-562, Lodz, Poland
Boxes Prestige Poland Sp. z o.o.	Poland	Manufacturing	Tokarska 25, 20-210, Lublin, Poland
Essentra Packaging Spółka z o.o.	Poland	Manufacturing	Tokarska 25, 20-210, Lublin, Poland
Essentra Co., Ltd.	Republic of Korea	Distribution	5th Floor, One IFC, 10, Gukjegeumyung-ro, Youngdeungpo-gu, Seoul, 07326, Korea, Republic of
Essentra Components SRL	Romania	Distribution	Burcuresti Sectorul 1, Strada POLANA, Nr. 68-72, Etaj 2, Biroul NR.5, Romania
OOO Essentra Filter Products	Russia	Distribution	Moskovskiy pr. 60/129, Business center Senator, 190005, St Petersburg, Russian Federation
Essentra Saint-Petersburg Limited Liability Company	Russia	Non-trading	4a Finlyandskiy Prospect, 194044, St. Petersburg, Russian Federation
Essentra Components sro	Slovakia	Distribution	Gogol'ova 18, 852 02 Bratislava, Slovakia
Essentra Components (Pty) Ltd	South Africa	Distribution	Unit 2. Sage Corporate Park, Corner Suni and Tsessebe Streets, South Midrand, Gauteng, 1683, South Africa
Clondalkin Holdings SA	Spain	Manufacturing	Carrer dels Fusters 18-20, Poligono Industrial Can Cuyas, Montcada I Reixac, 08110, Barcelona, Spain
Essentra Packaging S.A.	Spain	Manufacturing	Carrer dels Fusters 18-20, Poligono Industrial Can Cuyas, Montcada I Reixac, 08110, Barcelona, Spain

10. Subsidiary undertakings continued

	Country of incorporation	Principal activity	Address of registered office
Nekicesa Global Packaging SL	Spain	Non-trading	Ctra. de Navalcarnero a Chinchon km., 21,2 Grinon, 28971, Madrid, Spain
Nekicesa Packaging SL	Spain	Manufacturing	Ctra. de Navalcarnero a Chinchon km., 21,2 Grinon, 28971, Madrid, Spain
Essentra Components S.L.U	Spain	Distribution	Calle Roure Gros 1-11, Poligono Industrial Mas d'En Cisa, 08181, Spain
Essentra Components AB	Sweden	Manufacturing	Askims Verkstadsvag 13Sweden, 436 34 Askim, Vastra Gotalands lan, Goteborg kommun, Sweden
Essentra Hertila AB	Sweden	Manufacturing	Persbogatan 1, SE-265 38, Åstorp, Sweden
Essentra Components Sarl	Switzerland	Non-trading	Rue du Grand-Chene 2, c/o Pierre- Alain Killias, Lexartis Avocats, 1003 Lausanne, Switzerland
Essentra Eastern Limited	Thailand	Non-trading	111/5 Moo 2 Tambon Makamku, Amphur Nikom Pattana, Rayong Province, Thailand
San Yai Holding Company Limited	Thailand	Holding Company	No.776 Charoennakorn Road, Khwaeng Daokhanong, Khet Dhonburi, Bangkok, Thailand
Pranakorn Holding Company Limited	Thailand	Holding Company	776 Charoennakorn Road, Bukkalo, Thonburi, Bangkok 10600, Thailand
Essentra Limited	Thailand	Manufacturing	116/3 Soi Thiantalay 24, Bangkhunthian-Chaitalay Road, Thakam, Bangkhunthian, Bangkok, 10150, Thailand
Apex Filters Company Limited	Thailand	Non-trading	31/2 Rama 3 Road, Chongnonsee, Yannawa, Bangkok 10120, Thailand
Chemical Resins (Thailand) Limited	Thailand	Non-trading	4th Floor, 77/1 Soi Ruamrudee 2, Ploenchit Road, Lumpini, Pathumwan, Bangkok, 10330, Thailand
Mesan Kilit A.S.	Turkey	Distribution	Ilitelli Organzie Sanayi, Bolgesi Metal Is San, Sit.7.Blok No24 Basaksehir, Istanbul, Turkey
Essentra FZE	United Arab Emirates	Manufacturing	Plot No. S20403, Jebel Ali Free Zone (JAFZA), PO Box No 261392, Dubai, United Arab Emirates
Filtrona Venezolana C.A.	Venezuela	Property Company	Urbn. Parque Comercio Industrial Castillito, Lot No. P-8. Street 103 c/c Av. 66, San Diego Municipality, Valencia, Edo Carabobo, Venezuela

Independent auditors' report to the members of Essentra plc

Report on the audit of the financial statements

Opinion

In our opinion:

- Essentra plc's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2019 and of the group's profit and cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report, which comprise: the Consolidated and Company Balance Sheets as at 31 December 2019; the Consolidated Income Statement and Consolidated Statement of Comprehensive Income, the Consolidated Statement of Cash Flows, and the Consolidated and Company Statements of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies and critical accounting judgements and estimates.

Our opinion is consistent with our reporting to the Audit & Risk Committee.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in the Accounting Policies to the financial statements, the group, in addition to applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion, the group financial statements have been properly prepared in accordance with IFRSs as issued by the IASB.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

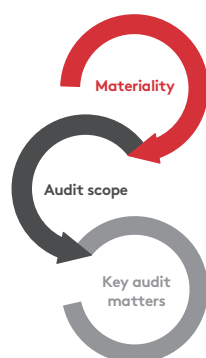
We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the company.

Other than those disclosed in note 2 to the financial statements, we have provided no non-audit services to the group or the company in the period from 1 January 2019 to 31 December 2019.

Our audit approach

Overview



- Overall group materiality: £3.6 million (2018: £4.0 million), based on 5% of profit before tax, intangibles amortisation and exceptional and other adjusting items.
- Overall company materiality: £6.2 million (2018: £6.6 million), based on 1% of net assets.
- There were no significant components within the group.
- We performed full scope audit work on 41 reporting units, and specified procedures over certain balances on an additional 35 reporting units.
- This provided coverage of 65% revenue, 63% profit before tax, and 73% net assets.
- Presentation of exceptional and other adjusting items (group).
- Goodwill impairment (group).
- Compliance with US sanctions legislation (group).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the group, we identified that the principal risks of non-compliance with laws and regulations related to the non-compliance with the Listing Rules, UK and overseas tax legislation not being adhered to, non-compliance with employment regulations in the UK and other jurisdictions in which the Group operates, breaches of health and safety legislation, non-compliance with import and export restrictions, and other legislation specific to the industries in which the group operates, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements, such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting of journal entries to improve revenue performance or to manipulate metrics relating to bank covenants, and management bias in key accounting estimates. The group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team and/or component auditors included:

- Review of correspondence with the regulators and government authorities;
- Review of correspondence with legal advisors;
- Review of matters reported through the group's whistleblowing helpline and the results of management's investigation of such matters;
- Enquiries of management at the group, divisional and local levels;
- Enquiries of the group's legal team;
- Enquiries with component auditors;
- Review of internal audit reports in so far as they related to the financial statements;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations which result in an impact to revenue or to metrics relevant to banking covenants;
- Challenging assumptions and judgements made by management in determining significant accounting estimates, in particular in relation to exceptional and other adjusting items, impairment of goodwill, and compliance with US sanctions legislation. (see related key audit matters below).

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Independent auditors' report
to the members of Essentra plc continued

Key audit matter

Presentation of exceptional and other adjusting items (group)

The financial statements include certain items which are disclosed as exceptional and adjusting items. The nature of these items is explained within the group accounting policy and includes transaction costs relating to acquisition and disposals of businesses, acquisition integration and restructuring costs, and other items such as site closure costs and one-off projects.

In the year the most significant exceptional and other adjusting items relate to the gains on disposal of businesses of £15.9 million, costs relating to the investigation of certain compliance matters in respect to the group's export activities in the Filters division of £7.5 million (see breakdown of costs in a separate key audit matter below), and releases of a number of provisions relating to previous site closures of £9.1 million, as well as other restructuring costs of £2.1 million.

We focused on this area as there is limited guidance relating to this presentational matter within IFRS and judgement is required by the directors in determining whether items classified as exceptional or adjusting are consistent with the group's accounting policy.

Consistency in identifying and disclosing items as exceptional and adjusting is important to maintain comparability of the results year on year.

See page 133 for management's disclosure of this significant judgement. Also see page 89 in the Audit & Risk Committee report.

How our audit addressed the key audit matter

We assessed the appropriateness of the group's accounting policy for the recognition of exceptional and other adjusting items with reference to the applicable accounting standards.

We considered whether the items disclosed as exceptional and adjusting were consistent with the accounting policy and the approach taken in prior years, to determine that items were appropriately classified. We did not identify any material items which we would expect to be reported in earnings before exceptional and other adjusting items.

Gains/losses and transaction costs related to acquisition and disposal of businesses (£15.9 million) have been tested through sampling and items have been traced to supporting invoices, bank statements and other documentation.

The investigation of compliance matters within the Filters division (£7.5 million) is considered one-off in nature and does not relate to underlying trading, and therefore the classification as exceptional is considered appropriate. Please see separate key audit matter on the subject of compliance with U.S. sanctions rules below.

Gains arising from the release of provisions relating to site closures have been agreed to lease surrenders and other supporting documentation. The classification of these credits as exceptional is considered appropriate as the release mirrors the treatment of the charge when the provisions were created in prior periods.

A sample of restructuring costs have been agreed to supporting evidence such as invoices and redundancy agreements.

We have considered other one-off or notable credits/charges recognised in earnings before exceptional and other adjusting items to ensure consistent treatment with adjusting items.

The disclosures included in note 2 were reviewed and deemed reasonable.

Goodwill impairment (group)

All goodwill and indefinite lived intangible assets must be allocated to cash generating units (CGUs) and tested for impairment annually. Management must also determine the recoverable amount for other finite-lived assets where impairment indicators are identified.

The group has goodwill of £310.7 million, of which £190.5m is allocated to the Packaging division, £98.5 million to Components, and £21.7 million to Filters. Historically, the annual impairment for the Packaging division has resulted in material impairment charges and low levels of headroom. However at 31 December 2018 headroom against the asset carrying value was £165.0 million and in 2019 has further increased to £284.0 million.

The discount rate calculated by management has decreased compared to prior year, contributing to the increase in the headroom in the Packaging model.

The impairment reviews performed by management contain a number of significant judgements and estimates including revenue growth rates, profit margins and discount rates. A change in these assumptions can result in a material change in the valuation of the assets.

See page 133 for management's disclosure of this significant judgement. Also see page 89 in the Audit & Risk Committee report.

We have assessed the methodology applied by management in performing their impairment reviews and tested the integrity of management's cash flow models.

We tested key assumptions made in the impairment review, such as those around operating margins back to industry and competitor data. We evaluated the future cash flow forecasts for each CGU, including short term cash flows, and the process by which they were determined. In doing so we compared the cash flow forecasts to the latest Board approved plans and compared prior year budget to 2019 actual performance in order to assess the quality of management's forecasting process. Our procedures confirmed the reasonableness of the cash flows included in the models.

We also tested key assumptions including exchange rates and long-term growth rates by comparing them to third party published economic and industry forecasts and analyst reports. We found the assumptions to be reasonable.

We validated the discount rate by recalculating the group's weighted average cost of capital for each CGU.

We performed sensitivity analyses around the key assumptions to ascertain the extent of change in those assumptions that, either individually or collectively, would be required for goodwill to be impaired. We noted that the required level of change was beyond that which we would consider likely given the current market conditions and recent performance of the business.

Disclosures included within note 8 have also been assessed against the requirements of IFRS and deemed reasonable.

Key audit matter

Compliance with U.S. sanctions legislation (group)

During the year, the group identified sanctions compliance failures within its Filters division and conducted an investigation into the failures identified. The company has made a voluntary disclosure to the U.S. Office of Foreign Assets Control and continues to cooperate fully with the U.S. authorities. Costs relating to the investigation and remedial actions amounting to £3.6 million, a write-off of certain working capital balances totalling £1.6 million, as well as an estimate of £2.3 million for the expected financial penalties from the US authorities, have been recognised as exceptional items in the income statement.

See page 133 for management's disclosure of the significant judgement and estimates associated with this matter. Also see page 89 in the Audit & Risk Committee report.

How our audit addressed the key audit matter

With the assistance of our forensics experts we assessed the scope, methodology and overall approach of management's investigation into the matter. We obtained the results of management's investigation, including the conclusions reached and understood the basis for those conclusions. We discussed the findings with management, the Audit & Risk Committee, as well as management's experts and legal counsel, and considered the conclusions to be appropriate based on the results of the investigation and evidence obtained.

Having concluded that certain group companies in the Filters division had failed to comply with certain U.S. laws:

- we tested management's assumptions around their best estimate of the potential exposure to financial penalties that may be imposed on the group by U.S. authorities by comparing the estimated fine levels to comparable fines imposed for similar non-compliances published in U.S. Government sources, as well as discussing them with our internal sanctions specialists, and we consider the provision to be reasonable. However, as the financial penalties have yet to be agreed with the U.S. authorities, the financial penalties that may ultimately be paid by the group could be higher than that provided;
- a sample of the costs relating to the investigation and remedial actions have been agreed to supporting evidence such as invoices without exception; and
- we have scrutinised management's rationale for writing off certain working capital balances as a result of the non-compliance matters identified. We tested the accuracy of the amounts written off back to underlying accounting records with no issues noted. Given the nature of the matter, we consider the presentation of the write-off of working capital balances as exceptional to be appropriate.

We determined that there were no key audit matters applicable to the company to communicate in our report.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

The group is split into three divisions being Components, Packaging and Filters. The Specialist Components division was dissolved in the year following the disposal of the Pipe Protection Technology, Extrusion, Speciality Tapes, and Card Solutions businesses. Each division consists of a large number of reporting sites spread globally across 34 territories. There are 255 reporting units within the consolidation, which include the reporting sites and other consolidation units.

We did not identify any individually significant components within the group, with the largest contribution to revenue being 5% from one reporting site, and the average being 1%. We determined the most effective approach was to engage PwC local component teams to perform full scope procedures over 33 reporting units, with the Group audit team performing full scope audit work over a further 8 reporting units. In addition, specified audit procedures were performed over certain balances, including revenue, at a further 3 reporting units in the Americas. In the largest sites in the Americas, specified procedures over fixed assets, inventory and trade receivables were also performed. The Group audit team also performed audit procedures over specific balances within a further 32 reporting units. This approach ensures that appropriate audit coverage has been obtained over all financial statement line items.

Where work was performed by component auditors, we determined the appropriate level of involvement we needed to have in that audit work to ensure we could conclude that sufficient appropriate audit evidence had been obtained for the group financial statements as a whole. We issued written instructions to all component auditors and had regular communications with them throughout the audit cycle. This included a clearance meeting with each component team and review of all significant matters reported.

In addition members of the group engagement team have visited reporting sites in the U.S., Dubai, Ireland, Germany, Turkey, Hungary and UK, including meeting with local audit teams and local management as part of these visits.

Based on the detailed audit work performed across the group, we have gained coverage of 65% of total revenue, 63% of profit before tax, and 73% of net assets.

Financial Statements

Independent auditors' report to the members of Essentra plc continued

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Overall materiality	£3.6 million (2018: £4.0 million).	£6.2 million (2018: £6.6 million).
How we determined it	5% of profit before tax, intangibles amortisation and exceptional and other adjusting items.	1% of net assets.
Rationale for benchmark applied	The group is profit-oriented, therefore it is considered most appropriate to apply a rule of thumb based upon a profit-based benchmark. The directors, management and the users of the group financial statements focus on adjusted numbers, being adjusted operating profit, adjusted net income or adjusted pre-tax profit. The group defines 'adjusted' as excluding the impact of intangible amortisation and exceptional and other adjusting items. Based on this, we consider an adjusted metric of profit before tax, intangibles amortisation and exceptional and other adjusting items to be the most appropriate benchmark.	The entity is a holding company of the rest of the group and is not a trading entity. Therefore an asset based measure is considered appropriate.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £0.1 million and £2.4 million. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit & Risk Committee that we would report to them misstatements identified during our audit above £180,000 (Group audit) (2018: £198,000) and £180,000 (Company audit) (2018: £198,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group's and the company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern. For example, the terms of the United Kingdom's withdrawal from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the group's trade, customers, suppliers and the wider economy.
We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

The directors' assessment of the prospects of the group and of the principal risks that would threaten the solvency or liquidity of the group

We have nothing material to add or draw attention to regarding:

- The directors' confirmation on page 34 of the Annual Report that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on pages 114 to 116 of the Annual Report as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal risks facing the group and statement in relation to the longer-term viability of the group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the group and company and their environment obtained in the course of the audit. (Listing Rules)

Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the directors, on page 81, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position and performance, business model and strategy is materially inconsistent with our knowledge of the group and company obtained in the course of performing our audit.
- The section of the Annual Report on page 88 describing the work of the Audit & Risk Committee does not appropriately address matters communicated by us to the Audit & Risk Committee.
- The directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

Financial Statements

Independent auditors' report to the members of Essentra plc continued

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities in Respect of the Financial Statements set out on page 117, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the audit committee, we were appointed by the directors on 20 April 2017 to audit the financial statements for the year ended 31 December 2017 and subsequent financial periods. The period of total uninterrupted engagement is 3 years, covering the years ended 31 December 2017 to 31 December 2019.

Nicholas Stevenson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Milton Keynes
28 February 2020

Independent environmental assurance statement to Essentra plc

ERM Certification and Verification Services (ERM CVS) was engaged by Essentra plc ("Essentra") to provide limited assurance in relation to the information set out below and presented in Essentra's 2019 Annual Report ("the Annual Report").

Engagement summary

Scope of our assurance engagement	Whether the 2019 data and explanatory notes for the following indicators presented on page 29 of the Annual Report are fairly presented, in all material respects, in accordance with the reporting criteria: <ul style="list-style-type: none">• Total Scope 1 GHG emissions [metric tonnes of CO₂eq]• Total Scope 2 GHG emissions [metric tonnes of CO₂eq]• Total waste by destination (Landfill, Incineration without energy recovery, Recovery including incineration with energy recovery, and Recycling, [metric tonnes]• Zero waste to landfill sites [number]
Reporting criteria	The WBCSD/WRI GHG Protocol (2004, as revised January 2015) for the Scope 1 and Scope 2 GHG emissions, and Essentra's internal methodology and reporting criteria for the waste data as described in the footnotes on page 29
Assurance standard	ERM CVS's assurance methodology, based on the International Standard on Assurance Engagements ISAE 3000 (Revised).
Assurance level	Limited assurance.
Respective responsibilities	Essentra is responsible for preparing the data and for its correct presentation in reporting to third parties, including disclosure of the reporting criteria and boundary. ERM CVS's responsibility is to provide conclusions on the agreed scope based on the assurance activities performed and exercising our professional judgement.

Our conclusions

Based on our activities, nothing has come to our attention to indicate that the 2019 data and explanatory notes for the indicators listed under Scope above and on page 29 of the Annual Report, are not fairly presented, in all material respects, with the reporting criteria.

Our assurance activities

Our objective was to assess whether the selected data are reported in accordance with the principles of completeness, comparability (across the organisation) and accuracy (including calculations, use of appropriate conversion factors and consolidation). We planned and performed our work to obtain all the information and explanations that we believe were necessary to provide a basis for our assurance conclusions.

A team of assurance professionals undertook the following activities:

- Interviews with relevant Essentra staff to understand and evaluate the data management systems and processes (including IT systems and internal review processes) used for collecting and reporting the selected data;
- A review of the internal indicator definitions and conversion factors;
- Visits to three Essentra manufacturing sites (UK, Hungary and the United States) to review local reporting processes and the consistency of reported data with underlying source data and related information for each indicator;
- An analytical review of the data from all sites and a check on the completeness and accuracy of the corporate data consolidation;
- A review of the information relevant to the scope of our work in the Annual Report, to ensure consistency with our findings.

The limitations of our engagement

The reliability of the assured data is subject to inherent uncertainties, given the available methods for determining, calculating or estimating the underlying information. It is important to understand our assurance conclusions in this context.

Jennifer Iansen-Rogers
Head of Corporate Assurance
27 February 2020

ERM Certification and Verification Services, London
www.ermcvs.com; email: post@ermcvs.com

ERM CVS is a member of the ERM Group. The work that ERM CVS conducts for clients is solely related to independent assurance activities and auditor training. Our processes are designed and implemented to ensure that the work we undertake with clients is free from bias and conflict of interest. ERM CVS and the ERM staff that have undertaken this engagement work have provided no consultancy related services to Essentra Plc in any respect.

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The printer and paper manufacturing mill are both accredited with ISO 14001 Environmental Management Systems and are both Forest Stewardship Council® certified. CPI Colour is also a certified CarbonNeutral® company.

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