Filtrona plc Annual Report 2008

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Filtrona is an international, market leading, speciality plastic and fibre products supplier

Business Review

Corporate Governance

Financial Statements

On 3 March 2009 after the approval on 26 February 2009 of the accounts for the year ended 31 December 2008 the following announcement was made

- the disposal of Filtrona's North American Plastic Profile and Sheet business.

For completeness of reporting to shareholders this has been noted as supplemental to the previously approved Chairman's Statement. This information is identified by the use of a box within this section.

Principal Global Locations

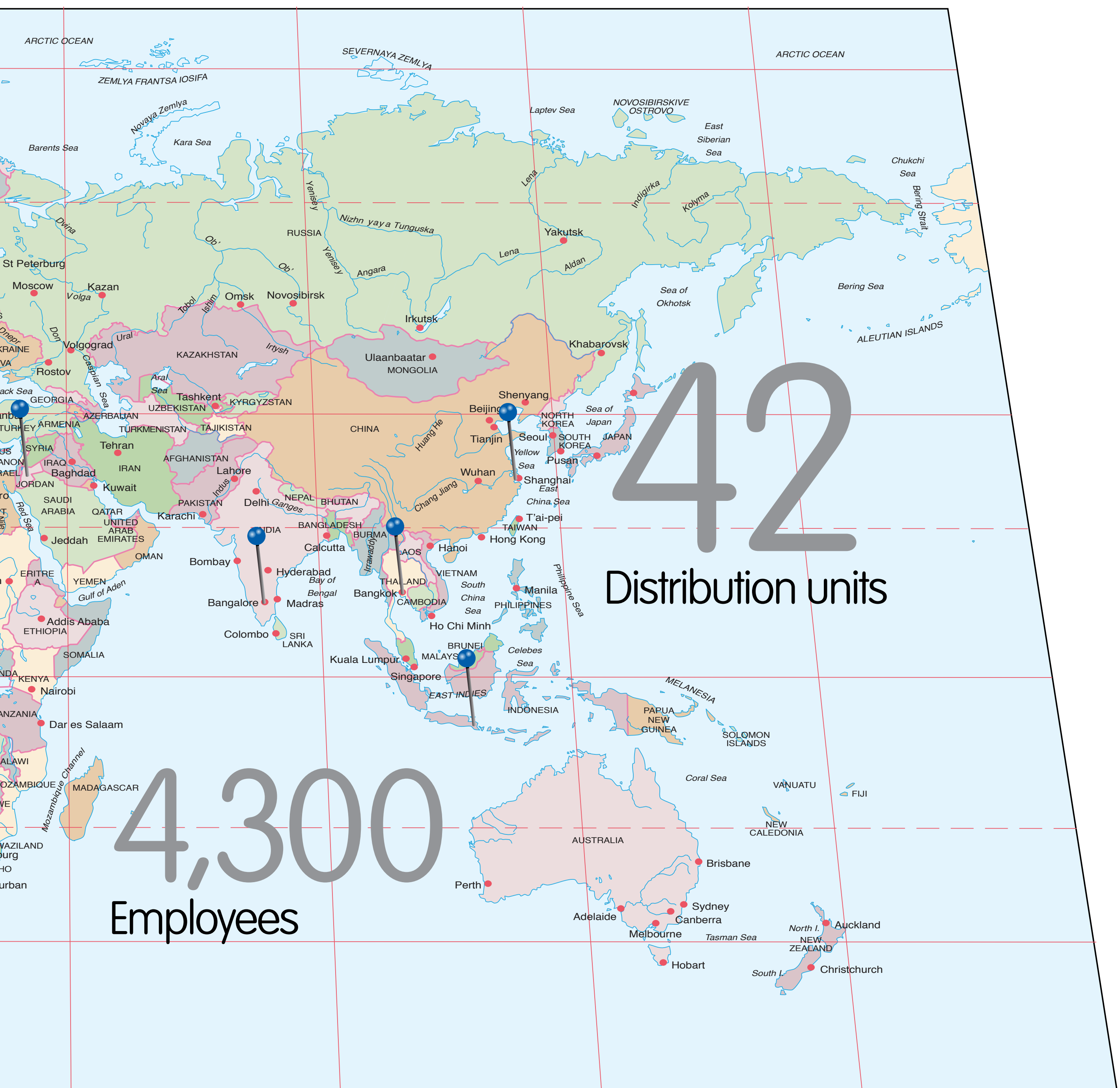
By concentrating on international speciality markets Filtrona has been able to establish and develop strong positions in its chosen product categories.

Filtrona operates in a dynamic international market environment. The Company continues to invest to expand capacity and capability, to improve operational performance and customer service, and to exploit new business opportunities.

Filtrona is segmented into Plastic Technologies and Fibre Technologies.

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.

Fibre Technologies focuses on the production and supply of special filters for cigarettes, bonded fibre products, such as reservoirs for writing instruments and printers, and speciality hydrophilic foams for cosmetic products and medical applications.

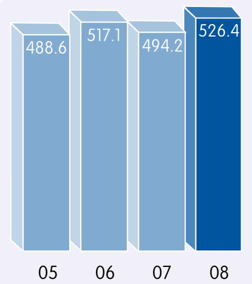


Business Review

Highlights
Continuing operations
for the year ended 31 December 2008

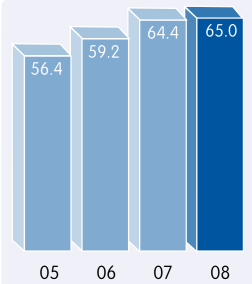
- Revenue growth of 6.5%, with continued strong margins
- Adjusted operating profit[1] at £65.0m after charging £1.8m of restructuring costs
- Adjusted earnings per share[2] up 8.1% to 18.6p (2007: 17.2p)
- Strong cash generation, with operating cash flow[3] of £65.6m (2007: £68.3m)
- Acquisition of Lendell, a speciality hydrophilic foam business, for US$35m
- Total dividend[4] of 7.78p per share (2007: 7.60p)

Revenue



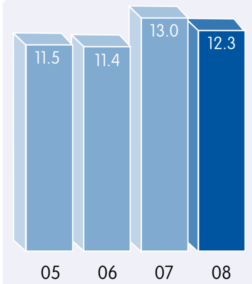
£526.4m
+6.5%

Operating profit[1]



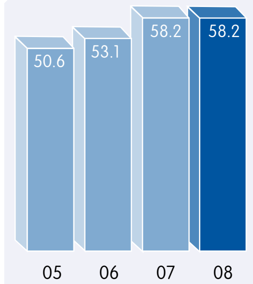
£65.0m
+0.9%

Operating margin[1]



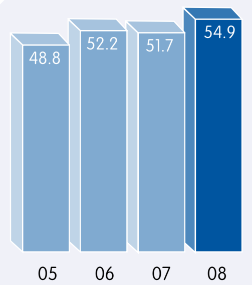
12.3%

Profit before tax[1]



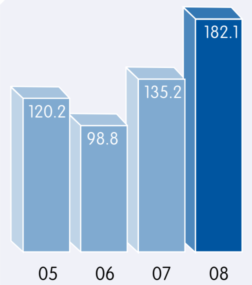
£58.2m

Profit before tax



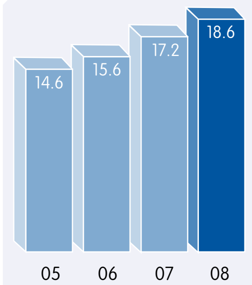
£54.9m
+6.2%

Net debt



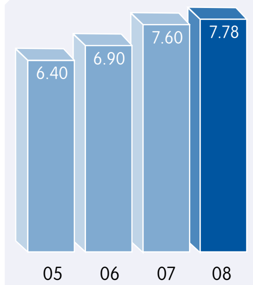
£182.1m

Adjusted earnings per share[2]



18.6p
+8.1%

Dividend per share[4]



7.78p
+2.4%

1 Before intangible amortisation, exceptional acquisition fees, exceptional restructuring costs and demerger expense
2 Before intangible amortisation, exceptional acquisition fees, exceptional restructuring costs and demerger expense less tax relief on intangible amortisation, exceptional restructuring costs and demerger expense
3 Adjusted operating profit before depreciation and share option expense less working capital movements less net capital expenditure
4 Interim dividend plus proposed final dividend

Supporting all areas of business

Filtrona manufactures, sources and distributes high volume, low unit cost, small but essential products for use in industrial, medical and consumer markets

Filtrona's products and services play a key role in
- offices and homes
- retail environments
- oil and gas markets
- medical and aerospace markets
- protecting brands and personal identities

Business Review

Enhancing quality of life

Filtrona provides a high quality, cost competitive, global supply of essential products used in everyday life

- Tear tape for easy opening of consumer friendly products
- Reservoirs for writing instruments and printers
- Speciality foams for cosmetics
- Components for lighting, furniture and fencing
- Point of purchase displays

Safeguarding people's interests

Filtrona's expertise and innovative capabilities add value in response to customer demands and drive the development of

- Medical diagnostic devices
- Surgical instruments
- Brand authentication to combat counterfeiting
- Personal identity verification controls
- Protection items for electrical equipment and white goods

Business Review

Filtrona Values

A sound basis for the successful delivery of long-term value for Filtrona shareholders

Our style

We will be open, honest and enthusiastic, celebrating our successes and learning from our experiences

We will be passionate in our pursuit of excellence and dedicate ourselves to the very best of quality in everything we do

We will work as a team, valuing everyone's contribution and minimising bureaucracy

We will treat each other in a consistent and fair manner

Our responsibilities

We will share our company strategy and ensure we understand the part we play in it

We will all have clear goals, the necessary resources and freedoms to achieve them, and honest assessment of our performance

We will always conduct ourselves with integrity and respect for our fellows and for our environment

We will aim to advance our knowledge, skills and professionalism in all we do

We will do our best and accept accountability for our actions

Our goals

We will strive to delight our customers and hold the respect of our suppliers

We will work together to grow our business for the benefit of our stakeholders

Business Review

Chairman's Statement

Filtrona remains a well managed company intent on constantly improving and innovating the way it does business

In 2008, Filtrona reported increases in revenue, adjusted operating profit and earnings, despite the volatile economic conditions experienced globally during the latter part of the year, and the recessionary trends which emerged in some of the Company's markets. Whilst these improvements benefited from movements in currency exchange rates, particularly in the latter part of the year, as sterling weakened sharply against both the euro and the US dollar, they also reflect the resilience derived from Filtrona's strong international market positions.

Revenue was up against the prior year by 6.5% at £526.4m (2007: £494.2m) and, at constant exchange rates, down 0.9%. Adjusted operating profit was up 0.9% to £65.0m (2007: £64.4m), after absorbing £1.8m of restructuring costs, and down 8.1% at constant exchange rates. The beneficial impact of currency translation during the year was £37.1m on revenue and £6.3m on adjusted operating profit. A robust profit performance and effective working capital management helped to maintain a strong adjusted operating cash flow at £65.6m.

The successful completion of the acquisition of the business and assets of Lendell Manufacturing Inc., based in St Charles, Michigan, reflects the Company's strategy of acquiring in the higher growth, higher margin divisions. The integration of Lendell's speciality foam manufacturing, sales and development capabilities into the renamed Porous Technologies division is proceeding well. It is anticipated that both Lendell and the Fibertec business will secure additional growth opportunities through their combination.

The Board is recommending a final dividend of 5.08p per share which, if approved at the Annual General Meeting on 23 April 2009, will make a total dividend of 7.78p per share (2007: 7.6p) for the full year. This represents a 2.4% increase in the total dividend. The final dividend will be paid on 8 May 2009 to shareholders on the register at 14 April 2009.

Steve Crummett joined the Board on 19 March 2008 as Group Finance Director and his experience and knowledge have been key in helping to guide Filtrona through the challenges presented by the changes in trading and financial market conditions.

Adrian Auer has confirmed his intention to leave Filtrona as a Non-executive Director with effect from 30 June 2009 as he focuses on his other interests outside of the Group. Adrian has been a Director of the Company, and Chairman of the Audit Committee, since the public listing of Filtrona in 2005, and on behalf of the Board I would like to thank him for his invaluable contribution. Under the direction of the Nomination Committee, the recruitment process for Adrian's replacement is under way.

The Board held eight scheduled meetings during the year, together with a day of strategy discussions. The focus of the Board during 2008 was on seeking to secure key strategic developments for the Group and a number of additional meetings were arranged during the year to accommodate those discussions. For the first time, the Board undertook an evaluation of its performance under the direction of an independent third party. The individual Directors have responded well to address the constructive points arising from that review in seeking to maximise the Board's value for stakeholders both internal and external to the Company.

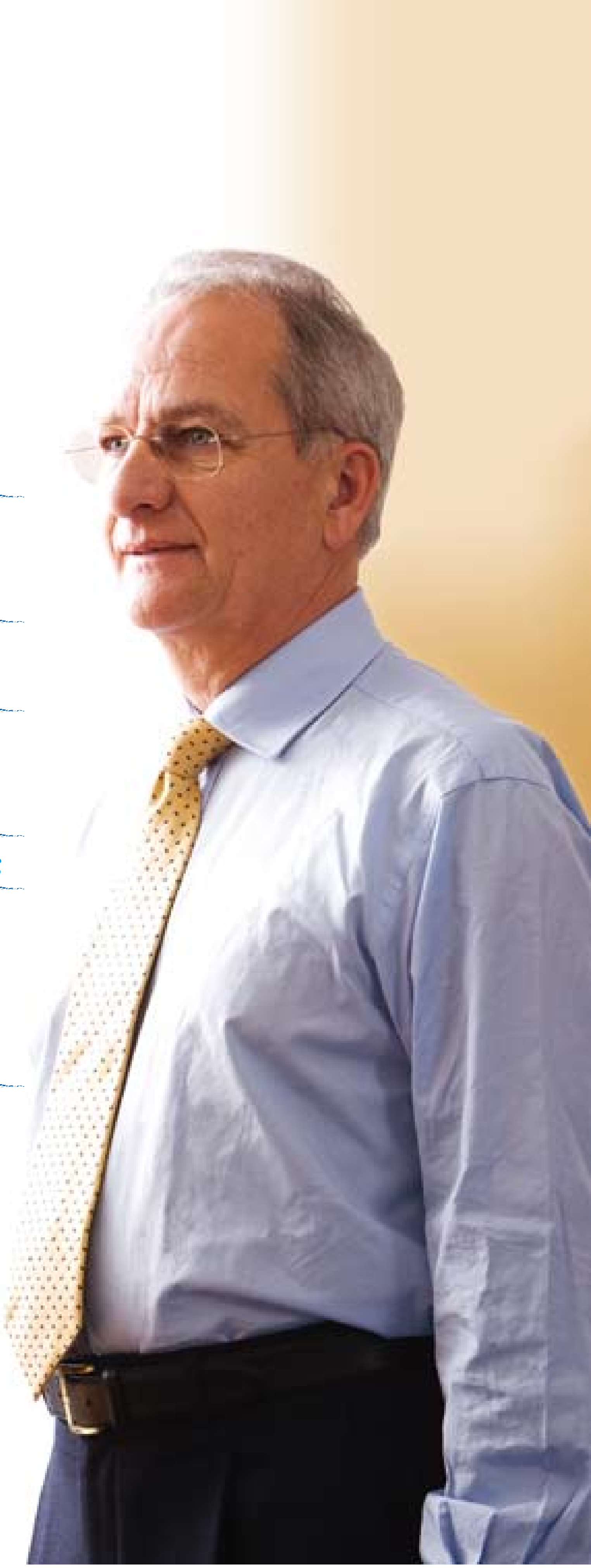
I am pleased to welcome new colleagues to the Group who have joined during the year, including those from the acquisition of Lendell. Filtrona values its people highly and their commitment, enthusiasm and professionalism will be key to ensuring Filtrona's resilience in the face of demanding market conditions.

Filtrona remains a strong and well managed company intent on constantly improving and innovating the way it does business. It is expected that economic conditions will remain challenging during 2009 but the Board remains confident that Filtrona will continue to demonstrate resilience and perform satisfactorily.

Jeff Harris
Chairman
26 February 2009

On 3 March 2009, the Company announced that its subsidiary Filtrona Extrusion Inc. had entered into a conditional agreement for the sale of all the issued and outstanding common stock of the Filtrona Extrusion Holding Companies, which operate the North American Plastic Profile and Sheet business.

Completion of the sale is subject to a number of conditions, including the approval of the Company's shareholders. It is expected that the sale will complete towards the end of March 2009. A circular setting out further details of the proposed sale and containing the Notice of a General Meeting of the Company to be held on 19 March 2009 was posted to shareholders on 3 March 2009 and is available on the Company's website at www.filtrona.com. Completion of the sale will be an important step in Filtrona's strategic development.



Filtrona Mission

To focus on the development of innovative and value added products and services

To deliver world class quality and service

To continue to develop strong relationships with customers, partners and suppliers

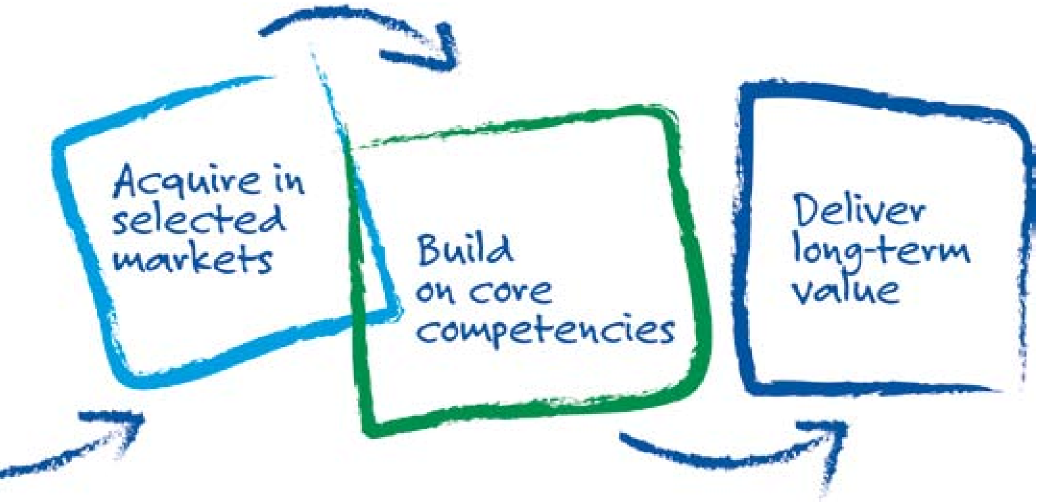
To continue to reduce product costs

To develop a co-operative working environment where employees are committed, involved and recognised for their contribution

...and thereby grow profitably

Business Review

Chief Executive's Statement



Overview

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

From its global network of 37 principal manufacturing facilities, 42 distribution operations and four research and development centres, Filtrona derives strength through serving a wide range of customers, across diverse geographies within a broad but targeted range of international markets.

In 2008, Filtrona made continued progress in its strategy of optimising its portfolio of businesses, including exploring acquisition opportunities in the higher growth, higher margin divisions. The acquisition of the Lendell business was driven by the Company's view of the growth potential for the medical and cosmetic markets in which Lendell operates. Lendell is a manufacturer of speciality foam products and its specialist markets and proprietary technology are highly complementary with those of the Filtrona Fibertec business.

During the fourth quarter of 2008, because of the deterioration in global economic and business conditions, the Company withdrew from a significant potential acquisition at an advanced stage. Accordingly, the Company is reporting £1.3m of transaction costs incurred on this strategic development activity in 2008, which are presented as an exceptional item by virtue of their size and incidence.

In accordance with the Company's organic growth plans and in response to evolving customer demands, investment continued in securing operational efficiencies, expanding sales and marketing activities and developing new and innovative customer solutions. The Filter Products division continued the reorganisation of its manufacturing facilities, and the distribution capabilities of the Protection and Finishing Products division have been further developed.

The current global recession does not impact the Company's commitment to the pursuit of its strategic goals but will, inevitably, affect the pace at which further progress can be made. Organic development is likely to progress at a slower pace in the recessionary environment, given the sensitivity of some of Filtrona's businesses to consumer demand and gross domestic product. The extent to which attractive acquisition opportunities may present themselves during 2009 is not easy to assess given market conditions but the Company will continue to investigate strategic markets and closely monitor target businesses that may further drive Filtrona's long-term performance.

It is expected that global economic conditions will remain challenging during 2009. However, the relatively defensive nature of a number of Filtrona's key served markets, combined with the Company's focus on cash generation, cost control and reinforcement of its strong international positions give the Board confidence that Filtrona will continue to demonstrate resilience and that the Group is well positioned to deliver growth as demand recovers.

Business Review

Chief Executive's Statement

Filtrona's programme of continuous improvement and cost reductions across its global manufacturing and distribution footprint requires constant focus and decisive action

Key Strengths

Strong international market positions

Long-term customer relationships

Well invested flexible global infrastructure

Experienced management team

Reputation for quality and innovation

Operational efficiency

Strategy

Filtrona's long-term objective is to continue to grow profitably for the benefit of its shareholders through investing organically in each of its divisions and by acquisition within its higher margin, higher growth potential businesses. The Company will acquire in selected markets within or complementary to plastic and fibre technologies. The Company's strategic focus is to invest in and build on its core competencies and strong international positions through the investment in, and acquisition of, businesses which are engaged in the development, manufacturing, sourcing and distribution of high volume, low unit cost, small but essential products for use in consumer, medical and industrial markets.

The identification and successful exploitation of markets which offer significant value addition and growth opportunities through product innovation, distribution, service and cost improvements are integral to the future development of Filtrona as the Company seeks to enhance the competitive position of its global businesses.

With a responsible winning culture based on Filtrona Values and Key Strengths the reputation of the Company and its employees form a sound basis for the successful delivery of new business and market opportunities designed to secure long-term value for Filtrona's shareholders.

Filtrona's key served markets are shown in Figure 1 and represent important industrial and consumer product segments with a bias towards more defensive markets. From its broad and flexible manufacturing and distribution network, Filtrona is a supplier throughout the world to many blue chip, international, market leading customers with the top 10 customers in 2008 representing 33.1% of revenue. The decrease in customer concentration during the year

Figure 1
2008 Key served markets

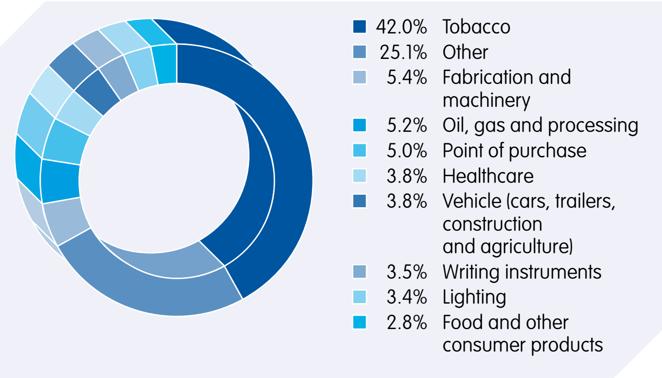
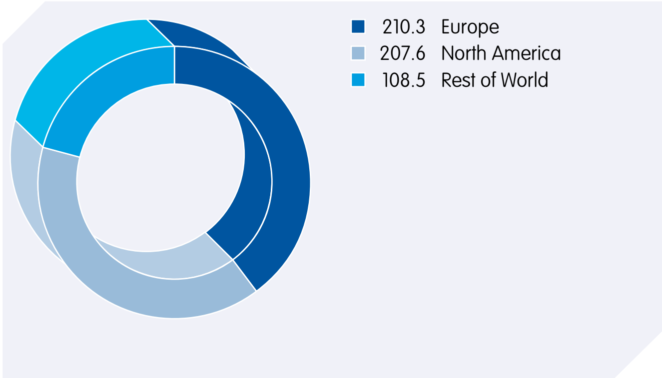


Figure 2
Geographical spread of revenue (£m)



in comparison from 36.7% in 2007 is a reflection of the Company's success in broadening its overall customer base.

In 2008, the geographic destination of the Company's revenue was as shown in Figure 2. The Rest of World segment includes many of the lower cost manufacturing and higher growth regions such as India, Indonesia and China. This segment represents 20.6% of revenue in 2008, up from 19.5% of revenue in 2007.

Performance

Filtrona secured increases in revenue, adjusted operating profit, and earnings during the year despite the challenges presented by global economic conditions during the later stages of 2008 and the emergence of recessionary trends in some of the Company's markets. Revenue was up against the prior year by 6.5% at £526.4m (2007: £494.2m) and, at constant exchange rates, down 0.9%. Adjusted operating profit was up 0.9% to £65.0m (2007: £64.4m), after absorbing £1.8m of restructuring costs, and down 8.1% at constant exchange rates.

The beneficial impact of currency translation during the year was £37.1m on revenue and £6.3m on adjusted operating profit but the improvements also reflect the resilience Filtrona derives from its strong international market positions. The robust profit performance and effective working capital management helped to maintain a strong operating cash flow at £65.6m, demonstrating the benefits of Filtrona's cash generative business model.

During 2008, essential steps were taken across the Group to manage the cost base in the face of deteriorating market conditions and, regrettably, this resulted in a total headcount reduction of 8% in the year to 4,292 employees from 4,666 employees at the end of 2007. The principal reductions took place in the Protection and Finishing Products, Plastic Profile and Sheet and Filter Products divisions. This enabled the Company to increase revenue per employee by 3.5% on a constant exchange rate basis. The restructuring of the Filter Products division continued during the year and £1.8m of restructuring costs are included in the operating results of this division in 2008.

The Company will undertake a restructuring programme in 2009 and 2010, with the focus on the Filter Products division. It is estimated that the cash costs of this restructuring will be circa £5m in 2009 and £2m in 2010 (with additional non-cash costs of £3m over the two year period). The restructuring is expected to deliver savings of circa £2.5m in 2009 and £6.5m from 2010 onwards.

The Company experienced significant raw material cost increases in 2008 with polymers, which are used in all the Plastic Technologies businesses and the Porous Technologies division, and cellulose acetate tow, the principal raw material consumed by the Filter Products division, particularly severely affected. Pricing action was taken during 2008 to offset the raw material and energy cost increases. The costs of polymers fell sharply at the end of the year due to falling oil based feedstock prices and the rapid fall in manufacturing activity globally.

Operating margin declined to 12.3% from 13.0% in 2007 and was depressed by the combined effects of the restructuring in the Filter Products division, the legal costs associated with the intellectual property claims made against FractureCode and the impact of the industrial action at Boeing, which is an important customer of the Plastic Profile and Sheet division.

Chief Executive's Statement

These results reflect the strength of Filtrona's international market positions and the Company's cash generative business model

Return on average operating capital, excluding intangible assets, reduced from 26.8% to 24.5% and the return on average total invested capital, including intangibles, reduced from 13.9% to 12.7%. These ratios were negatively impacted by the factors detailed above in relation to the operating margin performance, and by the use of average exchange rates for the income statement and closing exchange rates for the balance sheet. Adjusted earnings per share grew by 8.1% to 18.6p (2007: 17.2p) and basic earnings per share grew by 13.1% to 17.3p (2007: 15.3p).

Net debt increased by £46.9m to £182.1m (2007: £135.2m) due primarily to exchange rate movements and the acquisition of Lendell. The ratio of net debt to earnings before interest, tax, depreciation, amortisation and exceptional acquisition fees increased from 1.56 in 2007 to 2.05 in 2008. If closing exchange rates were used in both components of the calculation, the ratio would have been 1.71.

The Company's long-term funding arrangements comprise a sterling denominated multi-currency syndicated facility totalling £215m, which matures in May 2010, together with other uncommitted and overdraft facilities to provide short-term flexibility. Additionally, the Company has committed bilateral facilities of US$40m, which expire in November 2009. Based upon these maturity dates, refinancing is an important process for Filtrona and it is one which the Company expects to complete shortly. It is anticipated that net finance expense could double in 2009 as a result of higher borrowing costs and the amortisation of related fees.

Corporate responsibility

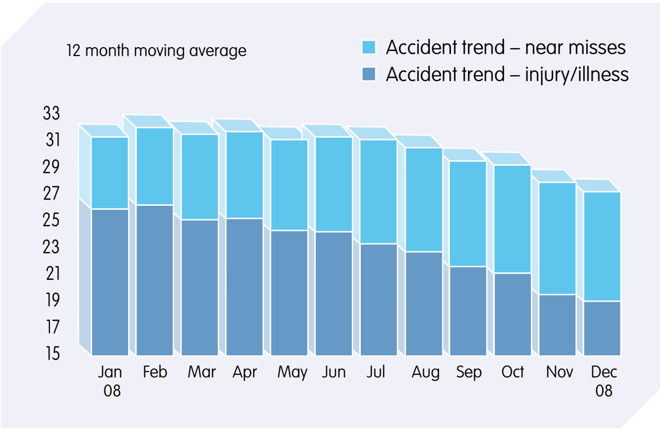
Filtrona has built a strong framework within which corporate responsibility activities are managed ensuring that the Company maintains the high standards which reflect the expectations of the Company's internal and external stakeholders. The success of this framework is demonstrated by the various initiatives introduced within Filtrona's global businesses and these are reported on in greater detail in the Corporate Responsibility report on pages 34 to 39.

The Company again made good progress in its corporate citizenship during 2008 and Filtrona Values remain the bedrock upon which the development of the Company's culture rests.

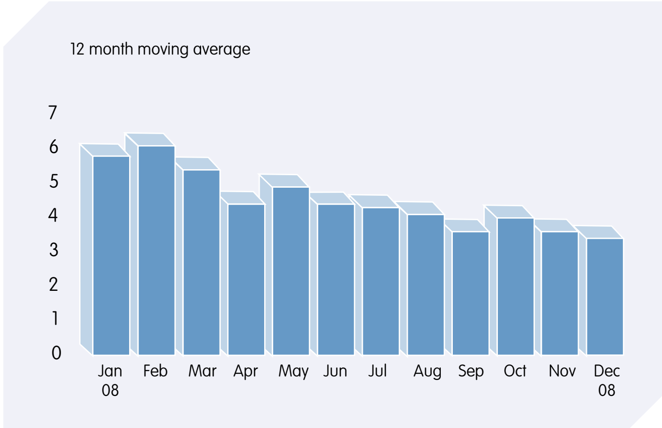
Filtrona's development of a responsible, progressive and winning culture recognises the role which the Company's relationship with its employees, customers, suppliers and other stakeholders and its interaction with the environment and local communities has in securing competitive advantage and business performance across its divisions. The strengthening of the international reputation of the Filtrona businesses and the quality of their respective brands are regarded as real benefits to be derived from the Company's commitment to corporate responsibility in addition to the cost savings stemming from initiatives focused on environmental benefits and sustainable practices.

The skills and commitment of Filtrona employees across the world are fundamental to ensuring the quality and

Accident trend – injury/illness



12 month lost time accident trend



competitiveness of the Company's portfolio of products and services. The Company's commitment to its employees is reflected in the quality and safety of the working environment and the personal development opportunities which it seeks to provide at each of its locations, without discrimination between site or people. There is a recognition across the Group of the potential impact of any business restructuring on affected employees and communities and Filtrona handles all headcount reduction programmes with due responsibility.

Filtrona made substantial progress in its objective to gain OHSAS 18001 health and safety accreditation across all its principal manufacturing sites and, at the end of the year, accreditation had been achieved at the majority of its principal manufacturing locations. Total accidents and lost time accidents remain two key performance indicators within the Company in recognition of the primary importance of good health and safety when securing optimal operational efficiency. It was particularly pleasing that, for the first time, the Filtrona gold standard for health and safety was achieved by no less than four operations. The improvement in Filtrona's health and safety performance and awareness is detailed above.

Filtrona's reputation as an employer is important to ensure the attraction and retention of suitably motivated, experienced and skilled personnel. The customer and supplier perception of Filtrona Values and standards of conduct across a variety of regions and cultures can impact on the development of the long-standing business relationships which the Company has maintained and continues to foster. Filtrona strives to maintain the highest ethical standards at all times in the conduct of its international operations.

Filtrona's drive towards continuous improvement and cost reductions across its global manufacturing and distribution footprint requires an ongoing assessment of operational efficiencies and securing the benefit of potential energy, water and waste savings. As a responsible corporate citizen, the Company looks to exploit opportunities to benefit the financial performance of its businesses in a manner consistent with environmental sustainability.

The Company has the ISO14001 environmental accreditation at all its principal manufacturing facilities and remains a member of both the FTSE4Good Index and the Carbon Trust.

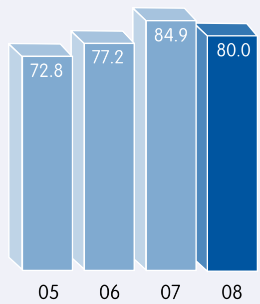
Mark Harper
Chief Executive
26 February 2009

Business Review

Key Performance Indicators

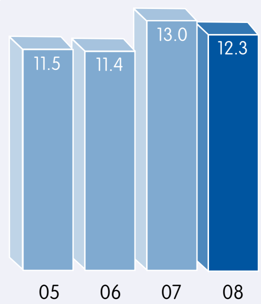
The delivery of Filtrona's strategic goals is underpinned by focusing on key performance indicators which measure the Company's progress in the delivery of long-term growth and shareholder value

Cash inflow from operations



£80.0m

Operating margin



12.3%

To assess the overall performance of Filtrona, the Company uses five financial key performance indicators ('KPIs').

As well as being used to measure the performance at Group level, the majority of the financial KPIs are used as the principal quantitative elements in assessing the short-term and long-term performance of the operating businesses.

Given the diversity of Filtrona's range of businesses operating across international boundaries, a number of other business measures, both financial and non-financial and tailored to the individual requirements and characteristics of each business, are monitored and assessed on a regular basis to evaluate how individual divisions are performing in response to their key objectives and challenges.

Cash inflow from operations

Cash inflow from operations is defined as the cash flow from operating activities of continuing operations as shown in the consolidated statement of cash flows. This measures the success of the operating businesses and the Group as a whole in turning profit into cash through the careful management of working capital in the business.

In 2008, the Group has generated cash inflow from operations of £80.0m, which represents 123% of operating profit before intangible amortisation and exceptional acquisition fees.

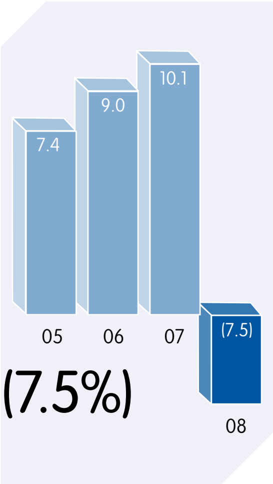
Operating margin

Operating margin is an important measure to Filtrona as it monitors operating efficiency and reflects the success of the businesses in achieving superior margins by operating in selected markets and offering strongly differentiated, cost competitive products and services. Operating margin is defined as operating profit before intangible amortisation and exceptional acquisition fees (2007: intangible amortisation and exceptional restructuring costs) divided by revenue.

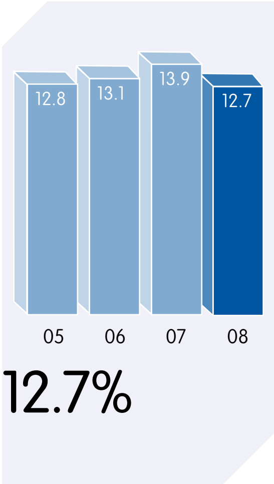
Having increased the Group operating margin from 11.0% to 13.0% between 2004 and 2007, the Group operating margin in 2008 reduced to 12.3%. An important driver behind this lower margin in 2008 was the incurring of restructuring costs and additional central services costs in relation to a specific legal matter, not in the ordinary course of business. If these costs were eliminated, the Group operating margin would be 12.9%.

Plastic Technologies produced an operating margin of 15.6%, marginally lower than 2007 at 15.7%. In Fibre Technologies, operating margin at 13.2%, after adjusting for restructuring costs of £1.8m within Filter Products charged against the operating results, compared to 13.8% in 2007.

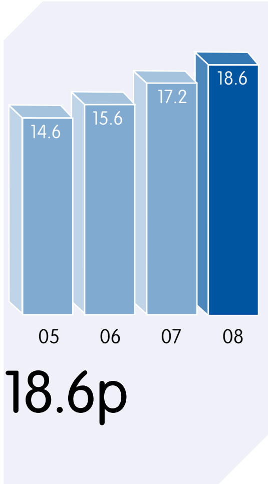
Underlying operating profit growth



Return on average total invested capital



Adjusted earnings per share



Underlying operating profit growth

The growth in underlying operating profit ('OP') is a key measure of the underlying performance of the Group over time. Underlying OP growth removes the distorting influence of foreign exchange translation, acquisitions, disposals, the costs of restructuring or rationalisation of operations, the exceptional costs of acquisition fees and the amortisation and impairment of intangible assets. The Group's underlying OP decreased by 7.5% in 2008.

Return on average total invested capital

Return on average total invested capital ('ROTIC') represents operating profit before exceptional acquisition fees (2007: exceptional restructuring costs) as a percentage of total invested capital ('TIC'). TIC is defined as property, plant and equipment, intangible assets previously charged to reserves, trade and other receivables (excluding the Globalpack deferred consideration), and inventories less trade and other payables. ROTIC reflects the success of the Company in achieving superior returns on its invested capital. In 2008, ROTIC reduced to 12.7% (2007: 13.9%).

At the operating division level, goodwill and acquired intangible assets are excluded from TIC so that management is judged more narrowly on the return achieved on capital invested in fixed assets and working capital. This is because the operating division management is not directly involved in the price negotiations for acquisitions completed within their spheres of responsibility.

Adjusted earnings per share

Adjusted earnings per share ('EPS') measures the benefits generated for shareholders from the Group's overall performance. It is calculated as profit before intangible amortisation and exceptional acquisition fees (2007: intangible amortisation and exceptional restructuring costs) less tax relief on intangible amortisation (2007: intangible amortisation and exceptional restructuring costs), attributable to shareholders, from continuing operations, divided by the weighted average number of shares in issue excluding shares held in treasury or shares held by the employee benefit trust.

Adjusted earnings, from continuing operations, increased by 1.6% to £37.9m in 2008 (2007: £37.3 m). The weighted average number of shares in 2008 was 204.1 million (2007: 216.3 million) giving adjusted EPS of 18.6p (2007: 17.2p) an increase of 8.1%.

Business Review

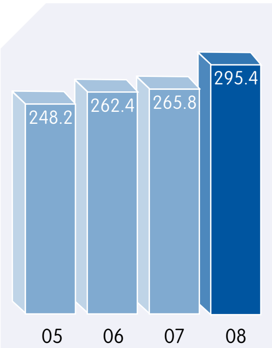
Plastic Technologies

Rob Purcell, Managing Director, Protection and Finishing Products

Plastic Technologies continued to make good progress with revenue up 11.1% to £295.4m (2007: £265.8m) adjusted operating profit before intangible amortisation up 10.6% to £46.0m (2007: £41.6m). At constant exchange rates, revenue increased by 3.0% and operating profit before intangible amortisation increased by 2.1%.

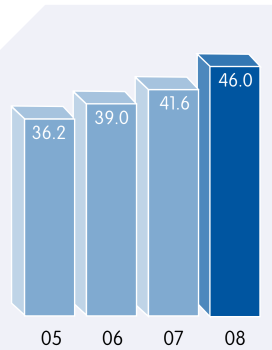
Continuing operations

Revenue



£295.4m
+11.1%

Operating profit [1]



£46.0m
+10.6%

1 Before intangible amortisation and exceptional restructuring costs

Protection and Finishing Products – A global market leading provider of product protection and finishing solutions, manufacturing and supplying plastic injection moulded, dip moulded vinyl and adhesive-coated foam products. 41 operating units in 14 countries serve a broad industrial base of 81,000 customers.

Protection and Finishing Products

Filtrona's largest profit generating division had another successful year driven by its growth strategy of combining geographic and range expansion with consistent investment in business to business marketing programmes, integrated IT systems and supply chain efficiencies. The division operates in a highly fragmented global market with a wide range of served markets from the oil and gas industry to white goods, from hydraulics and pneumatics to automotive, and from metal fabrication to furniture. As the division further develops in response to customer demands and emerging market opportunities, revenue investments continued in the locations established in 2007 and a new Moss location was added in Madrid, Spain.

The combined operating losses of these new locations was £0.9m in the year, but the enhancement of distribution capability is integral to the future growth and development of the division, and it is anticipated that the benefits of the investments will start to emerge in 2009. As further market share gains are sought based on the breadth and excellence of the product and service offerings, extensive marketing programmes led to the opening of over 20,000 new accounts in the year and 3,000 product lines were added to the range. Across the division, overall utilisation of the internet and the use of 'e' marketing techniques became increasingly important. The division was subject to the impact of the very sharp increases in raw material costs but these were offset through pricing action.

Moss, the pan-European plastic parts supplier, had another good year with a further strengthening of the product mix towards more profitable proprietary product lines, the sales of which increased by over 10%. The UK locations found trading conditions difficult for most of the year, whereas performance at continental European locations was encouraging but with signs of trading deterioration appearing at the end of the year. The Moss Express location in Madrid, Spain, which opened in May, traded in line with expectations. The new Chinese facility, which opened in December 2007, had an encouraging first year and sample, quotation and sales activity levels are growing as anticipated.

"Due to our highly developed business model combining manufacturing, sourcing, logistics and business systems we are able to supply our wide range of low value but critical products across such a large geography. This is unrivalled and provides our customers with a unique service."

Skiffy, the European specialist small nylon parts producer, traded satisfactorily in 2008. A project to install the division's standard IT system was started and the majority of Skiffy locations will be operating on this platform by the end of 2009. The business continued to expand its marketing activity and launched its highly effective catalogue in Italian and Bulgarian for the first time. The Skiffy catalogue is now available in ten languages and internet ordering now accounts for 29.8% of sales. In January 2009, the Company relocated the manufacturing capability from the Skiffy, Amsterdam facility into the Moss, Kidlington operation which benefits from 24/7 manufacturing and has been in receipt of substantial investment in recent years. This relocation will provide both cost savings and risk mitigation benefits due to the superior fire protection systems including fireproof storage for business critical tooling at the Kidlington site.

Alliance, the US-based plastic parts supplier, encountered difficult trading conditions but performed in line with 2007 due to effective cost management. The business continued to expand its proprietary catalogue product offering with the addition of 800 new items. The Chicago Alliance Express location, opened in 2007, has continued to grow well and the Alliance facility in São Paulo, Brazil has gone from strength to strength as local manufacture has developed. In January 2008 a freehold warehouse was purchased in Erie, Pennsylvania, contiguous to land previously acquired, in preparation for the future construction of an integrated facility to further drive operating efficiencies.

Duraco, the US-based producer and distributor of adhesive-coated foam products, performed in line with expectations in its first full year of Filtrona ownership. The integration of the business into the division is now complete and the project to install the division's standard IT system is well advanced and will be completed in 2009. The Duraco Express operation opened as planned in May and is trading successfully.

MSI, the oil country tubular goods thread protector business, had an excellent year despite the interruption to production in September at the Houston, Texas facility, caused by Hurricane Ike. Strong drilling activity was driven by the high prices of oil and gas. Sales levels were also assisted by the new contract wins which developed as anticipated. Strong volumes helped the business manage the rapid escalation in raw material prices and continued investment in new production machinery and tooling drove unit production costs down.

Focusing on expanding product distribution

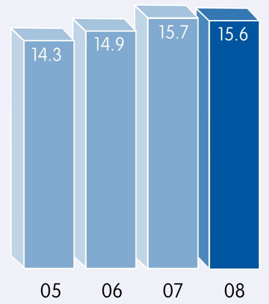
Business Review

Plastic Technologies

Tony Edwards, Managing Director, Coated and Security Products

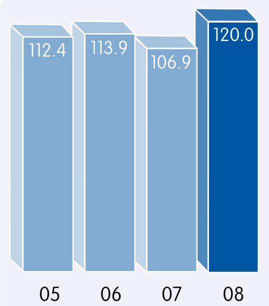
Continuing operations

Operating margin[1]



15.6%

Revenue per employee



£120.0k
+12.3%

1 Before intangible amortisation and exceptional restructuring costs

Coated and Security Products – The global market leading producer of high quality self-adhesive tear tape and an emerging supplier of products and technologies for brand protection, document authentication, personal identification and track and trace. Customers in over 100 countries are served from facilities operating in six countries.

Looking forward to 2009, the current recessionary environment in most manufacturing sectors will inevitably impact on the division and the MSI business will be affected by a downturn in drilling activity due to recent falls in the price of oil and gas. Whilst the Protection and Finishing Products division has a robust business model with a broad range of products and services across multiple served markets combined with low levels of customer concentration, the scale of the downturn in conditions in the global manufacturing industry is expected to negatively affect demand. The extent of any decline within the division during 2009 is very difficult to predict but the division is responding by continuing to drive efficiencies and reducing costs.

Coated and Security Products

The Coated and Security Products division continued to pursue its strategy of developing new security technologies and applications for international markets, whilst sustaining its world leadership position in the self-adhesive tear tape market. The division delivered an improved performance in both revenue and operating profit with the tear tape business, in particular, demonstrating the defensive qualities of its principal end markets in the difficult global environment. The improved performance was assisted by the cost, quality and productivity benefits which resulted from the restructuring in 2007.

The Payne tear tape business delivered growth in all regions and from both the tobacco and other consumer goods markets. Sales from recent innovations utilising advanced tear tape technology were encouraging with increased sales of variable data tape for promotions into the tobacco, biscuits and chewing gum markets and strong growth in the product authentication technologies, printed on tear tape.

The Payne Security business, which provides a wide range of product and document authentication and personal identity solutions for the consumer goods, public sector, and security

"Our success stems from the ability to develop innovative solutions designed to deliver creative value-adding products and services to our customers who seek to promote and protect their brands, authenticate their identities and secure valuable documents. Sustaining a competitive advantage from innovation is critical to our business."

printing markets, made satisfactory progress despite some softening in UK passport volumes towards the end of the year. Significant new orders were secured for the proprietary Payne authentication system and for security labels, the full benefit of which will be realised in 2009. The business supplied a secure laminate for the press, competitor, coach and officials' passes for the summer games in Beijing and secured a share of the cards for the April launch of the English National Concessionary Travel Scheme due to an enhanced smart card encoding and fulfilment capability. The focus on exploiting proprietary authentication solutions to combat counterfeiting remains a key growth driver along with further improvements to the quality and service offering to customers.

As expected FractureCode made losses in the year and cost reduction actions have been taken due to the failure of the business to secure additional licensees for the technology. An intellectual property dispute has been resolved, but FractureCode's proprietary technology remains subject to a further challenge in the Danish courts.

During 2009, it is expected that the Coated and Security Products division will benefit both from the defensiveness of its core served markets in tear tapes and from the growth in the market for solutions to combat the global contraband and counterfeit problem. These factors, combined with the full year effect of business won in 2008 for the proprietary Payne authentication system, provide confidence that 2009 will see the delivery of further progress in this division.

Innovating to make a difference

Business Review

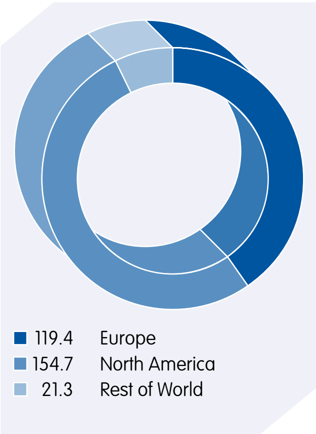
Plastic Technologies

Neil Shillingford, President,
Plastic Profile and Sheet

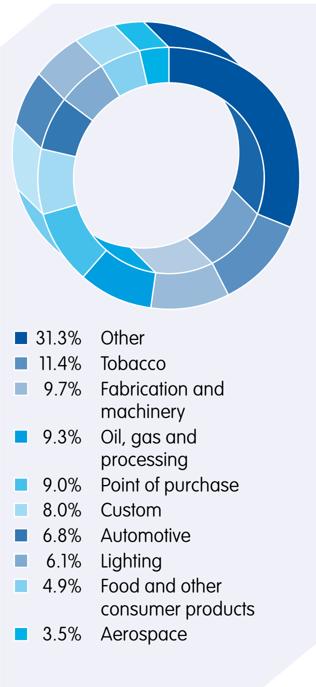
Plastic Profile and Sheet – A leading manufacturer of proprietary and customised thermoplastic profiles, sheet and speciality tubes with multiple locations in the US, Mexico and The Netherlands. The business serves 3,200 customers in 40 countries spread across six principal markets – aerospace, point of purchase signs and displays, medical, traffic control, lighting and fence.

Continuing operations

Revenue by destination (£m)



Revenue by key markets



Plastic Profile and Sheet

The Plastic Profile and Sheet division encountered another difficult year in 2008 with a further reduction in operating performance. Trading was tough in North America throughout the year for the US-based Filtrona extrusion business and, for Enitor in The Netherlands, and demand softness was evident in Europe in the last quarter.

Strong revenue growth was generated in the point of purchase ('POP') market, due to both the capture of new business, with a major US discount retailer and a large grocery chain, and the strengthening of relationships with existing customers. The business's profile in this increasingly important market sector has been raised as it has successfully serviced a number of major US national roll-outs supported by its national multi-site capability.

Sales in the medical sector saw modest growth following the expansion of the Mexican medical manufacturing operations in 2007 and the consolidation of the Massachusetts sites into the Athol facility. The medical sector remains a high priority for future growth and the division continues to explore opportunities to secure new business.

Sales to the aerospace market declined slightly due to the impact of the eight week industrial dispute at Boeing's manufacturing facilities which negatively affected performance during the fourth quarter. Activity with this important customer has returned to previous levels and sales of highly engineered profiles and components to the aerospace industry remain an important growth opportunity for the division based on its engineering and design expertise supported by high standards of quality and service.

"Our manufacturing footprint, lean cost base, strategic focus on core markets and investment in technology enables us to outperform our competitors and meet customer demands even in this challenging economic climate."

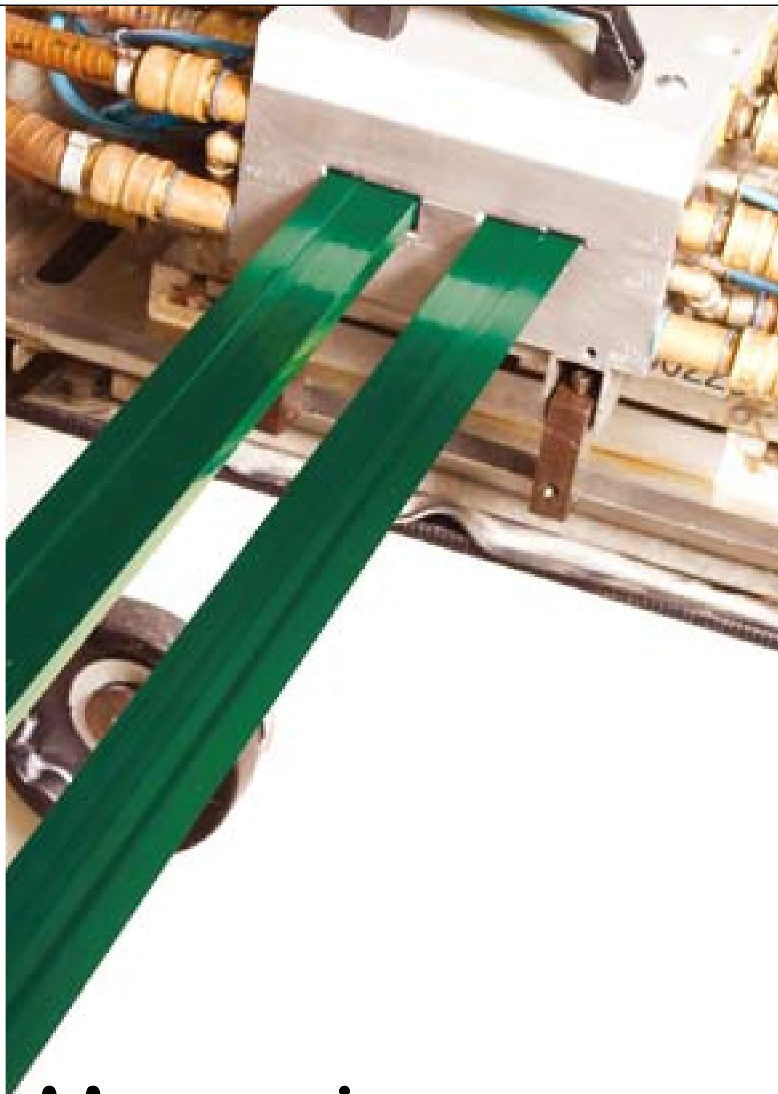
Sales in the traffic control sector were softer due to the absence of major 'one-off' projects, as federal road funding was constrained, and sales to the fence and custom product markets were particularly disappointing as the commercial construction, domestic housing and commercial refrigeration markets, upon which these sectors rely, were severely impacted by the economic slowdown.

Enitor had a challenging year and is continuing to focus on cost reduction and productivity improvements.

The difficult end use demand conditions were exacerbated by the rapid escalation of raw material prices which reached all time record highs during the year. The division had an under recovery of raw material prices of £1.1m at the half year, improving to £0.8m for the full year.

As a result of difficult trading conditions, cost reduction measures were implemented throughout the year, including modifications to shift patterns to match output to demand and an 11.4% reduction in headcount across the division.

Trading conditions in the Plastic Profile and Sheet division are expected to remain difficult throughout 2009. The aerospace, medical, POP and traffic control markets are expected to remain stable or display low levels of growth, whereas the lighting, fence and custom markets are likely to reduce due to their sensitivity to construction activity levels. The division will continue its focus on operational efficiencies and cost improvement and it is anticipated that it will benefit from the sharp reductions in polymer prices which occurred at the end of 2008.



Managing costs efficiently

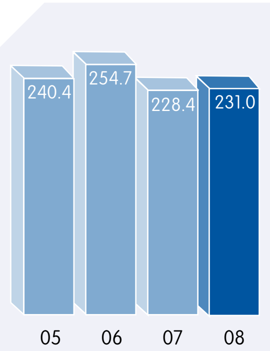
Business Review

Fibre Technologies

PT Sreekumar, Managing Director, Filter Products

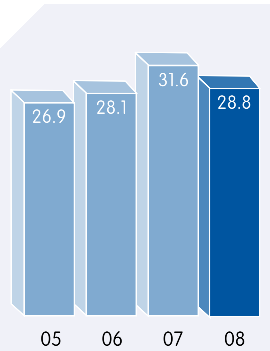
Fibre Technologies had a challenging year. Revenue was up 1.1% to £231.0m (2007: £228.4m) with adjusted operating profit after charging £1.8m of Filter Products restructuring costs, down 8.9% to £28.8m (2007: £31.6m). At constant exchange rates revenue decreased by 5.5% and adjusted operating profit decreased by 16.5%.

Revenue



£231.0m
+1.1%

Operating profit[1]



£28.8m
(8.9%)

1 Before intangible amortisation and exceptional restructuring costs

Filter Products – The only global independent cigarette filter manufacturer supplies a wide range of value adding high quality innovative filters from monoacetate to multi-segment speciality filters with sophisticated adsorbent materials. The 12 worldwide locations, including a UK based research facility, provide a flexible infrastructure strategically positioned to serve the tobacco industry.

Filter Products

The Filter Products division experienced a 7.2% reduction in total volumes, primarily due to previously announced customer insourcing decisions, with an 11.7% reduction in special filters volumes but a 1.4% increase in monoacetate volumes due to growth in India. Whilst volumes were down in the mature and declining markets of the Americas and Europe, volumes in emerging Asian markets increased by 15.2% with strong growth in China and India where a change in taxation boosted consumption of filtered cigarettes. The Asia region now accounts for 44.9% of total volumes, up from 36.3% in 2007 and, together with Eastern Europe, provides a key strategic growth opportunity for the business.

As the division sought to optimise its global manufacturing footprint to provide its customers with cost reduction and supply flexibility it absorbed restructuring costs of £1.8m during the year relating to headcount reductions in the UK, US and Brazil. The closure of the São Paulo operation was announced in January 2009.

The new Hungarian facility continued to develop well with low levels of waste and good quality performance. Output continues to grow on a month by month basis and this low cost manufacturing facility will become increasingly important in the division's quest for strategic cost competitiveness and expansion into new emerging markets.

With the increasing importance of filters as a product differentiator, particularly for lower tar and premium products, the division has the opportunity to utilise its extensive research and development capability to develop new products which meet this market need.

"Our business has been built upon the four cornerstones of Quality, Partnership, Innovation and Knowledge. Our global reach, relationships with key customers and skilled employees enable us to have the flexibility to adapt, improve and develop our products and service offerings in a truly global market."

The division launched a new range of slim filter variants to help exploit the growing international market for slim, lower circumference cigarettes which are of increasing importance in selected major cigarette markets such as Russia and South Korea. The previously announced new volumes with a major customer commenced production in the latter part of the year within the UK facility. This production, which resulted from a customer joint development programme, will help to support a significant customer brand relaunch. Further partnering with customers in joint development programmes offers attractive growth potential for the division.

The business experienced very significant increases in raw material prices in the latter part of the year and these increases were fully offset through pricing programmes.

The division continued to make significant progress with productivity and service improvement programmes. Energy consumption was reduced by 11% against a 7% volume reduction and on time in full delivery performance improved from 93% to 96%. Conversion costs were improved with further investment in training and multi-skilling.

It is expected that performance in the Filter Products division will be broadly stable in 2009. Continued growth and development in key Asian markets, such as India and China, is expected to offset activity reductions in the mature or declining markets of the Americas and Europe. The division will continue to focus on productivity improvement and the migration of productive capacity towards its lower unit cost manufacturing locations in order to secure strategic cost competitiveness and satisfy customer needs.

Positioning resources effectively

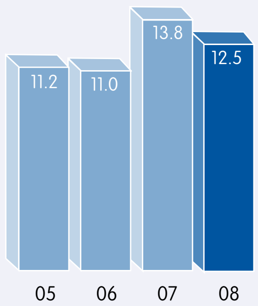
Business Review

Fibre Technologies

Russ Rogers, President,
Porous Technologies

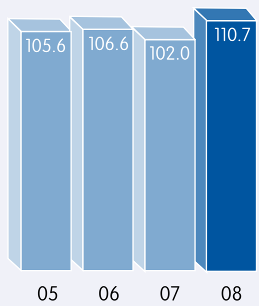
Porous Technologies – With locations in the US, Germany and China, the leading manufacturer of custom fluid and vapour handling components delivering high value and precision performance to many of the most well-known consumer, industrial and medical brand owners in the world. The components are used in a wide range of product applications including writing instruments, inkjet printer cartridges, medical diagnostic devices, advanced wound care, air fresheners and personal care.

Operating margin[1]



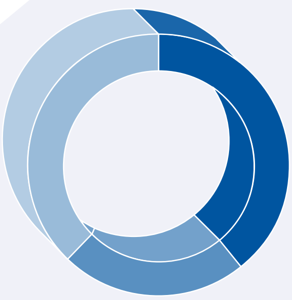
12.5%

Revenue per employee



£110.7k
+8.5%

Revenue by destination (£m)



- 90.9 Europe
- 52.9 North America
- 87.2 Rest of World

Revenue by key markets

- 81.2% Tobacco
- 8.0% Writing instruments
- 6.2% Other
- 4.6% Healthcare

Porous Technologies

Following a year of growth across all served market sectors in 2007, the Porous Technologies division delivered mixed results in 2008 with overall performance down. Growth was achieved in the medical, personal care and printing system segments. Writing instrument reservoirs and household products, which both have some sensitivity to discretionary consumer expenditure, saw reduced volumes with household products being impacted in the final quarter. Cost reduction programmes were implemented throughout the year.

Long-term supply agreements with a number of European and North American-based writing instrument reservoir customers were signed, including an agreement with an important new account in Europe. In Asia, the expanded sales and marketing team is focused on securing market penetration across all product segments in this high growth potential region.

The focus on innovation, driven by increasing customer demand for high quality and more sophisticated solutions, led to two new patent applications being filed during the year, further adding to the division's intellectual property portfolio. New technology development facilitated product introductions in saliva based medical testing, pipette tip filtration and surgical instrument components.

The exploitation of opportunities in emerging technologies and markets remains fundamental to the growth of the division. In accordance with the division's strategy to broaden its porous media capabilities based on capillary science, the business and assets of Lendell Manufacturing Inc., a speciality hydrophilic foam producer based in St Charles, Michigan, were acquired in October. Lendell's products are focused on the medical, wound care, and cosmetics sectors and its

1 Before intangible amortisation and exceptional restructuring costs

"We are focused on growth through new business development in high value markets. We believe the ability to provide technological expertise over a full portfolio of porous technology solutions to highly specialised and technical applications on a global scale will support the long-term success of our customers."

technology and markets are highly complementary with Filtrona Fibertec's. Growth in sales of hydrophilic foam products will be driven by customer cross-selling and through the utilisation of the division's existing international sales and operational footprint. Upon completion of the Lendell acquisition the Bonded Fibre Components division was renamed the Porous Technologies division.

The renovation of the Reinbek, Germany facility progressed well, on time and to budget and will provide significant enhancements to operational efficiency, much improved energy efficiency and a comprehensive fire protection system. These site improvements have also facilitated the installation of a state of the art production line, utilising key Fibertec proprietary technology, which will become operational early in 2009. Completion of the renovation will enhance productivity, quality and the product offering as well as bringing the facility up to the standard of global manufacturing excellence achieved by the division's other facilities.

Looking forward to 2009, the Porous Technologies division will benefit from the full year effect of both the Lendell acquisition and new inkjet printer cartridge reservoir business secured in 2008. In addition, expected new projects in the medical products and inkjet printer market should come on stream in the first half of the year. It is anticipated the revenues in the writing instrument reservoir market will stabilise although the ongoing impact of the recession on discretionary consumer spending is likely to lead to a reduction in household product volumes and particularly air freshener applications. Overall, it is anticipated that the division will generate growth in both bonded fibre and hydrophilic foam business in 2009 which, combined with a continued focus on costs, should deliver positive progress.

Building expertise globally

Business Review

Financial Review

Revenue
Revenue increased by 6.5% to £526.4m. Translated at constant exchange rates revenue decreased by 0.9%.

Operating profit
Operating profit before intangible amortisation and exceptional acquisition fees (2007: before intangible amortisation and restructuring costs) ('adjusted operating profit') increased by 0.9% to £65.0m. Translated at constant exchange rates, adjusted operating profit decreased by 8.1%.

Adjusted operating margin
The overall operating margin, before intangible amortisation and exceptional acquisition fees (2007: intangible amortisation and restructuring costs) reduced to 12.3% (2007: 13.0%). The operating margin in Plastic Technologies was 15.6% (2007: 15.7%) and Fibre Technologies' margin was 12.5% (2007: 13.8%). Fibre Technologies' margin in 2008 was impacted by restructuring costs of £1.8m incurred in the Filter Products division charged in operating results.

Finance expense
The net finance expense increased to £6.8m (2007: £6.2m) primarily as a result of higher average debt levels arising from acquisition spend and the impact of foreign currency movements on debt levels over the period. Net finance expense was covered 9.6 times (2007: 10.4 times) by adjusted operating profit.

Tax
The tax charge of £18.5m represents an effective tax rate of 33.7% (2007: 34.0%) on the profit from underlying operations. This equates to a tax rate of 33.0% on profit before charging exceptional acquisition fees. The effective rate is higher than the nominal UK rate of 28.5% because most of the Group's profits are in countries with higher tax rates. As Filtrona develops in countries with lower tax rates then it is anticipated that the effective tax rate will reduce accordingly.

Adjusted earnings per share
Basic earnings per share from continuing operations was 17.3p, an increase of 13.1% from 15.3p in 2007. Adjusting for intangible amortisation of £2.0m (2007: £1.5m) and exceptional acquisition fees of £1.3m (2007: restructuring costs of £5.0m) less tax relief on intangible amortisation of £0.7m (2007: intangible amortisation and restructuring costs of £2.2m), gives an adjusted earnings per share of 18.6p.

Dividends
An interim dividend of 2.70p (2007: 2.52p) per share and a proposed final dividend of 5.08p (2007: 5.08p) per share will deliver an increase of 2.4% at a total cost of £15.9m, with dividend cover on adjusted earnings per share of 2.4 times.

Balance sheet
Total assets less current liabilities increased by £86.9m to £424.8m. The principal drivers of this increase were the acquisition of Lendell and foreign exchange rate movements which impact the translation of overseas assets and liabilities into sterling.

Return on average operating capital employed before intangible amortisation decreased to 24.5% (2007: 26.8%).

Return on average total invested capital, including intangible assets and goodwill previously written off to reserves, on a pre-tax basis, decreased to 12.7% (2007: 13.9%). These ratios were negatively impacted by the use of average exchange rates for the income statement and closing exchange rates for the balance sheet.

Net debt increased by £46.9m to £182.1m (2007: £135.2m) due primarily to exchange rate movements and the acquisition of Lendell. The ratio of net debt to earnings before interest, tax, depreciation, amortisation and exceptional acquisition fees increased from 1.56 in 2007 to 2.05 in 2008. If closing exchange rates were used in both components of the calculation, the ratio would have been 1.71.

Intangible assets
Intangible assets increased by £45.0m, reflecting technology, customer relationships and goodwill acquired during the year of £15.8m, plus a foreign exchange movement of £31.2m, less amortisation of £2.0m.

Cash inflow
Cash inflow from operating activities of continuing operations was £80.0m, compared to £84.9m in 2007. Additional pension contributions of £7.0m were made during the year. Principal elements of the £22.8m capital expenditure (2007: £25.0m) were the purchase of a warehouse for Alliance Plastics in the US and the continued refurbishment of the Porous Technologies facility in Reinbek, Germany.

Net cash inflow before financing activities and acquisition/disposal of businesses was £42.7m (2007: £39.8m). Cash outflow for 2008 was £19.6m and, after unfavourable exchange movements of £27.3m, net debt increased by £46.9m to £182.1m.

Pensions
At 31 December 2008, the Group's IAS 19 (revised) gross pension liability was £37.4m (2007: £22.3m) with a net liability of £25.9m (2007: £15.6m) after accounting for a deferred tax asset of £11.5m (2007: £6.7m). The next full independent actuarial valuation is to be conducted as at 5 April 2009.

Treasury policy and controls
Filtrona has a centralised treasury department to control external borrowings and manage exchange rate 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. The department is subject to independent reviews by the internal audit department. Underlying policy assumptions and activities are reviewed by the Executive Directors.

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. Filtrona monitors the credit ratings of its counterparties and credit exposure to each counterparty.

Liquidity risk
Filtrona's objective is to maintain a balance between continuity of funding and flexibility. The Company is funded by a multi-currency syndicated facility from its bankers of £215.0m. The syndicated facility matures in May 2010. In addition, during the year, the Company put in place additional bilateral facilities totalling US$40.0m, which mature in November 2009. As at 31 December 2008, the available bank facilities totalled £242.8m, of which £198.1m was drawn down. In addition, uncommitted and overdraft facilities are maintained to provide short-term flexibility.

Foreign currency risk
The majority of Filtrona'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 Group has significant net assets and by using forward foreign exchange contracts. However, in response to the significant weakening of sterling against particularly the US dollar and euro in the fourth quarter of 2008 and to reduce the effect of currency movements on the Group's net debt, the Company temporarily suspended its normal policy, repaid substantially all of its US dollar and euro denominated financial liabilities and replaced them with sterling denominated debt. As a result, at 31 December 2008, Filtrona's net assets were exposed to the impact of foreign currency translation.

The Company does not hedge the translation effect of exchange rate movements on the income statement.

The majority of Filtrona's transactions are carried out in the functional currencies of its operations and so transaction exposure is limited. However, where they do occur, the Group's policy is to hedge a percentage of the exposures over a period up to 15 months using forward foreign exchange contracts.

Principal exchange rates
Principal exchange rates for Filtrona were:

	Average		Closing	
	2008	2007	**2008**	2007
US$: £	**1.85**	2.00	**1.44**	1.99
€ : £	**1.26**	1.46	**1.03**	1.36

The translation impact in 2008 of the movement in exchange rates was to increase revenue by £37.1m and operating profit by £6.3m.

Steve Crummett
Group Finance Director
26 February 2009

Management of Principal Risks

The performance, both long-term and short-term, of Filtrona's businesses can be impacted by any number of risks and uncertainties not all of which are within the Company's control. Filtrona recognises that the ability to monitor, assess and respond to business risks can often provide competitive advantage and hence resources are carefully managed in this area. Filtrona has a risk management process in place which is designed to enable the operational businesses to identify, manage and mitigate strategic, operational and financial risk.

More details of the Company's risk management processes are set out in the Corporate Governance Report on page 61.

Outlined below are the principal risks faced by Filtrona and its management response thereto. There may be other risks and uncertainties which are unknown to the Company or which may not be deemed material now but which could turn out to be material in the future.

Risk	Impact	Mitigation
Corporate funding → Debt financing → Liquidity and availability → Interest rate fluctuations → Foreign exchange rate fluctuations	→ Ability to refinance and availability of debt funding → Compliance with covenants → Significant increase in interest costs and fees → Increased debt levels as a result of currency translation	→ Use of high quality, long-term banks that participate in the syndicated loan facility → Regular contact to ensure banks understand the businesses and requirements of the Group → Regular cash flow forecasting and monitoring → Critical appraisal of capital investment programmes → Active management of working capital levels → Target executive management on operating cash flow generation
Pension liabilities → Deficit against scheme assets	→ Increased liabilities and cash payments into pension schemes	→ Regular communication with pension scheme trustees to ensure understanding of the Group's financial position → Active management of pension scheme liabilities with external professional advice
Competitive pressures → Market trends → Third party activity → Loss of competitive advantage → Economic conditions	→ Loss of market position → Margin erosion → Loss of revenue	→ Innovation to meet customer demands → Marketing expertise → Quality of product and service offering → Account management → Low cost production → Supply chain efficiencies → Identify growth opportunities → Continued investment → Corporate responsibility → International accreditations

Risk	Impact	Mitigation
Relationship with tobacco industry → Regulatory pressures → Changing market demands → Litigation → Self-manufacture	→ Reduced revenue → Restructuring costs → Loss of profit	→ Innovative value added products and services → Target growth opportunities → Low cost production
Loss of key personnel → Loss of experience → Loss of skills → Loss of commercial relationships	→ Loss of expertise → Loss of reputation → Loss of business	→ Management development → Succession planning → Incentive programmes → Corporate responsibility
Customer concentration → Loss of significant business → Exposure to market trends	→ Loss of revenue → Loss of profit	→ Develop innovative products and services → Quality of products and services → Build long-term relationships → Expand customer base
Business development → Identification of new acquisition opportunities → Inability to successfully acquire and integrate new businesses → Acquisition financing → Start-up operations	→ Reduce future growth rate → Failure to meet strategic objectives → Delay	→ Corporate development capability → Due diligence → Integration planning and resource → Adjacent technologies → Established business model roll-out
Challenge of international operations → Currency movements → Repatriation of funds → Tax regimes → Political instability → Economic conditions	→ Adverse currency translation → Increased tax rate → Loss of revenue, profit and assets → Costs	→ Professional advice → Treasury policies → High quality local management → Risk management → Corporate responsibility → Internal control systems
Disruption to operational sites/loss of critical assets → Loss of production capability → Loss of supply chain → Loss of tooling → IT systems failure	→ Business interruption → Loss of revenue, profit and assets → Loss of reputation	→ Flexible global infrastructure → Fire prevention systems → Risk management → Disaster recovery

Business Review

Corporate Responsibility

In response to the challenges presented by the requirements of operating in a global environment, Filtrona's corporate behaviour is founded on the fundamental belief that it has a duty to act responsibly in seeking to balance the interests of internal and external stakeholders

Corporate Responsibility goals over the next five years

Reduce the impact of carbon emissions

Secure continuous improvement to economic, social, safety and environmental standards by working with employees, customers, suppliers and local communities

Provide effective management of corporate responsibility issues based on accountability, training and expertise

Ensure global compliance with Filtrona Values, policies and standards

Filtrona recognises the significance of environmental, social and governance matters and is committed to being a responsible corporate citizen in the workplace, marketplace, environment and community. The Company's global operations extend across Europe, Asia and the Americas and the Company fulfils its responsibility to record, monitor and make publicly available, the potential impact of its activities. In pursuing its corporate strategy Filtrona's aim is to always consider the implications of its actions on, and relationship with, the people and the environment with which it interacts and to take active steps to act responsibly and diligently in the management of those actions and relationships.

In support of its business plans to drive long-term profitable growth, Filtrona's corporate responsibility initiatives seek to maintain the support of its employees, customers and suppliers and assist in the sustainability of the environment and communities within which its international operations are conducted. The Company's risk management processes include consideration of the potential impact of corporate responsibility issues on Filtrona's performance. The Company's investment decisions take into account as appropriate an evaluation of the potential consequences for its employees, customers and suppliers and the environment.

Filtrona Values, which are set out on pages 8 to 9 of this Report, help establish the corporate responsibility framework within which the Company operates. These Values form the core of the Company's adoption of the highest standards of business ethics and integrity that underpin its relationships with both internal and external stakeholders. Filtrona believes that the responsible winning culture developed with the adoption of these Values at each of its international sites adds value to the Company's reputation and performance.

Filtrona is a member of the FTSE4Good Index which is designed to measure the performance of companies striving to meet globally recognised corporate responsibility standards and to facilitate investment in those companies where corporate responsibility issues are an influencing factor in an investor's decision-making process. The FTSE4Good Committee annually reviews the members for continual compliance with the criteria as laid down by the Committee.

Workplace

Health and safety

Filtrona's overriding commitment in the workplace is to the health and safety and welfare of its employees and all those who visit the Company's operations. The Board provides health and safety leadership and the Chief Executive has primary responsibility for setting the fundamental health and safety objectives within which the detailed policies operate and for reviewing progress against those objectives.

The Company has designed procedures and developed a culture which aims for continuous improvement with the sharing of best practice in all areas of health and safety in addition to strict compliance with applicable laws and regulations. The degree of autonomy afforded to local management allows them to set the agenda best suited to the requirements of individual businesses, but subject always to the proper implementation of the core health and safety policies and principles which Filtrona has adopted. Health and safety considerations form an integral part of capital expenditure proposals, with businesses required to ensure that the risks of working with new equipment, substances or processes are properly evaluated and mitigated prior to approval and implementation.

The Company aims to continuously improve its health and safety record and ongoing initiatives are designed to monitor, assess and drive performance. Investigations are carried out on all accidents that may have resulted in injury or near miss incidents. Improved reporting of near miss incidents has enhanced the Company's ability to learn from potentially hazardous conditions and to prevent their reoccurrence. Businesses undertake extensive training programmes which are particularly focused on the key, or most frequent, risks in their operations. Training in risk assessment and root-cause analysis features strongly in health and safety management.

The group-wide internet based management reporting system facilitates an extensive programme of active monitoring that measures in detail exactly how successful the Company is in managing the safety of its workplaces at the individual site level. The Company believes that the visibility on relevant performance statistics provided by the system maintains the fundamental focus of management on all health and safety issues. The Filtrona Health, Safety and Environment Council (the 'FHSEC') is an international group which includes senior operating management from all divisions. The FHSEC is responsible for reviewing the health, safety and environmental performance, developing appropriate standards and procedures and overseeing the Company's internal health, safety and environment auditing process.

The Company manages occupational health by identifying key risk activities, undertaking health assessments and, where appropriate, implementing health surveillance programmes. The Company has achieved the Occupational Health & Safety Management Systems OHSAS 18001 for the majority of its principal manufacturing sites, excluding the recently acquired sites of Duraco and Lendell, both of which have been given, in accordance with Filtrona policy, a period of 24 months to reach the required standard. It is anticipated that the other remaining principal manufacturing sites which are not yet accredited to OHSAS 18001 will be reassessed during 2009.

The Company operates Filtrona Group Safety Awards whereby sites can achieve gold, silver and bronze status on the basis of annual performance assessed against stringent criteria set by the FHSEC. There are strict criteria governing these awards, based upon: OHSAS standard accreditation; regular health and safety meetings; availability of suitably trained employees on site; and levels of lost time accidents. For 2008 there were four gold awards (2007: nil), seven silver awards (2007: four) and seven bronze awards (2007: two). The criteria are designed to become increasingly stringent over time such that the level of performance required to qualify for an award requires continuous improvement to an increasingly high standard. The rise in the number of the awards in 2008 compared to 2007 demonstrates the health and safety commitment and progress being made internationally across the Filtrona businesses.

Corporate Responsibility

The Filtrona Chief Executive's Health and Safety Award recognises the achievements of the site that best meets the following criteria:

- most improved accident record
- most innovative safety communication campaign
- receipt of a significant safety award from a recognised external body for improved or sustained performance in employee safety

> The Chief Executive's Health and Safety Award was won by Payne in Banbury. During the year, the site saw 365 days without a lost time accident and a 58% reduction in minor incidents. In support of those statistics, a variety of safety campaigns were initiated incorporating special training sessions for all employees, with two managers achieving relevant qualifications and an extension of health and safety into occupational and personal health for employees.

Details of the Company's health and safety performance for 2008 and subsequent progress throughout 2009 can be viewed at the Company's website www.filtrona.com.

Employees

Filtrona's employees are a vital resource in the pursuit of operational excellence and the provision of quality products and service to its customers. The skills and expertise of Filtrona's employees drive the innovation which enables the Company to provide added value to its customers, enhance supply chain logistics with its suppliers and reduce the environmental impact of its operations.

Filtrona is guided by its aim to deliver a competitive and fair employment environment and the opportunity to develop and advance employees subject to personal performance and business opportunity. Filtrona encourages its employees to develop and manage their own careers. It facilitates this by providing relevant job training and, where appropriate, aiming to fill vacancies with existing staff where employees are suitably qualified and experienced.

Filtrona's commitment to the growth of its employees as individuals, challenging them to fulfil their potential through investment in training and personal development, is fundamental to the recruitment, motivation and retention of people with the talent and energy to drive Filtrona's growth as a profitable business. Filtrona's training programmes are designed to secure continuous improvement, with the Company's businesses benefiting from the increase in the capabilities of its employees.

Filtrona seeks to ensure that the training opportunities are extended beyond the simple development of skills focused on fulfilling a particular role within the current operations.

In addition to the impact of the training and development programmes, employee engagement is enhanced by the communication practices which have been adopted across the businesses.

Filtrona values highly the commitment of its employees and recognises the importance of communication to good working relationships and practices. The Company seeks to ensure that employees are informed on matters relating to their employment and on financial and economic factors affecting the businesses. This is achieved through management briefings, internal announcements, the Filtrona website and by the distribution of public announcements. Various initiatives, including the use of regular newsletters detailing progress and key news across the divisions focus on the dissemination of important information and messages to employees.

The Company seeks feedback and ideas from employees to improve its operations and forums appropriate to Filtrona's local businesses have been established to allow employees to voice their views on how the Company should fulfil the demands of all its local and international stakeholders. The Company's European Information and Consultation Forum facilitates the discussion of issues across all of its operations in the European Union.

The Company recognises the importance of, and the benefits to be derived from, diversity across its global operations and is committed to offering equal opportunities to all people without discrimination of any form. Filtrona remunerates fairly with respect to skills, performance and local market conditions. By adhering to the Filtrona Values, the Company conducts its business in a manner designed to ensure individuals are treated equally and fairly and that all employment, training and career development decisions

"Renewable energy is used where available at competitive rates. All locations are examining and sharing energy efficiency initiatives – such as energy efficient motors for maintenance and new projects, replacing lighting with high efficiency units and installing motion sensor lights."

are made on job-based criteria. Recruitment procedures avoid the employment of underage staff. Harassment in any form is not tolerated in the workplace.

The Company gives full and fair consideration to employment applications by disabled persons. In the event of employees becoming disabled, every effort is made to ensure that the training, career development and promotion opportunities enjoyed by disabled persons are as far as possible identical to that of other employees.

Throughout its global activities Filtrona supports human rights as set down by the UN Declaration and its applicable International Labour Organisation conventions. Operations based in India, Indonesia, Jordan, Thailand and Venezuela are also accredited to SA8000.

Marketplace
Filtrona's reputation with its customers, suppliers and communities where it operates, is based not only on the quality of its performance, but also on the integrity of its management in the workplace and the environment, and its ethical and responsible conduct in the marketplace. The development and continuation of long-term business relationships reflects the trust placed in the Company and such commitments are an important component in the ongoing success of the Company.

Filtrona's Standards of Business Conduct policy is applicable to all its businesses around the world. The policy details the standards expected by Filtrona in the conduct of its business and its relationships with third parties, including free and fair competition, the prohibition of bribery and political donations and provides general guidance on honest and fair dealings with suppliers, customers and local and national authorities.

Filtrona is committed to working with its suppliers to ensure the welfare of workers and employment conditions, within its supply chain, meet or exceed internationally recognised standards.

Environment
The Company is committed to continuous improvement in its environmental performance, reducing emissions, preventing pollution and improving efficiency in the use of resources including energy, water, packaging and other raw materials. Filtrona's challenge is to determine how, through current initiatives and current technology, and with further projects and future innovation, it can reduce the impact of its

Saving energy to make a difference

Business Review

Corporate Responsibility

environmental footprint within a realistic financial framework and appropriate timeframe. This should be in a manner relevant to, and meaningful in, the context of the Company's overall strategic objectives and financial performance.

The risk management process has identified that climate change may be the single most important environmental constraint impacting on the future of its businesses. The management of the environmental impact of, the Company's international operations are focused on methodologies to reduce that impact, and the development of initiatives to secure both economic and environmental benefits and sustainability. Filtrona continues to closely monitor the environmental impact of its operations. Significant improvement in data collection methods and increased reporting procedures, reinforce the accountability of the businesses for the consequences of their operations on the environment and drive the commitment to seek opportunities to make improvements which:

- reduce the use of natural resources
- reduce direct and indirect emissions of carbon dioxide and other pollutants
- reduce operating costs and improve operating margins and profitability

Filtrona seeks to ensure good environmental practice at all its locations and in its operational processes and investment decisions. Filtrona's principal manufacturing sites are ISO 14001 accredited and all of the Company's European businesses comply with EU and domestic waste management regulations. A range of initiatives are being undertaken to drive the efficiency of Filtrona's energy consumption and the Company has developed bespoke software to monitor the effect of such projects, as well as identifying potential future opportunities for further improvements. Landfill is being reduced as local initiatives seek to recycle waste materials or explore alternative uses with third parties.

Due to the scale of Filtrona's global operations, the use of energy has both environmental and commercial importance. Where possible, and financially viable, energy from renewable resources is utilised to limit environmental impact and commercial risk and costs.

Filtrona actively engages with its employees, customers, and suppliers to exploit opportunities offered by new technologies, improved process operations and new material to further reduce environmental impact and improve profitability.

Supplier standards are subject to review by the Company employees who audit their environmental credentials.

Filtrona and a major supplier of tow, which is used in the manufacture of filters, held discussions regarding the environmental impact of packaging. Subsequently the cardboard packaging layers were reduced and the use of plastic banding was significantly reduced.

Given the diverse range of products manufactured, sourced and distributed by the Group, emissions intensity and achievements alongside targeted reductions are measured on a site by site basis, with local management taking responsibility for performance. As Filtrona seeks to further drive its environmental performance, all divisions have been charged with providing realistic targets based on a common metric to enable a corporate declaration of targeted emission reduction during the period from 2009 to 2012.

Filtrona supports the activities of the Carbon Trust and during 2008 participated in the 6th annual Carbon Disclosure Project ('CDP'), an environmental impact survey. It is the Company's intention to participate in the CDP survey during 2009.

During 2009, Filtrona will be piloting the Carbon Reduction Commitment (the 'CRC') which is a UK legal requirement and aims to cut carbon emissions from large non-energy intensive users in the private and public sectors by four million tonnes of CO_2 by 2020 through mandatory emissions trading. CRC is designed to drive energy efficiency and carbon saving by giving organisations a financial incentive through emissions trading, combined with reputational incentives through publishing organisations' performance in a league table. Initially the CRC will be focused on UK activity only but it is targeted for expansion globally.

Filtrona plc operates a small head office team and, during 2008, a renewed focus was promoted to increase recycling. As a result Filtrona saved the equivalent of 848 kg of CO_2 annualised.

Given the diversity of Filtrona's global operations, local management drive environmental performance based on divisional objectives set in accordance with Filtrona's environmental policy. Copies of the policy can be found on the Company's website www.filtrona.com.

The FHSEC provides an opportunity to share best environmental practices and waste minimisation initiatives across all the Group sites and has established a Group award to recognise the best divisional project initiated in each calendar year which in its opinion delivered the most successful and innovative environmental improvement or initiative on a site that meets one or several of the following criteria:

- reductions in emissions
- recycling of waste product
- waste reduction
- energy efficiency
- efficient use of raw material
- use of biodegradable materials

The Group Environmental award was won by the Filter Products facility in Indonesia. A number of general energy efficiencies introduced during the year resulted in substantial reductions of energy consumption, particular initiatives saw; the recycling of approximately 1 tonne of waste per day to produce steam used in the manufacturing process to eliminate the need for purchasing 565,000 kWh of electricity per year; and the elimination of waste to landfill, thereby reducing traffic emissions and transport costs .

Community
Filtrona's commitment to being a responsible corporate citizen extends through to the support for appropriate non-political and non-sectarian projects across a range of organisations and charities. As an example, during the year, Filtrona plc part sponsored the purchase of a vehicle for use by Save the Children. It is hoped the vehicle will help the charity reach vulnerable children particularly for projects such as education and child protection.

Regardless of regional or national boundaries the Company aims to support the creation of prosperous, educated, sustainable and healthy communities in the countries and cultures within which it operates. In its attempts to bring benefits back to those communities whose support provides a basis for Filtrona's success, the Company has focused on education and enterprise, health and welfare and the environment. In pursuit of its aims within the community, the Company has developed targeted programmes for local communities, often involving commercial sponsorship and significant employee engagement through direct involvement or secondment.

For 2008 and, beyond, Filtrona Indonesia based in Surabaya, introduced a 'Get Involved' community development day. 40 employees participated in the main activities of: painting and finishing a local school building; planting trees in the immediate area of the school; and practising first aid with the students. The objectives were to create awareness and actively develop the community.

Applying Filtrona's principles
The Chief Executive is the Director with primary responsibility for the implementation and integration of Filtrona's Corporate Responsibility across the Company.

The Director of Group Human Resources, supported by the Company Secretary and General Counsel, is responsible for co-ordinating the operation of the detailed policies on human resources, health and safety, ethics and the environment which support Filtrona's commitment to its Corporate Responsibility principles.

Further details of those policies can be viewed via the Corporate Responsibility page on the Company's website at www.filtrona.com.

Corporate Governance

Group Operating Committee

Mark Harper
Chief Executive

The biographical details of Mark Harper are shown on page 42.

Steve Crummett
Group Finance Director

The biographical details of Steve Crummett are shown on page 43.

Jon Green
Company Secretary and General Counsel

Jon Green, a solicitor, joined Filtrona in March 2005 to assist in the demerger process. He was appointed Company Secretary in July 2005. Prior to Filtrona he worked as an in-house lawyer for several large international businesses, including Unilever and Hays plc. Jon is a member of the Executive Committee and Chairman of the Risk Management Committee. His is also a member of Filtrona's UK Pension Trustee Board.

Rob Purcell
Managing Director
Protection and Finishing Products

Rob Purcell joined the Moss business in 1996 from Low and Bonar where he had been managing director of their technical textiles business. Rob became responsible for the entire Protection and Finishing Products division in 2003. Rob has been a Trustee of Filtrona Pension Schemes for a number of years.

Tony Edwards
Managing Director
Coated and Security Products

Tony Edwards was previously finance director of the Payne business when it was bought from Norcros plc in 1996. Tony is a Chartered Accountant having qualified with Price Waterhouse in 1988. Prior to joining Payne in 1993 he worked for Rio Tinto plc. Tony became Finance Director of the Filtrona business area within Bunzl and was appointed to his current role in 2002.

Neil Shillingford
President
Plastic Profile and Sheet

Neil Shillingford, President of Filtrona Extrusion, joined the Company in operations from Gillette and now has 21 years of service within Filtrona. Neil has performed a number of general management roles over those 21 years and was appointed to his current position in 2005.

Alan Tidy

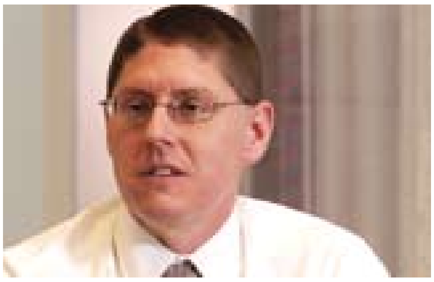
Director of Group
Human Resources

Alan Tidy joined Filtrona as Director of Group Human Resources upon the demerger from Bunzl plc in 2005. He was previously group HR director at Wagon plc and prior to that held divisional HR roles within Caradon plc and Rio Tinto plc. Alan is a member of the Executive Committee and Chairman of Filtrona's UK Pension Trustee Boards and of the Filtrona Group Health, Safety and Environment Council. He is a Chartered Member of the Institute of Personnel and Development.

P T Sreekumar

Managing Director
Filter Products

PT Sreekumar joined Filtrona from Godfrey Philips, an Indian tobacco company, in 1995. PT Sreekumar was initially responsible for the Indian joint venture within Filtrona. In 2002 he was appointed as Regional Director for Asia Pacific responsible for the business in Asia and the Middle East before moving into his current role early in 2005.



Russ Rogers

President
Porous Technologies

Russ Rogers, President of Porous Technologies, joined the Company with the acquisition of the American Filtrona Corporation in September 1997 and performed increasingly important roles in engineering, logistics, purchasing and manufacturing before being appointed President in June 2003.

Corporate Governance

Board of Directors

Mark Harper
Chief Executive

Mark Harper joined Filtrona in 1986 and held a number of general management positions, including managing director of Moss Plastic Parts in Europe and president of Alliance Plastics in the US, before becoming Managing Director of Filtrona in 1996. Mark was an executive director of Bunzl plc from 2004 until he was appointed Chief Executive of Filtrona in May 2005. In December 2006 Mark was appointed as a non-executive director of BBA Aviation plc.

Jeff Harris
Non-executive Chairman

Jeff Harris was appointed Chairman in May 2005. He was chairman of Alliance UniChem Plc from 2001 until 2005. Jeff was the finance director of UniChem Plc from 1986 to 1992, chief executive from 1992 and chief executive of the enlarged Alliance UniChem Plc from 1997 to 2001. Jeff is also a non-executive director of Bunzl plc. Jeff is also the Chairman of the Company's Nomination Committee.

Lars Emilson
Non-executive Director

Lars Emilson was appointed a Non-executive Director of Filtrona in May 2007. He was formerly chief executive of Rexam PLC from 2004 to February 2007. Lars has spent the majority of his working life in the packaging industry. In 1970 he joined PLM, a leading Swedish packaging company, where he held various senior positions. In 1999 he joined the Rexam board, becoming group director of the worldwide beverage can business. Lars is currently non-executive chairman of Charter International plc and a director of East Capital Explorer AB, a Swedish listed company.

Paul Drechsler

Senior Independent Non-executive Director

Paul Drechsler was appointed as a Non-executive Director of Filtrona in May 2005. He is chairman and chief executive of Wates Group, having been appointed to the position of chief executive in 2004. Paul spent 25 years at Imperial Chemical Industries PLC including chairmanship of the ICI pension fund and appointment to the ICI board as an executive director in 1999. He is Chairman of the CBI Energy Policy Committee. Paul is Chairman of the Company's Remuneration Committee.

Steve Crummett

Group Finance Director

Steve Crummett joined Filtrona in May 2007 as Director of Corporate Development and was appointed Group Finance Director on 19 March 2008. Prior to that, he was group director of mergers and acquisitions at Exel plc and has held senior finance roles within McKechnie plc and Logica plc. Steve is a Chartered Accountant having qualified with Arthur Andersen.

Adrian Auer

Non-executive Director

Adrian Auer was appointed a Non-executive Director of Filtrona in May 2005. He was formerly group finance director of RMC Group plc from 2002 to 2005, finance director of Taylor Woodrow plc from 2000 to 2002, and has also held senior finance positions with BP and ICI. Adrian is currently non-executive chairman of Shanks plc and Readymix plc. Adrian is Chairman of the Company's Audit Committee.

Directors' Report
for the year ended 31 December 2008

The Directors present their report and audited financial statements of the Company and its subsidiary undertakings for the year ended 31 December 2008.

Principal activities
The principal activities of Filtrona are the light manufacture and supply of speciality plastic and fibre products.

The principal activity of the Company is a holding company.

The Business Review
The Companies Act 1985 requires the Company to set out in this report, a fair review of the business of the Group during the financial year ended 31 December 2008, including an analysis of the position of the Group at the end of the financial year, and a description of the principal risks and uncertainties facing the Group (the 'Business Review').

The information that fulfils the Business Review requirements can be found on the pages referred to below. All the information detailed is incorporated by reference and deemed to form part of this report.

- Chairman's Statement on pages 10 to 11
- Chief Executive's Statement on pages 12 to 17
- Key Performance Indicators on pages 18 to 19
- Plastic Technologies Review on pages 20 to 25
- Fibre Technologies Review on pages 26 to 29
- Financial Review on pages 30 to 31
- Management of Principal Risks on pages 32 to 33
- Corporate Responsibility Statement on pages 34 to 39

Cautionary forward-looking statement
This 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 from the forward-looking statements. Each forward-looking statement speaks only as of the date of this document. The Company accepts no obligation to publicly revise or update 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.

Results and dividends
The accompanying financial statements for the year ended 31 December 2008 which were approved by the Board of Directors on 26 February 2009 are set out on pages 63 to 98.

The Company has paid the following dividends in respect of the year ended 31 December 2008:

	Per share p	Total £m
Interim dividend paid 24 October 2008	2.70	5.5

The Directors recommend that a final dividend of 5.08p (2007: 5.08p) per share be paid, making a total dividend distribution for the year of 7.78p (2007: 7.60p).

The final dividend, subject to shareholder approval, will be paid on 8 May 2009 to shareholders on the register at 14 April 2009.

Directors
During the year ended 31 December 2008, the Board of Directors comprised:

Jeff Harris	Non-executive Chairman
Mark Harper	Chief Executive
Steve Crummett	Group Finance Director (appointed 19 March 2008)
Paul Drechsler	Senior Independent Non-executive Director
Adrian Auer	Non-executive Director
Lars Emilson	Non-executive Director
Steve Dryden	Group Finance Director (resigned 19 March 2008)

In accordance with the Company's Articles of Association, Jeff Harris and Steve Crummett are retiring at the forthcoming Annual General Meeting ('AGM') and, being eligible, offer themselves for re-election as Directors. Jeff Harris does not have a service contract.

Adrian Auer has resigned from the Board with effect from 30 June 2009.

During the year, the Company implemented a detailed conflicts of interest policy for Directors. In accordance with the terms of the policy, the Directors are required to notify the Company of all potential conflicts of interest and the Company Secretary maintains a register of all notified interests. In October, the Board considered all the interests notified by the Directors during the year and concluded that none of them were in conflict with the interests of the Company. Any new interests notified by Directors are the subject of review by the Nomination Committee and the Nomination Committee will conduct a review of the register of notified interests at least once a 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 is on page 56.

Share capital
The authorised and issued share capital of the Company is shown in note 19 to the financial statements.

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:
(i) that certain restrictions may from time to time be imposed by laws and regulations (for example, insider trading laws); and
(ii) pursuant to the Listing Rules of the Financial Services Authority whereby certain employees of the Company require the approval of the Company to deal in the Company's ordinary shares.

No person holds 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
At the close of business on 25 February 2009, the Company had been advised of the following voting rights attaching to Filtrona shares in accordance with the Disclosure and Transparency Rules:

	% of total voting rights
Invesco Limited	8.87
Prudential plc	6.49
Pennant Capital Management LLC	5.84
Ameriprise Financial Inc	5.27
JP Morgan Chase & Co	4.97
Allianz SE	4.80
Legal and General Group Plc	3.93
Ignis Asset Management/ Resolution Investment Services Limited	3.92
Oppenheimer Funds	3.19

Property values
In the opinion of the Directors, there was no significant difference between the market and book values of the property held by the Group, as shown in the consolidated balance sheet at 31 December 2008.

Charitable and political contributions
The Company made no political contributions during the year ended 31 December 2008 (2007: £nil). Donations to UK charities amounted to £0.1m (2007: £0.1m), of which £nil were made by the Company (2007: £nil), with all contributions being made by its subsidiary companies.

Directors' indemnities
As at the date of this Report, 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. This includes liabilities to third parties.

Creditor payment policy
The Company policy for payment of suppliers is to pay according to the terms agreed with suppliers from time to time, subject to the supplier's performance in accordance with those agreed terms.

Since the Company has no trade creditors, the disclosure of creditor days does not apply.

Significant agreements
The Company has committed bank facilities of £215m and US$40m, which mature in May 2010 and November 2009 respectively. Under the terms of these facilities, the banks can give notice to Filtrona to repay outstanding amounts and cancel the commitments where there is a change of control of the Company.

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 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 or indeed, to any potential bidder for the Company or Group.

Corporate Governance

Directors' Report
for the year ended 31 December 2008

Annual General Meeting
The AGM of the Company will be held at the Holiday Inn Hotel, 500 Saxon Gate West, Milton Keynes, Buckinghamshire MK9 2HQ on Thursday 23 April 2009 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
The Directors were granted authority at the last AGM held in 2008 to allot relevant securities up to a nominal amount of £17,138,516. That authority will apply until the conclusion of this year's AGM. At this year's AGM, shareholders will be asked to grant an authority to allot relevant securities: (i) up to a nominal amount of £17,138,516, and (ii) comprising equity securities up to a nominal amount of £34,277,032 (after deducting from such limit any relevant securities allotted under (i), in connection with an offer by way of a rights issue, (the 'section 80 authority'), such section 80 authority to apply until the end of next year's AGM (or, if earlier, until the close of business on 30 June 2010). 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 their authority to allot unissued shares, except those relating to share options.

Allotment of shares for cash
The Directors will, under Resolution 8 in the Notice of Annual General Meeting, seek power until the next AGM to allot shares for cash, otherwise than in accordance with the statutory pre-emption rights, either in connection with a rights issue, or otherwise, up to an aggregate nominal amount of 5% of the issued share capital at 31 December 2008, equivalent to 10,966,340 shares. 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 last AGM, held in 2008, the shareholders approved a special resolution to enable the Company to purchase its own shares. That approval will apply until the conclusion of this year's AGM. At this year's AGM, the Directors consider it expedient to seek shareholders' approval to enable the Company to purchase its own shares. Accordingly, under Resolution 9 in the Notice of Annual General Meeting, authority will be sought to enable the Company to make market purchases of up to 10% of the issued share capital at 25 February 2009 for the period of one year following the date of passing the Resolution. In accordance with the requirements of The Listing Rules of the Financial Services Authority, the maximum price for shares purchased in the market shall not exceed an amount equal to 105% of the average middle market quotation taken from the London Stock Exchange Daily Official List for the five business days before the purchase is made. The minimum price per share shall be not less than 25p, being the nominal value of the shares. The Directors will only utilise this authority if satisfied that to do so will result in an increase in earnings per share and that it is in the best long-term interests of the shareholders.

The Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 (the 'Regulations') allow companies to hold shares acquired by way of market purchase in treasury, rather than having to cancel them. The Directors may use the authority to purchase shares and hold them in treasury (and subsequently sell or transfer them out of treasury as permitted in accordance with the Regulations) rather than cancel them, subject to institutional guidelines applicable at the time. No shares, were, purchased either by the Company nor were cancelled or transferred out of treasury during the year.

No dividends have been paid on shares whilst held in treasury and no voting rights attach to the treasury shares.

Auditor
KPMG Audit Plc has indicated that it is willing to continue in office. A resolution to re-appoint them, and to authorise the Board to set their remuneration, will be proposed at the AGM (Resolution 6 in the Notice of Annual General Meeting).

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 67 to 68 and in note 15 on page 83 to 84.

Directors' statement as to disclosure of information to the auditor
The Directors who were members of the Board at the time of approving this Directors' Report, having made enquiries of fellow Directors and of the auditor, confirm that:

- to the best of each Director's knowledge and belief, there is no relevant audit information of which the Company's auditors is unaware; and
- each Director has taken all steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditor is aware of that information.

By order of the Board

Jon Green
Company Secretary and General Counsel
26 February 2009

Directors' Responsibilities Statement

Statement of Directors' responsibilities in respect of the Annual Report and the financial statements
The Directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law, the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU') and have elected to prepare its individual company financial statements in accordance with United Kingdom Generally Accepted Accounting Principles and applicable law.

The Group financial statements are required by law and IFRS as adopted by the EU to present fairly the financial position and performance of the Group. The Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The parent company financial statements are required by law to give a true and fair view of the state of affairs of the parent company.

In preparing each of the Group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRS as adopted by the EU;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are also responsible for preparing a Directors' Report, a Report of the Remuneration Committee and a Corporate Governance Report in compliance with applicable law and regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities and financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Mark Harper
Chief Executive

Steve Crummett
Group Finance Director

26 February 2009

Report of the Remuneration Committee

This report to shareholders for the year ended 31 December 2008 sets out the policies under which the Executive and Non-executive Directors are remunerated and tables of information showing details of the remuneration and share interests of the Directors.

As required by The Directors' Remuneration Report Regulations 2002 (the 'Regulations'), this report will be subject to an advisory shareholder vote at the Annual General Meeting ('AGM'). The Report is intended to be in full compliance with the requirements of the Regulations and the Combined Code on Corporate Governance. KPMG Audit Plc have audited the contents of the Report to the extent required by the Regulations.

Role of the Remuneration Committee

The Remuneration Committee is responsible for making recommendations to the Board on remuneration policy as applied to Filtrona's senior executives, including Executive Directors.

Membership of the Remuneration Committee during the year consisted wholly of independent Non-executive Directors:

Paul Drechsler	Chairman
Adrian Auer	
Lars Emilson	

The Company Secretary and General Counsel acts as Secretary to the Remuneration Committee.

The Company's Chairman, Chief Executive and Director of Group Human Resources may, by invitation, attend the Remuneration Committee meetings, except when their own remuneration is discussed.

The terms of reference for the Committee, which are annually reviewed, can be found on the Company's website www.filtrona.com.

Remuneration Committee processes

The Committee met four times during the year. Details of the attendance are shown in the Corporate Governance Report on page 58.

During the year the main items considered were:

- a review of the remuneration for the Executive Directors and other senior executives
- annual bonus structure, targets and payouts
- 2008 Long-Term Incentive Plan ('LTIP') awards and vesting criteria attaching to them
- assessment of individual performance for future LTIP awards

Advice

During the year, Filtrona's Director of Group Human Resources was invited by the Remuneration Committee to provide views and advice. In addition, with the approval of the Remuneration Committee, the Company received services and advice from the following independent and expert consultants:

- Hewitt New Bridge Street Consultants LLP ('HNBSC') who provided advice on the Company's long-term share incentive plans and on the remuneration of the Executive Directors and other senior executives within the Company
- Mercers Human Resource Consulting ('Mercers') who provided advice and information on pension matters

Neither HNBSC nor Mercers provides any other services to the Company except that Mercers provide actuarial services with respect to the UK pension schemes.

Remuneration policy

The Board as a whole establishes the remuneration policy. The Remuneration Committee determines and recommends to the Board the framework for the remuneration of the Executive Directors. The Chief Executive's remuneration proposals for the members of the Executive Committee, and for other senior executives reporting directly to him, are reviewed by the Remuneration Committee and recommendations are made to the Board.

The Remuneration Committee also takes note of the remuneration policy as detailed by the Chief Executive in respect of other levels of management in the Company and makes such recommendations to the Chief Executive as the Remuneration Committee deems appropriate.

The remuneration of the Executive Directors and Chairman is the responsibility of the Remuneration Committee and the remuneration of the Non-executive Directors is the responsibility of the Board as a whole. No Director is involved in determining or voting on their own remuneration.

In determining the policy for the Executive Directors, the Remuneration Committee's objective is to ensure that those individuals are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner having regard to the performance of the Company, rewarded for their individual contributions to the success of the Company.

The objective of the remuneration policy is to provide remuneration in a competitive form and amount to attract, retain and motivate high quality management. The importance of aligning the interests of Executive Directors and senior executives with shareholders is carefully considered, particularly in the design of the performance-related elements of their remuneration packages.

Key developments

The following amendments to the Long-Term Incentive Plan ('LTIP') were approved at the AGM held in April 2008, effective from 1 January 2008 and were applied to the awards granted during the year:

- The introduction of an earnings per share performance target to determine the level of vesting of half of the performance shares granted under LTIP Part B, with the other half continuing to be subject to a total shareholder return ('TSR') performance condition
- The rules were amended to bring the treatment of awards in the event of a change in control in line with best practice

It was communicated to shareholders at the 2008 AGM that no further awards will be granted to Executive Directors under LTIP Part A. Instead the value of share options which would ordinarily have been granted under Part A to the Executive Directors will be replaced with grants of performance shares under LTIP Part B, worth up to 50% of salary.

During 2008, the Remuneration Committee reviewed the remuneration policy with particular regard to the impact of environmental, social and governance issues on executive remuneration within Filtrona. The conclusion of the review was that where personal objectives are set for the attainment of bonus awards these objectives, where appropriate having regard to the interests of internal and external shareholders, will contain an element of environmental, social and governance issues.

In consideration of the current economic climate and having regard to inflation levels the executive and senior management have been given a 3% pay increase with effect from 1 January 2009, which is in line with the average pay award being granted to the global workforce. An exception is for Steve Crummett, the Group Finance Director appointed in March 2008. At the time of Steve's appointment his salary was deliberately set at the conservative end of market practices. To reflect his time in the role and performance since March 2008, the Committee agreed that his salary level should be adjusted to competitive market levels and, accordingly, the Remuneration Committee approved a revised salary of £275,000 per annum effective from 1 January 2009.

The Remuneration Committee reviewed the structure of the annual bonus scheme during 2008 and agreed that in future the annual bonus (of up to 100% of basic salary for Executive Directors) would contain three elements:

- cash bonus related to: (i) an operating profit target (to be set on the basis of constant exchange rates and with reference to the underlying earnings per share performance of the Company), accounting for up to 40% of any bonus; and (ii) personal objectives, accounting for up to 10% of any bonus
- Deferred Annual Share Bonus – provided as a match for the aggregate of the cash and personal objectives elements and deferred for three years

The Committee believe that this structure better allows them to incentivise and influence management actions.

The Remuneration Committee has recently further refined annual bonus arrangements for 2009 and adopted the following framework of principles:

- Where targets are set below prior year's adjusted earnings per share ('EPS') (on a constant currency basis) the quantum of bonus payable for: (i) Operating Profit and personal objectives elements will be reduced by the same percentage as the reduction in EPS; and (ii) Deferred annual share bonus will be reduced and will only be granted where Filtrona plc share price has outperformed the FTSE 250 Index by at least 5%
- Where performance is equal to or above prior year EPS (on a constant currency basis) cash bonus and deferred share bonus awards will continue to be made at the normal quantum

The Committee believes that this framework provides a reasonable incentive structure for management in the current economic environment, whilst protecting shareholders' interests.

Corporate Governance

Report of the Remuneration Committee

Summary of components of Executive Directors' remuneration for 2009

Type	Objective	Performance period	Policy
Basic salary	To reflect the particular skills and experience of an individual and to provide a competitive base salary compared with similar roles in similar companies.	Annual (reviewed on 1 January)	Individual pay is determined by reference to current market data on comparator salaries in similar businesses provided by external advisors.
Annual cash bonus[1]	To incentivise the delivery of Group performance-related objectives.	Annual	Bonuses are capped at 50% of basic salary in cash. 40% is calculated by reference to operating profit at constant exchange rates and 10% by reference to personal objectives set over the prior year.
Deferred Annual Share Bonus ('DASB')[1]	To aid retention and to align directors' interests with those of the Company's shareholders. To incentivise the delivery of Group performance-related objectives.	3 years	The aggregate value of shares made subject to any award granted under the DASB in any one financial year will normally not exceed 50% of basic salary. 40% is calculated by reference to operating profit at constant exchange rates and 10% by reference to personal objectives set over the prior year.
Long-Term Incentive Plan	To drive the long-term delivery of the Group's objectives, aid retention and to align Directors' interests with those of the Company's shareholders.	3 years	Performance share awards worth up to 150% of basic salary granted subject to the Company's relative TSR performance (50% of awards) and the Company's adjusted EPS performance (50% of awards), both measured over a fixed three year period.
Pension	To provide benefits comparable with similar roles in similar companies.	n/a[2]	For the defined benefit scheme pension benefits are based, fully or partly, on final basic salary. For the defined contribution scheme pension benefits are based on the contributions made and investment decisions.
Other benefits	To provide benefits comparable with similar roles in similar companies.	n/a[2]	Other benefits comprise medical expenses insurance, and a car and fuel allowance.

1 The maximum annual bonus in any one year is capped at 100% of salary comprising of 50% annual cash bonus and 50% DASB
2 Not applicable

The Remuneration Committee structures senior executive remuneration in two distinct parts: fixed remuneration of basic salary, pension and benefits; and variable performance-related remuneration in the form of cash and 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 Director's package and that the majority of Executive Directors' total remuneration at the maximum performance level will derive from the Company's long-term incentive arrangements, which are strongly aligned to the Company's strategic objective to secure long-term shareholder value creation.

Components of Directors' remuneration for 2008

The emoluments of the Directors for the year ended 31 December 2008 were as follows:

	Fees £000	Salary £000	Bonus £000	Benefits £000	Year ended 31 Dec 2008 Total £000	Fees £000	Salary £000	Bonus £000	Benefits £000	Year ended 31 Dec 2007 Total £000
Executive Directors										
Mark Harper	**–**	**490**	**122**	**23**	**635**	–	455	217	22	694
Steve Crummett[1]	**–**	**173**	**43**	**40**[2]	**256**	–	–	–	–	–
Non-executive Directors										
Jeff Harris	**156**	**–**	**–**	**–**	**156**	156	–	–	–	156
Paul Drechsler	**42**	**–**	**–**	**–**	**42**	42	–	–	–	42
Adrian Auer	**42**	**–**	**–**	**–**	**42**	42	–	–	–	42
Lars Emilson	**34**	**–**	**–**	**–**	**34**	23	–	–	–	23
Steve Dryden[5]	**–**	**61**	**–**	**8**[3]	**69**	–	270	129	36[4]	435
Warren Knowlton[6]	**–**	**–**	**–**	**–**	**–**	11	–	–	–	11

1 Appointed 19 March 2008
2 Includes a supplementary payment of £29,910 to allow the securing of additional pension benefits
3 Includes a supplementary payment of £7,245 in respect of pension provision above the pension scheme's specific earnings cap
4 Includes a supplementary payment of £32,000 in respect of pension provision above the pension scheme's specific earnings cap
5 Resigned 19 March 2008
6 Resigned 30 April 2007

In addition, the Company paid pension contributions for Steve Crummett of £5,000 into a defined contribution pension plan.

Salary

Basic salary for each Executive Director is determined by the Remuneration Committee taking into account the roles, responsibilities, performance and experience of the individual and pay awards and conditions elsewhere in the Company. Salaries are reviewed annually with any increase being effective from 1 January (unless responsibilities change). Salary levels are determined taking into account market data on salary levels for similar positions at comparable companies. A review of salary levels was undertaken in December 2008. In line with average pay awards across the Group, Mark Harper was awarded an increase of 3%. At the time of Steve Crummett's appointment his salary was deliberately set at the conservative end of market practices. To reflect his time in the role and performance since March 2008 the Committee agreed that his salary level should be adjusted to competitive market levels and, accordingly, the Remuneration Committee approved a revised salary of £275,000 per annum effective from 1 January 2009.

	Mark Harper	Steve Crummett
Annual salary effective from 1 January 2009	£505,000	£275,000[1]
Annual salary effective from 1 January 2008[2]	£490,000	£220,000[1]

1 Excluding supplementary pension payment
2 Effective from date of appointment if later

Annual bonuses

Under the terms of the annual bonus arrangements for 2008, Mark Harper and Steve Crummett were each potentially entitled to a maximum bonus of up to 100% of basic salary (50% in cash and 50% in shares in the Company, the entitlement to such shares being deferred for three years, in accordance with the rules of the DASB).

For the year ended 31 December 2008, the performance targets were approved by the Remuneration Committee and based upon Filtrona's adjusted earnings per share. Company performance was required to reach a minimum threshold adjusted EPS target for a bonus of 30% of basic salary to be payable (15% in cash and 15% in deferred shares under the DASB).

For the year ended 31 December 2008, having matched the target performance of adjusted EPS of 18.6p the Remuneration Committee approved a bonus of 50% of basic salary for each of the Executive Directors (25% in cash and 25% in shares under the DASB). When assessing the approval of the bonus awards, the Remuneration Committee carefully considered the impact of certain exceptional items upon the Company's earnings per share performance and had regard to the interests of the shareholders.

Report of the Remuneration Committee

Deferred Annual Share Bonus Plan

The DASB provides for Executive Directors and nominated senior executives to receive existing issued ordinary shares in the Company for nil payment. The number of shares subject to an award is determined at the time the award is granted, based upon the performance in the Filtrona's preceding financial year of the participant and/or the Company and/or the division in which the participant worked.

Under the rules of the DASB the aggregate value of shares made subject to awards granted to a participant in any one financial year may not exceed 100% of their basic salary as at the award date. The Remuneration Committee has determined that, in accordance with the Company's bonus arrangements, awards under DASB will not normally exceed 50% of basic salary.

Shares awarded under the DASB are held in trust until 1 March in the third calendar year after the year in which the award was made, or such other date as the Company may determine is reasonably practicable, at which point they are transferred to the participant subject to the participant's continued employment within the Group.

Details of the awards granted to the Executive Directors under the DASB in 2008 are shown in the table on page 53.

Executive LTIP share-based incentive plans

The Remuneration Committee strongly believes that offering Executive Directors and nominated senior executives the opportunity to be awarded shares in the Company is an important part of motivating, rewarding and retaining key employees so that they may drive and participate in the future growth of the Company. It is also of the view that the Executive Directors and nominated senior executives should be encouraged to invest directly in the Company through the purchase of shares. The Company's DASB and LTIP are both intended to support these objectives.

On the recommendation of the Remuneration Committee, the Company has adopted shareholding guidelines for both Executive Directors and nominated senior executives. The guidelines are such that Executive Directors should hold shares to the value of 100% of their basic salary within 5 years of the recommendation being adopted or the date of their appointment (whichever is the later). Details of the shareholdings held by the Executive Directors are disclosed on page 56.

The award of shares or options under the executive share-based incentive plans is determined by the Remuneration Committee taking into account, inter alia, the role of the individual, and other such criteria as they may determine from time to time. The current policy is that participation in the DASB and LTIP Part B is restricted to Executive Directors and nominated senior executives. Since 2008 Executive Directors and such nominated senior executives will receive no further awards under LTIP Part A. Thereafter participation, in LTIP Part A, has been limited to other designated employees.

Awards under the Company's share-based incentive plans will be satisfied using market purchases, new issue shares and/or shares held in treasury.

The Long-Term Incentive Plan – Part B

A performance share award under LTIP Part B consists of a conditional right to receive shares in the Company, subject to performance conditions, on the basis described below. Participants make no payment for the grant and exercise of performance share awards.

Participants may receive performance share awards over shares worth up to two times their basic salary in any financial year.

In June 2005, following the demerger, the Executive Directors and nominated senior executives were granted a one-off matching share award linked to their investment in the Company's shares. During the year the matching shares awarded in June 2005 lapsed, due to the performance targets not being met.

A performance share award, will not normally be exercisable before the third anniversary of its award and may only be exercised to the extent that the applicable performance conditions have been satisfied. The awards are structured as nil cost options. For employees based outside the US, the options remain capable of being exercised up to the sixth anniversary of grant. For employees based in the US, once the performance conditions have been satisfied the options must be exercised within 30 days of vesting.

For awards granted prior to 2008, the extent to which performance share awards vest is subject to the Company's TSR performance over a fixed three year period relative to the TSR performance of the FTSE 250 companies (excluding investment trusts) at the start of the three year performance period. Identical conditions were attached to the matching share awards.

Performance share awards will vest in full only if the Company's TSR performance is ranked at upper quartile or above within the peer group over the performance period. For median performance one quarter of such awards vests, rising proportionally up to full vesting thereafter. For below median performance, no such awards will vest.

The performance condition will be tested after three years and there is no provision for retesting. To the extent the performance condition has not been met after three years, the relevant awards will lapse.

For awards granted in 2008, and beyond, 50% of the awards will be subject to a TSR performance condition (as set out above) and 50% of the awards will be subject to an adjusted EPS performance condition. The adjusted EPS performance condition for these awards will require the Company's earnings per share growth (adjusted to exclude items which did not reflect the Company's underlying financial performance and intangible amortisation) relative to inflation over three financial years to exceed inflation by an average of at least 3% per annum for 12.5% of the awards to vest. The proportion of the awards vesting will increase on a straight-line basis and for 50% of the awards to vest such adjusted EPS growth must exceed inflation by an average of at least 8% per annum. The performance condition will be tested after three financial years and there will be no provision for retesting. To the extent the performance condition has not been met after three financial years, the relevant awards will lapse.

The Remuneration Committee will review the performance conditions each time performance share awards are granted under LTIP Part B in order to ensure that they remain challenging and may impose different conditions on share awards granted in subsequent years.

Details of the awards granted and outstanding during the year to the Executive Directors under the LTIP Part B and DASB are as follows:

Executive Director/Scheme	At 1 Jan 2008	Awarded in year	Lapsed in year[1]	At 31 Dec 2008	Share price at date of award	Earliest vesting date	Expiry date
Mark Harper							
LTIP Part B 'Matching'	126,902	–	126,902	–	240.75p	7 June 2008	6 June 2011
LTIP Part B 'Performance'	161,637	–	161,637	–	240.75p	7 June 2008	6 June 2011
LTIP Part B 'Performance'	141,533	–	–	141,533	318.00p	13 March 2009	12 March 2012
LTIP Part B 'Performance'	173,073	–	–	173,073	249.75p	2 March 2010	1 March 2013
LTIP Part B 'Performance'	–	325,581	–	325,581	150.50p	25 April 2011	24 April 2014
LTIP Part B 'Performance'	–	121,991	–	121,991	180.75p	28 August 2011	27 August 2014
DASB	48,993	–	–	48,993	292.00p	1 March 2009	1 March 2009
DASB	58,858	–	–	58,858	246.00p	1 March 2010	1 March 2010
DASB	–	114,499	–	114,499	189.75p	1 March 2011	1 March 2011
Steve Crummett							
LTIP Part B 'Performance'	–	146,179	–	146,179	150.50p	25 April 2011	24 April 2014
LTIP Part B 'Performance'	–	91,286	–	91,286	180.75p	28 August 2011	27 August 2014
DASB	–	29,191	–	29,191	189.75p	1 March 2011	1 March 2011
Steve Dryden							
LTIP Part B 'Matching'	102,474	–	102,474	–	240.75p	7 June 2008	6 June 2011
LTIP Part B 'Performance'	99,137	–	99,137	–	240.75p	7 June 2008	6 June 2011
LTIP Part B 'Performance'	84,246	–	84,246	–	318.00p	13 March 2009	12 March 2012
LTIP Part B 'Performance'	102,702	–	102,702	–	249.75p	2 March 2010	1 March 2013
DASB	27,503	–	27,503	–	292.00p	1 March 2009	1 March 2009
DASB	35,035	–	35,035	–	246.00p	1 March 2010	1 March 2010

1 Or date of leaving

A total of 1,841,949 (2007: 771,814) share incentive awards were granted to Executive Directors and nominated senior executives under the LTIP Part B and the DASB during the year ended 31 December 2008.

The middle market price of an ordinary share in the Company on 31 December 2008 was 136.75p. The middle market price of an ordinary share in the Company during the year ranged from 110.00p to 224.75p.

The remaining awards granted in 2006 and 2007 under LTIP Part B are subject to relative TSR performance targets. At the end of 2008 the awards granted in 2006 were ranked below median and the performance targets had not been met. If the performance targets are not met, the shares subject to those awards will not vest. For the awards granted in 2007 Filtrona is ranked between the median and upper quartile of the comparator group, which would indicate a vesting of 48.88% of options awarded.

The position may change depending on the Company's performance as at the date of the relevant third anniversary.

During the year LTIP Part B 'Performance' options awarded in June 2005 lapsed due to the performance targets not being met.

Long-Term Incentive Plan – Part A

The LTIP Part A provides for participants to receive share option awards over shares worth up to two times basic salary or £250,000 (whichever is the greatest) in any financial year, subject to performance conditions.

In accordance with the recommendations of the Remuneration Committee, Executive Directors and nominated senior executives are no longer receiving LTIP Part A share option awards (the last awards having been granted in 2007). Awards will continue to be made to other participants and the exercise price set equal to the share price at the date of the grant.

Corporate Governance

Report of the Remuneration Committee

During 2008 the Remuneration Committee reviewed the criteria being applied when quantifying the level of individual awards being granted. As a result the Committee has recommended that further emphasis be placed on the participant's contribution relative to the part of the Group in which they work in contrast to current performance of the Company as a whole.

A share option award will normally be exercisable between three and ten years following its grant, but only if the specified performance condition has been satisfied.

The performance conditions attached to previous LTIP Part A awards were based on the Company's earnings per share growth (adjusted to exclude items which did not reflect the Company's underlying financial performance and intangible amortisation) relative to inflation over three financial years, requiring such earnings per share growth to exceed inflation by an average of at least 3% per annum. The performance condition will be tested after three financial years and there will be no provision for retesting. To the extent the performance condition has not been met after three financial years, the relevant share option awards will lapse.

Save As You Earn scheme

In addition to the LTIP, the Company operates a Save As You Earn share option scheme ('SAYE'). During the year, the Company made its third award under the rules of the SAYE.

The Company has decided not to launch an SAYE award during 2009.

Mark Harper joined the SAYE in 2006 and Steve Crummett joined the SAYE in 2008 with both contributing the statutory maximum monthly amount of £250. Consequently neither are currently eligible to participate in any further invitations.

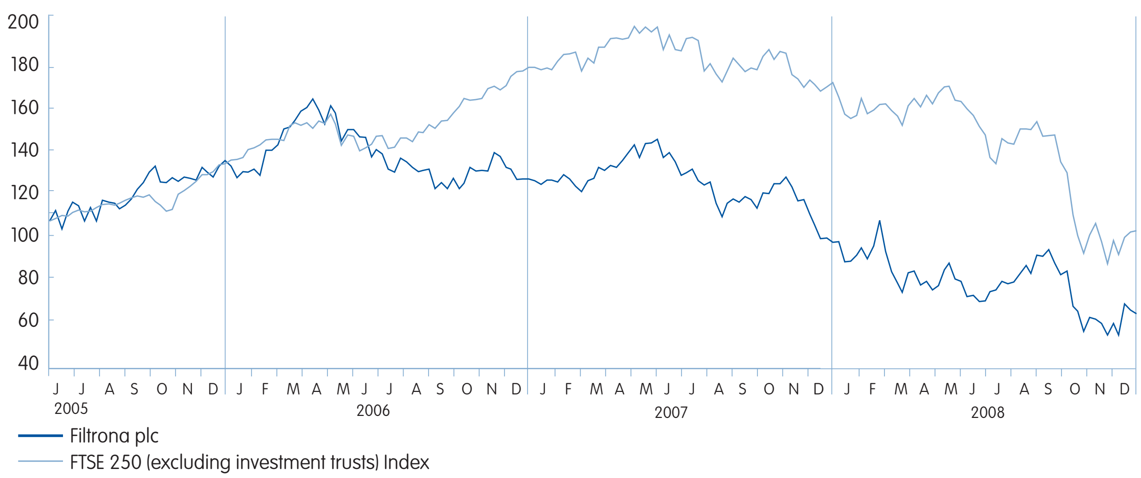
Details of the awards granted and outstanding during the year, to Executive Directors under the LTIP Part A and the SAYE are as follows:

Executive Director	At 1 Jan 2008	Awarded in year	Lapsed in year[1]	At 31 Dec 2008	Exercise price	Earliest vesting date	Expiry date
Mark Harper							
LTIP Part A	156,903	–	–	156,903	239.00p	23 June 2008	22 June 2015
LTIP Part A	148,380	–	–	148,380	254.75p	8 Sept 2009	7 Sept 2016
LTIP Part A	190,376	–	–	190,376	239.00p	31 August 2010	30 August 2017
SAYE	6,793	–	–	6,793	237.00p	1 May 2011	31 Oct 2011
Steve Crummett							
LTIP Part A	73,221	–	–	73,221	239.00p	31 August 2010	30 August 2017
SAYE	–	6,324	–	6,324	151.80p	1 May 2011	31 Oct 2011
Steve Dryden							
LTIP Part A	96,234	–	96,234	–	239.00p	23 June 2008	22 June 2015
LTIP Part A	88,321	–	88,321	–	254.75p	8 Sept 2009	7 Sept 2016
LTIP Part A	106,694	–	106,694	–	239.00p	31 August 2010	30 August 2017
SAYE	6,793	–	6,793	–	237.00p	1 May 2011	31 Oct 2011

1 Or date of leaving

Performance graph

The graph below represents the comparative TSR performance of the Company against the FTSE 250 (excluding investment trusts) Index from the date of the listing of the Company until 31 December 2008 (highlighting the intervening financial year-ends). The index has been selected as it is considered the most appropriate published general index in which the Company is a constituent.



Executive Directors' service contracts

The policy for senior executive service contracts is that notice periods will normally not exceed 12 months. Mark Harper has a service contract dated 12 May 2005 and Steve Crummett has a service contract dated 19 March 2008, both with a notice period of 12 months from either party. The service contracts for the Executive Directors are available for inspection by members at each AGM and during normal business hours at the Company's registered office.

The Remuneration Committee's policy in relation to termination of service contracts is to apply an appropriate level of mitigation, having regard to all of the circumstances of the individual and the termination of employment, and to any legal advice received. The Company has the right to make a payment in lieu of notice and any such payment may be made in monthly instalments at the Company's discretion and may be reduced to take into account any sums earned during the payment period by way of employment elsewhere.

Non-executive Directors

The Non-executive Directors do not have service contracts and do not participate in any Company pension, share or incentive scheme. In accordance with best practice, letters of appointment have been issued for all Non-executive Directors for an initial period of three years. These letters are available for inspection by members at each AGM and during normal business hours at the Company's registered office.

Fees for the Chairman are determined by the Remuneration Committee. Fees for Non-executive Directors, other than the Chairman, are approved by the Board in to accordance with the policy adopted by the Remuneration Committee, and are based on a standard fee, with additional fees payable to the Senior Independent Non-executive Director and for the chairing of the Audit and Remuneration Committees. The fees are set taking into account current market practice and the responsibilities and time commitment involved in the role. The fees were reviewed in December 2008 for the first time since December 2006. The fees will be subject to a further review in December 2009 in accordance with the policy for the remuneration of Non-executive Directors adopted by the Board.

	Chairman	Non-executive Director	Supplementary fee for Senior Independent Non-executive Director	Additional fee for chairing a Committee
Annual fee effective from 1 January 2009	£161,000	£37,000	£4,300	£8,700
Annual fee effective from 1 January 2008	£156,000	£34,000	n/a	£8,000

Pension schemes

Mark Harper is a member of the Filtrona Senior Pension Scheme ('FSPS') which entitles him to a pension at the date of retirement based on final salary. He accrues pension at the rate of 2.2% of final salary for each year of membership of the scheme and he contributes 9% of pensionable salary to the scheme. His normal retirement age is 60.

Steve Dryden was a member of the BRIS section of the Filtrona Pension Plan ('FPP').

The FSPS provides the following death benefits

	Death-in-service before NRD[1]	Death after retirement
Lump sum	Four times annual salary and a refund of member's contributions	Guaranteed pension (five years)
Spouse's pension	Up to 60% of member's pension entitlement as at NRD	Up to 60% of member's pension entitlement as at NRD
Dependants' pension	Share of spouse's pension if applicable	Share of spouse's pension if applicable

1 NRD – normal retirement date

Steve Crummett is a member of the Filtrona Pension Plan – Defined Contribution section (the 'DC plan') and he contributes 5% of his salary which the Company matches. The DC plan provides death benefits of four times annual salary. Steve also receives a supplementary payment of 20% of his salary to permit him to secure additional benefits and from this the Company deducts 5% employer matching contribution, payable to the DC plan.

Corporate Governance

Report of the Remuneration Committee

The table below shows the accrued pension in the scheme and plan to date in respect of Mark Harper and Steve Dryden, together with the transfer value of such accrued pensions:

	Gross increase in accrued pension £000	Increase in accrued pension net of inflation £000	Total accrued pension at 31 Dec 2008[1] £000	Value of net increase in accrual during the year £000	Value of accrued pension at 1 Jan 2008[2] £000	Value of accrued pension at 31 Dec 2008[2] £000	Total change in value during the year[3] £000
Mark Harper	28	19	246	323	3,671	4,796	1,080
Steve Dryden	–	–	26	(8)	186	227	39

1 For Mark Harper the accrued pension at 31 December 2008 is that which would be paid annually on retirement based on the assumption that service terminated at the year end. For Steve Dryden the accrued pension at 31 December 2008 is calculated based on the actual date that his service terminated, 31 March 2008
2 The value of the accrued pension is calculated on the current transfer value basis applicable to the FSPS and the FPP as appropriate and is not the actual cost of providing the pension
3 The change in the value of the accrued pension during the year includes the effect of fluctuations in the transfer value due to factors beyond the control of the Company. It is calculated in accordance with current legislation and is after the deduction of the Executive Directors' contributions during the year

Steve Dryden's departure from the FPP did not materially affect the plan.

Outside appointments
Executive Directors are permitted to accept up to two appropriate non-executive directorships offered by listed companies and other organisations, which provide industry experience or public service. Such outside appointments are subject to prior Board approval, taking into account existing duties or potential conflicts of interest. Mark Harper is a non-executive director of BBA Aviation plc and retains his fees of £50,000 per annum.

Directors' shareholdings
The interests (both beneficial and family interests) of the Directors in office at 31 December 2008, and the date of this report, in the issued ordinary share capital of the Company were as follows:

	At 31 Dec 2008	At 31 Dec 2007 or date of appointment
Jeff Harris	**51,651**	51,651
Mark Harper	**147,986[1]**	105,986[1]
Steve Crummett	**6,600**	–
Paul Drechsler	**18,519**	18,519
Adrian Auer	**7,500**	7,500
Lars Emilson	**7,500**	5,000

1 410 shares are held non-beneficially

The Executive Directors are regarded as being interested in 1,557,107 (2007: 1,557,107) ordinary shares in Filtrona plc currently held by the Filtrona Employee Benefit Trust ('EBT') as they are, together with other Filtrona 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 2008, dilution through employee related share plans totalled 4.08% which is well below UK institutional shareholder limits of 10% of the Company's issued share capital.

By order of the Board

Paul Drechsler
Chairman
Remuneration Committee
26 February 2009

Corporate Governance Report

Filtrona is committed to high standards of corporate governance, corporate responsibility and risk management throughout the Company. The Board is accountable to the Company's shareholders for the standards of governance which are maintained across Filtrona's diverse range of international businesses.

Compliance with the Combined Code

As a listed company, Filtrona confirms that throughout the year ended 31 December 2008 the Company has complied with the 2006 version of the Combined Code of Corporate Governance issued by the Financial Reporting Council (the 'Code').

The Company applies the Code's principles of openness, integrity and accountability through its own behaviour, by monitoring corporate governance best practice and by adopting appropriate recommendations of relevant professional bodies. The policies and procedures adopted by the Board and applicable to the Filtrona businesses are documented in a manual which sets out the roles and delegated authorities applying to the Board, the Executive Committee and the businesses. This manual is updated whenever necessary.

Board of Directors

The Board is collectively committed to promoting the success and strategic direction of the Company. The Board provides entrepreneurial leadership and stewardship to the businesses and management and takes responsibility for the strategic direction of the Company by the implementation and maintenance of its core values and governance controls.

The Board is of the view that it has a highly competent Chairman and that the people on the Board and executive teams are well equipped to drive, and capable of delivering on, the Company's strategy, proper and effective communication to employees, shareholders and other stakeholders, and the maintenance of effective controls for performance measurement controls and risk management systems.

The Board has adopted a schedule of matters which are required to be reviewed by it, including:

- group strategy
- approval of annual and half year results, and interim quarterly statements
- annual budgets
- treasury policies
- major capital and operating expenditure proposals, acquisitions and disposals
- health, safety and environmental policies
- appointments to the Board
- system of internal control
- dividend policy

The Board reviews the schedule of reserved matters annually and during 2008 concluded that the level of authorities delegated to the Executive Committee and the individual businesses remained appropriate within the overall control environment maintained by the Company.

Other specific responsibilities are delegated to the Audit, Nomination and Remuneration Committees which operate within clearly defined terms of reference approved by the Board and available on the website www.filtrona.com. These Committees report regularly to the Board.

During the year, there were eight scheduled Board meetings, together with an additional day of strategy discussions. In addition to the scheduled formal meetings, the Board met on an ad hoc basis as required for particular matters. The Chairman and Chief Executive maintain regular contact with the Directors and the Chairman also holds periodic informal discussions with the Non-executive Directors, without any of the Executive Directors being present, to review performance and monitor corporate control mechanisms.

The Chairman, in conjunction with the Company Secretary and General Counsel, sets the programme for the Board during the year. At each scheduled meeting, the Board considers a report from the Chief Executive on health and safety performance and current trading, a financial review from the Group Finance Director and other significant business issues such as acquisition proposals, other major investment plans, shareholder feedback, pension scheme liabilities, succession planning, and environmental performance. Additionally, the Board receives presentations and considers reports from senior management about matters of material importance to the Company. Board meetings are structured to allow open discussion and all Directors participate in determining the Group's strategy and regularly reviewing the trading and financial performance of the Company.

The internal procedures implemented by the Company to ensure the Board maintains overall control for all material strategic, financial, operational and compliance matters affecting the Company are included within the internal control section of this Report set out on page 61.

Composition of the Board

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. The Chief Executive is responsible for the executive management and performance of Filtrona's operations.

Corporate Governance Report

In the opinion of the Board, Paul Drechsler, Adrian Auer and Lars Emilson are each considered to be independent of management as detailed in the Code and there are no relationships or circumstances which would materially interfere with the exercise of their independent judgement.

The Board considers that the Non-executive Directors provide an independent view in Board discussions and 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 Filtrona.

The Board is content that the Non-executive Directors devote sufficient time to the business of Filtrona.

The letters of appointment for Non-executive Directors are available for review at the Company's registered office and prior to the Annual General Meeting ('AGM').

Paul Drechsler acts as the Senior Independent Non-executive Director. 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 Group Finance Director or where such contact is inappropriate.

The Articles of Association of the Company require one third of the Directors to retire from office each year and for all Directors to submit themselves for re-election on a date which is no more than three years from the date of their appointment or last re-appointment. The Directors retiring at the forthcoming AGM and submitting themselves for re-appointment are Jeff Harris and Steve Crummett.

Following the Board performance evaluation undertaken during the financial year, the Board is satisfied that each of the Directors being put forward for re-election, continue to be effective and that their ongoing commitment to the role is undiminished.

The following were Directors of the Company during the year and attended the following number of meetings during the year ended 31 December 2008:

		Board	Audit Committee	Nomination Committee	Remuneration Committee
Held		**8**	**4**	**3**	**4**
Attended					
Jeff Harris	Chairman	8	–	3	4
Mark Harper	Chief Executive	8	–	–	–
Steve Crummett[1]	Group Finance Director	6	–	–	–
Paul Drechsler	Senior Independent Non-executive Director	8	4	3	4
Adrian Auer	Non-executive Director	8	4	3	4
Lars Emilson	Non-executive Director	8	4	3	4
Steve Dryden[2]	Group Finance Director	2	–	–	–

1 Appointed 19 March 2008
2 Resigned 19 March 2008

Information and professional development

The Chairman with the Company Secretary and General Counsel takes responsibility for ensuring that the Directors receive accurate, timely and clear information. The agenda for each Board and Committee meeting is considered by the relevant Chairman and papers for each scheduled formal Board and Committee meeting are usually provided five clear working days beforehand. In addition, the Chairman maintains regular contact with the Executive Directors to discuss current trading and financial performance and other specific issues which may arise from time to time.

On appointment, Directors benefit from an induction programme tailored to their individual needs and designed to assist them in their understanding of Filtrona and its operations. The programme, which continues throughout a Director's tenure as necessary, includes details of fiduciary duties, Companies Act requirements, dealing restrictions as outlined in the Disclosure Rules and the Model Code on directors' dealings in securities contained in the Listing Rules of the Financial Services Authority, Board and business related matters, meetings with senior management, site visits and the opportunity to meet with major shareholders.

Directors are free to meet individual members of the senior management team and have done so during the year under review. The Board and its Committees receive briefings on legislative and regulatory developments and new accounting requirements as appropriate and believe that, given the experience and skills of its Directors, the identification of general training needs is best left to their individual discretion.

All Directors have access to the advice and services of the Company Secretary and General Counsel who is responsible to the Chairman for ensuring that Board procedures are complied with and that applicable rules and regulations are followed. During the year under review the Company Secretary and General Counsel's advice was sought in relation to share dealings. In 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.

Performance evaluation

In the two previous years since the Company's listing on the London Stock Exchange in June 2005, an annual evaluation of the Board's performance has been undertaken with an internal exercise led by the Company Secretary and General Counsel with the Chairman through the use of questionnaires supplied by an external organisation.

This year, to ensure the process remained relevant and challenging, an external facilitator was used to conduct individual interviews with each Director, and a number of senior managers who have regular contact with the Board. It was believed that this approach would enable the process to deal effectively with not only the procedural and administrative elements of how the Board operates but also some of the behavioural aspects of performance. The external facilitator also attended a Board meeting as an observer.

An independent report (the 'Board Evaluation') was prepared and presented to the Board and the relevant committees for discussion. The review found that the Board continues to operate effectively, but concluded that additional benefits could be derived from the Board enhancing the clarity of its focus on the key challenges facing the Group and improving its connection with the senior management team. Following the recommendations made within the Board Evaluation, the Board has taken steps to improve the management and communication of its priorities and objectives, both within and outside the Boardroom. As a result the Board believes that it is better able to facilitate open structured debate with the senior management team, including the respective heads of Filtrona's five divisions, which respects the challenges being faced by the Company and seeks to identify the key actions required to deliver the strategic objectives of the Group.

As part of the 2008 Board performance evaluation, the Chairman reviewed the performance of each of the individual Directors and the Directors (led by the Senior Independent Non-executive Director) also appraised the Chairman's performance without the Chairman being present. During the year the Non-executive Directors met without the Chairman present, under the direction of the Senior Independent Non-executive Director to appraise the Chairman's performance, having first sought the views of the Executive Directors. In addition, the Chairman held a private meeting with the Non-executive Directors to assess the performance of the Chief Executive.

The Audit, Nomination and Remuneration Committee each also had an evaluation on their work and effectiveness. The results were reported to the Board by the respective Chairmen. The reviews concluded that each Committee was operating effectively.

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 provides cover to the extent that the Director is proven to have acted dishonestly or fraudulently.

Board committees

Each Board committee has established clear and defined terms of reference detailing their responsibilities and powers. The terms of reference for each Board Committee are reviewed annually and are available on Filtrona's website at www.filtrona.com.

Audit Committee

The Audit Committee currently comprises Adrian Auer, who chairs the Committee, Paul Drechsler and Lars Emilson.

The Board is satisfied that Adrian Auer has recent and relevant financial experience.

A representative of the Company's external auditor ordinarily attends all meetings of the Audit Committee and the Group Finance Director and Group Head of Audit are normally invited to attend the meetings.

The Audit Committee met four times during the year and maintains a formal calendar of items that are to be considered by the Committee during the year. The timetable of these items are scheduled in accordance with the annual audit cycle.

During the year the Committee undertook the following work:

- Examined the full year financial statements and half year results, reviewing, challenging and approving the accounting policies, financial reporting issues and the judgement of the financial management
- Reviewed and considered reports from the Group Head of Audit including any issues relating to internal controls and the status of actions taken in response to any identified concerns
- Reviewed the performance of the internal audit function
- Reviewed the risk management processes including changes to the Risk Management Committee, and considered the key risks arising from the Company's activities and the response of senior management to those challenges

Corporate Governance Report

- Reviewed the progress made by the Company in its tax planning
- Reviewed the Company's whistleblowing policy to ensure that appropriate arrangements are in place for the proportionate and independent investigation and follow-up action of any concerns raised by employees in relation to financial reporting or other matters
- Assessed the qualifications, expertise, resources and independence of the external auditor and the effectiveness of the audit process. The conclusion enabled the Board to endorse the recommendation of the auditors put to the shareholders at the April 2008 AGM
- Reviewed and approved, as appropriate in accordance with the Committee's policy, proposals for the engagement of the external auditor for non-audit services
- Evaluated its own performance as part of the Board Evaluation and reviewed its terms of reference to ensure that they remained appropriate for the needs of the Company

The Audit Committee has a policy regarding the engagement of the external auditor to supply non-audit services. The policy recognises the importance of maintaining the objectivity and independence of the external auditor by minimising its involvement in projects of a non-audit nature. It is, however, also acknowledged that, due to its 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 and tax services.

The Audit Committee meets with the external auditor without the Company management being present and conducts an annual assessment of the performance of the external audit and the Company's internal audit function.

Nomination Committee

The Nomination Committee currently comprises Jeff Harris, who chairs the Committee, Paul Drechsler, Adrian Auer and Lars Emilson. The Chief Executive attends by invitation as appropriate.

The Nomination Committee is responsible for selecting and recommending candidates for appointment as Executive and Non-executive Directors of the Company. The Nomination Committee is also responsible for conducting an annual review of the register of notified interests, and any new interests, in accordance with the Company's conflicts of interest policy. The Nomination Committee meets as required and during 2008 it met three times.

In furtherance of these duties and when considering succession planning, the Nomination Committee looks at the balance, structure and composition of the Board and takes into account the future challenges and opportunities facing the Company. The selection process is, in the Board's view, both rigorous and transparent in order to ensure that appointments are made on merit and against objective criteria set by the Nomination Committee.

With the benefit of assistance from external advisers, the Nomination Committee made a recommendation to the Board regarding the appointment of Steve Crummett to the Board in March 2008. The Nomination Committee made recommendations to the Board for the reappointment of Jeff Harris as Non-executive Chairman and Paul Drechsler and Adrian Auer as Non-executive Directors following the expiry of their initial three year term of appointment in May 2008. The Nomination Committee is engaged in the process for the recruitment of a new Non-executive Director following the notification of Adrian Auer's resignation.

Remuneration Committee

The Remuneration Committee currently comprises Paul Drechsler, who chairs the Committee, Adrian Auer and Lars Emilson. The composition and role of the Remuneration Committee is described more fully in the Report of the Remuneration Committee on pages 48 to 56.

Shareholder communications

The Company communicates regularly with its major institutional shareholders and ensures that all the Directors, including the Non-executive Directors, have an understanding of the views and concerns of major shareholders and are able to explain business developments and financial results as appropriate. The Chief Executive and Group Finance Director have primary responsibility for investor relations. Presentations for analysts and institutional shareholders were held during the year and meeting were held with key institutional investors to discuss strategy, financial performance and investment activities. Slide presentations, made to institutional shareholders immediately after the full year and half year results are also available on the Company's website www.filtrona.com to view and download.

All shareholders have the opportunity to meet any of the Directors of the Company should they so wish.

Feedback from meetings with shareholders is provided to the Board to enable them to gain a balanced understanding of the issues and concerns of major shareholders.

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 will be 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, Nomination and Remuneration Committees are available to answer questions from shareholders.

The Notice of the Annual General Meeting and related papers will be posted to shareholders more than 20 working days before the AGM.

Internal control

In accordance with the Code, the Board acknowledges its responsibility to ensure that an adequate system of internal controls is in place.

Filtrona's internal systems and controls are designed to safeguard the Company's assets and to ensure the integrity and reliability of information used both within the businesses and for public announcements. The Board has overall responsibility for the Company's system of internal control and risk management and for reviewing the effectiveness of this system. Such a system can only be designed to manage, 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.

Operational matters and the responsibility for the day-to-day management of the businesses are delegated to the Chief Executive supported by the Executive Committee and to the respective Divisional Managing Directors or Presidents as appropriate within delegated authority limits and in accordance with clearly defined systems of control.

The Executive Committee, which meets at least twice per month, is made up of the Chief Executive, the Group Finance Director, the Company Secretary and General Counsel and the Director of Group Human Resources. All Directors receive copies of the minutes from each Executive Committee meeting and the monthly reports submitted by the individual business divisions.

Following one of the recommendations made during the 2008 Board Evaluation the Company established a Group Operating Committee (the 'GOC') which superseded the Global Executive. The GOC consists of the Executive Committee members and the Divisional Managing Directors or Presidents, as appropriate. The GOC meets monthly to discuss health and safety performance, risk management, business performance, employee-related matters, including succession planning, and key operational and financial management issues across Filtrona's international businesses. Biographies of the GOC members demonstrating the range of management expertise within the Company's senior executive team appear on pages 40 to 41.

In accordance with one of the other recommendations arising out of the Board Evaluation, the members of the GOC will be participating in a leadership development programme in conjunction with an external service provider. This programme is intended to support the GOC team in planning their individual development in alignment with the delivery of Filtrona's strategic objectives and should serve to provide Non-executive Directors with further visibility on the skills and resources available within the GOC and how they function together.

Policies and procedures, which are subject to ongoing review and updated as required, are communicated across the Company and designed to ensure significant risks, investment decisions and management issues are identified, considered and escalated as necessary at the earliest opportunity. Divisional Managing Directors and Presidents are responsible for ensuring the communication of and compliance with Filtrona's internal controls across their respective divisions.

The Board believe that this management structure ensures a strong link between Filtrona's overall corporate strategy and its implementation within an effective control environment.

Control of significant risks

The Board is of the view that a rigorous ongoing process for identifying, evaluating and managing significant risks faced by the Company was in place throughout 2008 and up to the date of approval of the Annual Report 2008. This process is regularly reviewed by the Board with the assistance of the Audit Committee and accords with the internal control guidance for Directors as required by the Code.

A Risk Management Committee ('RMC'), which during 2008 consisted of the Executive Directors, the Company Secretary and General Counsel, the Director of Group Human Resources, the Group Head of Audit and the Head of Tax and Treasury, meets at least four times each year and otherwise as necessary. All Directors receive copies of the minutes from each RMC meeting.

During the course of the year, the Company Secretary and General Counsel was appointed Chairman of the RMC as the Company took steps to ensure its internal control mechanisms incorporated an appropriate separation of powers and division of responsibilities, particularly in relation to financial management and reporting issues.

The RMC enhances management's ability to review and monitor the effectiveness of risk control on a regular basis. The terms of reference of the RMC include supporting corporate governance requirements, recommending business risk strategy and developing policies and procedures for risk management and internal controls. They also include the monitoring of the effectiveness of internal controls and the design of processes to test the effectiveness of controls. During 2008, the RMC implemented changes to refresh the Company's approach to risk management and to assist in the recognition of, and response to, new and emerging risks in the light of challenging trading conditions and recessionary trends.

Risk review is a continuing process embedded within the businesses with divisional executives required to include risk management on agendas for their regular management meetings and to report to the RMC on actions taken to review the effectiveness of their controls. Businesses are also required to have processes to formally identify risks, consider their financial and non-financial implications and, so far as possible, take action to reduce those risks. The process includes the maintenance of a register for identifying and evaluating the Group's significant risks and the related financial, operational and compliance controls. The Audit Committee reviews the identified key risks, changes in their status or the composition of the risk matrix regularly.

Corporate Governance Report

The RMC also reviews the environmental, social and employee issues prevalent within the Group when considering its risk management processes.

The Company has an internal audit department. The resources of this department are augmented with independent expert external resources wherever necessary to review risk and monitor compliance with the Company's policies and procedures across its international operations. Accordingly the resources of the department, together with the additional available resources, are considered adequate.

The Audit Committee regularly reviews the effectiveness of internal controls based on the processes implemented by the Executive Committee and the RMC. At each meeting the Audit Committee receives a presentation from the Group Head of Audit and the Chairman of the RMC on the steps taken to identify and reduce risks and actions designed to increase the awareness of both risk management and the importance of having effective internal controls across the businesses.

Certain specific administrative functions are controlled centrally by the Company. Taxation, treasury and insurance functions report to the Board via the Group Finance Director. The legal and governance compliance functions report to the Board via the Company Secretary and General Counsel, whilst the Chief Executive, supported by the Director of Group Human Resources and the Company Secretary and General Counsel, reports to the Board on corporate responsibility issues. Policies and processes are in place to ensure that the activities undertaken in relation to all such matters are designed to reduce the risk profile of the Company.

The Company operates a comprehensive budgeting and financial reporting system. Annual budgets are reviewed and approved at both divisional and corporate level. This process includes the analysis of significant risks relating to market trends and operational performance. Monthly performance is reported against budget and the prior year and forecasts are updated as appropriate. Monthly management accounts analyse and explain variances and report on performance indicators, with detailed explanations for variances and movements on updated forecasts being reviewed by the Board.

The Audit Committee and the Remuneration Committee review the arrangements by which employees of the Company may, in confidence, raise concerns about financial reporting or other matters in accordance with the Company's whistleblowing policy.

Financial reporting

The Directors have acknowledged, in the Directors' Responsibilities Statement set out on page 47, their responsibility for preparing the financial statements of the Company and the Group. The external auditor has included, in the Independent Auditor's Report set out on pages 99 to 100, a statement about their reporting responsibilities.

The Directors are also responsible for the publication of unaudited quarterly interim management statements and half year results as required by the Disclosure and Transparency Rules of the Financial Services Authority providing an explanation of material events and transactions that have taken place during the relevant period and their impact on the financial position of the Company and the Group and a general description of the financial position and performance of the Company and the Group during the relevant period.

Going concern

Information on the business environment Filtrona operates in, including factors likely to affect its future development, is included in the Business Review on pages 10 to 39.

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. In addition, note 1 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 included in note 21 to the financial statements.

As highlighted in note 1, the Group's financing facility of £215 million matures in May 2010. The Group's forecasts and projections, taking into account reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current financing facility. In addition, the Group has opened negotiations with certain banks regarding future borrowing facilities and no matters have been drawn to its attention that suggest that a renewal may not be forthcoming.

After making appropriate enquiries, the Directors consider that the Company and the Group have adequate resources to remain in operation for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Financial Statements

Consolidated Income Statement
for the year ended 31 December 2008

	Note	2008 £m	2007 £m
Revenue	2	**526.4**	494.2
Operating profit before intangible amortisation and exceptional acquisition fees (2007: intangible amortisation and restructuring costs)		**65.0**	64.4
Intangible amortisation		**(2.0)**	(1.5)
Exceptional acquisition fees (2007: restructuring costs)		**(1.3)**	(5.0)
Operating profit	2,3	**61.7**	57.9
Finance income	4	**11.5**	9.6
Finance expense	4	**(18.3)**	(15.8)
Profit before tax		**54.9**	51.7
Income tax expense	5	**(18.5)**	(17.6)
Profit from continuing operations		**36.4**	34.1
Profit from discontinued operations	24	**–**	2.0
Profit for the year		**36.4**	36.1
Attributable to:			
Equity holders of Filtrona plc		**35.3**	34.1
Minority interests		**1.1**	2.0
Profit for the year		**36.4**	36.1
Earnings per share attributable to equity holders of Filtrona plc:			
Basic	7	**17.3p**	15.8p
Diluted	7	**17.2p**	15.6p
Earnings per share from continuing operations attributable to equity holders of Filtrona plc:			
Basic	7	**17.3p**	15.3p
Diluted	7	**17.2p**	15.1p

Financial Statements

Consolidated Balance Sheet
at 31 December 2008

	Note	2008 £m	2007 £m
Assets			
Property, plant and equipment	8	**210.5**	170.7
Intangible assets	9	**132.2**	87.2
Deferred tax assets	16	**1.1**	0.3
Other receivables	1,11	**8.4**	8.1
Total non-current assets		**352.2**	266.3
Inventories	10	**78.5**	55.2
Income tax receivable		**5.9**	2.3
Trade and other receivables	1,11	**88.4**	71.7
Derivative assets	1,15	**5.3**	0.2
Cash and cash equivalents	1,12	**21.3**	23.8
Total current assets		**199.4**	153.2
Total assets		**551.6**	419.5
Equity			
Issued capital	19	**54.8**	54.8
Capital redemption reserve	20	**0.1**	0.1
Other reserve	20	**(132.8)**	(132.8)
Cash flow hedging reserve	20	**(8.0)**	(0.3)
Translation reserve	20	**26.3**	1.9
Retained earnings	20	**220.2**	211.6
Attributable to equity holders of Filtrona plc		**160.6**	135.3
Minority interests	20	**7.0**	4.8
Total equity		**167.6**	140.1
Liabilities			
Interest bearing loans and borrowings	1,14	**198.1**	157.8
Derivative liabilities	1,15	**2.7**	–
Retirement benefit obligations	18	**37.4**	22.3
Income tax payable		**0.6**	0.9
Provisions	17	**4.6**	4.5
Deferred tax liabilities	16	**13.8**	12.3
Total non-current liabilities		**257.2**	197.8
Bank overdrafts	1,12	**–**	0.2
Interest bearing loans and borrowings	1,14	**5.3**	1.0
Derivative liabilities	1,15	**17.0**	1.8
Income tax payable		**15.2**	11.5
Trade and other payables	1,13	**86.3**	65.0
Provisions	17	**3.0**	2.1
Total current liabilities		**126.8**	81.6
Total liabilities		**384.0**	279.4
Total equity and liabilities		**551.6**	419.5

The financial statements on pages 63 to 94 were approved by the Board of Directors on 26 February 2009 and were signed on its behalf by:

Mark Harper
Chief Executive

Steve Crummett
Group Finance Director

Consolidated Statement of Cash Flows
for the year ended 31 December 2008

	Note	2008 £m	2007 £m
Operating activities			
Profit before tax from continuing operations		**54.9**	51.7
Adjustments for:			
Net finance expense	4	**6.8**	6.2
Intangible amortisation	3	**2.0**	1.5
Exceptional acquisition fees (2007: restructuring costs)	3	**1.3**	5.0
Depreciation	3	**22.2**	20.4
Share option expense	18	**1.6**	1.7
Increase in inventories		**(7.3)**	(1.4)
Decrease in trade and other receivables		**0.3**	8.0
Increase/(decrease) in trade and other payables		**6.5**	(0.4)
Exceptional acquisition fees (2007: restructuring costs) paid		**(1.3)**	(4.5)
Additional pension contributions		**(7.0)**	(2.0)
Other cash movements		**–**	(1.3)
Cash inflow from operating activities of continuing operations		**80.0**	84.9
Income tax paid		**(15.5)**	(20.7)
Net cash inflow from operating activities of discontinued operations		**–**	3.3
Net cash inflow from operating activities		**64.5**	67.5
Investing activities			
Interest received		**0.9**	0.3
Acquisition of property, plant and equipment		**(22.8)**	(25.0)
Proceeds from sale of property, plant and equipment		**0.1**	0.6
Acquisition of businesses net of cash acquired	23	**(20.5)**	(31.5)
Proceeds from sale of businesses	24	**2.3**	12.9
Income tax paid on sale of businesses		**–**	(1.0)
Net cash outflow from investing activities of continuing operations		**(40.0)**	(43.7)
Net cash outflow from investing activities of discontinued operations		**–**	(2.6)
Net cash outflow from investing activities		**(40.0)**	(46.3)
Financing activities			
Interest paid		**(8.1)**	(7.2)
Dividends paid to equity holders	20	**(15.9)**	(15.5)
Dividends paid to minority interests	20	**(0.3)**	(0.7)
Cash outflows on matured derivatives classified as hedges of net investments		**(19.8)**	(3.5)
Proceeds from short-term loans		**4.1**	0.9
Proceeds from long-term loans		**5.6**	41.1
Acquisition of employee trust shares	20	**–**	(1.7)
Purchase of own shares into treasury	20	**–**	(30.6)
Net cash outflow from financing activities of continuing operations		**(34.4)**	(17.2)
Net cash outflow from financing activities of discontinued operations		**–**	(0.6)
Net cash outflow from financing activities		**(34.4)**	(17.8)
Net (decrease)/increase in cash and cash equivalents	21	**(9.9)**	3.4
Net cash and cash equivalents at the beginning of the year		**23.6**	19.7
Net (decrease)/increase in cash and cash equivalents		**(9.9)**	3.4
Net effect of currency translation on cash and cash equivalents		**7.6**	0.5
Net cash and cash equivalents at the end of the year	1,12	**21.3**	23.6

Financial Statements

Consolidated Statement of Recognised Income and Expense

for the year ended 31 December 2008

	Note	2008 £m	2007 £m
Actuarial (losses)/gains on defined benefit pension schemes	18	**(18.1)**	6.9
Deferred tax income/(expense) on actuarial (losses)/gains on defined benefit pension schemes	16	**5.7**	(2.4)
Effective portion of changes in fair value of cash flow hedges:			
Losses to equity	20	**(7.7)**	(0.3)
Foreign exchange translation differences:			
Transferred to profit on disposal of discontinued operations	24	**–**	(5.0)
Attributable to equity holders of Filtrona plc		**24.4**	4.8
Attributable to minority interests		**1.4**	0.5
Net income recognised directly in equity		**5.7**	4.5
Profit for the year		**36.4**	36.1
Total recognised income and expense		**42.1**	40.6
Attributable to:			
Equity holders of Filtrona plc		**39.6**	38.6
Minority interests		**2.5**	2.0
Total recognised income and expense		**42.1**	40.6

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 EU in accordance with EU law (IAS Regulation EC 1606/2002) ('adopted IFRS'). The Company has elected to prepare its individual company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice ('UK GAAP'); these are presented on pages 95 to 98.

The financial statements are prepared on a historical cost basis except for derivatives which are stated at fair value.

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.

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

The following standard was adopted by the Group during the year:

IFRIC 14: IAS 19: *The limit on a defined benefit asset, minimum funding requirements and their interactions* (effective for annual periods beginning on or after 1 January 2008)

This clarifies the requirements of IAS 19: *Employee Benefits* ('IAS 19' revised) paragraph 58, which limits the measurement of a defined benefit asset to the 'present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan' plus unrecognised net actuarial losses and past service cost. The Group, together with its actuaries, has considered the implication of this when measuring its retirement benefit obligation for the year ended 31 December 2008 and have concluded that it has no impact.

The following standards or interpretations have not yet been adopted by the Group:

IFRS 8: *Operating segments* (effective for annual periods beginning on or after 1 January 2009)

This standard contains requirements for the disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates and its major customers. The standard is concerned only with disclosure and replaces IAS 14: *Segment reporting*. The Group is currently assessing the impact of this standard on its financial statements.

IFRS 3 (2008): *Business combinations* ('IFRS 3') (effective for annual periods beginning on or after 1 July 2009)

This standard and its amendments widen the scope of IFRS 3 (2004) and impact the way that business combinations are accounted for including the treatment of contingent consideration and transaction costs. The Group will consider the implication of the revised IFRS 3 standard when assessing the accounting for any potential future acquisitions.

This standard has not yet been endorsed for use within the EU.

Amendment to IFRS 2: *Share based payments* (effective for annual periods beginning on or after 1 January 2009)

The definition of vesting conditions in the standard has been amended to clarify that vesting conditions are limited to service conditions and performance conditions. Conditions other than service or performance conditions are considered to be non-vesting. The Group does not expect this amendment to have a significant impact on the accounting for existing and future share option schemes.

For the purposes of these financial statements 'Filtrona' or the 'Group' means Filtrona plc (the 'Company') and its subsidiaries.

The Consolidated Financial Statements have been prepared on a going concern basis the statement of which can be found on page 62.

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 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 financial statements.

c Foreign currency

Items included in the financial statements of the Group's subsidiaries are measured using the primary currency in which the entity operates (functional currency). The consolidated financial statements are prepared in sterling (functional currency of 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 derivatives).

(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.

(iii) Net investment in foreign operations

Exchange differences on retranslation at the closing rate of the opening balances of overseas entities are taken to reserves, 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.

Accounting Policies continued

d Derivatives

In accordance with IAS 39: *Financial instruments: recognition and measurement* ('IAS 39'), derivatives are measured initially at fair value. The subsequent measurement depends on the classification of the derivative. 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.

(i) 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 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 affects profit or loss. 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 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.

(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 and residual values 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 of acquisition and 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.

(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) Other intangible assets

Intangible assets acquired in a business combination are recognised on acquisition and recorded at fair value. These principally relate to customer relationships which are 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.

i Impairment

All assets, except intangible assets, deferred tax assets and inventories, are reviewed annually to determine whether there is any indication of impairment. Goodwill and intangible assets with indefinite lives 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 a non-financial 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 post-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 form an integral part of Filtrona's cash management and are included as part of cash and cash equivalents in the statement of cash flows.

l 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 rate method. Any difference between the proceeds, net of transaction costs, and the settlement or redemption of borrowings is recognised over the term of the borrowings using the effective interest rate method.

m Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows less impairment losses.

n Trade and other payables

Trade payables are non-interest bearing and are recognised initially at fair value and subsequently at amortised cost.

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.

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 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, 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.

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.

p 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.

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

r 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.

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

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

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.

t 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, Monte Carlo or binomial valuation models as appropriate 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 with the exception of options that fail to vest because market-based conditions are not met.

u One-off items in the consolidated income statement
(i) Exceptional acquisition fees
During the fourth quarter of 2008, Filtrona withdrew from a significant potential acquisition at an advanced stage and had to expense £1.3m of professional adviser fees which would otherwise have been treated as part of the consideration for the acquisition.

(ii) Restructuring costs
The restructuring of Filtrona's operations in 2007 gave rise to considerable incremental one-off costs. The most significant component of these restructuring costs was redundancy payments. Filtrona views significant restructuring costs as an expense associated with investment in the future performance of the business and not part of the trading performance.

These costs had a material impact on the absolute amount of, and trend in, Filtrona's operating profit and operating margin. Therefore they were shown as a separate line item within operating profit on the face of the income statement in order for the reader to obtain a proper understanding of the financial information.

v Investment in own shares
The shares held 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. The cost of shares held directly (treasury shares) is 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 economic resources that will be required to settle the obligation.

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

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

z Discontinued operations
In 2007 Filtrona disposed of Globalpack and this was classified as a discontinued operation in accordance with IFRS 5: *Non-current assets held for sale and discontinued operations*. The profit after tax of Globalpack, including profit on disposal, was disclosed as a single line item in the income statement and similarly the cash flows were also disclosed as a single line item in each of the categories in the statement of cash flows.

Critical Accounting Policies

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 Filtrona's performance and financial position.

i Pensions
Filtrona accounts for its defined benefit pension schemes in accordance with IAS 19 (revised). The application of IAS 19 (revised) requires the exercise of judgement in relation to the assumptions used (see note 18) and for each assumption there is a range of possible outcomes. In consultation with Filtrona's actuaries, management decides the point within those ranges that most appropriately reflects Filtrona's circumstances. Small changes to these assumptions can have a significant impact on valuations.

ii 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. 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.

Goodwill is not amortised but is tested annually for impairment. Tests for impairment are based on discounted cash flows and assumptions (including discount rates, timing and growth prospects) which are inherently subjective.

iii Taxation
Filtrona is required to use management judgement to estimate the corporate tax in each of the jurisdictions in which it operates. This requires 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.

iv Provisions
Filtrona's provisions are based on management's best estimate of exposure based on currently available information. By their nature these provisions are judgemental.

Notes

1. Risk management
Filtrona's activities expose the business to a number of key risks which have the potential to affect its ability to achieve its business objectives. The principal risks faced by Filtrona and management's response thereto are summarised in the Business Review on pages 32 to 33.

The Board has overall responsibility for Filtrona's system of internal control and risk management and for reviewing the effectiveness of this system. Such a system can only be designed to manage, 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.

Filtrona has a centralised treasury department 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. Filtrona 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 department is subject to periodic independent reviews by the internal audit department. Underlying policy assumptions and activities are reviewed by the Executive Directors.

Controls over exposure changes and transaction authenticity are in place and dealings are restricted to those banks with the relevant combination of geographic presence, expertise and suitable credit rating.

The following describes Filtrona'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. Filtrona has no significant individual concentrations of credit risk. The following is an overview of how Filtrona manages its credit risk exposures.

Trade and other receivables
Filtrona'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, which is wide and diverse. Filtrona monitors significant customers' credit limits and there is an allowance for impairment that represents the estimate of potential losses in respect of trade and other receivables. The components of this allowance are a specific allowance for individual losses and a collective allowance for losses that have been incurred but not yet identified. The collective allowance is determined based on historical experience.

Trade and other receivables are generally due from customers who are unlikely to seek credit ratings as part of their normal course of business. The following table provides information on the trade and other receivables' credit risk exposure.

	2008 £m	2007 £m
Not impaired or past due:		
New customers (less than one year)	**4.4**	4.6
Existing customers (more than one year) with no defaults in the past	**58.1**	45.1
1–30 days past due not impaired	**11.2**	10.0
31–60 days past due not impaired	**2.5**	1.7
61–90 days past due not impaired	**0.5**	0.7
More than 90 days past due not impaired	**0.6**	0.5
Impaired	**0.9**	1.0
	78.2	63.6

Trade and other receivables carried at £96.8m (2007: £79.8m) include prepayments and accrued income of £6.9m (2007: £5.6m) which are not financial assets. Therefore, these amounts are excluded from the above analysis. Trade and other receivables also include deferred consideration of £11.7m (2007: £10.6m) due from the Itavema Group for the purchase of the Globalpack business. This amount is also excluded as it is included in the credit ratings analysis below.

During the year impairment losses on trade and other receivables of £0.8m (2007: £0.6m) have been recognised within net operating expense.

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.

Notes continued

1. **Risk management** continued

Cash and cash equivalents

Credit risk relating to cash and cash equivalents is monitored regularly 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. Filtrona monitors the credit ratings of counterparties.

The following credit risk table provides information regarding the credit risk exposure of Filtrona by classifying deferred consideration, derivative assets and cash and cash equivalents according to credit ratings of the counterparties. AAA is the highest possible rating and all of the assets are neither impaired nor past due.

2008	AAA £m	AA £m	A £m	BBB £m	BB £m	B £m	Not rated £m	Total £m
Deferred consideration	–	11.7	–	–	–	–	–	**11.7**
Derivative assets	–	5.3	–	–	–	–	–	**5.3**
Cash and cash equivalents	0.8	8.4	9.9	0.8	–	–	1.4	**21.3**
	0.8	**25.4**	**9.9**	**0.8**	**–**	**–**	**1.4**	**38.3**

2007	AAA £m	AA £m	A £m	BBB £m	BB £m	B £m	Not rated £m	Total £m
Deferred consideration	–	10.6	–	–	–	–	–	10.6
Derivative assets	–	0.2	–	–	–	–	–	0.2
Cash and cash equivalents	0.1	11.4	9.4	1.6	0.1	0.4	0.8	23.8
	0.1	22.2	9.4	1.6	0.1	0.4	0.8	34.6

Filtrona's maximum credit risk exposure is £116.5m (2007: £98.2m) and no collateral is held against this amount (2007: £nil).

(ii) Market risk

Market risk is the risk that changes in foreign exchange rates and interest rates will affect income or the value of financial assets and liabilities. Filtrona has produced a sensitivity analysis that shows the estimated change to the income statement and equity of either a 1%, 5% or 10% weakening or strengthening in sterling against all other currencies or an increase or decrease of 50 basis points ('bp') 100bp and 200bp in market interest rates. The amounts generated from the sensitivity analysis are estimates and actual results in the future may materially differ.

Filtrona is exposed to two types of market risk; currency risk and interest rate risk.

a) Currency risk

Filtrona 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 Filtrona'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 Group has significant net assets and by using forward foreign exchange contracts. However, in response to the significant weakening of sterling against particularly the US dollar and euro in the fourth quarter of 2008 and to reduce the effect of currency movements on the Group's net debt, the Company temporarily suspended its normal policy and repaid substantially all of its US dollar and euro denominated financial liabilities and replaced them with sterling denominated debt. As a result, at 31 December 2008, Filtrona's net assets were exposed to the impact of foreign currency translation.

Transaction exposure hedging

The majority of Filtrona's transactions are carried out in the functional currencies of its operations and so transaction exposure is limited. However, where they do occur, Filtrona 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 15 months.

Filtrona 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 deferred in equity until the forecast transaction occurs, at which point the gains and losses are recycled either to the income statement or to the non-financial asset acquired.

The following table shows Filtrona'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 some US dollar (2007: all 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 be 100% effective.

1. **Risk management** continued
a) Currency risk continued

	Weakening in sterling			Strengthening in sterling		2008
	10% £m	**5% £m**	**1% £m**	**1% £m**	**5% £m**	**10% £m**
Impact on the income statement – gain/(loss)	**4.3**	**2.0**	**0.4**	**(0.4)**	**(1.8)**	**(3.5)**
Impact on equity – gain/(loss)	**35.5**	**16.8**	**3.2**	**(3.2)**	**(15.2)**	**(29.0)**

	Weakening in sterling			Strengthening in sterling		2007
	10% £m	5% £m	1% £m	1% £m	5% £m	10% £m
Impact on the income statement – gain/(loss)	3.8	1.9	0.3	(0.3)	(1.8)	(3.1)
Impact on equity – gain/(loss)	8.7	4.0	0.8	(0.8)	(3.7)	(7.1)

b) Interest rate risk
Filtrona's strategy is to ensure with a reasonable amount of certainty that at least 50% of the overall net finance expense is protected against material adverse movements in interest rates using interest rate swaps and caps.

As a result of the temporary suspension of the normal net investment hedging policy in the fourth quarter of 2008, Filtrona repaid substantially all of its US dollar and euro denominated financial liabilities and replaced them with sterling denominated debt. Consequently, most of the Company's US dollar and euro interest rate swaps and caps in place at 31 December 2008 were no longer effective in providing protection against increases in interest rates. No sterling interest rate caps or swaps were taken out, and as a result, at 31 December 2008, Filtrona was exposed to the impact of any material adverse movements in sterling interest rates.

The following table shows Filtrona's sensitivity to a 50bp, 100bp and 200bp 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 interest bearing loans and deposits have been increased or decreased by 50bp, 100bp or 200bp and the resulting increase or decrease in the net interest charge has been adjusted for the effect of Filtrona's interest rate derivatives. The effect on equity includes the above impact on the income statement and the impact of a 50bp, 100bp or 200bp decrease or increase in interest rates on the market values of Filtrona's interest rate derivatives. The impact on derivatives is estimated by discounting the future cash flows to net present values using appropriate market rates prevailing at the year end.

	Decrease in interest rates			Increase in interest rates		2008
	200bp £m	**100bp £m**	**50bp £m**	**50bp £m**	**100bp £m**	**200bp £m**
Impact on the income statement – gain/(loss)	**3.6**	**1.8**	**0.9**	**(0.8)**	**(1.6)**	**(3.2)**
Impact on equity – gain/(loss)	**3.4**	**1.6**	**0.8**	**(0.7)**	**(1.4)**	**(2.8)**

	Decrease in interest rates			Increase in interest rates		2007
	200bp £m	100bp £m	50bp £m	50bp £m	100bp £m	200bp £m
Impact on the income statement – gain/(loss)	2.0	1.0	0.5	(0.4)	(0.7)	(1.3)
Impact on equity – gain/(loss)	1.5	0.7	0.4	(0.3)	(0.3)	–

See note 14 for interest rate disclosure on loans and borrowings.

(iii) Liquidity risk
Liquidity risk is the risk that Filtrona, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due.

Filtrona's objective is to maintain a balance between continuity of funding and flexibility. Filtrona is mostly funded by a multi-currency syndicated £215m facility from its bankers. The syndicated facility matures in May 2010. In addition, during the year, the Company put in place additional bilateral facilities totalling US$40m, which mature in November 2009. At 31 December 2008 the available bank facilities totalled £242.8m of which £198.1m was drawn down. In addition, uncommitted and overdraft facilities are maintained to provide short-term flexibility.

Amounts drawn by Filtrona on its committed facilities are subject to standard banking covenants.

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

	2008 £m	2007 £m
Expiring within one year	**27.8**	–
Expiring after one but within two years	**16.9**	–
Expiring after two years	**–**	57.2
	44.7	57.2

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

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1. Risk management continued

The maturity of Filtrona's financial liabilities is analysed below.

	2008 <1 yr £m	2008 1–2 yrs £m	2008 2–5 yrs £m	2008 Total £m	2007 <1 yr £m	2007 1–2 yrs £m	2007 2–5 yrs £m	2007 Total £m
Unsecured bank loans	5.3	198.1	–	**203.4**	1.0	–	157.8	158.8
Bank overdrafts	–	–	–	**–**	0.2	–	–	0.2
Derivative liabilities	17.0	1.5	1.2	**19.7**	1.8	–	–	1.8
Trade and other payables	60.0	–	–	**60.0**	41.7	–	–	41.7
	82.3	**199.6**	**1.2**	**283.1**	44.7	–	157.8	202.5

Trade and other payables carried at £86.3m (2007: £65.0m) include accruals and deferred income of £26.3m (2007: £23.3m) which are not financial liabilities. Therefore, these amounts are excluded from the above analysis.

All trade and other payables are due to be settled in less than six months.

Total financial assets and liabilities

The table below sets out Filtrona's accounting categories and fair value for each class of financial asset and liability.

	2008 Fair value £m	2008 Loans and receivables £m	2008 Amortised cost £m	2008 Total carrying and fair value £m	2007 Fair value £m	2007 Loans and receivables £m	2007 Amortised cost £m	2007 Total carrying and fair value £m
Trade and other receivables	–	89.9	–	**89.9**	–	74.2	–	74.2
Derivative assets	5.3	–	–	**5.3**	0.2	–	–	0.2
Cash and cash equivalents	–	21.3	–	**21.3**	–	23.8	–	23.8
Interest bearing loans and borrowings	–	–	(203.4)	**(203.4)**	–	–	(158.8)	(158.8)
Bank overdrafts	–	–	–	**–**	–	–	(0.2)	(0.2)
Derivative liabilities	(19.7)	–	–	**(19.7)**	(1.8)	–	–	(1.8)
Trade and other payables	–	–	(60.0)	**(60.0)**	–	–	(41.7)	(41.7)
	(14.4)	**111.2**	**(263.4)**	**(166.6)**	(1.6)	98.0	(200.7)	(104.3)

(iv) Capital structure

Filtrona 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 for shareholders and benefits for other stakeholders.

Filtrona sets the amount of capital in proportion to risk. Filtrona 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, Filtrona may return capital to shareholders, through dividends and share buy backs as it did in 2007, issue new shares or sell assets to reduce debt.

Filtrona monitors its capital structure on the basis of the medium-term net debt-to-EBITDA ratio. EBITDA is defined as operating profit before depreciation, share option expense, intangible amortisation and exceptional acquisition fees (2007: depreciation, share option expense, intangible amortisation and restructuring costs) from continuing operations. During 2008, Filtrona's strategy, which was unchanged from 2007, was to maintain the medium-term net debt-to-EBITDA ratio in the range 1.0 to 2.5. The net debt-to-EBITDA ratios at 31 December were:

	Note	2008 £m	2007 £m
Net debt	21	**182.1**	135.2
Operating profit before intangible amortisation and exceptional acquisition fees (2007: intangible amortisation and restructuring costs)		**65.0**	64.4
Plus depreciation	3	**22.2**	20.4
Plus share option expense	18	**1.6**	1.7
EBITDA		**88.8**	86.5
Net debt-to-EBITDA ratio		**2.05**	1.56

2. 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.

Fibre Technologies focuses on the production and supply of special filters for cigarettes, bonded fibre products such as reservoirs for writing instruments and printers, and speciality hydrophilic foams for cosmetic products and medical applications.

Business segments

2008

	Plastic Technologies £m	Fibre Technologies £m	Central Services[1] £m	Continuing operations £m	Discontinued operations £m	Total £m
Revenue	**295.4**	**231.0**	**–**	**526.4**	**–**	**526.4**
Operating profit/(loss) before intangible amortisation and exceptional acquisition fees	46.0	28.8	(9.8)	**65.0**	–	**65.0**
Intangible amortisation	(1.7)	(0.3)	–	**(2.0)**	–	**(2.0)**
Exceptional acquisition fees	–	–	(1.3)	**(1.3)**	–	**(1.3)**
Operating profit/(loss)	**44.3**	**28.5**	**(11.1)**	**61.7**	**–**	**61.7**
Segment assets	202.7	170.3	12.8	**385.8**	–	**385.8**
Intangible assets	109.0	23.2	–	**132.2**	–	**132.2**
Unallocated items			33.6	**33.6**		**33.6**
Total assets	**311.7**	**193.5**	**46.4**	**551.6**	**–**	**551.6**
Segment liabilities	40.2	39.1	8.3	**87.6**	6.3	**93.9**
Unallocated items			290.1	**290.1**		**290.1**
Total liabilities	**40.2**	**39.1**	**298.4**	**377.7**	**6.3**	**384.0**
Other segment items						
Capital expenditure	12.6	10.1	0.1	**22.8**	–	**22.8**
Depreciation	13.0	9.1	0.1	**22.2**	–	**22.2**
Closing number of employees	2,219	2,039	34	**4,292**	–	**4,292**
Average number of employees	2,461	2,093	36	**4,590**	–	**4,590**

2007

	Plastic Technologies £m	Fibre Technologies £m	Central Services[1] £m	Continuing operations £m	Discontinued operations £m	Total £m
Revenue	265.8	228.4	–	494.2	14.0	508.2
Operating profit/(loss) before intangible amortisation and restructuring costs	41.6	31.6	(8.8)	64.4	1.8	66.2
Intangible amortisation	(1.4)	(0.1)	–	(1.5)	–	(1.5)
Restructuring costs	(0.8)	(4.2)	–	(5.0)	–	(5.0)
Operating profit/(loss)	39.4	27.3	(8.8)	57.9	1.8	59.7
Segment assets	163.8	131.1	10.6	305.5	–	305.5
Intangible assets	83.9	3.3	–	87.2	–	87.2
Unallocated items			26.8	26.8		26.8
Total assets	247.7	134.4	37.4	419.5	–	419.5
Segment liabilities	32.2	26.6	7.2	66.0	5.7	71.7
Unallocated items			207.7	207.7		207.7
Total liabilities	32.2	26.6	214.9	273.7	5.7	279.4
Other segment items						
Capital expenditure	14.7	10.3	–	25.0	2.7	27.7
Depreciation	11.7	8.5	0.2	20.4	1.2	21.6
Closing number of employees	2,457	2,172	37	4,666	–	4,666
Average number of employees	2,474	2,253	37	4,764	358	5,122

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

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2. Segment analysis continued

Inter-segment sales are not significant in either year. Continuing operations' net finance expense of £6.8m (2007: £6.2m) and income tax expense of £18.5m (2007: £17.6m) cannot be meaningfully allocated by segment. The majority of unallocated assets relate to derivative assets, income tax receivable and cash and cash equivalents. The majority of unallocated liabilities relate to interest bearing loans and borrowings, derivative liabilities, retirement benefit obligations, deferred tax liabilities and income tax payable.

Geographic segments

				2008
	Revenue by destination £m	**Segment assets £m**	**Intangible assets £m**	**Capital expenditure £m**
Europe	210.3	163.9	52.5	11.8
North America	207.6	156.1	79.5	7.3
Rest of World	108.5	65.8	0.2	3.7
	526.4	**385.8**	**132.2**	**22.8**
Unallocated items		33.6		
	526.4	**419.4**	**132.2**	**22.8**

				2007
	Revenue by destination £m	Segment assets £m	Intangible assets £m	Capital expenditure £m
Europe	200.1	141.6	42.1	10.3
North America	197.6	116.1	44.9	10.1
Rest of World	96.5	47.8	0.2	4.6
	494.2	305.5	87.2	25.0
Unallocated items		26.8		
Continuing operations	494.2	332.3	87.2	25.0
Discontinued operations	14.0	–	–	2.7
	508.2	332.3	87.2	27.7

3. Net operating expense

	2008 £m	2007 £m
Continuing operations		
Changes in inventories of finished goods and work-in-progress	**(1.9)**	(1.6)
Raw materials and consumables	**232.9**	217.0
Personnel expense (note 6)	**125.3**	119.5
Depreciation and other amounts written off property, plant and equipment	**22.2**	20.4
Amortisation and other amounts written off intangible assets	**2.0**	1.5
Exceptional acquisition fees (2007: restructuring costs)	**1.3**	5.0
Hire of plant and machinery – rentals payable under operating leases	**0.8**	0.8
Fair value hedging instrument losses	**4.4**	0.4
Fair value hedged items' gains	**(4.4)**	(0.4)
Other operating expenses	**82.1**	73.7
Net operating expense	**464.7**	436.3

Filtrona's cash flow hedges and hedges of net investments were entirely effective, as defined by IAS 39, and therefore no hedge ineffectiveness has been recognised in net operating expense in 2008 (2007: £nil).

3. Net operating expense continued

Auditor's remuneration

	Note	2008 £m	2007 £m
Audit of these financial statements		**0.2**	0.2
Audit of financial statements of subsidiaries pursuant to legislation		**0.7**	0.6
Total audit fees		**0.9**	0.8
Other services pursuant to such legislation	i,v	**0.1**	0.1
Other services relating to tax	ii	**0.3**	0.6
Services relating to corporate finance transactions entered into or proposed to be entered into by or on behalf of the Company or the Group	iii	**0.6**	0.1
Total non-audit fees	iv	**1.0**	0.8
Total fees		**1.9**	1.6

Notes

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

ii Other services relating to tax are fees paid for tax compliance services and tax advice

iii 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 the auditor's objectivity and independence is not compromised

iv £0.8m (2007: £0.8m) of the total non-audit fees were charged in the UK

v Fees of £21,000 (2007: £20,575) were paid in relation to the audit of the Filtrona pension schemes

4. Net finance expense

	2008 £m	2007 £m
Continuing operations		
Finance income		
Bank deposits	**0.4**	0.4
Unwind of discount on Globalpack deferred consideration	**0.7**	0.4
Other finance income	**0.2**	0.1
Expected return on pension scheme assets (note 18)	**10.2**	8.7
	11.5	9.6
Finance expense		
Loans and overdrafts	**(8.1)**	(7.2)
Other finance expense	**(0.3)**	(0.2)
Interest on pension scheme liabilities (note 18)	**(9.9)**	(8.4)
	(18.3)	(15.8)
Net finance expense	**(6.8)**	(6.2)

5. Income tax expense

	2008 £m	2007 £m
Continuing operations		
Components of tax expense:		
Current tax	**22.0**	23.8
Prior years' tax	**0.8**	(1.0)
Double tax relief	**(5.1)**	(5.7)
Deferred tax (note 16)	**0.8**	0.5
Income tax expense	**18.5**	17.6

Income tax expense in the UK is £0.8m (2007: £2.0m).

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5. Income tax expense continued

Factors affecting income tax expense for the year

Filtrona operates in many countries 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.

	2008 £m	2007 £m
Continuing operations		
Profit before income tax	**54.9**	51.7
Tax at weighted average (2008: 30.9%; 2007: 32.5%)	**17.0**	16.8
Effects of:		
Exceptional acquisition fees	**0.4**	–
Other permanent disallowables	**0.1**	0.3
Overseas state and local tax	**0.5**	0.7
Unrelieved tax losses	**0.6**	0.4
Prior year adjustments	**(0.5)**	(1.0)
Other items	**0.4**	0.4
Income tax expense	**18.5**	17.6

6. Personnel expense

	2008 £m	2007 £m
Continuing operations		
Wages and salaries	**106.2**	101.0
Social security expense	**11.6**	10.6
Pension expense (note 18)	**5.9**	6.2
Share option expense	**1.6**	1.7
	125.3	119.5

The Report of the Remuneration Committee on pages 48 to 56 sets out information on Directors' remuneration.

Key management remuneration

	2008 £m	2007 £m
Continuing operations		
Salary	**1.9**	1.8
Bonus	**0.5**	0.6
Benefits	**0.6**	0.5
	3.0	2.9

Filtrona considers key management personnel to be the members of the Group Operating Committee. The amounts disclosed are on the same basis as those used to determine the relevant amounts disclosed in the Report of the Remuneration Committee.

7. Earnings per share

	2008 £m	2007 £m
Continuing operations		
Earnings attributable to equity holders of Filtrona plc	**35.3**	33.0
Adjustment[1]	**2.6**	4.3
Adjusted earnings	**37.9**	37.3
Discontinued operations		
Earnings attributable to equity holders of Filtrona plc	**–**	1.1
Basic weighted average ordinary shares in issue (million)	**204.1**	216.3
Dilutive effect of employee share option plans (million)	**1.3**	2.2
Diluted weighted average ordinary shares (million)	**205.4**	218.5
Continuing operations		
Basic earnings per share	**17.3p**	15.3p
Adjustment[1]	**1.3p**	1.9p
Adjusted earnings per share	**18.6p**	17.2p
Diluted basic earnings per share	**17.2p**	15.1p
Diluted adjusted earnings per share	**18.5p**	17.1p
Discontinued operations		
Basic earnings per share	**–**	0.5p
Diluted basic earnings per share	**–**	0.5p

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

The basic weighted average number of ordinary shares in issue excludes shares held in treasury and shares held by an employee benefit trust.

1 The adjustment relates to intangible amortisation and exceptional acquisition fees (2007: intangible amortisation and restructuring costs) less tax relief at 33.0% (2007: 34.0%) on intangible amortisation (2007: intangible amortisation and restructuring costs)

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8. Property, plant and equipment

2008

	Land and buildings £m	Plant and machinery £m	Fixtures, fittings and equipment £m	Total £m
Cost				
Beginning of year	62.3	257.8	38.9	**359.0**
Acquisitions	2.3	1.0	0.1	**3.4**
Additions	4.8	14.0	4.0	**22.8**
Disposals	–	(2.4)	(0.9)	**(3.3)**
Currency translation	18.3	50.8	7.9	**77.0**
End of year	**87.7**	**321.2**	**50.0**	**458.9**
Depreciation				
Beginning of year	13.4	147.3	27.6	**188.3**
Expense in year	1.7	16.1	4.4	**22.2**
Disposals	–	(2.2)	(0.9)	**(3.1)**
Currency translation	4.2	31.4	5.4	**41.0**
End of year	**19.3**	**192.6**	**36.5**	**248.4**
Net book value at end of year	**68.4**	**128.6**	**13.5**	**210.5**

2007

	Land and buildings £m	Plant and machinery £m	Fixtures, fittings and equipment £m	Total £m
Cost				
Beginning of year	58.1	271.4	40.5	370.0
Acquisitions	2.6	0.3	0.1	3.0
Divestment of Globalpack	(1.6)	(30.4)	(3.9)	(35.9)
Additions	3.2	20.9	3.6	27.7
Disposals	(0.3)	(6.3)	(2.1)	(8.7)
Restructuring	(0.7)	(1.5)	(0.3)	(2.5)
Currency translation	1.0	3.4	1.0	5.4
End of year	62.3	257.8	38.9	359.0
Depreciation				
Beginning of year	13.0	150.8	27.8	191.6
Expense in year	1.3	16.5	3.8	21.6
Divestment of Globalpack	(0.4)	(15.8)	(2.2)	(18.4)
Disposals	(0.3)	(5.6)	(2.0)	(7.9)
Restructuring	(0.6)	(1.1)	(0.2)	(1.9)
Currency translation	0.4	2.5	0.4	3.3
End of year	13.4	147.3	27.6	188.3
Net book value at end of year	48.9	110.5	11.3	170.7
Net book value at beginning of year	45.1	120.6	12.7	178.4

9. Intangible assets

	2008 £m	2007 £m
Goodwill		
Net book value		
Beginning of year	**53.8**	40.3
Acquisitions (note 23)	**6.7**	12.4
Currency translation	**18.4**	1.1
End of year	**78.9**	53.8
Customer relationships		
Cost		
Beginning of year	**37.3**	21.4
Acquisitions (note 23)	**3.6**	14.1
Currency translation	**13.4**	1.8
End of year	**54.3**	37.3
Amortisation		
Beginning of year	**3.9**	2.2
Expense in year	**1.9**	1.5
Currency translation	**1.7**	0.2
End of year	**7.5**	3.9
Net book value at end of year	**46.8**	33.4
Net book value at beginning of year	**33.4**	19.2
Other		
Cost		
Beginning of year	**–**	–
Acquisitions (note 23)	**5.5**	–
Currency translation	**1.1**	–
End of year	**6.6**	–
Amortisation		
Beginning of year	**–**	–
Expense in year	**0.1**	–
Currency translation	**–**	–
End of year	**0.1**	–
Net book value at end of year	**6.5**	–
Net book value at beginning of year	**–**	–
Total net book value of intangible assets at end of year	**132.2**	87.2

Other intangible assets principally comprise developed technology acquired with Lendell.

The weighted average useful economic life of customer relationships and other intangible assets at the end of the year was 22.9 years and 12.1 years respectively (2007: customer relationships 23.6 years).

Filtrona 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 post tax operating cash flows to the net carrying value of the goodwill and other intangible assets for each division or business as appropriate.

Goodwill is allocated to divisions as follows:

	Goodwill	
Cash generating unit	**2008 £m**	2007 £m
Protection and Finishing Products	**29.8**	23.3
Coated and Security Products	**8.0**	6.2
Plastic Profile and Sheet	**28.9**	21.2
Filter Products	**–**	–
Porous Technologies	**12.2**	3.1
	78.9	53.8

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9. Intangible assets continued

Intangible assets, apart from goodwill, are allocated to the businesses to which they relate as shown below:

Business	Division	Customer relationships and other intangible assets 2008 £m	2007 £m
Moss and Skiffy	Protection and Finishing Products	**24.1**	19.1
Duraco	Protection and Finishing Products	**17.8**	13.6
Lendell	Porous Technologies	**10.8**	–
Multiple businesses	Multiple divisions	**0.6**	0.7
		53.3	33.4

The tests are based on the following assumptions:

- Cash flows for the following two years are based upon the Group's annual budget
- Cash flows beyond the budget period are based on year two's budget cash flows with zero growth
- The estimated cash flows are discounted using Filtrona's weighted average cost of capital of 10.0% (which equates to a pre tax discount rate of 14.3%)

Any impairments identified as a result of the analysis 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.

The Group performed various sensitivity analyses which involved significantly reducing future cash flows. The results of these analyses showed that, despite significantly lower post tax operating cash flows, the carrying value of goodwill and other intangible assets continued to be supported.

10. Inventories

	2008 £m	2007 £m
Raw materials and consumables	**34.2**	21.9
Work-in-progress	**2.0**	2.6
Finished goods and goods for resale	**42.3**	30.7
	78.5	55.2

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

11. Trade and other receivables

	2008 £m	2007 £m
Non-current assets		
Other receivables	**8.4**	8.1
Current assets		
Trade receivables	**69.7**	56.3
Other receivables	**11.8**	9.8
Prepayments and accrued income	**6.9**	5.6
	88.4	71.7
Total trade and other receivables	**96.8**	79.8

Other receivables include an amount of £11.7m (2007: £10.6m) due from the Itavema Group for the purchase of the Globalpack business.

12. Cash and cash equivalents

	2008 £m	2007 £m
Bank balances	**21.3**	23.8
Cash and cash equivalents	**21.3**	23.8
Bank overdrafts	**–**	(0.2)
Cash and cash equivalents in the statement of cash flows	**21.3**	23.6

13. Trade and other payables

	2008 £m	2007 £m
Trade payables	**51.5**	33.2
Other tax and social security contributions	**3.6**	3.0
Other payables	**4.9**	5.5
Accruals and deferred income	**26.3**	23.3
	86.3	65.0

14. Interest bearing loans and borrowings

	2008 £m	2007 £m
Non-current liabilities		
Unsecured bank loans	**198.1**	157.8
Current liabilities		
Unsecured bank loans	**5.3**	1.0

At 31 December 2008, the majority of Filtrona's interest bearing loans and borrowings were drawn in sterling, at floating rates of interest set with reference to LIBOR for periods ranging from seven days to three months. The Group had US$30m of net debt that was effectively fixed at 5.3935% until November 2009. The Group still retains US dollar and euro interest rate caps but these are not currently effective in providing protection against increases in interest rates.

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

	2008					2007				
	Fixed rate £m	Floating rate £m	Non-interest bearing £m	Impact of foreign exchange swaps £m	Total £m	Fixed rate £m	Floating rate £m	Non-interest bearing £m	Impact of foreign exchange swaps £m	Total £m
Assets										
Sterling	–	0.2	7.2	(33.8)	**(26.4)**	–	–	6.8	19.8	26.6
US dollar	–	11.4	32.8	(5.3)	**38.9**	–	7.0	39.2	(11.7)	34.5
Euro	–	7.0	24.3	45.3	**76.6**	–	6.4	15.9	(7.4)	14.9
Other	–	12.1	25.6	(0.9)	**36.8**	–	10.4	12.3	(0.5)	22.2
	–	**30.7**	**89.9**	**5.3**	**125.9**	–	23.8	74.2	0.2	98.2
Liabilities										
Sterling	–	14.2	6.7	(49.2)	**(28.3)**	–	51.5	6.5	(60.2)	(2.2)
US dollar	20.8	–	27.3	6.9	**55.0**	35.2	71.3	19.8	4.9	131.2
Euro	–	–	12.6	53.9	**66.5**	–	0.1	8.1	56.8	65.0
Other	–	0.5	13.3	–	**13.8**	–	0.9	7.6	–	8.5
	20.8	**14.7**	**59.9**	**11.6**	**107.0**	35.2	123.8	42.0	1.5	202.5

Floating rate sterling liabilities include an overdraft of £9.4m (2007: £nil) where legal right of set-off exists against floating rate US dollar and euro asset balances.

15. Derivatives

Filtrona 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, Filtrona 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 2008				
Fair value hedges				
Forward foreign exchange contracts	–	0.8	(4.4)	19.4
Cash flow hedges				
Forward foreign exchange contracts	0.1	2.6	(7.3)	47.4
Interest rate swaps	–	–	(0.8)	20.9
Hedges of net investments				
Cross currency swaps	5.2	62.7	(7.2)	62.7
	5.3	**66.1**	**(19.7)**	**150.4**

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Notes continued

15. Derivatives continued

	Assets		Liabilities	
	Fair values £m	Contractual or notional amounts £m	Fair values £m	Contractual or notional amounts £m
At 31 December 2007				
Fair value hedges				
Forward foreign exchange contracts	0.2	5.5	(0.5)	20.1
Cash flow hedges				
Forward foreign exchange contracts	–	0.4	–	1.3
Interest rate swaps	–	20.1	(0.3)	30.2
Hedges of net investments				
Cross currency swaps	–	1.6	(1.0)	59.6
	0.2	27.6	(1.8)	111.2

Fair value hedges are hedges of the currency risk exposure to changes in the fair value of recognised assets or liabilities or a previously unrecognised firm commitment to buy or sell assets at a fixed price.

Cash flow hedges are hedges of the currency and interest rate risk exposure to variability in cash flows.

Hedges of net investments are hedges of the currency risk exposure to changes in the carrying value of recognised investments in foreign operations.

Fair values of forward foreign exchange contracts and cross currency swaps have been calculated at year end forward exchange rates compared to contracted rates. Fair values of interest rate swaps have been calculated by discounting cash flows at forward rates. All other financial assets, classified as 'loans and receivables', and financial liabilities, classified as 'amortised cost', are held at amortised cost and have short terms to maturity. For this reason, their carrying amounts at the reporting date approximate the fair values.

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. With the exception of the receipt of the Globalpack disposal consideration from the Itavema Group all of the hedged transactions are expected to occur over the next 15 months. With the exception of the consideration discussed above, all other derivative instruments mature within the next 12 months.

At 31 December 2008 Filtrona had temporarily suspended its normal net investment hedging policy and had only US$30m of debt designated as a hedge of its net investments in subsidiary undertakings. At 31 December 2007, Filtrona had US dollar denominated borrowings and US dollar and euro currency swaps which it had designated as hedges of its net investments in subsidiary undertakings. The exchange gains of £0.8m on these borrowings and the gains of £0.4m on the US dollar currency swaps and losses of £4.4m on euro currency swaps were recognised in reserves at 31 December 2007.

Finance income and expense arising on financial assets and financial liabilities held at amortised cost are those amounts, excluding the expected return on pension scheme assets and interest on pension scheme liabilities, detailed in note 4. The only losses recognised on financial assets held at amortised cost are those detailed as impairment losses in note 1.

16. Deferred tax

Deferred tax assets and liabilities are attributable to the following:

	2008			2007		
	Assets £m	**Liabilities £m**	**Net £m**	Assets £m	Liabilities £m	Net £m
Property, plant and equipment	**(1.2)**	**17.1**	**15.9**	(1.8)	13.7	11.9
Intangible assets	**–**	**13.2**	**13.2**	–	8.7	8.7
Employee benefits	**(11.5)**	**–**	**(11.5)**	(6.7)	–	(6.7)
Other	**(5.3)**	**0.4**	**(4.9)**	(3.7)	1.8	(1.9)
Tax (assets)/liabilities	**(18.0)**	**30.7**	**12.7**	(12.2)	24.2	12.0
Set-off of tax	**16.9**	**(16.9)**	**–**	11.9	(11.9)	–
Net tax (assets)/liabilities	**(1.1)**	**13.8**	**12.7**	(0.3)	12.3	12.0

Movements in temporary differences in the year:

	2008 £m	2007 £m
Beginning of year	**12.0**	11.3
Charge to the income statement in respect of current year (note 5)	**0.8**	0.5
Charge/(credit) to the income statement in respect of prior years	**2.2**	(0.5)
(Credit)/charge/to reserves on movements on defined benefit pension schemes	**(5.7)**	2.4
Acquisitions (note 23)	**–**	(0.3)
Divestment of Globalpack	**–**	(1.8)
Currency translation	**3.4**	0.4
End of year	**12.7**	12.0

16. Deferred tax continued

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, or where no liability would arise on the remittance. Deferred tax assets of £0.9m (2007: £1.9m) have not been recognised where their realisation is not considered probable. These assets include capital losses of £0.6m (2007: £0.6m) and other temporary differences of £0.3m (2007: £1.3m).

17. Provisions

			2008
	Discontinued £m	**Other £m**	**Total £m**
Movements			
Beginning of year	5.7	0.9	**6.6**
Provisions made during the year	0.1	0.2	**0.3**
Utilised	–	(0.1)	**(0.1)**
Currency translation	0.5	0.3	**0.8**
End of year	**6.3**	**1.3**	**7.6**
Non-current	3.6	1.0	**4.6**
Current	2.7	0.3	**3.0**
	6.3	**1.3**	**7.6**

			2007
	Discontinued £m	Other £m	Total £m
Movements			
Beginning of year	–	5.7	5.7
Provisions made during the year	–	2.5	2.5
Provisions reversed during the year	–	(2.3)	(2.3)
Acquisitions (note 23)	–	0.2	0.2
Reclassified to working capital	–	(2.2)	(2.2)
Reclassified to employee benefits (note 18)	–	(0.6)	(0.6)
Utilised	(0.7)	(2.4)	(3.1)
Charged against discontinued operations	6.4	–	6.4
End of year	5.7	0.9	6.6
Non-current	3.7	0.8	4.5
Current	2.0	0.1	2.1
	5.7	0.9	6.6

Discontinued provisions relate to warranties made on the disposal of Globalpack. Other provisions relate primarily to vacant properties and employees' compensation claims. Non-current provisions are generally long-term in nature with the timing of utilisation uncertain.

18. Employee benefits

(i) Post-retirement benefits

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 2009 are expected to be £8.5m, which consists of payments to fund future service accruals and contributions to amortise the deficit in respect of past service.

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Notes continued

18. Employee benefits continued

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

	2008 £m	2007 £m
Amounts charged to operating profit		
Defined contribution schemes	**3.0**	2.8
Defined benefit schemes:		
Current service cost	**3.3**	3.4
Curtailment gain (2007: recognised within restructuring costs)	**(0.4)**	(0.1)
Total operating expense	**5.9**	6.1
Amounts included as finance (income)/expense		
Expected return on scheme assets (note 4)	**(10.2)**	(8.7)
Interest on scheme liabilities (note 4)	**9.9**	8.4
Net financial return	**(0.3)**	(0.3)
Amounts recognised in the statement of recognised income and expense		
Actual return less expected return on scheme assets	**(36.9)**	(0.3)
Impact of changes in assumptions relating to the present value of scheme liabilities	**18.8**	7.2
Actuarial (loss)/gain	**(18.1)**	6.9

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

	2008		2007	
	Europe	**US**	Europe	US
Rate of increase in salaries	**3.30%**	**4.00%**	4.20%	4.00%
Rate of increase in pensions	**2.80%**	**n/a[1]**	3.20%	n/a[1]
Discount rate	**6.00%**	**6.27%**	5.60%	6.00%
Inflation rate	**2.80%**	**n/a[1]**	3.20%	n/a[1]
Expected return on scheme assets	**5.70%**	**8.20%**	6.20%	8.50%

1 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 the year end are:

	2008		2007	
	Europe	**US**	Europe	US
Male retiring today at age 65	**21.8**	**18.3**	21.8	18.2
Female retiring today at age 65	**24.7**	**20.5**	24.7	20.5
Male retiring in 20 years at age 65	**23.0**	**18.3**	23.0	18.2
Female retiring in 20 years at age 65	**25.8**	**20.5**	25.8	20.5

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:

	2008				
	Long-term rate of return	**Europe £m**	**Long-term rate of return**	**US £m**	**Total £m**
Equities	6.50%	63.8	9.75%	15.7	**79.5**
Bonds	5.30%	13.8	5.75%	13.4	**27.2**
Gilts	3.50%	20.7		–	**20.7**
Other	1.70%	2.7	4.50%	1.5	**4.2**
Fair value of scheme assets		101.0		30.6	**131.6**
Present value of scheme liabilities		(120.6)		(48.4)	**(169.0)**
Retirement benefit obligations		**(19.6)**		**(17.8)**	**(37.4)**

18. Employee benefits continued

					2007
	Long-term rate of return	Europe £m	Long-term rate of return	US £m	Total £m
Equities	7.00%	78.4	9.75%	19.4	97.8
Bonds	5.30%	14.0	5.75%	9.2	23.2
Gilts	4.00%	22.1		–	22.1
Other	5.20%	0.3	4.50%	0.1	0.4
Fair value of scheme assets		114.8		28.7	143.5
Present value of scheme liabilities		(131.2)		(34.6)	(165.8)
Retirement benefit obligations		(16.4)		(5.9)	(22.3)

					2006
	Long-term rate of return	Europe £m	Long-term rate of return	US £m	Total £m
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)

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

			2008			2007
	Scheme assets £m	**Scheme liabilities £m**	**Total £m**	Scheme assets £m	Scheme liabilities £m	Total £m
Beginning of year	**143.5**	**(165.8)**	**(22.3)**	134.8	(165.7)	(30.9)
Service cost	**–**	**(3.3)**	**(3.3)**	–	(3.4)	(3.4)
Employer contributions	**10.3**	**–**	**10.3**	5.3	–	5.3
Employee contributions	**0.8**	**(0.8)**	**–**	0.8	(0.8)	–
Actuarial (losses)/gains	**(36.9)**	**18.8**	**(18.1)**	(0.3)	7.2	6.9
Reclassification (note 17)	**–**	**–**	**–**	–	(0.6)	(0.6)
Finance income/(expense)	**10.2**	**(9.9)**	**0.3**	8.7	(8.4)	0.3
Benefits paid	**(5.7)**	**5.7**	**–**	(5.4)	5.4	–
Curtailment	**–**	**0.4**	**0.4**	–	0.1	0.1
Currency translation	**9.4**	**(14.1)**	**(4.7)**	(0.4)	0.4	–
End of year	**131.6**	**(169.0)**	**(37.4)**	143.5	(165.8)	(22.3)

		2008		2007
	% of scheme assets/ liabilities	**£m**	% of scheme assets/ liabilities	£m
Experience gains and losses				
Difference between actual and expected return on scheme assets	**(28.1)**	**(36.9)**	(0.2)	(0.3)
Net actuarial (losses)/gains recognised in the statement of recognised income and expense	**(10.7)**	**(18.1)**	4.2	6.9

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 2008.

			Scheme liabilities			Annual service cost
	Europe £m	US £m	**Total £m**	Europe £m	US £m	**Total £m**
0.5% decrease in the discount rate	11.6	3.2	**14.8**	0.3	0.1	**0.4**
1.0% increase in the rate of inflation	12.2	–	**12.2**	0.6	–	**0.6**
1 year increase in life expectancy	2.2	1.3	**3.5**	0.1	–	**0.1**
0.5% increase in the discount rate	(10.3)	(2.8)	**(13.1)**	(0.3)	(0.1)	**(0.4)**
1.0% decrease in the rate of inflation	(8.4)	–	**(8.4)**	(0.5)	–	**(0.5)**

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Notes continued

18. Employee benefits continued

Historical information

	2008 £m	2007 £m	2006 £m	2005 £m
Scheme assets	**131.6**	143.5	134.8	124.4
Scheme liabilities	**(169.0)**	(165.8)	(165.7)	(160.2)
Retirement benefit obligations	**(37.4)**	(22.3)	(30.9)	(35.8)
Actual return less expected return on scheme assets	**(36.9)**	(0.3)	5.5	5.7
Impact of changes in assumptions relating to the present value of scheme liabilities	**18.8**	7.2	(3.3)	(7.7)

(ii) Share-based incentives

Filtrona operates share-based incentive plans for its Executive Directors and employees. The total charge for continuing operations in respect of these plans during the year was £1.6m (2007: £1.7m). Details of these plans are set out below:

Share options outstanding

2008

	At 1 Jan 2008	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 2008**	**Weighted average exercise price**	**Exercisable at 31 Dec 2008**	**Weighted average exercise price**
LTIP Part A	6,045,127	244.6p	2,148,570	180.8p	(574,166)	246.8p	–	–	**7,619,531**	**226.4p**	**1,687,645**	**239.6p**
LTIP Part B 'Matching'	575,288	–	–	–	(575,288)	–	–	–	**–**	**–**	**–**	**–**
LTIP Part B 'Performance'	1,600,986	–	1,032,610	–	(702,295)	–	–	–	**1,931,301**	**–**	**–**	**–**
DASB	311,305	–	336,709	–	(62,538)	–	–	–	**585,476**	**–**	**–**	**–**
SAYE 3 year plan	820,171	209.8p	878,409	151.8p	(884,320)	193.5p	–	–	**814,260**	**165.0p**	**–**	**–**
SAYE 5 year plan	579,894	213.2p	562,011	151.8p	(600,204)	202.2p	–	–	**541,701**	**161.7p**	**–**	**–**
	9,932,771		**4,958,309**		**(3,398,811)**		**–**		**11,492,269**		**1,687,645**	

2007

	At 1 Jan 2007	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 2007	Weighted average exercise price	Exercisable at 31 Dec 2007
LTIP Part A	3,981,624	248.2p	2,367,082	239.0p	(303,579)	250.3p	–	–	6,045,127	244.6p	–
LTIP Part B 'Matching'	600,666	–	–	–	(25,378)	–	–	–	575,288	–	–
LTIP Part B 'Performance'	1,012,157	–	588,829	–	–	–	–	–	1,600,986	–	–
DASB	128,320	–	182,985	–	–	–	–	–	311,305	–	–
SAYE 3 year plan	670,858	237.0p	674,008	199.8p	(522,692)	231.7p	(2,003)	237.0p	820,171	209.8p	–
SAYE 5 year plan	664,486	237.0p	408,594	199.8p	(489,942)	234.2p	(3,244)	237.0p	579,894	213.2p	–
	7,058,111		4,221,498		(1,341,591)		(5,247)		9,932,771		–

Fair value model inputs for share options outstanding

2008

	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	44.1p	210.4p	135.9p	196.1p	55.4p	55.0p
Weighted average share price at grant	226.4p	232.0p	206.7p	216.8p	206.1p	202.1p
Weighted average exercise price	226.4p	–	–	–	164.9p	161.7p
Weighted average volatility	24.6%	23.6%	25.0%	n/a[1]	26.6%	24.4%
Weighted average dividend yield	3.48%	3.30%	4.28%	3.90%	4.11%	4.20%
Weighted risk free rate	4.53%	4.10%	4.62%	4.38%	4.11%	4.47%
Expected employee retention rates	77.9%	98.0%	98.0%	98.0%	32.5%	28.3%
Expected term	3.25 years	3.00 years	3.75 years	3.00 years	3.23 years	5.18 years
Valuation model	Binomial	Black-Scholes	Monte Carlo	Binomial	Binomial	Binomial

18. Employee benefits continued

						2007
	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	45.3p	211.9p	192.9p	246.9p	74.3p	87.3p
Weighted average share price at grant	244.5p	232.0p	257.7p	266.9p	274.5p	279.3p
Weighted average exercise price	244.5p	–	–	–	219.6p	223.4p
Weighted average volatility	22.8%	23.6%	23.3%	n/a[1]	21.0%	23.9%
Weighted average dividend yield	2.91%	3.07%	2.76%	2.64%	2.57%	2.53%
Weighted risk free rate	4.62%	4.10%	4.57%	4.83%	4.76%	4.60%
Expected employee retention rates	80.0%	100.0%	98.0%	98.0%	30.0%	30.0%
Expected term	3.25 years	3.00 years	3.75 years	3.00 years	3.23 years	5.18 years
Valuation model	Binomial	Black-Scholes	Monte Carlo	Binomial	Binomial	Binomial

1 Not applicable

Volatility has been calculated over the length of the expected term, for the period immediately before the grant date.

						2008 and 2007
	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

Details of the vesting conditions of the LTIP Part A, LTIP Part B 'Matching', LTIP Part B 'Performance' and DASB share option schemes are set out in the Report of the Remuneration Committee on pages 48 to 56.

All options are settled with equity.

19. Share capital

	2008 £m	2007 £m
Authorised: 500 million (2007: 500 million) ordinary shares of 25p (2007: 25p) each	**125.0**	125.0
Issued and fully paid ordinary shares of 25p (2007: 25p) each	**54.8**	54.8

Number of ordinary shares in issue		
Beginning and end of year	**219,326,795**	219,326,795

At 31 December 2008 the Company held 13,664,604 (2007: 13,664,604) of its own shares in treasury.

20. Movements on reserves

								2008
					Retained earnings			
	Capital redemption reserve £m	**Other reserve £m**	**Cash flow hedging reserve £m**	**Translation reserve £m**	**Own shares £m**	**Earnings £m**	**Minority interests £m**	**Total £m**
At 1 January 2008	**0.1**	**(132.8)**	**(0.3)**	**1.9**	**(34.5)**	**246.1**	**4.8**	**85.3**
Total recognised income and expense for the year			(7.7)	24.4		22.9	2.5	**42.1**
Share option expense						1.6		**1.6**
Dividends paid						(15.9)	(0.3)	**(16.2)**
At 31 December 2008	**0.1**	**(132.8)**	**(8.0)**	**26.3**	**(34.5)**	**254.7**	**7.0**	**112.8**

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20. Movements on reserves continued

	Capital redemption reserve £m	Other reserve £m	Cash flow hedging reserve £m	Translation reserve £m	Retained earnings: Own shares £m	Retained earnings: Earnings £m	Minority interests £m	2007 Total £m
At 1 January 2007	0.1	(132.8)	–	1.6	(2.2)	221.2	6.0	93.9
Total recognised income and expense for the year			(0.3)	0.3		38.6	2.0	40.6
Acquisition of employee trust shares					(1.7)			(1.7)
Share option expense						1.8		1.8
Purchase of shares into treasury					(30.6)			(30.6)
Divestment of Globalpack							(2.5)	(2.5)
Dividends paid						(15.5)	(0.7)	(16.2)
At 31 December 2007	0.1	(132.8)	(0.3)	1.9	(34.5)	246.1	4.8	85.3

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. Full details are set out in the Report of the Remuneration Committee on pages 48 to 56. The assets, liabilities and expenditure of the trust have been incorporated in these financial statements. At 31 December 2008 the trust held 1,557,107 (2007: 1,557,107) shares, upon which dividends have been waived, with an aggregate nominal value of £0.4m (2007: £0.4m) and market value of £2.1m (2007: £3.2m). During 2007, 13,664,604 ordinary shares with a nominal value of £3.4m were purchased into treasury at a cost of £30.6m. This represents 6.2% of the number of ordinary shares in issue.

The other reserve relates to the Group reorganisation which took place as part of the demerger from Bunzl plc 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.

21. Analysis of net debt

	1 Jan 2008 £m	**Cash flow £m**	**Exchange movements £m**	**31 Dec 2008 £m**
Cash at bank and in hand	23.1	(10.5)	7.4	**20.0**
Short-term bank deposits repayable on demand	0.7	0.4	0.2	**1.3**
Cash and cash equivalents	23.8	(10.1)	7.6	**21.3**
Bank overdrafts	(0.2)	0.2	–	**–**
Cash and cash equivalents in the statement of cash flows	23.6	(9.9)	7.6	**21.3**
Debt due within one year	(1.0)	(4.1)	(0.2)	**(5.3)**
Debt due after one year	(157.8)	(5.6)	(34.7)	**(198.1)**
Net debt	(135.2)	(19.6)	(27.3)	**(182.1)**

	1 Jan 2007 £m	Cash flow £m	Exchange movements £m	31 Dec 2007 £m
Cash at bank and in hand	15.8	7.0	0.3	23.1
Short-term bank deposits repayable on demand	2.5	(2.0)	0.2	0.7
Short-term bank deposits not repayable on demand	2.4	(2.4)	–	–
Cash and cash equivalents	20.7	2.6	0.5	23.8
Bank overdrafts	(1.0)	0.8	–	(0.2)
Cash and cash equivalents in the statement of cash flows	19.7	3.4	0.5	23.6
Debt due within one year	(0.6)	(0.3)	(0.1)	(1.0)
Debt due after one year	(117.9)	(41.1)	1.2	(157.8)
Net debt	(98.8)	(38.0)	1.6	(135.2)

22. Commitments

Operating leases

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

	2008 £m	2007 £m
Payable within one year	**2.7**	1.4
Payable between one and five years	**4.5**	3.1
Payable after five years	**2.8**	3.5
	10.0	8.0

Other commitments

In December 2005 Filtrona entered into an agreement that could lead to the purchase of the remaining 20% of FractureCode Corporation ApS some time between March 2009 and December 2012. The consideration payable for the remaining 20% of shares is dependent on various profit related targets with a minimum consideration payable of €3.1m and a maximum of €40m.

23. Acquisitions

On 17 October 2008, Filtrona acquired the assets and business of Lendell Manufacturing, Inc. ('Lendell') based in St. Charles, Michigan, for a cash consideration of US$35m. Lendell is a producer of speciality hydrophilic foam products for the medical, printing systems and personal care (cosmetics) markets and is highly complementary with Filtrona's Bonded Fibre Components division.

Lendell contributed £1.1m to revenue and £0.3m to operating profit before intangible amortisation and exceptional acquisition fees. It is estimated that if Lendell had been owned by the Group for the entire year it would have contributed £5.8m and £2.3m to revenue and operating profit before intangible amortisation and exceptional acquisition fees respectively.

On 3 May 2007, Filtrona acquired the assets and business of Duraco, Inc. ('Duraco') based in Chicago, Illinois for a total consideration of £31.7m. Duraco is a market leading manufacturer and supplier of self-adhesive foam products for protection and finishing applications in a broad array of served markets including point of purchase products and white goods.

Duraco contributed £9.7m to revenue and £2.3m to operating profit before intangible amortisation and restructuring costs in 2007.

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 2008:
The adjustment to property, plant and equipment reflects the open market value of the freehold property.

The adjustment to inventories reflects a fair value uplift in line with IFRS 3 and the impact of applying Filtrona Group accounting policies.

The adjustment to receivables reflects the impact of applying Filtrona Group policies.

In 2007:
The adjustment to property, plant and equipment reflects the open market value of the freehold property.

The adjustment to inventories and receivables reflects the impact of applying Filtrona group accounting policies to these items.

The adjustment to deferred tax reflects the asset arising from a temporary difference between the accounting and tax base of property, plant and equipment.

The adjustment to provisions includes amounts relating to the reassessment of potential liabilities that were not fully recognised on acquisition.

Financial Statements

Notes continued

23. Acquisitions continued

A summary of the acquisition of Lendell in 2008 is detailed below:

	Book value at acquisition £m	Revaluation £m	Consistency of accounting policy £m	Fair value of assets acquired £m
Property, plant and equipment	2.1	1.3	–	3.4
Inventories	0.5	0.5	0.1	1.1
Receivables	0.9	–	(0.1)	0.8
Cash and cash equivalents	0.2	–	–	0.2
Payables	(0.3)	–	–	(0.3)
	3.4	1.8	–	5.2
Customer relationships (note 9)				3.6
Other intangible assets (note 9)				5.5
Goodwill (note 9)				6.7
Consideration				21.0
Satisfied by:				
Cash consideration				20.2
Acquisition expenses settled in cash				0.5
Accrued acquisition expenses				0.3
The net cash outflow in the period in respect of the acquisition of Lendell comprised:				
Cash consideration				20.2
Acquisition expenses settled in cash				0.5
Cash acquired with business				(0.2)
Net cash outflow in respect of acquisition of Lendell				**20.5**

Included in the £6.7m of goodwill recognised above is the value of the unique revenue synergy opportunities available to Filtrona through the integration of the business. Due to its nature this asset cannot be individually identified nor reliably measured.

A summary of the acquisition of Duraco in 2007 is detailed below:

	Book value at acquisition £m	Revaluation £m	Consistency of accounting policy £m	Fair value of assets acquired £m
Property, plant and equipment	1.4	1.6	–	3.0
Inventories	1.2	–	(0.2)	1.0
Receivables	2.1	–	(0.1)	2.0
Deferred tax	–	0.3	–	0.3
Payables	(0.9)	–	–	(0.9)
Provisions	–	(0.2)	–	(0.2)
	3.8	1.7	(0.3)	5.2
Customer relationships (note 9)				14.1
Goodwill (note 9)				12.4
Consideration				31.7
Satisfied by:				
Cash consideration				30.4
Acquisition expenses settled in cash				1.1
Accrued acquisition expenses				0.2
The net cash outflow in the period in respect of the acquisition of Duraco comprised:				
Cash consideration				30.4
Acquisition expenses settled in cash				1.1
Net cash outflow in respect of acquisition of Duraco				31.5

Included in the £12.4m of goodwill recognised above is the value of the unique revenue synergy opportunities available to Filtrona through the integration of the business. Due to its nature this asset cannot be individually identified nor reliably measured.

24. Discontinued operations

On 29 June 2007, Filtrona completed the disposal of Globalpack, its Brazilian consumer packaging business, to the Itavema Group for a total gross consideration of £27.9m. The disposal resulted in a profit before tax of £2.7m which has been recognised as discontinued operations in the income statement.

In June 2008, Filtrona received the first instalment of £2.3m due in respect of the deferred consideration.

The results for Globalpack are presented below:

	2007 £m
Revenue	14.0
Operating profit	1.8
Finance income	0.1
Finance expense	(0.1)
Profit before tax from discontinued operations	1.8
Profit on disposal of discontinued operations	2.7
Income tax expense	(2.5)
Profit for the period	2.0
Attributable to:	
Equity holders of Filtrona plc	1.1
Minority interests	0.9
Profit for the period	2.0
Earnings per share attributable to equity holders of Filtrona plc:	
Basic	0.5p
Diluted	0.5p

Income tax expense is analysed as follows:

	2007 £m
On profit on ordinary activities	0.7
On the profit on disposal	1.8
	2.5

The major classes of assets and liabilities sold are analysed as follows:

	£m
Assets and liabilities disposed of other than cash	
Property, plant and equipment	17.5
Inventories	2.1
Trade and other receivables	6.2
Trade and other payables	(4.9)
Net assets disposed of other than cash and cash equivalents	20.9

	£m
Gain on disposal of discontinued operations	
Cash consideration	15.4
Disposal expenses settled in cash during the period	(1.2)
Disposal provisions utilised in cash during the period	(0.7)
Cash and short-term deposits in Globalpack on disposal	(0.6)
Net cash inflow in respect of disposal of Globalpack	12.9
Fair value of deferred consideration	10.2
Net assets disposed of less minority share	(18.4)
Cumulative exchange gains deferred in equity	5.0
Accrued disposal expenses	(0.8)
Warranty provisions	(5.7)
Closure expenses	(0.4)
Accelerated share option expense	(0.1)
Gain on disposal of discontinued operations	2.7

Closure expenses relate to the exit from a Coated and Security Products office in Barcelona, Spain.

Financial Statements

Notes continued

25. Dividends

	Per share		Total	
	2008 **p**	2007 p	**2008** **£m**	2007 £m
2007 interim: paid 26 October 2007		2.52		5.4
2007 final: paid 2 May 2008		5.08		10.4
2008 interim: paid 24 October 2008	**2.70**		**5.5**	
2008 proposed final: payable 8 May 2009	**5.08**		**10.4**	
	7.78	7.60	**15.9**	15.8

26. Transactions with related parties

Filtrona has not entered into any material transactions with related parties other than with key management as disclosed in note 6. Furthermore, throughout 2008 and 2007, no Director had a personal interest in any significant transaction of Filtrona.

Filtrona plc Balance Sheet
at 31 December 2008

	Note	2008 £m	2007 £m
Fixed assets			
Investment in subsidiary undertaking	2,8	**279.2**	277.6
Current assets			
Debtors	3	**1.3**	0.7
Current liabilities			
Creditors: amounts falling due within one year	4	**(61.2)**	(42.9)
Net current liabilities		**(59.9)**	(42.2)
Net assets		**219.3**	235.4
Capital and reserves			
Issued capital	5	**54.8**	54.8
Capital redemption reserve	6	**0.1**	0.1
Profit and loss account	6	**164.4**	180.5
Shareholders' funds: equity interests		**219.3**	235.4

The financial statements on pages 95 to 98 were approved by the Board of Directors on 26 February 2009 and were signed on its behalf by:

Mark Harper
Chief Executive

Steve Crummett
Group Finance Director

Accounting Policies

a Basis of preparation
The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 1985 and applicable UK accounting standards.

Under Section 230(4) of the Companies Act 1985, Filtrona plc is exempt from the requirements to present its own profit and loss account.

The following accounting policies have been consistently applied.

b Investment in subsidiary undertaking
Investment in subsidiary undertaking is held at cost less any provision for impairment.

c 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.

d Own shares
The shares held in the Filtrona 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.

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

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Notes

1. Net operating charges

The auditor was paid £4,450 (2007: £4,238) 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 on page 77.

The Directors' remuneration, which was paid by Filtrona International Ltd is disclosed in the Report of the Remuneration Committee on pages 48 to 56.

2. Investments held as fixed assets

	Investment in subsidiary undertaking 2008 £m
At beginning of year	**277.6**
Additions	**1.6**
At end of year	**279.2**

3. Debtors

	2008 £m	2007 £m
Corporate taxes	**1.3**	0.7

4. Creditors

	2008 £m	2007 £m
Amounts falling due within one year		
Amounts owed to subsidiary undertakings	**61.2**	42.8
Other creditors	**–**	0.1
	61.2	42.9

5. Share capital

	2008 £m	2007 £m
Authorised: 500 million (2007: 500 million) ordinary shares of 25p (2007: 25p) each	**125.0**	125.0
Issued and fully paid ordinary shares of 25p (2007: 25p) each	**54.8**	54.8
Number of ordinary shares in issue		
Beginning and end of year	**219,326,795**	219,326,795

At 31 December 2008 the Company held 13,664,604 (2007: 13,664,604) of its own shares in treasury.

6. Movements on reserves

		Profit and loss account	
	Capital redemption reserve £m	Retained earnings £m	Own shares £m
1 January 2008	0.1	215.0	(34.5)
Loss for the year ended 31 December 2008		(1.8)	
Share-based payments		1.6	
Dividends paid		(15.9)	
31 December 2008	**0.1**	**198.9**	**(34.5)**

Financial Statements

Notes continued

6. Movements on reserves continued

	Capital redemption reserve £m	Profit and loss account: Retained earnings £m	Profit and loss account: Own shares £m
1 January 2007	0.1	201.7	(2.2)
Profit for the year ended 31 December 2007		27.0	
Acquisition of employee benefit trust shares			(1.7)
Share-based payments		1.8	
Purchase of own shares into treasury			(30.6)
Dividends paid		(15.5)	
31 December 2007	0.1	215.0	(34.5)

As permitted by section 230 of the Companies Act 1985, the profit and loss account of the Company has not been separately presented in these financial statements. The loss attributable to equity holders included in the accounts of the Company is £1.8m (2007: profit of £27.0m).

Included in retained earnings are accumulated share-based payments of £5.1m (2007: £3.5m) which are not distributable. Full details of these share-based payments are set out in the Report of the Remuneration Committee on pages 48 to 56 and also on pages 88 to 89.

7. Dividends

	Per share 2008 p	Per share 2007 p	Total 2008 £m	Total 2007 £m
2007 interim: paid 26 October 2007		2.52		5.4
2007 final: paid 2 May 2008		5.08		10.4
2008 interim: paid 24 October 2008	**2.70**		**5.5**	
2008 proposed final: payable 8 May 2009	**5.08**		**10.4**	
	7.78	7.60	**15.9**	15.8

8. Principal subsidiary undertakings

	Country of incorporation
Filtrona Extrusion Inc	US
Moss Plastic Parts Ltd	UK
Filtrona BV	The Netherlands
Cigarette Components Ltd	UK
Filtrona de Mexico S de RL de CV	Mexico
PT Filtrona Indonesia	Indonesia
Filtrona International GmbH	Germany
Filtrona International Ltd	UK
Filtrona United Kingdom Ltd	UK
FIL International Ltd	UK
Filtrona Finance Ltd	UK
Filtrona Industrial Corporation	US
FIL Holdings Corp	US

The companies named above are the principal subsidiary undertakings of Filtrona plc and are included in the consolidated financial statements of the Group. The wholly owned investments in the companies above relate to ordinary shares or common stock. The principal country in which each company operates is the country of incorporation.

Filtrona International Ltd is the only direct subsidiary of Filtrona plc.

Independent Auditor's Report to the Members of Filtrona plc

We have audited the Group and parent company financial statements (the 'financial statements') of Filtrona plc for the year ended 31 December 2008 which comprise the Consolidated Income Statement, the Consolidated and parent company Balance Sheets, the Consolidated Statement of Cash Flows, the Consolidated Statement of Recognised Income and Expense and the related Notes. These financial statements have been prepared under the accounting policies set out therein.

We have also audited the information in the Report of the Remuneration Committee that is described as having been audited.

This Report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this Report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

The Directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards ('IFRS') as adopted by the EU, and for preparing the parent company financial statements and the Report of the Remuneration Committee in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Directors' Responsibilities Statement on page 47.

Our responsibility is to audit the financial statements and the part of the Report of the Remuneration Committee to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Report of the Remuneration Committee to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that information presented in those sections that are cross referred from the Business Review section of the Directors' Report. In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Report of the Remuneration Committee to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Report of the Remuneration Committee to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Report of the Remuneration Committee to be audited.

Financial Statements

Independent Auditor's Report to the Members of Filtrona plc continued

Opinion
In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the EU, of the state of the Group's affairs as at 31 December 2008 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the parent company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Parent Company's affairs as at 31 December 2008;
- the parent company financial statements and the part of the Report of the Remuneration Committee to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
26 February 2009

8 Salisbury Square
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United Kingdom

Advisors' Details and Investor Information

Secretary and Registered Office
Jon Green
Avebury House, 201–249 Avebury Boulevard, Milton Keynes, Buckinghamshire MK9 1AU
Company Number 05444653
www.filtrona.com

Financial advisor and stockbroker
JPMorgan Cazenove
20 Moorgate, London EC2R 6DA

Solicitors
Slaughter and May
One Bunhill Row, London EC1Y 8YY

Auditor
KPMG Audit Plc
8 Salisbury Square, London EC4Y 8BB

Principal bankers
Lloyds TSB Bank plc
25 Gresham Street, London EC2V 7HN

The Royal Bank of Scotland plc
280 Bishopsgate, London EC2M 4RB

Registrar
If you have any questions about your shareholding, please contact, in the first instance:
Computershare Investor Services plc
PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH
Telephone 0870 702 0003

Computershare also has an internet facility whereby shareholders in Filtrona plc are able to access details of their shareholding. You can access this service at **www.computershare.com**.

Electronic communication
As an alternative to receiving documentation through the post, the Company offers shareholders the option to receive by email, a notification that shareholder documents (including the Annual Report, Notice of Shareholder Meetings, Proxy Forms etc.) are available for access on the Company's website. If you wish to make such an election, you should register online at **www.computershare.com**. If you have already made such an election you need take no further action. Registration is entirely voluntary and you may request a hard copy of the shareholder documents or change your election at any time.

CREST
Share Settlement System
The Company entered the CREST system on listing and the ordinary shares are available for settlement in CREST. As the membership system is voluntary, shareholders not wishing to participate can continue to hold their own share certificates.

Annual General Meeting
The Annual General Meeting of the Company will be held at the Holiday Inn Hotel, 500 Saxon Gate West, Milton Keynes, Buckinghamshire MK9 2HQ on Thursday 23 April 2009 at 12 noon.

Financial calendar 2009

First Interim Management Statement	23 April 2009
Annual General Meeting	23 April 2009
Final dividend	8 May 2009
Half Year Report	27 August 2009

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