Chairman's Statement

Results Summary

This is Filtrona's first full financial year as an independent listed company following the separation from Bunzl plc in June 2005. Our management has shown the benefits of that independence by delivering revenue growth of 5.9%, profit before tax growth of 9.2%, and increasing diluted earnings per share by 8.3%. Underlying operating profit grew by 9.0%, after taking account of foreign currency translation and a full year of central service cost, which is well ahead of our historical trend of organic growth.

The Company is established as an international group with strong market positions and manufacturing facilities in most major markets in the world.

Both business segments made real progress in 2006, with Plastic Technologies showing particularly strong profit and margin improvement. Fibre Technologies recovered from the tough conditions in the first half of the year and delivered both revenue and profit growth for the full financial year.

The Company achieved an 81% improvement in net cash inflow before financing activities, increasing from £15.8m in 2005 to £28.6m. This was largely achieved by operational management focusing on stronger working capital control. During the year interest cover increased to 10.1 times (2005: 9.6 times) and, at the year end, the ratio of net debt to earnings before interest, tax, depreciation and amortisation had improved from 1.5 in 2005 to 1.2 in 2006.

Dividend

The Board is recommending a final dividend of 4.6p per share, which if approved at the Annual General Meeting will make a total of 6.9p (2005: 6.4p) per share for the full year. This represents a 7.8% increase on last year. The final dividend will be paid on 4 May 2007 to shareholders on the register at 10 April 2007.

Employees

After the challenges presented by the demerger, Filtrona's employees renewed their focus on generating sustained growth of revenue and profit throughout 2006. The performance of the Company demonstrates the commitment and skill of Filtrona employees across the many regions in which the businesses operate. On behalf of the Board and the shareholders, I would like to thank them all for their continuing contribution to the strong development of Filtrona.

Outlook

Looking forward, Filtrona expects 2007 to be a year of further good underlying progress, although the headline results will be affected by an anticipated £5m restructuring charge. As previously announced, this charge relates to the restructuring of Cigarette Filters' manufacturing facilities to match the expected reduction in demand for conventional carbon dual filters.

In Plastic Technologies, the combination of strong market positions and the expected favourable trading conditions give the Company confidence in continued positive progress in 2007.

Within Fibre Technologies, further progress is expected in revenue and operating profit from the Bonded Fibre Components business and the Company remains confident in the future prospects for Cigarette Filters.

The Company will continue to invest in the organic growth of the business and it is anticipated that capital spend in 2007 will again be ahead of depreciation.
Capital investments will reduce unit costs of production and improve both quality and service performance. Revenue investments will drive geographic expansion, product innovation and intellectual property development. In addition, the Company remains active in the pursuit of value enhancing acquisitions in selected niche markets.

With a clear strategy, a committed team and a strong balance sheet, the Board remains confident the Company will continue to achieve good underlying growth and deliver attractive returns.

Jeff Harris

Chairman

1 March 2007

Chief Executive's Review

Overview

Filtrona is an international, market leading, speciality plastic and fibre products supplier with activities segmented into Plastic Technologies and Fibre Technologies.

Plastic Technologies produces, sources and distributes protection and finishing products, self-adhesive tear tape and security products as well as proprietary and customised plastic extrusions and packaging items for consumer products.

Fibre Technologies focuses on the production and supply of special filters for cigarettes and bonded fibre products such as reservoirs and wicks for writing instruments and printers, household products and medical devices.

Filtrona derives strength from serving a diverse group of customers across a selected range of niche markets. Filtrona is a supplier throughout the world to many international, blue chip, market leading customers.

In 2006, the geographic destination of the Company's revenue was:

	£m	% of total
Europe	191.7	35.2
North America	219.6	40.4
Rest of World	132.9	24.4
	544.2	100.0

The Rest of World segment includes many of the lower cost manufacturing regions and has grown from 22.5% of revenue in 2004 to 24.4% in 2006. As the Company moves into new regions for manufacture and supply it seeks to maximise the opportunities across all of its lines of business. It is expected that the expansion of the Ningbo, China factory, which was opened in 2004 by the Bonded Fibre Components business, will facilitate the introduction of both Protection and Finishing Products and Plastic Profile and Sheet activities into the Chinese market during 2007.

Performance

Last year Filtrona reported that it had made a promising start as an independent listed company. In its first full financial year since the June 2005 demerger, the Company continued to perform well with revenue up 5.9% to £544.2m (2005: £513.7m) and operating profit before intangible amortisation and demerger expense up 6.6% to £61.6m (2005: £57.8m). Underlying operating profit growth was 9.0% after taking account of the impact of foreign currency translation and a full year of central service cost. The net cash inflow from operating activities was strong at £61.1m (2005: £56.9m) up 7.4%. The return on average operating capital excluding intangibles improved from 23.7% to 23.8% in 2006 and adjusted earnings per share grew by 6.7% from 15.0p to 16.0p.

Strategy

Filtrona’s strategy is to continue to grow profitably through investing organically and by acquisition in selected niche international markets within Plastic Technologies and Fibre Technologies. The Company endeavours to strengthen its competitive position through product innovation, sourcing and distribution expansion, supply chain improvement and cost reduction. In addition, investments in people, systems and infrastructure, combined with the acquisition of selected value enhancing businesses, will also drive the future performance of Filtrona.

Plastic Technologies

Plastic Technologies had another very successful year with revenue up 5.9% to £289.5m (2005: £273.3m) and operating profit before intangible amortisation up 10.1% to £41.4m (2005: £37.6m). The operating margin improved again to 14.3% (2005: 13.8%) reflecting the stronger performance of the higher margin businesses. During 2006, polymer input costs rose progressively throughout the year in Europe but showed some easing during the final quarter in the Americas after three consecutive quarters of increases. These increases were fully recovered, through selective pricing action, thereby underlining the strength of Filtrona's niche market positions. Revenue per employee increased by 2.4% to £94,763 (2005: £92,550) and operating profit before intangible amortisation per employee increased by 6.4% to £13,552 (2005: £12,733).

Protection and Finishing Products again performed particularly well. It has now grown to become Filtrona's largest profit contributing line of business and is expected to continue in this position. The key strategic drivers behind its progress remain geographic development, product range expansion and investment in marketing programmes.

Moss, the pan-European plastic parts supplier, continued to gain market share in Continental Europe and maintained its market leading position in the UK where the ongoing decline of manufacturing industry is generating tough trading conditions. The mix of proprietary and custom lines strengthened further in favour of proprietary products. The expansion of the

Moss North European distribution hub in Germany was completed in April 2006 and this will yield important service benefits to the Continental European operations. The Company intends to continue the development of the distribution network and the opening of the next unit in Hungary is planned for the first half of 2007. In China, the headcount within the sourcing organisation in Ningbo was further increased and reliable, high quality sources for both finished products and tooling have now been established. Production output improved as a result of investment in larger machines and tooling, and a new tool handling and storage system was completed in the second half of the year at the Oxfordshire facility. The disposal of a small non-core plastic promotional products business was completed in March 2006.

Skiffy, the European specialist small nylon parts producer, achieved strong sales growth and continued to perform well ahead of the forecasts set at the time of its acquisition in 2004. All locations benefited from further investment in marketing programmes which, combined with improved productivity, increased margins. Internet ordering via the website, www.skiffy.com, is an important component of the business model and usage again increased to account for 22.0% of Skiffy's 2006 revenues. The new Skiffy distribution facility in Poland is now fully operational.

In the Americas, Alliance, the US-based plastic parts supplier, continued to progress as planned with good growth despite the weakness in the automotive sector. During 2006 substantial internal resources were dedicated to the implementation programme for a new computer system which will streamline operations and improve customer service. The new system went live successfully over the year end period without business disruption and benefits from the improvements to overall efficiency are already being seen. The new manufacturing operation in Saõ Paulo started up on schedule and the improved competitiveness from manufacturing locally is already having a positive impact on revenue growth rates in Brazil. The configuration of the Erie, Pennsylvania central warehouse was modified to improve stocking density by 35%. Unit production costs continued to fall at the Erie facility as a result of further investment in new machinery and high cavitation tooling. Preparations were made for a new Alliance Express location in Chicago, US which is now open.

Performance at MSI, the oil country tubular goods thread protector business, was again strong resulting from favourable trading conditions, market share gains and investment-driven productivity improvements. At the end of the year, trial orders were placed by an important new international customer and the benefit from this new account should feed through in 2007. Additional investments in new production machinery and tooling were made at Houston, Texas and Vera Cruz, Mexico and the purchase of land adjacent to the Houston facility was completed to secure space for the future growth of that operation.

Protection and Finishing Products has a clear strategy and good momentum behind it. Looking ahead to 2007, it is expected to again perform well.

Coated and Security Products continued to pursue its strategy of developing new security technologies and applications, whilst sustaining its world leadership position in the self-adhesive tear tape market**.** A modest revenue increase was achieved, with the good growth in security products and FractureCode partly offset by reductions in tear tape.

The tear tape business suffered from continued weakness in demand for promotional tapes as some important customers in the tobacco sector reduced promotional activity. Sales into other fast-moving consumer goods (‘FMCG’) sectors were strong. The facility in Richmond, US was upgraded to enable the printing of security products and, during the second half of the year, new slitting lines were installed in the UK and US to enhance both productivity and quality. In January 2007, a labour cost reduction programme was announced within the tear tape business.

Supplies of the laminate for the new generation UK passport were strong throughout 2006 and a new label placing line for this project was commissioned in the first half of the year. In May, the acquisition of the CORGI identity card printing operation was announced and production was successfully relocated to the Payne facility in North Wales where a major upgrade programme was completed. Machinery for the production of security labels was ordered and this, combined with the development of proprietary security technologies for use across the business, is anticipated to stimulate sales within Payne during 2007.

In August 2006, the first FractureCode licence for its patented track and trace technology was agreed with a major FMCG company and the roll out is progressing well. The losses incurred in the first half of the year were substantially reversed in the second half and the business incurred a small deficit for the year. Since the launch in May at the Intergraf Symposium, a major international industry event, the FractureCode organisation has been strengthened progressively to facilitate growth as new prospects are developed. A new Managing Director has been recruited with relevant experience in the IT industry.

The increasing investment in the development of new security technologies and the focus on reducing cost are anticipated to result in a satisfactory performance for the Coated and Security Products business in 2007 despite the ongoing weak demand for promotional tapes.

Plastic Profile and Sheet achieved strong growth in the year resulting from the combination of good market demand and significant restructuring to reduce cost and enhance organisational effectiveness. Sales in the North American facilities were particularly encouraging and performance was assisted by the closure of the small Phoenix, Arizona facility at the start of 2006 and the transfer of production to the facilities at Chicago and Tacoma in the US and Monterrey in Mexico. Further factory rationalisation has been announced involving the consolidation in the US of the two Massachusetts facilities into one at Athol, where a significant redevelopment is being undertaken, including the construction of a new clean room for medical products. The Monterrey facility has been expanded to support business growth and the addition of a new clean room for medical products is planned for 2007.

During 2006 the North American organisation has been restructured with a reduction from three to two operating regions and the establishment of a central marketing and sales function for the key product groups. Sector specialist sales groups have been formed to sharpen focus and to facilitate improved market penetration. Sales into the key aerospace and point of purchase markets in North America have been very strong with point of purchase revenue in 2006 being more than double the level of circa US $12m achieved in 2004. Further investment in machinery took place across the network of facilities which, in conjunction with continuous improvement activities, assisted in reducing conversion costs. Good revenue growth continued at the Enitor business in the Netherlands and a major factory expansion was completed in the summer.

With the benefits accruing from the strengthened management team, the new structure and the streamlined plant configuration, it is anticipated that the US Plastic Profile and Sheet business will have another good year in 2007, subject to underlying activity in the US economy remaining healthy. The European Plastic Profile and Sheet business should continue to experience good growth.

The Globalpack **Consumer Packaging** business in Brazil experienced very tough trading conditions in the first half as performance was held back by market overcapacity, particularly in tubes, and rising raw material prices. The improved performance in the second half, which was consistently ahead of the comparable period in 2005, was driven by the combination of greater demand, recovery of rising raw material costs through pricing and improvements in manufacturing efficiencies.

The third deodorant roll-on ball line came on stream successfully at the end of the first quarter of 2006 and ball volumes continue to grow satisfactorily. The investment programme continued throughout the year and important new machinery for tube production and decoration has been ordered for delivery in the first half of 2007. A minor expansion at one of the two Globalpack locations will facilitate a partial plant re-layout and an increase in warehouse space to drive the programme of productivity and service improvement.

Globalpack’s recovery is expected to continue into 2007.

Fibre Technologies

Fibre Technologies achieved good revenue growth in the year of 5.9% to £254.7m (2005: £240.4m). Operating profit, before intangible amortisation, which was flat at the half year, improved in the second half to deliver a full year increase of 4.5% to £28.1m (2005: £26.9m). The operating margin reduced to 11.0% (2005: 11.2%). Revenue per employee increased by 0.8% to £106,792 (2005: £105,903) whilst operating profit, before intangible amortisation, per employee decreased by 0.6% to £11,782 (2005: £11,850).

In **Cigarette Filters**, total volumes reduced by 1.6% or 1.1 billion filter rods with the increase of 14.1% in special filters volumes offset by a reduction of 19.0% in monoacetate filters. In response to changing customer demands, the strategy for the business has evolved with an increased focus on the research and development of innovative and more complex filter solutions to complement the core manufacturing capability. Much progress was made during 2006 in strengthening the management team, including the recruitment of two senior level operations specialists to drive improvement in factory performance.

In the Americas, overall revenue was flat as growth in North America was offset by a decline in South America. The losses incurred by the Monterrey facility in the first half of the year were substantially reversed in the second half due to productivity gains. Although the full year position remained loss making, the operation moved into profit in the fourth quarter. Revenue and operating profit grew in Europe as performance at the UK facility improved with productivity gains derived from the development of manufacturing expertise in the products formerly manufactured in Switzerland. An important European customer launched a new brand into the Polish market featuring Filtrona's proprietary Active Patch™ technology as the product differentiator. In Asia, strong revenue and profit growth was achieved. The transfer of the Indonesian business to a new and larger facility was successfully completed in the early part of the year and volumes produced in Indonesia were up 94.2% from 2005.

The market conditions for the Cigarette Filters business in 2007 will remain challenging as customers respond to mature and declining Western markets with significant capacity reconfiguration. Customer discussions have confirmed that Filtrona will experience a reduction in volumes of conventional carbon dual filters during 2007 which will impact the Company's facilities in both North America and Europe. Significant plant restructuring is underway to reduce costs and improve productivity. These actions, together with increased volumes in Asia, will mitigate the impact from the reduction in activity. The plant restructuring will result in an anticipated charge of £5m in 2007. Filtrona remains confident in the future prospects for the Cigarette Filters business due to the growing demand for innovative filters for PREPs (potentially reduced exposure products) and other differentiated tobacco smoking products and for research and development services. To this end, increased investment is planned in 2007 to strengthen the research and development capability and to continue the progressive movement of production to lower cost regions.

Bonded Fibre Components continued to make important progress. Fibertec strengthened its position in its core markets through the development of new products and technologies and also experienced good growth in Asia. The Ningbo facility moved into profit as productivity and quality improved and ISO9000:2000 accreditation was achieved during the year. Volumes in China continued to grow following production transfers and the development of new business won in the region. The pace of progress at Ningbo has generated the need for a plant expansion and construction of a factory extension began late in the year for completion in the third quarter of 2007.

The recovery of volumes in household products continued throughout the year and was assisted by customer requirements for multiple wicking devices in air fresheners which provide a selection of fragrances in one unit. The writing instrument product segment progressed well and important business was won in Europe and Asia from a principal competitor. The Reinbek, Germany facility performed strongly due to improved activity levels and the impact of the cost reduction programme which commenced in 2005. A plant upgrade programme at Reinbek has now begun.

The research and development centre in Richmond continued to develop potentially valuable technologies for the medical device market and 11 patents were filed during the year. A key customer in the pregnancy test kit market signed a long term contract with Fibertec for the supply of wicks. During 2007 it is expected that the business will benefit from important new product introductions both in the medical and inkjet printer reservoir product sectors. Filtrona has been selected as the exclusive supplier of reservoirs by a major US corporation for its entry into the inkjet printer market.

Mark Harper

Chief Executive

1 March 2007

Consolidated income statement
for the year ended 31 December 2006

	Note	**2006 £m**	2005 £m
Revenue	1	**544.2**	513.7
Operating profit before intangible amortisation and demerger expense		**61.6**	57.8
Intangible amortisation		**(0.9)**	(0.8)
Demerger expense		**-**	(1.0)
Operating profit	1,2	**60.7**	56.0
Finance income	3	**8.8**	5.6
Finance expense	3	**(14.9)**	(11.6)
Profit before tax		**54.6**	50.0
Income tax expense	4	**(18.6)**	(17.0)
Profit for the year		**36.0**	33.0
Attributable to:			
Equity holders of Filtrona plc		**34.5**	31.6
Minority interests		**1.5**	1.4
Profit for the year		**36.0**	33.0
Earnings per share attributable to equity holders of Filtrona plc:			
Basic	6	**15.8p**	14.4p
Diluted	6	**15.6p**	14.4p

Consolidated balance sheet
at 31 December 2006

	Note	**2006 £m**	2005 £m
Assets			
Property, plant and equipment	7	**178.4**	180.5
Intangible assets	8	**59.5**	63.0
Deferred tax assets	15	**0.3**	1.6
Total non-current assets		**238.2**	245.1
Inventories	9	**55.7**	59.8
Income tax receivable		**1.8**	1.6
Trade and other receivables	10	**81.1**	85.6
Derivative assets	14	**0.2**	0.1
Cash and cash equivalents	11	**20.7**	30.7
Total current assets		**159.5**	177.8
Total assets		**397.7**	422.9
Equity			
Issued capital	18	**54.8**	54.8
Capital redemption reserve	19	**0.1**	0.1
Other reserve	19	**(132.8)**	(132.8)
Translation reserve	19	**1.6**	5.3
Retained earnings	19	**219.0**	197.3
Attributable to equity holders of Filtrona plc		**142.7**	124.7
Minority interests	19	**6.0**	5.6
Total equity		**148.7**	130.3
Liabilities			
Interest bearing loans and borrowings	13	**117.9**	145.2
Retirement benefit obligations	17	**30.9**	35.8
Other payables	13	**-**	2.1
Provisions	16	**2.7**	2.5
Deferred tax liabilities	15	**11.6**	11.4
Total non-current liabilities		**163.1**	197.0
Bank overdrafts	11	**1.0**	5.0
Interest bearing loans and borrowings	13	**0.6**	0.7
Derivative liabilities	14	**0.3**	0.8
Income tax payable		**16.0**	15.2
Trade and other payables	12	**65.0**	68.9
Provisions	16	**3.0**	5.0
Total current liabilities		**85.9**	95.6
Total liabilities		**249.0**	292.6
Total equity and liabilities		**397.7**	422.9

Consolidated statement of cash flows
for the year ended 31 December 2006

	Note	**2006 £m**	2005 £m
Operating activities			
Profit before tax		**54.6**	50.0
Adjustments for:			
Net finance expense		**6.1**	6.0
Intangible amortisation		**0.9**	0.8
Depreciation		**22.9**	22.1
Share option expense		**1.2**	1.1
Other items		**(0.3)**	1.1
Increase in inventories		**(0.3)**	(2.2)
Increase in trade and other receivables		**(0.7)**	(4.7)
Increase in trade and other payables		**0.1**	2.1
Acquisition of employee trust shares		**(1.2)**	(1.0)
Additional pension contribution		**(1.5)**	(0.7)
Other cash movements		**(1.9)**	(3.9)
Cash inflow from operating activities		**79.9**	70.7
Income tax paid		**(18.8)**	(13.8)
Net cash inflow from operating activities		**61.1**	56.9
Investing activities			
Interest received		**1.0**	1.2
Acquisition of property, plant and equipment		**(34.3)**	(38.2)
Proceeds from sale of property, plant and equipment		**1.8**	0.9
Acquisition of businesses net of cash acquired	22	**(0.5)**	(4.6)
Proceeds from sale of business	23	**0.3**	-
Other investing cash flows		**(0.8)**	(0.4)
Net cash outflow from investing activities		**(32.5)**	(41.1)
Financing activities			
Interest paid		**(7.2)**	(6.7)
Dividends paid to equity holders		**(14.3)**	(4.7)
Repayments of short-term loans		**(0.1)**	(0.6)
(Repayments of)/proceeds from long-term loans		**(11.8)**	133.7
Capital contributions from former parent company		**-**	4.2
Repayments to former parent company		**-**	(147.0)
Net cash outflow from financing activities		**(33.4)**	(21.1)
Net decrease in cash and cash equivalents		**(4.8)**	(5.3)
Net cash and cash equivalents at the beginning of the year		**25.7**	29.7
Net decrease in cash and cash equivalents		**(4.8)**	(5.3)
Net effect of currency translation on cash and cash equivalents		**(1.2)**	1.3
Net cash and cash equivalents at the end of the year	11	**19.7**	25.7

Consolidated statement of recognised income and expense
for the year ended 31 December 2006

	2006 **£m**	2005 £m
Recognition of defined benefit pension schemes on demerger:		
Actuarial loss	**-**	(34.7)
Deferred tax credit on actuarial loss	**-**	10.5
Other actuarial gains/(losses) on defined benefit pension schemes	**2.2**	(2.0)
Deferred tax (expense)/credit on other actuarial gains/(losses) on defined benefit pension schemes	**(0.7)**	0.7
Movement on cash flow hedge	**-**	(0.1)
Foreign exchange translation differences:		
Attributable to equity holders of Filtrona plc	**(3.7)**	6.9
Attributable to minority interests	**(0.3)**	0.5
Income and expense recognised directly in equity	**(2.5)**	(18.2)
Profit for the year	**36.0**	33.0
Total recognised income and expense	**33.5**	14.8
Attributable to:		
Equity holders of Filtrona plc	**32.3**	12.9
Minority interests	**1.2**	1.9
Total recognised income and expense	**33.5**	14.8

Accounting policies

a Basis of preparation

The consolidated financial information has been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU in accordance with EU law (IAS Regulation EC 1606/2002) ('adopted IFRS').

Filtrona plc's 2006 Annual Report will be despatched to shareholders at the end of March 2007. The financial information set out does not constitute the Company's statutory accounts for the year ended 31 December 2006 but is derived from those accounts. Statutory accounts for 2006 will be delivered to the Registrar of Companies following the Company's Annual General Meeting which will be held on 30 April 2007. The auditor has reported on those accounts; their reports were unqualified and did not contain statements under Section 237 (2) or (3) of the Companies Act 1985.

The financial information is prepared on a historical cost basis except for derivative financial instruments which are stated at fair value.

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.

The preparation of financial information that conforms 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 information 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.

The accounting policies used in the preparation of this financial information are detailed below. These policies have been consistently applied to all periods presented.

On 6 June 2005 the Filtrona business was demerged from Bunzl plc ('Bunzl' or 'former parent company') and the ordinary shares of Filtrona plc ('the Company') were listed on the London Stock Exchange. The demerger was effected by the payment of a dividend in specie by Bunzl and has been accounted for as if it were a reverse acquisition.

For the purposes of this financial information 'Filtrona' or 'the Group' means Filtrona plc, its subsidiaries and joint ventures.

b Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by Filtrona. Control exists when Filtrona has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain economic benefit from its activities. The financial statements of subsidiaries are included in the financial information from the date that control commences until the date that control ceases.

(ii) Joint ventures

Joint ventures are accounted for using the equity method of accounting. A joint venture is an entity in which Filtrona has a long-term interest and exercises joint control. Under the equity method, Filtrona's share of the aggregate assets and liabilities is included in the balance sheet and Filtrona's share of operating profit, finance and income tax expense of the joint venture is included in the income statement.

(iii) 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 financial information.

c Foreign currency

(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 hedging criteria apply (see policy for derivative 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 at the exchange rate ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at average exchange rates.

Accounting policies (continued)

c Foreign currency (continued)

(iii) Net investment in foreign operations

Exchange differences since 1 January 2004, the date of transition to adopted IFRS, arising from the translation of the net investment in foreign operations, and related hedges are taken to the translation reserve and released to the income statement upon disposal. Differences arising prior to 1 January 2004 are included in retained earnings.

d Financial instruments

Under IAS 39, financial instruments are measured initially at fair value. The subsequent measurement depends on the classification of the financial instrument. 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.

(i) Cash flow hedges

Where a derivative is designated as a cash flow hedge the change in fair value is recognised in equity 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. Where the hedged item results in a non-financial asset the accumulated gains and losses previously recognised in equity are included in the initial carrying value of the asset.

(ii) Fair value hedges

Where a derivative financial instrument is used to hedge the foreign exchange exposure of a monetary asset or liability, any gain or loss on the hedging instrument is recognised in the income statement.

(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 equity. Any ineffective portion is recognised in the income statement.

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.

f Depreciation

Property, plant and equipment are depreciated over their estimated remaining useful lives on a straight line basis at the following annual rates:

Freehold land	Not depreciated
Buildings	2% or life of lease if shorter
Plant and machinery	7 - 20%
Fixtures, fittings and equipment	10 - 33%

The assets' useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

g Leases

Where Filtrona has substantially all the risks and rewards of ownership of an asset subject to a lease, the lease is treated as a finance lease. All other leases are treated as operating leases and the rentals expensed to the income statement on a straight line basis. Lease incentives are amortised in the income statement over the life of the lease.

h 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 cost and fair value of identifiable assets acquired. 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.

Accounting policies (continued)

h Intangible assets (continued)

(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 if the new product is technically and commercially feasible. Other development costs are recognised in the income statement and expensed as incurred.

(iii) Customer relationships

Customer relationships are identified on acquisition of businesses and valued using discounted cash flows based on historical customer attrition rates. Amortisation is expensed in the income statement on a straight line basis over the estimated useful economic life, being a period of up to 25 years.

i Impairment

All assets, except intangible assets, deferred tax assets and inventories, are reviewed annually to determine whether there is any indication of impairment. Intangible assets are tested annually. If an indication of impairment exists the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount, being the greater of value in use and net selling price, and is recognised in the income statement. Value in use is estimated based on future cash flows discounted using a pre-tax discount rate.

j 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.

k 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 which form an integral part of Filtrona's cash management are included as part of cash and cash equivalents in the statement of cash flows.

l Trade and other receivables

Trade and other receivables are stated at cost less impairment losses.

m 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.

Current tax is the expected tax payable on the taxable income for the year using 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, providing for temporary differences arising between the tax bases and the carrying amounts of assets and liabilities in the financial information. 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, 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/liability is settled.

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.

n Revenue

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated expenses or the possible return of goods.

o Finance income and expense

Finance income and expense is recognised in the income statement as it accrues.

The finance expense prior to demerger includes interest payable to Bunzl. Following demerger the net reported finance expense only reflects the cost of external borrowing.

Accounting policies (continued)

p Segment reporting
A segment is a distinguishable component of Filtrona that is engaged in providing products (business segment), or in providing products within a particular economic environment (geographic segment), which is subject to risks and rewards that are different from those of other segments.

For operational and financial reporting purposes, Filtrona identifies two business segments which are characterised by shared technology and raw material inputs.

q 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 US have been accounted for on a defined benefit basis under IAS 19 (revised): *Employee benefits* ('IAS 19 (revised)'). Under IAS 19 (revised) Filtrona had to account for defined benefit pension charges up to the period of demerger on a defined contribution basis and on a defined benefit basis thereafter. Accordingly Filtrona recognised the retirement benefit obligation of £34.7m at demerger in the consolidated statement of recognised income and expense.

Actuarial gains and losses that have arisen subsequently are recognised in full in the statement of recognised income and expense.

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 Filtrona's obligations. The calculation is performed by a qualified independent actuary using the projected unit credit method.

The amounts charged to operating profit are the current service cost, past service cost and gains and losses on settlement and curtailments. The expected increase in the present value of scheme liabilities is included within finance expense and the expected return on scheme assets is included within finance income.

r Share-based payments
Filtrona operates equity-settled, share-based incentive plans. A charge is made in the income statement based on the fair value of options using the Black-Scholes model with a corresponding increase in equity. The fair value is measured at grant date and spread over the period between grant 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.

The expense for share-based payments prior to demerger was the charge allocated by Filtrona's former parent company based on the participation of Filtrona employees in schemes that it operated.

The shares held indirectly in the Filtrona 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.

s 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 economic resources that will be required to settle the obligation.

t Net debt
Net debt is defined as cash and cash equivalents, net of interest bearing loans and borrowings.

u Dividends
Dividends are recognised as a liability in the period in which they are declared.

Notes

1. Segment analysis

Filtrona comprises the following business segments:

Plastic Technologies produces, sources and distributes protection and finishing products, self-adhesive tear tape and certain security products as well as proprietary and customised plastic extrusions and packaging items for consumer products.

Fibre Technologies focuses on the production and supply of special filters for cigarettes and bonded fibre products such as reservoirs and wicks for writing instruments and printers, household products and medical devices.

Business segments

				2006
	Plastic Technologies £m	**Fibre Technologies £m**	**Central Services† £m**	**Filtrona £m**
Revenue	**289.5**	**254.7**	**-**	**544.2**
Operating profit/(loss) before intangible amortisation	41.4	28.1	(7.9)	61.6
Intangible amortisation	(0.8)	(0.1)	-	(0.9)
Operating profit/(loss)	**40.6**	**28.0**	**(7.9)**	**60.7**
Segment assets	175.0	139.1	1.2	315.3
Intangible assets	56.3	3.2	-	59.5
Unallocated items			22.9	22.9
Total assets	**231.3**	**142.3**	**24.1**	**397.7**
Segment liabilities	35.7	29.1	6.7	71.5
Unallocated items			177.5	177.5
Total liabilities	**35.7**	**29.1**	**184.2**	**249.0**
Other segment items				
Capital expenditure	21.2	12.9	0.2	**34.3**
Depreciation	13.6	9.0	0.3	**22.9**
Closing number of employees	3,159	2,413	33	**5,605**
Average number of employees	3,055	2,385	33	**5,473**

				2005
	£m	£m	£m	£m
Revenue	273.3	240.4	-	513.7
Operating profit/(loss) before intangible amortisation and demerger expense	37.6	26.9	(6.7)	57.8
Intangible amortisation	(0.7)	(0.1)	-	(0.8)
Demerger expense	-	-	(1.0)	(1.0)
Operating profit/(loss)	36.9	26.8	(7.7)	56.0
Segment assets	180.1	143.1	4.5	327.7
Intangible assets	59.7	3.3	-	63.0
Unallocated items			32.2	32.2
Total assets	239.8	146.4	36.7	422.9
Segment liabilities	35.4	32.7	9.1	77.2
Unallocated items			215.4	215.4
Total liabilities	35.4	32.7	224.5	292.6
Other segment items				
Capital expenditure	21.6	16.4	0.2	38.2
Depreciation	13.3	8.5	0.3	22.1
Closing number of employees	2,873	2,340	33	5,246
Average number of employees	2,953	2,270	30	5,253

† Central Services includes group accounts, tax, treasury, legal, internal audit, corporate development, human resources, information technology and other services provided centrally to support the business segments

Notes (continued)

1. Segment analysis (continued)

Inter-segment sales are not significant in either year. Net finance expense of £6.1m (2005: £6.0m) and income tax expense of £18.6m (2005: £17.0m) cannot be meaningfully allocated by segment. The majority of unallocated assets relate to cash and cash equivalents and the majority of unallocated liabilities relate to interest bearing loans and borrowings, retirement benefit obligations, deferred tax liabilities, bank overdrafts and income tax payable.

Geographic segments

				2006
	Revenue by destination £m	**Segment assets £m**	**Intangible assets £m**	**Capital expenditure £m**
Europe	191.7	128.3	40.0	14.7
North America	219.6	115.6	19.2	11.6
Rest of World	132.9	71.4	0.3	8.0
	544.2	**315.3**	**59.5**	**34.3**
Unallocated items	-	22.9	-	-
	544.2	**338.2**	**59.5**	**34.3**

				2005
	£m	£m	£m	£m
Europe	183.7	124.5	40.7	16.7
North America	215.5	133.1	21.9	14.2
Rest of World	114.5	70.1	0.4	7.3
	513.7	327.7	63.0	38.2
Unallocated items	-	32.2	-	-
	513.7	359.9	63.0	38.2

All segments are continuing operations.

2. Net operating expense

	2006 £m	2005 £m
Changes in inventories of finished goods and work-in-progress	**0.2**	(0.1)
Raw materials and consumables	**250.0**	232.0
Personnel expenses (note 5)	**129.9**	124.8
Depreciation and other amounts written off property, plant and equipment	**22.9**	22.1
Amortisation and other amounts written off intangible assets	**0.9**	0.8
Demerger expense	**-**	1.0
Hire of plant and machinery - rentals payable under operating leases	**0.6**	0.5
Other operating expenses	**79.0**	76.6
Net operating expense	**483.5**	457.7

Auditor's remuneration

	Note	**2006 £m**	2005 £m
Audit of this financial information	i	**0.2**	0.2
Audit of financial statements of subsidiaries pursuant to legislation		**0.6**	0.6
Total audit fees		**0.8**	0.8
Other services pursuant to such legislation	ii	**0.1**	0.1
Other services relating to tax	iii	**0.1**	0.2
Services relating to corporate finance transactions entered into or proposed to be entered into by or on behalf of the Company or the Group	iv	**0.3**	**-**
Total non-audit fees		**0.5**	0.3
Total fees		**1.3**	1.1

Notes

i Includes remuneration and expenses for the audit of the Company for the year of £4,115 (2005: £4,000)

ii Fees for other services pursuant to such legislation related principally to the review of the interim financial statements

Notes (continued)

2. Net operating expenses (continued)

iii Other services relating to tax are fees paid for tax compliance services and tax advice
iv The Company believes that, given their detailed knowledge of Filtrona's operations, its structure and accounting policies and the importance of carrying out detailed due diligence as part of the acquisition process, it is appropriate for certain audit-related work to be carried out by the Company's auditor rather than another firm of accountants. The Audit Committee, which consists of independent Non-executive Directors, reviews and approves the level and nature of non-audit work which the auditor performs, including the fees paid for such work, thus ensuring that their objectivity and independence is not compromised. £0.4m (2005: £0.3m) of the total fees for non-audit services were charged in the UK
v Fees of £23,000 (2005: £22,000) were paid in relation to the audit of the Filtrona pension schemes

3. Net finance expense

	2006 £m	2005 £m
Finance income		
Bank deposits	**1.0**	1.1
Other finance income	**0.1**	0.1
Expected return on pension scheme assets	**7.7**	4.4
	8.8	5.6
Finance expense		
Loans and overdrafts	**(7.4)**	(5.4)
Former parent company financing	**-**	(1.7)
Other finance expense	**-**	(0.1)
Interest on pension scheme liabilities	**(7.5)**	(4.4)
	(14.9)	(11.6)
Net finance expense	**(6.1)**	(6.0)

4. Income tax expense

	2006 £m	2005 £m
Components of tax expense:		
Current tax	**22.0**	17.3
Prior years' tax	**(1.7)**	(1.2)
Double tax relief	**(2.4)**	(0.2)
Deferred tax (note 15)	**0.7**	1.1
Income tax expense	**18.6**	17.0

Income tax expense in the UK is £2.4m (2005: £1.1m).

Factors affecting income tax expense for the year

Filtrona operates across the world and is subject to income tax in many different jurisdictions. Filtrona calculates its average expected tax rate as a weighted average of the national corporate income tax rates in the tax jurisdictions in which it operates.

	2006 £m	2005 £m
Profit before income tax	**54.6**	50.0
Tax at weighted average	**18.0**	16.0
Effects of:		
Permanent disallowables	**0.8**	0.2
Overseas state and local tax	**0.8**	0.5
Unrelieved tax losses	**0.2**	1.8
Prior year adjustments	**(1.7)**	(1.2)
Other items	**0.5**	(0.3)
Income tax expense	**18.6**	17.0

Notes (continued)

5. Personnel expense

	2006 £m	2005 £m
Wages and salaries	**110.2**	105.2
Social security expense	**13.1**	13.1
Pension expense (note 17)	**5.4**	5.4
Share option expense	**1.2**	1.1
	129.9	124.8

6. Earnings per share

	2006 £m	2005 £m
Earnings attributable to equity holders of Filtrona plc	**34.5**	31.6
Adjustment*	**0.6**	1.2
Adjusted earnings	**35.1**	32.8
Basic weighted average ordinary shares in issue (million)	**218.8**	219.1#
Dilutive effect of employee share option plans (million)	**1.8**	0.8
Diluted weighted average ordinary shares (million)	**220.6**	219.9
Basic earnings per share	**15.8p**	14.4p
Adjustment*	**0.2p**	0.6p
Adjusted earnings per share	**16.0p**	15.0p
Diluted basic earnings per share	**15.6p**	14.4p

Adjusted earnings per share is provided to reflect the underlying earnings performance of Filtrona.

* The adjustment relates to intangible amortisation (2005: intangible amortisation and demerger expense) less tax relief thereon
# The number of ordinary shares issued on demerger was used as the weighted average number for the period prior to demerger

7. Property, plant and equipment

				2006
	Land and buildings £m	Plant and machinery £m	Fixtures, fittings and equipment £m	**Total £m**
Cost				
Beginning of year	59.2	267.1	40.9	**367.2**
Acquisition	-	0.1	-	**0.1**
Divestment	-	(0.7)	(0.2)	**(0.9)**
Additions	3.9	27.0	3.4	**34.3**
Disposals	(1.5)	(4.8)	(1.5)	**(7.8)**
Currency translation	(3.5)	(17.3)	(2.1)	**(22.9)**
End of year	**58.1**	**271.4**	**40.5**	**370.0**
Depreciation				
Beginning of year	12.7	147.3	26.7	**186.7**
Expense in year	1.5	17.6	3.8	**22.9**
Divestment	-	(0.7)	(0.2)	**(0.9)**
Disposals	(0.4)	(4.4)	(1.5)	**(6.3)**
Currency translation	(0.8)	(9.0)	(1.0)	**(10.8)**
End of year	**13.0**	**150.8**	**27.8**	**191.6**
Net book value at end of year	**45.1**	**120.6**	**12.7**	**178.4**

Notes (continued)

7. Property, plant and equipment (continued)

	Land and buildings £m	Plant and machinery £m	Fixtures, fittings and equipment £m	Total £m
				2005
Cost				
Beginning of year	46.5	230.5	36.0	313.0
Additions	8.8	25.2	4.2	38.2
Disposals	(0.4)	(5.9)	(0.8)	(7.1)
Currency translation	4.3	17.3	1.5	23.1
End of year	59.2	267.1	40.9	367.2
Depreciation				
Beginning of year	10.8	126.6	23.1	160.5
Expense in year	1.3	17.4	3.4	22.1
Disposals	(0.2)	(5.6)	(0.7)	(6.5)
Currency translation	0.8	8.9	0.9	10.6
End of year	12.7	147.3	26.7	186.7
Net book value at end of year	46.5	119.8	14.2	180.5
Net book value at beginning of year	35.7	103.9	12.9	152.5

8. Intangible assets

	Goodwill £m	Customer relationships £m	**Total £m**
			2006
Cost			
Beginning of year	54.5	21.0	**75.5**
Acquisition (note 22)	-	0.6	**0.6**
Currency translation	(3.7)	(0.2)	**(3.9)**
End of year	**50.8**	**21.4**	**72.2**
Amortisation			
Beginning of year	11.2	1.3	**12.5**
Expense in year	-	0.9	**0.9**
Currency translation	(0.7)	-	**(0.7)**
End of year	**10.5**	**2.2**	**12.7**
Net book value at end of year	**40.3**	**19.2**	**59.5**

	Goodwill £m	Customer relationships £m	Total £m
			2005
Cost			
Beginning of year	46.9	21.9	68.8
Acquisition (note 22)	5.1	-	5.1
Currency translation	2.5	(0.9)	1.6
End of year	54.5	21.0	75.5
Amortisation			
Beginning of year	10.7	0.5	11.2
Expense in year	-	0.8	0.8
Currency translation	0.5	-	0.5
End of year	11.2	1.3	12.5
Net book value at end of year	43.3	19.7	63.0
Net book value at beginning of year	36.2	21.4	57.6

Notes (continued)

8. Intangible assets (continued)

Filtrona tests intangible assets annually for impairment, or more frequently if there are indications that they are impaired. Intangible assets are allocated to cash generating units and a discounted cash flow analysis is computed to compare discounted estimated future operating cash flows to the net carrying value of each business. The analysis is based on forecast cash flows, with zero growth used to determine terminal values. The estimated cash flows are discounted using Filtrona's weighted average cost of capital and any impairment write-downs identified are charged to the income statement. The test is dependent on management estimates and judgements, in particular in relation to the forecasting of future cash flows, and the discount rate applied to these cash flows.

9. Inventories

	2006 £m	2005 £m
Raw materials and consumables	**23.9**	25.7
Work-in-progress	**3.1**	3.0
Finished goods and goods for resale	**28.7**	31.1
	55.7	59.8

Inventories held at net realisable value and amounts recognised as income from the reversal of write-downs were not significant.

10. Trade and other receivables

	2006 £m	2005 £m
Trade receivables	**68.2**	71.3
Other receivables	**6.6**	7.1
Prepayments and accrued income	**6.3**	7.2
	81.1	85.6

11. Cash and cash equivalents

	2006 £m	2005 £m
Bank balances	**18.3**	29.7
Short-term bank deposits not repayable on demand	**2.4**	1.0
Cash and cash equivalents	**20.7**	30.7
Bank overdrafts	**(1.0)**	(5.0)
Cash and cash equivalents in the statement of cash flows	**19.7**	25.7

12. Trade and other payables

	2006 £m	2005 £m
Trade payables	**38.1**	39.5
Other tax and social security contributions	**3.2**	2.8
Other payables	**6.7**	7.2
Accruals and deferred income	**17.0**	19.4
	65.0	68.9

Notes (continued)

13. Interest bearing loans and borrowings

	2006 £m	2005 £m
Non-current liabilities		
Unsecured bank loans	**117.9**	145.2
Current liabilities		
Unsecured bank loans	**0.1**	0.1
Unsecured non-bank loan	**0.5**	0.6
	0.6	0.7

Terms and debt repayment schedule

				2006				2005
	< 1 yr £m	**1 - 2 yrs £m**	**2 - 5 yrs £m**	**Total £m**	< 1 yr £m	1 - 2 yrs £m	2 - 5 yrs £m	Total £m
Unsecured bank loans	0.1	0.1	117.8	118.0	0.1	0.1	145.1	145.3
Unsecured non-bank loan	0.5	-	-	0.5	0.6	-	-	0.6
	0.6	**0.1**	**117.8**	**118.5**	0.7	0.1	145.1	145.9

All debt due for repayment in two to five years must be repaid no later than May 2010.

At 31 December 2006, the majority of Filtrona's interest bearing loans and borrowings were at floating rates of interest set with reference to LIBOR for periods ranging from seven days to three months. €30m and up to US$65m of net debt was protected from adverse movements in interest rates with interest rate caps for a period of 20 months. On 24 February 2006 the interest rate on US$40m of net debt was effectively fixed at 5.1775% with an interest rate swap for a period of two years. With effect from 24 November 2006 the interest rate on a further US$30m of net debt was effectively fixed at 5.4313% with an interest rate swap for a period of two years.

At 31 December 2005, the majority of Filtrona's interest bearing loans and borrowings were at floating rates of interest set with reference to LIBOR for periods ranging from seven days to three months.

After taking into account foreign exchange swaps, the currency and interest rate profile of Filtrona's financial assets and liabilities is as follows:

					2006				2005
	Fixed rate £m	**Floating rate £m**	**Non-interest bearing £m**	**Impact of foreign exchange swaps £m**	**Total £m**	Floating rate £m	Non-interest bearing £m	Impact of foreign exchange swaps £m	Total £m
Assets									
Sterling	-	3.4	11.0	-	**14.4**	3.5	22.3	-	25.8
US dollar	-	5.0	29.8	-	**34.8**	4.9	30.2	-	35.1
Euro	-	4.3	20.7	-	**25.0**	7.5	11.7	-	19.2
Other	-	8.0	21.4	-	**29.4**	14.8	23.1	-	37.9
	-	**20.7**	**82.9**	**-**	**103.6**	30.7	87.3	-	118.0
Liabilities									
Sterling	-	31.1	18.9	(61.3)	**(11.3)**	37.9	27.4	(78.1)	(12.8)
US dollar	35.7	52.5	35.2	9.5	**132.9**	111.7	35.7	20.2	167.6
Euro	-	0.2	16.5	52.1	**68.8**	0.3	9.1	58.6	68.0
Other	-	-	10.4	-	**10.4**	1.0	14.1	-	15.1
	35.7	**83.8**	**81.0**	**0.3**	**200.8**	150.9	86.3	0.7	237.9

£nil (2005: £2.1m) of Filtrona's non-interest bearing financial liabilities are due for payment in one to two years.

Notes (continued)

13. Interest bearing loans and borrowings (continued)

Filtrona's available undrawn committed facilities at 31 December were:

	2006 £m	2005 £m
Expiring within one year	**-**	-
Expiring after one but within two years	**-**	-
Expiring after two years	**97.2**	70.0
	97.2	70.0

Any loans drawn on these facilities would bear interest at floating rates with reference to LIBOR for the period of the loan.

14. Derivative instruments

Filtrona uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, Filtrona does not hold or issue derivative financial instruments for trading purposes.

	Assets		**Liabilities**	
	Fair values £m	**Contractual or notional amounts £m**	**Fair values £m**	**Contractual or notional amounts £m**
At 31 December 2006				
Fair value hedges				
Forward foreign exchange contracts	-	1.6	-	9.7
Cash flow hedges				
Forward foreign exchange contracts	-	1.8	-	2.5
Interest rate swaps	0.2	35.9	-	-
Hedges of net investments				
Cross currency swaps	-	4.4	(0.3)	57.2
	0.2	**43.7**	**(0.3)**	**69.4**

	Assets		Liabilities	
	Fair values £m	Contractual or notional amounts £m	Fair values £m	Contractual or notional amounts £m
At 31 December 2005				
Fair value hedges				
Forward foreign exchange contracts	0.1	4.9	(0.1)	9.6
Cash flow hedges				
Forward foreign exchange contracts	-	0.8	-	0.8
Hedges of net investments				
Cross currency swaps	-	14.6	(0.7)	64.2
	0.1	20.3	(0.8)	74.6

Fair values of forward foreign exchange contracts and cross currency swaps have been calculated at year end exchange rates compared to contracted rates. Fair values of interest rate swaps have been calculated by discounting cash flows at the rates of interest prevailing at the year end. Fair values of other financial assets and liabilities are not significantly different from their carrying amounts in 2006 and 2005.

The net fair value gains on open forward foreign exchange contracts that hedge foreign currency risk of anticipated future sales and purchases will be transferred to the income statement when the forecast sales and purchases occur over the next 12 months. With the exception of the interest rate swaps discussed in note 13 all other derivative instruments mature within the next 12 months.

Filtrona has US dollar denominated borrowings and US dollar and euro currency swaps which it has designated as hedges of its net investments in subsidiary undertakings. The exchange gains of £15.5m (2005: losses of £11.3m) on these borrowings and the gains of £2.1m (2005: losses of £0.1m) on the US dollar currency swaps and gains of £0.8m (2005: gains of £0.3m) on euro currency swaps have been recognised in reserves.

Notes (continued)

15. Deferred tax

Deferred tax assets and liabilities are attributable to the following:

	2006			2005		
	Assets £m	**Liabilities £m**	**Net £m**	Assets £m	Liabilities £m	Net £m
Property, plant and equipment	(0.6)	17.8	**17.2**	(0.7)	13.2	12.5
Intangible assets	-	7.2	**7.2**	-	5.1	5.1
Employee benefits	(10.0)	-	**(10.0)**	(11.4)	-	(11.4)
Other	(3.8)	0.7	**(3.1)**	(4.6)	8.2	3.6
Tax (assets)/liabilities	**(14.4)**	**25.7**	**11.3**	(16.7)	26.5	9.8
Set off of tax	14.1	(14.1)	-	15.1	(15.1)	-
Net tax (assets)/liabilities	**(0.3)**	**11.6**	**11.3**	(1.6)	11.4	9.8

Movements in temporary differences in the year:

	2006 £m	2005 £m
Beginning of year	**9.8**	18.4
Charge to the income statement in respect of current year (note 4)	**0.7**	1.1
Charge to the income statement in respect of prior years	**0.9**	1.7
Recognition of defined benefit pension schemes on demerger	**-**	(10.5)
Charge/(credit) to reserves on movements of defined benefit pension schemes	**0.7**	(0.3)
Currency translation	**(0.8)**	(0.6)
End of year	**11.3**	9.8

No deferred tax liability is provided in respect of any future remittance of earnings of foreign subsidiaries where Filtrona is able to control the remittance of earnings and it is probable that such earnings will not be remitted in the foreseeable future. A deferred tax asset of £0.7m (2005: £0.7m) has not been recognised in respect of capital losses as the realisation of this deferred tax asset is not considered probable.

16. Provisions

	2006 £m	2005 £m
Movements		
Beginning of year	**7.5**	5.6
Expensed in the income statement	**-**	2.5
Acquisitions	**0.3**	-
Reclassified from other payables	**-**	3.1
Utilised	**(2.0)**	(3.8)
Currency translation	**(0.1)**	0.1
End of year	**5.7**	7.5
Non-current	**2.7**	2.5
Current	**3.0**	5.0
	5.7	7.5

Provisions relate primarily to vacant properties, employees' compensation claims, legal claims and environmental clean up expenses. Non-current provisions are generally long-term in nature with the timing of utilisation uncertain.

17. Employee benefits

Post retirement benefits

For the period prior to demerger Filtrona employees were members of the former parent company's defined benefit and defined contribution pension schemes. The liabilities and assets of these schemes were transferred to successor Filtrona schemes following demerger. Liabilities were actuarially allocated between Filtrona and the former parent company and scheme assets were split in the same proportion as liabilities.

Notes (continued)

17. Employee benefits (continued)

Under IAS 19 (revised) Filtrona has to account for defined benefit pension costs up to the period of demerger on a defined contribution basis and on a defined benefit basis thereafter. Accordingly Filtrona recognised the retirement benefit obligation of £34.7m at demerger in the consolidated statement of recognised income and expense.

Trustees administer the schemes and the assets are held independently from Filtrona.

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 2006 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 recent actuarial valuations taking account of the investment returns achieved by the schemes and the level of contributions.

Contributions to all schemes are determined in line with actuarial advice, local conditions and practices. Defined benefit contributions in 2007 are expected to be £5.9m, which consists of payments to fund future service accruals and contributions to amortise the deficit in respect of past service.

The amounts included in the consolidated financial information in respect of arrangements in Europe and the US are as follows:

	2006 £m	2005 £m
Amounts charged to operating profit		
Defined contribution schemes	**2.2**	3.6
Defined benefit schemes:		
Service cost	**3.2**	1.8
Total operating expense (note 5)	**5.4**	5.4
Amounts included as finance (income)/expense		
Expected return on scheme assets	**(7.7)**	(4.4)
Interest on scheme liabilities	**7.5**	4.4
Net financial return	**(0.2)**	-
Amounts recognised in the statement of recognised income and expense		
Recognition of actuarial losses on demerger	**-**	(34.7)
Actual return less expected return on scheme assets	**5.5**	5.7
Impact of changes in assumptions relating to the present value of scheme liabilities	**(3.3)**	(7.7)
Actuarial gain/(loss)	**2.2**	(36.7)

The principal assumptions used by the independent qualified actuaries for the purposes of IAS 19 (revised) were:

	2006		**2005**	
	Europe	**US**	**Europe**	**US**
Rate of increase in salaries	**3.90%**	**4.00%**	**3.75%**	**3.00%**
Rate of increase in pensions	**2.90%**	**n/a***	**2.75%**	**n/a***
Discount rate	**5.00%**	**5.75%**	**4.75%**	**5.50%**
Inflation rate	**2.90%**	**n/a***	**2.75%**	**n/a***
Expected return on scheme assets	**6.10%**	**8.30%**	**5.90%**	**8.30%**

* not applicable

The assumptions used by the actuaries are the estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not be borne out in practice.

The life expectancy assumptions used to estimate defined benefit obligations at 31 December 2006 are:

	2006	
	Europe	**US**
Male retiring today at age 65	**21.8**	**18.1**
Female retiring today at age 65	**24.7**	**20.4**
Male retiring in 20 years at age 65	**23.0**	**18.1**
Female retiring in 20 years at age 65	**25.8**	**20.4**

Notes (continued)

17. 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 scheme liabilities, which are derived from cash flow projections over long periods and are therefore inherently uncertain, are:

					2006
	Long-term rate of return	**Europe £m**	**Long-term rate of return**	**US £m**	**Total**
Equities	6.90%	73.2	9.75%	17.5	**90.7**
Bonds	4.70%	13.3	5.75%	10.4	**23.7**
Gilts	3.90%	19.9		-	**19.9**
Other	4.70%	0.3	4.50%	0.2	**0.5**
Fair value of scheme assets		106.7		28.1	**134.8**
Present value of scheme liabilities		(131.6)		(34.1)	**(165.7)**
Retirement benefit obligations		**(24.9)**		**(6.0)**	**(30.9)**

					2005
	Long-term rate of return	Europe £m	Long-term rate of return	US £m	Total
Equities	6.80%	64.7	9.75%	18.8	83.5
Bonds	4.45%	12.5	5.75%	10.2	22.7
Gilts	3.80%	18.1		-	18.1
Other		-	4.50%	0.1	0.1
Fair value of scheme assets		95.3		29.1	124.4
Present value of scheme liabilities		(123.3)		(36.9)	(160.2)
Retirement benefit obligations		(28.0)		(7.8)	(35.8)

Movement in fair value of scheme assets/(liabilities) during the year

			2006			2005
	Scheme assets £m	**Scheme liabilities £m**	**Total £m**	Scheme assets £m	Scheme liabilities £m	Total £m
Beginning of year	**124.4**	**(160.2)**	**(35.8)**	-	-	-
Recognition of defined benefit pension schemes on demerger	**-**	**-**	**-**	116.2	(150.9)	(34.7)
Contribution to defined benefit pension schemes by former parent company	**-**	**-**	**-**	1.4	-	1.4
Service cost		**(3.2)**	**(3.2)**	-	(1.8)	(1.8)
Employer contributions	**4.7**	**-**	**4.7**	2.5	-	2.5
Employee contributions	**0.8**	**(0.8)**	**-**	0.7	(0.7)	-
Actuarial gains/(losses)	**5.5**	**(3.3)**	**2.2**	5.7	(7.7)	(2.0)
Finance income/(expense)	**7.7**	**(7.5)**	**0.2**	4.4	(4.4)	-
Benefits paid	**(4.7)**	**4.7**	**-**	(1.7)	1.7	-
Curtailment	**-**	**-**	**-**	(7.3)	7.5	0.2
Changes in scheme coverage	**-**	**-**	**-**	0.3	(1.1)	(0.8)
Currency translation	**(3.6)**	**4.6**	**1.0**	2.2	(2.8)	(0.6)
End of year	**134.8**	**(165.7)**	**(30.9)**	124.4	(160.2)	(35.8)

		2006		2005
	% of scheme assets/ liabilities	**£m**	% of scheme assets/ liabilities	£m
Experience gains and losses				
Difference between actual and expected return on scheme assets	**4.1**	**5.5**	4.6	5.7
Net actuarial gains/(losses) recognised in the statement of recognised income and expense	**1.3**	**2.2**	(1.2)	(2.0)

Notes (continued)

17. Employee benefits (continued)

Sensitivity

For the significant assumptions used in determining post retirement costs and liabilities, the following sensitivity analysis gives the estimate of the impact on the income statement and balance sheet for the year ended 31 December 2006.

	Scheme liabilities			Annual service cost		
	Europe £m	US £m	**Total £m**	Europe £m	US £m	**Total £m**
0.5% decrease in the discount rate	15.0	2.6	**17.6**	0.4	0.1	**0.5**
1.0% increase in the rate of inflation	25.0	-	**25.0**	0.9	-	**0.9**
1 year increase in life expectancy	3.5	1.1	**4.6**	0.1	-	**0.1**
0.5% increase in the discount rate	(13.0)	(2.2)	**(15.2)**	(0.4)	(0.1)	**(0.5)**
1.0% decrease in the rate of inflation	(20.0)	-	**(20.0)**	(0.8)	-	**(0.8)**

Share-based incentives

Filtrona operates share-based incentive plans for its Executive Directors and employees. The total charge in respect of these plans during the year was £1.2m (2005: £1.1m). Details of these plans are set out below:

Share options outstanding

											2006
	At 1 Jan 2006	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 2006**	**Weighted average exercise price**	**Exercisable at 31 Dec 2006**
LTIP Part A	2,133,262	239.5p	1,987,174	257.0p	(138,812)	239.5p	**-**	**-**	**3,981,624**	**248.2p**	**-**
LTIP Part B 'Matching'	600,666	-	-	-	-	-	**-**	**-**	**600,666**	**-**	**-**
LTIP Part B 'Performance'	515,347	-	496,810	-	-	-	**-**	**-**	**1,012,157**	**-**	**-**
DASB	-	-	128,320	-	-	-	**-**	**-**	**128,320**	**-**	**-**
SAYE 3 year plan	-	-	764,823	237.0p	(93,122)	237.0p	(843)	237.0p	**670,858**	237.0p	-
SAYE 5 year plan	-	-	710,677	237.0p	(46,191)	237.0p	**-**	**-**	**664,486**	**237.0p**	**-**
	3,249,275		**4,087,804**		**(278,125)**		**(843)**		**7,058,111**		**-**

								2005
	At 1 Jan 2005	Granted during the year	Weighted average exercise price	Lapsed during the year	Weighted average exercise price	At 31 Dec 2005	Weighted average exercise price	Exercisable at 31 Dec 2005
LTIP Part A	-	2,281,608	239.5p	(148,346)	239.0p	2,133,262	239.5p	-
LTIP Part B 'Matching'	-	600,666	-	-	-	600,666	-	-
LTIP Part B 'Performance'	-	570,992	-	(55,645)	-	515,347	-	-
	-	3,453,266		(203,991)		3,249,275		-

Fair value model inputs for share options outstanding

						2006
	LTIP Part A	**LTIP Part B 'Matching'**	**LTIP Part B 'Performance'**	**DASB**	**SAYE 3 year plan**	**SAYE 5 year plan**
Weighted average fair value at grant	41.1p	211.9p	237.1p	276.4p	77.6p	92.2p
Weighted average share price at grant	248.2p	232.0p	262.1p	296.8p	296.3p	296.3p
Weighted average exercise price	248.2p	-	-	-	237.0p	237.0p
Weighted average volatility	22.7%	23.6%	24.1%	20.5%	20.3%	24.2%
Weighted average dividend yield	2.87%	3.07%	2.75%	2.40%	2.40%	2.40%
Weighted risk free rate	4.36%	4.10%	4.23%	4.35%	4.39%	4.36%
Expected employee retention rates	76.9%	85.0%	91.5%	98.0%	55.0%	55.0%
Expected term	3.25 years	3.00 years	3.75 years	3.00 years	3.00 years	5.00 years

Notes (continued)

17. Employee benefits (continued)

	2005		
	LTIP Part A	LTIP Part B 'Matching'	LTIP Part B 'Performance'
Weighted average fair value at grant	40.6p	211.9p	207.2p
Weighted average share price at grant	239.5p	232.0p	232.0p
Weighted average exercise price	239.5p	-	-
Weighted average volatility	24.0%	23.6%	23.8%
Weighted average dividend yield	2.98%	3.07%	3.07%
Weighted risk free rate	4.12%	4.10%	4.15%
Expected employee retention rates	73.7%	85.0%	85.0%
Expected term	3.25 years	3.00 years	3.75 years

All options have been valued using the Black-Scholes model.

Volatility has been calculated over the length of the expected term, for the period immediately before the grant date. The volatility of the former parent company's shares has been used as a proxy for Filtrona plc's share price volatility in the period prior to demerger.

						2006
	LTIP Part A	**LTIP Part B 'Matching'**	**LTIP Part B 'Performance'**	**DASB**	**SAYE 3 year plan**	**SAYE 5 year plan**
Contractual life	**3 – 10 years**	**3 – 6 years**	**3 – 6 years**	**3 years**	**3 years**	**5 years**

			2005
	LTIP Part A	LTIP Part B 'Matching'	LTIP Part B 'Performance'
Contractual life	3 - 10 years	3 - 6 years	3 - 6 years

All options are settled with equity.

18. Share capital

	2006 £m	2005 £m
Authorised: 500 million (2005: 500 million) ordinary shares of 25p (2005: 25p) each	**125.0**	125.0
Issued and fully paid ordinary shares of 25p (2005: 25p) each	**54.8**	54.8
Number of shares in issue		
Beginning and end of year	**219,326,795**	219,326,795

On 8 June 2005 a resolution was passed reducing the ordinary share capital by 100p per share (total: £219.3m), and on 9 June 2005 this was confirmed by an Order of the High Court. The amounts arising were used to create retained earnings in the Company.

Notes (continued)

19. Movements on reserves

						2006
	Capital redemption reserve £m	**Other reserve £m**	**Translation reserve £m**	**Retained earnings £m**	**Minority interests £m**	**Total £m**
At 1 January 2006	**0.1**	**(132.8)**	**5.3**	**197.3**	**5.6**	**75.5**
Total recognised income and expense for the year			(3.7)	36.0	1.2	33.5
Acquisition of employee trust shares				(1.2)		(1.2)
Share option expense				1.2		1.2
Dividends paid				(14.3)	(0.8)	(15.1)
At 31 December 2006	**0.1**	**(132.8)**	**1.6**	**219.0**	**6.0**	**93.9**

							2005
	Capital redemption reserve £m	Other reserve £m	Cash flow hedging reserve £m	Translation reserve £m	Retained earnings £m	Minority interests £m	Total £m
At 1 January 2005	-	(132.8)	-	(1.6)	(28.7)	3.9	(159.2)
Adoption of IAS 32 and IAS 39			0.1				0.1
At 1 January 2005 restated	-	(132.8)	0.1	(1.6)	(28.7)	3.9	(159.1)
Total recognised income and expense for the year			(0.1)	6.9	6.1	1.9	14.8
Transfer to retained earnings on reduction in share capital					219.3		219.3
Acquisition of employee trust shares					(1.0)		(1.0)
Share option expense					1.1		1.1
Dividends paid					(4.7)	(0.4)	(5.1)
Arising on acquisition						0.2	0.2
Redemption of £1 preference shares	0.1						0.1
Former parent company's capital contribution					4.2		4.2
Former parent company's contribution to the defined benefit pension scheme net of deferred tax					1.0		1.0
At 31 December 2005	0.1	(132.8)	-	5.3	197.3	5.6	75.5

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 options granted and awards made in respect of market purchase shares under the Company's share-based incentive plans. The assets, liabilities and expenditure of the trust have been incorporated in this financial information. At 31 December 2006, the trust held 872,166 (2005: 423,009) shares, upon which dividends have been waived, with an aggregate nominal value of £0.2m (2005: £0.1m) and market value of £2.3m (2005: £1.2m).

The other reserve relates to the Group reorganisation which took place as part of the demerger and represents the difference between Filtrona plc's share capital and Filtrona International Ltd's share capital and share premium on 6 June 2005 and is not distributable.

Notes (continued)

20. Analysis of net debt

	1 Jan 2006 £m	Cash flow £m	Exchange movements £m	**31 Dec 2006 £m**
Cash at bank and in hand	22.6	(5.8)	(1.0)	**15.8**
Short-term bank deposits repayable on demand	7.1	(4.3)	(0.3)	**2.5**
Short-term bank deposits not repayable on demand	1.0	1.4	-	**2.4**
Cash and cash equivalents	30.7	(8.7)	(1.3)	**20.7**
Overdrafts	(5.0)	3.9	0.1	**(1.0)**
Cash and cash equivalents in the statement of cash flows	25.7	(4.8)	(1.2)	**19.7**
Debt due within one year	(0.7)	0.1	-	**(0.6)**
Debt due after one year	(145.2)	11.8	15.5	**(117.9)**
Net debt	(120.2)	7.1	14.3	**(98.8)**

21. Operating lease commitments

At 31 December Filtrona had the following commitments under non-cancellable operating leases:

	2006 £m	2005 £m
Payable within one year	**1.6**	1.4
Payable between one and five years	**4.5**	4.4
Payable after five years	**4.4**	4.4
	10.5	10.2

22. Acquisitions

In May 2006 Filtrona purchased certain assets and the business of the CSL Digital Print division of CORGI Services Limited and, concurrently, entered into a five year agreement with CORGI Group Limited for the exclusive supply of registered gas installer identity cards.

In December 2005 Filtrona purchased an additional 30% of FractureCode Corporation ApS (‘FractureCode’), taking Filtrona’s share in FractureCode to 80%. FractureCode was previously accounted for as a joint venture using equity accounting. Following the purchase it is now fully consolidated and contributed £nil to operating profit before intangible amortisation in 2005.

The remaining 20% of shares in FractureCode could be acquired between March 2009 and December 2012. The consideration for the remaining 20% of shares is dependent on various profit related targets and is capped at a maximum of €40m.

On acquisition the assets and liabilities of the businesses acquired were adjusted to reflect their fair values to Filtrona. The fair value adjustments are provisional and subject to finalisation for up to one year from the date of acquisition.

The principal fair value adjustments are as follows:

In 2006:

There were no adjustments to the book value of assets and liabilities acquired.

In 2005:

The adjustment to intangibles represents the write-off of goodwill in the entity on acquisition in accordance with IAS 38: *Intangible Assets*.

The adjustment to investment in associate and minority interest reflects the change from equity accounting to full consolidation.

Notes (continued)

22. Acquisitions (continued)

A summary of the acquisition of CSL Digital Print in 2006 is detailed below:

	Book and fair value of assets acquired £m
Property, plant and equipment	0.1
Trade and other receivables	0.1
Provisions	(0.3)
	(0.1)
Customer relationships	0.6
Consideration, satisfied in cash	**0.5**

A summary of the effect of the acquisition of FractureCode in 2005 is detailed below:

	Book value at acquisition £m	Consistency of accounting policy £m	Fair value of assets acquired £m
Intangible assets	0.5	(0.5)	-
Trade and other receivables	0.7	-	0.7
Trade and other payables	(0.4)	-	(0.4)
Cash and cash equivalents	0.1	-	0.1
Investment in associate	-	(0.5)	(0.5)
Minority interest	-	(0.2)	(0.2)
	0.9	(1.2)	(0.3)
Goodwill			5.1
Consideration			4.8
Satisfied by:			
Accrued expenses			0.1
Cash consideration			4.7
The net cash outflow in the period in respect of the acquisition of FractureCode comprised:			
Cash consideration			4.7
Cash and cash equivalents acquired			(0.1)
Net cash outflow in respect of acquisition of FractureCode			4.6

23. Disposals

In March 2006, Filtrona completed the sale of the High Profile business for £0.3m, which was satisfied in cash, and the control of the business passed to the acquirer.

This disposal had the following effect on Filtrona's assets and liabilities:

	£m
Inventories	0.3
Trade and other receivables	0.1
Trade and other payables	(0.1)
Net identifiable assets and liabilities (at date of completion)	0.3
Consideration, satisfied in cash	**0.3**

Notes (continued)

24. Dividends

	Per share		Total	
	2006	2005	**2006**	2005
	p	p	**£m**	£m
2005 interim: paid 31 October 2005		2.13		4.7
2005 final: paid 28 April 2006		4.27		9.3
2006 interim: paid 27 October 2006	**2.30**		**5.0**	
2006 proposed final: payable 4 May 2007	**4.60**		**10.1**	
	6.90	6.40	**15.1**	14.0

25. Transactions with related parties

Other than the acquisition of FractureCode in 2005, Filtrona has not entered into any material transactions with related parties. Furthermore, throughout 2006 and 2005, no Director had a personal interest in any significant transaction of Filtrona.