FILTRONA

Filtrona plc Annual Report 2009

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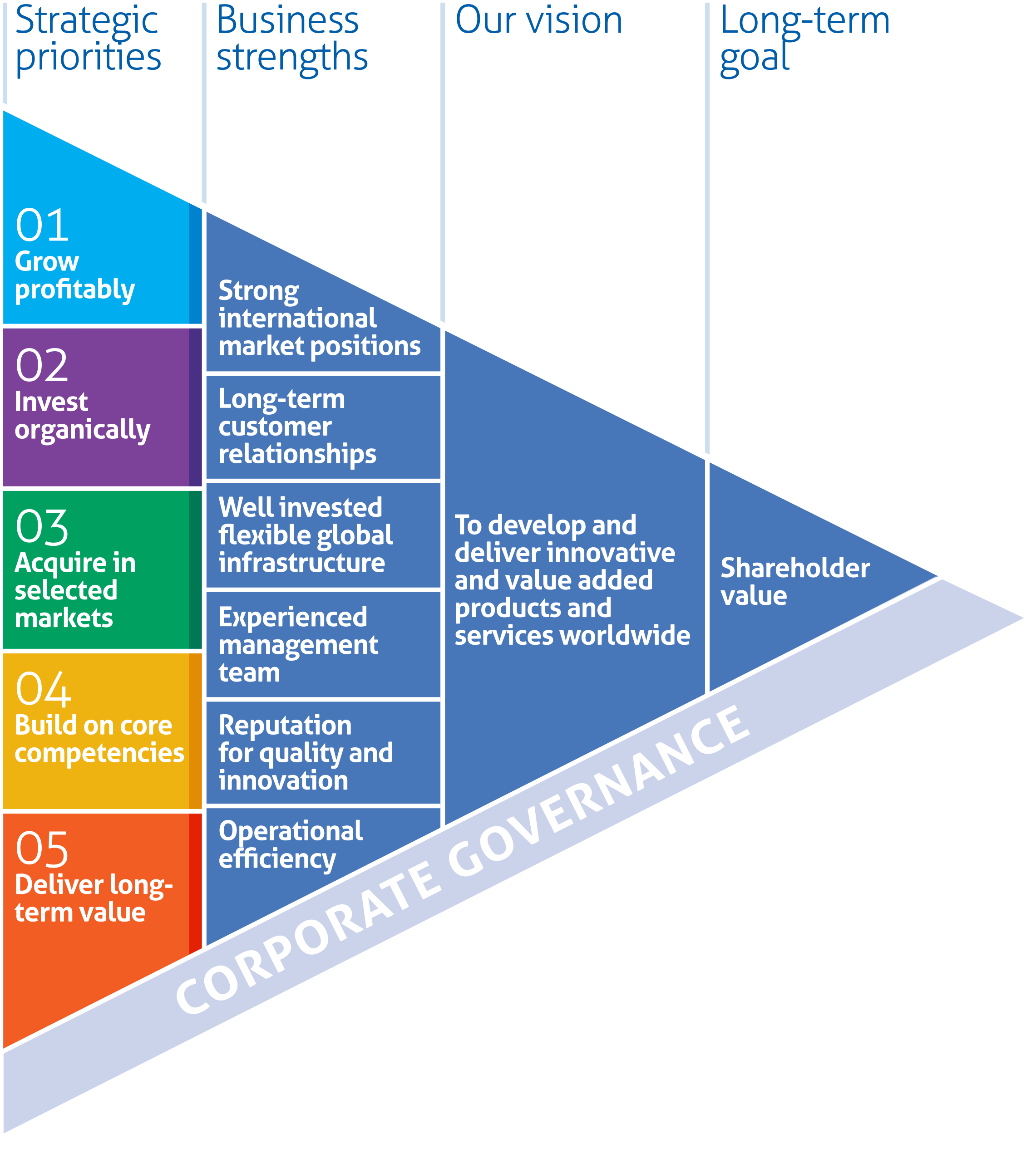
Our strategy

Filtrona's strategic goal is to continue to grow profitably for the benefit of its shareholders by investing organically in each of its divisions and by acquisition within its higher margin, higher growth potential businesses.



Filtrona is a leading international supplier of speciality plastic and fibre products with four operating divisions. www.filtrona.com

Protection & Finishing Products

A global market leading provider of protection and finishing solutions, manufacturing and distributing plastic injection moulded, dip moulded, adhesive-coated foam and metal products. 40 operating units in 14 countries serve a very broad base of customers with a rapid supply of primarily plastic products for protection and finishing applications in industries such as hydraulics, pneumatics, oil and gas, electrical controls, point of purchase and tubular metal products.

2009 HIGHLIGHTS

- Strong cash conversion
- Sustained marketing investment
- 18% increase in new accounts
- Increasing revenue in China

16.7%
Operating margin[1]

£15.9m
Operating profit[1]

Coated & Security Products

The global market leading producer of high quality self-adhesive tear tape and a growing 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. Also includes plastic profile extrusion activities in The Netherlands.

2009 HIGHLIGHTS

- Operating margin growth
- Success in the security label market
- New business for authentication system
- Resilient tear tape performance

14.0%
Operating margin[1]

£12.2m
Operating profit[1]

1 Before intangible amortisation and major restructuring costs

Filtrona's global network includes 3,160 employees, 29 principal manufacturing facilities, 41 sales & distribution operations and six research & developments centres.

Porous Technologies

The leading global technology developer and manufacturer of custom bonded fibre and hydrophilic foam components. Its components handle fluid and vapour and deliver 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 medical diagnostics and wound care, inkjet printer cartridges, writing instruments, and air fresheners.

2009 HIGHLIGHTS

- Positive impact of new products
- Strong cash conversion
- Reinbek refurbishment already showing benefits
- Successful integration of Lendell

22.0%
Operating margin[2]

£14.5m
Operating profit[2]

Filter Products

This division is the only global independent cigarette filter supplier. The 12 worldwide locations, including a UK-based research facility and three regional development centres, provide a flexible infrastructure strategically positioned to serve the cigarette industry. The division supplies a wide range of value adding high quality innovative filters from monoacetate to multi-segment speciality filters with sophisticated adsorbent materials.

2009 HIGHLIGHTS

- Improved conversion costs
- Continued investment in research & development facilities
- Development of new proprietary products
- Increased diversity of international customer base

10.9%
Operating margin[1]

£22.1m
Operating profit[1]

1 Before intangible amortisation and major restructuring costs
2 Before intangible amortisation

2009 Highlights
Continuing operations

FINANCIAL

- Reported revenue growth of 2.8%, with adjusted operating profit down 1.1%
- Robust operating margin of 12.7%
- Three of four divisions deliver growth in adjusted operating profit[1] at constant exchange rates
- Operating cash flow of £72.5m, up 28.8%. Cash conversion of 129%
- Strong balance sheet, with net debt reduced by £75.0m to £107.1m
- Total dividend maintained at 7.78p per share

OPERATIONAL

- Good performance in Porous Technologies, with the division benefiting from significant new inkjet printer business and continued growth in medical products
- Operating margin growth in Coated & Security Products supported by revenues from the Payne authentication system
- Continued resilience from Filter Products, evidenced by revenue growth and steady operating margin
- Effective cost control and sustained marketing in Protection & Finishing Products provides strong platform to benefit from the recovery

2009	444.0
2008	431.7
2007	404.2
2006	418.0

Revenue

£444.0m +2.8%

2009	56.2
2008	56.8
2007	55.1
2006	47.6

Operating profit[1]

£56.2m (1.1%)

2009	12.7
2008	13.2
2007	13.6
2006	11.4

Operating margin[1]

12.7%

2009	46.2
2008	50.0
2007	48.9
2006	41.5

Profit before tax[1]

£46.2m (7.6%)

1 Before intangible amortisation, major restructuring costs and exceptional acquisition fees (2008: intangible amortisation and exceptional acquisition fees)

CONTENTS

Business Strengths

Strong international market positions

Filtrona has secured leading positions across the globe in many of its served markets, with key sources of differentiation provided by its investment in international infrastructure, technology, innovation and people. The strength of the Filtrona businesses within their respective served markets has enabled the Group to deliver attractive margins over a sustained period.

Long-term customer relationships

Filtrona has developed its business by maintaining a close relationship with a wide portfolio of blue chip customers who are successful leaders in their respective markets. The high standards of service and supply demanded by such customers have helped to drive continuous improvement across the Group. The Company's manufacturing and distribution expertise add value in response to customer demands and its innovative capabilities drive the joint development of new products and services with key strategic partners.

Business Strengths

Filtrona has a well invested and flexible international production, sourcing and supply chain infrastructure. This ensures the delivery of cost competitive and high quality products in response to customers' requirements and the levels of service and geographic reach provide an important competitive differentiator. The Company has effectively leveraged individual locations by offering businesses across the Group the opportunity to use the existing infrastructure and management to exploit new opportunities efficiently and cost effectively.

Experienced management team

Filtrona has a highly experienced and well regarded management team that has established itself as one of the industry leaders in terms of operating performance and knowledge. The detailed knowledge of customer needs and market trends enables positive actions to drive performance and secures swift responses to changing priorities. Technical expertise is reflected in production and supply chain efficiencies and product innovation.

Business Strengths

The continued successful launch of new products and services is a key driver for the future growth of Filtrona. Investment in research and development functions, supported by the identification of additional product sourcing opportunities, to deliver product innovation and range development provides the platform to further enhance Filtrona's competitive positions. Robust quality systems to internationally accredited standards assist the fulfilment of customers' demands.

Operational efficiency

Filtrona has a comprehensive production and distribution footprint which can be flexed to respond to customers' needs, whether they be product, service, cost or supply chain driven. Supported by sophisticated IT systems, the Company is focused on being a low cost producer to secure revenue growth at attractive margins. Continuous improvement programmes, with tight cost control and productivity gains, serve to reduce conversion costs.

Chairman's Statement

2009 was a year which saw Filtrona confronted with extremely tough macroeconomic conditions in most of the markets in which we trade. Our management responded quickly and positively to the downturn, and took the actions necessary to reduce our operating costs, whilst maintaining investment in research & development and marketing so that the Group is well placed for the economic recovery as that occurs.

The underlying resilience of the Group is reflected in the increase in operating profits in the Porous Technologies, Coated & Security Products and Filter Products divisions during the year.

The Protection & Finishing Products division was hardest hit by the recessionary pressures, with a particularly dramatic decline in its MSI business, which supplies components to the oil and gas industry; but cost reduction measures in the division, further consolidation of manufacturing and continued marketing investment undertaken in 2009 are already improving our performance in 2010.

The strength of all four of the Group's divisions is demonstrated in the table below, which details key performance ratios for each of them during 2009. All the divisions showed strong cash generation in excess of operating profits, together with high return on asset ratios. The resilient performance, strong cash generation and reduced year end borrowings have led the Board to recommend a final dividend of 5.08p per share, which, if approved by the shareholders at the Annual General Meeting on 22 April 2010, will make a total dividend of 7.78p per share (2008: 7.78p) for the full year. The final dividend will be paid on 30 April 2010 to shareholders on the register at 16 April 2010.

The Board has remained focused on the development and delivery of the Company's strategic priorities. The sale of the North American Plastic Profile & Sheet business was another positive step towards focusing the Group on higher margin, higher growth potential businesses. With such uncertain economic conditions, negotiations for acquisitions have proved extremely difficult and we were unsuccessful in the pursuit of a significant acquisition. However, our strategy remains unchanged, to seek acquisitions where shareholder value can be delivered.

The successful early refinancing of the Group's main credit facilities, which was achieved in the first few months of the year at a time of major uncertainty in the financial markets, was also an important development during 2009 and part of the Company's prudent management of financial risk. At the year end, we had headroom in our committed undrawn facilities of £44.8 million.

Financial Summary

Division	EBITDA[1,2]	Operating cash flow[3]	Conversion ratio[4]	Return on capital[5]
Protection & Finishing Products	£21.9m	£27.9m	155%	25.7%
Porous Technologies	£17.7m	£14.9m	103%	29.5%
Coated & Security Products	£17.1m	£16.7m	137%	25.0%
Filter Products	£29.7m	£28.3m	128%	27.3%

Resilient portfolio, strong cash generation and returns

1 Excludes central services
2 Adjusted operating profit before depreciation and share option expense
3 Adjusted operating profit before depreciation and share option expense, less movements in working capital, less net capital expenditure
4 Operating cash flow divided by adjusted operating profit
5 Adjusted operating profit for last 12 months divided by the average invested capital (excluding intangibles) for last 12 months

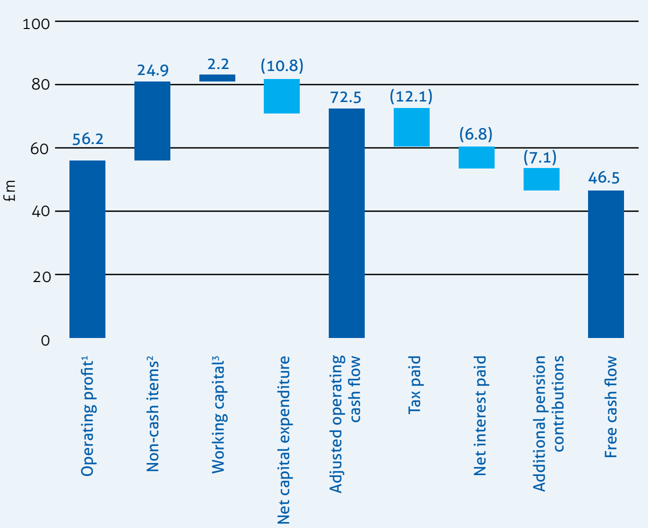
Terry Twigger was appointed as a Non-executive Director and Chairman of the Audit Committee from 1 June 2009. Terry has a wealth of international experience and his financial and commercial skills have already enhanced the quality of the debate at the Board. Adrian Auer left the Board on 1 June 2009 and we thank him for his valued contributions to our discussions.

Inevitably, 2009 was a very tough year for Filtrona's employees and, regrettably, significant headcount reductions were made across the Group. Despite the pressures of the year, the skill and commitment of the Company's personnel was outstanding, and we maintained the highest standards of customer service. On behalf of the Board, I would like to thank them for their continued support and great contribution to Filtrona's performance in 2009.

Jeff Harris
Chairman
25 February 2010

"Management responded quickly and efficiently to the downturn, securing a resilient performance with strong cash generation."

Free cash flow reconciliation



1 Before intangible amortisation, major restructuring costs and exceptional acquisition fees
2 Depreciation, share option expense, impairments to property, plant and equipment and other non-cash movements
3 Decrease in inventories, trade and other receivables and trade and other payables

Chief Executive's Review

"The diversity of products, customers and served markets enabled Filtrona to perform well in 2009, reflecting the strength and quality of the businesses."

Overview

Filtrona is a leading international supplier of speciality plastic and fibre products with four operating divisions; Protection & Finishing Products, Porous Technologies, Coated & Security Products, and Filter Products. From its global network of 29 principal manufacturing facilities, 41 sales & distribution operations and six research & development centres, and with 3,160 employees, Filtrona focuses on the light manufacture and distribution of high volume, small but essential products to a wide range of customers, across diverse geographies within a broad, but targeted range of international markets.

The diversity of products, customers and served markets enabled Filtrona to perform well against the back drop of the global downturn. As expected, the recession restricted the pace of organic development within the Company given the sensitivity of some of Filtrona's businesses to consumer demand and manufacturing activity. In this context, achievement of operating profit growth in three of the four operating divisions, at constant exchange rates, demonstrates the strength and quality of the businesses within Filtrona.

The Company was able to make further progress in its strategy of optimising its portfolio of businesses and, to this end, the disposal of Filtrona's North American Plastic Profile & Sheet business was announced in March for a maximum consideration of up to US$115m. The Company also continued to explore acquisition opportunities in its higher growth and higher margin divisions. As a result of being outbid at an advanced stage of one such opportunity, £1.9m of transaction costs have been written-off and are presented separately by virtue of their size and incidence.

The Company successfully refinanced its long-term funding arrangements in April. The new facilities comprise three-year term loans of €84.7m and US$35.9m and a three-year US$143.7m revolving credit facility. At the year end, the value of the facilities was £186.5m. The higher fees and margins associated with these new facilities, combined with higher pension interest, led to the £3.2m increase in the net finance charge to £10.0m (2008: £6.8m). The impact of the increased net finance charge on earnings per share was a reduction of 1.1p per share.

During the year, there was a continued intense focus on costs and productivity improvement. Headcount for continuing operations reduced by 281 in the year to 3,160 with the principal reductions taking place in the Protection & Finishing Products and Filter Products divisions. On a constant exchange rate basis, revenue per employee increased by 3.8% from £130k to £135k.

Within Protection & Finishing Products, the manufacturing operations in the Skiffy, Amsterdam facility were successfully transferred to the Moss operation near Oxford. Within Coated & Security Products, the Mold ID card operation was closed and production operations were relocated to Banbury. In addition, the small ID card business in Madrid, Spain was closed. In the Filter Products division, a major downsizing of the facility at Jarrow on Tyneside was announced and phased reductions were progressed through the year and will be completed during the first half of 2010. The costs of this major restructuring in the year were £5.5m of cash and, with additional non-cash costs of £3.4m, totalled £8.9m. These major restructuring costs are shown separately by virtue of their size and incidence.

Early signs of recovery have been seen in the Protection & Finishing Products division and success with new product introductions in the Porous Technologies division is continuing. Continued resilience in the Coated & Security Products and Filter Products divisions is expected and, while the profile of the global economic recovery is currently unclear, the Board looks forward to Filtrona's performance in 2010 with confidence.

Strategy

Filtrona's strategic goal is to continue to grow profitably for the benefit of its shareholders by investing organically in each of its divisions and by acquisition within its higher margin, higher growth potential businesses.

During 2009, the Company disposed of the North American Plastic Profile & Sheet business which has released financial resources to assist in the pursuit of this strategic goal.

Filtrona's strategic approach is to build on its core competencies and strong international positions through the investment in, and acquisition of, businesses which are engaged in the development, manufacture, sourcing and distribution of high volume, low unit cost, small but essential products for use in consumer, medical and industrial markets. The Company will seek to acquire in known markets which fall within the existing scope of, or are complementary to, the operations of existing businesses within the Group.

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.

Filtrona's key served markets, as shown in Figure 1 on page 14, represent important industrial and consumer product segments with a bias towards more defensive markets. Filtrona's top ten customers in 2009 represented 41.7% of revenue.

In 2009, the geographical destination of the Company's revenue was as shown in Figure 2 on page 14. 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 28.4% of revenue in 2009, up from 24.3% of revenue in 2008.

Chief Executive's Review

How we've measured up... in the delivery of our strategic priorities

Grow profitably

DELIVERING SUCCESS	2009 PROGRESS (COMPARED WITH 2008)
The growth in underlying **operating profit before tax** provides the key measure of the performance of the Company over time	(1.1%)
The analysis of annual **revenue** demonstrates the Company's ability to grow sales by operating in selected markets and offering differentiated, cost competitive products and services	+2.8%
Operating margin monitors operating efficiency and value added	(0.5%)
Underlying cash inflow from operating activities reflects the Company's ability to turn profit into cash through the effective management of working capital and capital expenditure	+9.2%

Invest organically

DELIVERING SUCCESS	2009 PROGRESS
Investments in: • **Sales & marketing** to increase demand and attract new customers	• Strategic decision to maintain levels of marketing investment with Protection & Finishing Products • Cross-selling of foam and fibre technologies within Porous Technologies • Generation of positive lead indicators for 2010
• **Research & development** to secure new and innovative products and services	• Generation of healthy pipeline of innovative new products and services in several key markets • Continued project development with strategic partners • Strong sales of new products in Coated & Security Products and Porous Technologies
• **Infrastructure** to provide the cost competitive delivery of high quality products and services	• Skiffy manufacturing transferred to Moss facility in UK • Renovation of Porous Technologies' Reinbek, Germany facility • New Payne laboratory at Nottingham, UK • New development facility for Filter Products in Indonesia

Acquire in selected markets

DELIVERING SUCCESS	2009 PROGRESS
Identification of **corporate transactions** to enable further focus on higher margin, higher growth potential businesses	Outbid at final stages of significant acquisition opportunity Completion of Lendell integration Sale of North American Plastic Profile & Sheet business

Build on core competencies

DELIVERING SUCCESS	2009 PROGRESS
Product innovation	Continued success with the launch of new products and services
Customer service	Further improvements in quality standards and delivery performance
Operational efficiency	Benefits derived from cost reduction and productivity improvements
International capability	Further strategic development of flexible infrastructure to strengthen capability to meet customers' demands

Deliver long-term value

DELIVERING SUCCESS	2009 PROGRESS (COMPARED WITH 2008)
Return on average invested capital reflects the success of the Company in achieving superior returns on its invested capital	(150bps)
Adjusted earnings per share measures the benefits generated for shareholders from the Company's overall performance	(8.1%)
Dividend payment for year	7.78p (as per prior year)
Share price	+38.2%

Chief Executive's Review

Figure 1 2009 Key served markets

- 54.0% Tobacco
- 8.4% General Industrial
- 4.7% Writing Instruments
- 3.8% Healthcare
- 2.8% Oil and Gas
- 2.3% Point of Purchase
- 2.2% Construction
- 21.8% Other

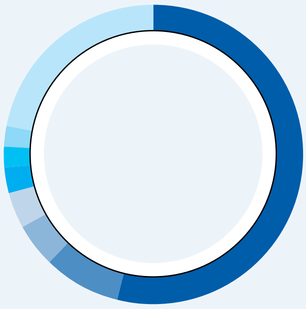
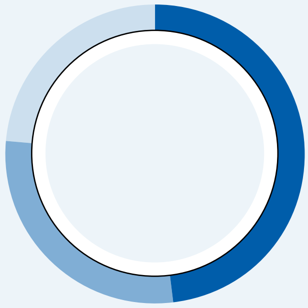


Figure 2 Geographical spread of revenue

- 48.3% Europe
- 28.4% Rest of World
- 23.3% North America



"Excellent cashflow reflects the strength of Filtrona's market positions and cash generative business model. Sustained investment will assist future growth."

Performance

At a group level, revenue was up against the prior year by 2.8% at £444.0m (2008: £431.7m) and down 5.8% at constant exchange rates. Adjusted operating profit was down 1.1% at £56.2m (2008: £56.8m) and down 12.2% at constant exchange rates. Adjusted operating margin was a robust 12.7% (2008: 13.2%).

During 2009, Filtrona delivered operating profit growth, at constant exchange rates, in three of its four divisions – Porous Technologies, Coated & Security Products and Filter Products – with all three increasing their margins compared to 2008. The one exception was Protection & Finishing Products which experienced tough trading conditions in industrial markets generally, and the oil and gas drilling market specifically, resulting in a sharp downturn in operating profit and a reduction in margin to 16.7% from 23.3% in 2008.

The robust operating profit performance of the Group, combined with improved management of working capital and capital expenditure significantly below depreciation, led to a strong operating cash flow performance of £72.5m, an increase of 28.8% on the prior year. This represents a conversion ratio of adjusted operating profit to operating cash of 129%. This performance once again reflected the strength of Filtrona's cash generative business model. Working capital as a percentage of Group revenue improved to 13.8% from 14.2% in 2008 (at constant exchange rates) and net capital expenditure of £10.8m was 52% of the depreciation charge of £20.7m.

Adjusted earnings per share fell by 8.1% to 14.8p (2008: 16.1p), as a result of the reduction in operating profit and a £3.2m increase in the net finance charge. Basic earnings per share fell by 38.5% to 9.1p (2008: 14.8p) due to £10.8m of previously announced charges shown separately, which included major restructuring costs, primarily in the Filter Products division, of £8.9m and £1.9m of fees associated with being outbid at an advanced stage of a significant acquisition opportunity.

Net debt reduced by £75.0m to £107.1m (2008: £182.1m), due primarily to the strong operating cash flow and the £54.0m net cash proceeds from the disposal of the North American Plastic Profile & Sheet business which was completed in March following shareholder approval. The ratio of net debt to EBITDA (adjusted operating profit before depreciation, share option expenses and other non-cash items) at the year end reduced to 1.4 from 2.1 at 31 December 2008. Interest cover was 7.2x, compared with 9.6x at the end of 2008.

The delivery of Filtrona's strategic priorities is underpinned by focusing on key performance indicators which measure the Company's progress in the delivery of shareholder value. The key financial performance indicators for the Group are set out on pages 12 and 13. As well as being used to measure the performance at Group level, a number of them are also used as principal quantitive 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 performance 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. Details of key measures for the businesses are detailed in the respective divisional reviews.

Our responsibility

Filtrona continues to operate within a strong corporate responsibility framework where activities are managed

Figure 3 Accident trend – Injury/illness

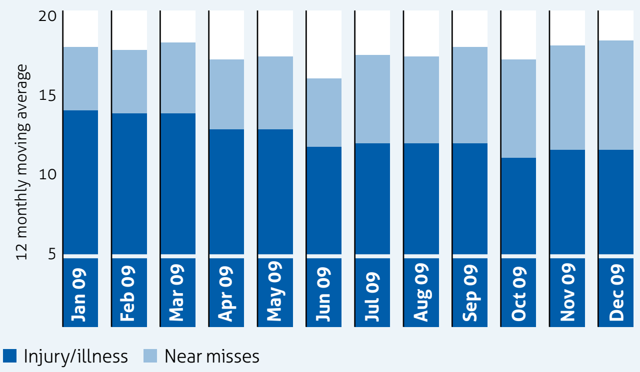
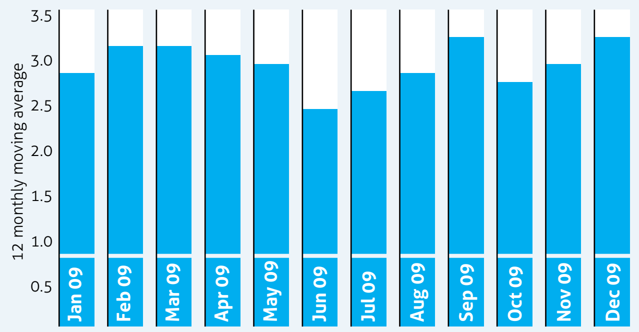


Figure 4 12 months lost time accident trend



"A responsible culture with internationally accredited systems."

to ensure that the Company maintains the high standards which reflect the expectations of the Company's internal and external stakeholders.

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 standard OHSAS 18001 for all of its principal manufacturing sites, excluding Lendell and Jarrow. In accordance with Filtrona policy, Lendell has been given two years from the date of acquisition to reach the required standard.

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 in 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 seven operations. Figures 3 and 4 above demonstrate the improvement in Filtrona's health and safety performance.

Filtrona has developed a responsible, progressive and winning culture. This culture recognises the role which the Company's relationship with all its stakeholders, and its interaction with the environment, has in securing competitive advantage and enhancing 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, cost savings stemming from initiatives focused on environmental benefits and sustainable practices further drive financial performance.

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.

An overview of 2009 is provided in the Corporate Responsibility Report on page 38.

Our people

Key for delivering long-term value to shareholders is the continued development, skills and commitment of Filtrona employees across the world. This is fundamental to ensuring the quality and 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 care and responsibility.

Filtrona strives to maintain the highest ethical standards at all times in the conduct of its international operations. The Company'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's values and the standards of conduct demonstrated by Filtrona's employees across a variety of regions and cultures can impact on the development of the long-term business relationships which the Company has maintained and continues to foster.

Mark Harper
Chief Executive
25 February 2010

Review of Operations

Protection & Finishing Products

WHAT WE DO

The Protection & Finishing Products division ('PFP') is a global market leading provider of protection and finishing products, manufacturing and distributing plastic injection moulded, dip moulded, adhesive-coated foam and metal products.
40 operating units in 14 countries serve a very broad base of over 75,000 customers with a rapid supply of products for protection and finishing applications in industries such as hydraulics, pneumatics, oil and gas, electrical controls, point of purchase and tubular metal products.

PFP operates a group of five high quality businesses that follow a central theme of supplying low value but essential products to an ever growing range of industries and customers across a wide geographical spread. With the exception of MSI, which operates on a discrete basis to the rest of the division with its specialist oil and gas industry products and service requirements, the PFP businesses share a common business model that centres on high quality levels of service and low transaction costs for the high volumes of daily sales activity with multiple customers. The diversity of the customer base is reflected in the fact that no customer accounts for more than 2% of divisional sales.

HOW WE DO IT

The key components of the PFP business model are active business to business marketing, an ever growing product range and geographic distribution capability, supported by efficient sourcing and manufacturing operations, and an extensive IT platform. The quality and nature of the production equipment, based around specialised tooling, and the benefits derived from increasingly sophisticated and integrated IT and distribution systems combine to provide significant commercial advantage and the ability to respond to the demands of a diverse international customer base. The majority of the division's businesses are driven by marketing expertise and a strong service ethic in support of comprehensive product catalogues available in many different languages.

The PFP businesses target organic growth opportunities through increasing the range and availability of their products, and by network expansion into new international territories. Driving an increased number of transactions from a growing customer base, whilst focusing on the further reduction of transaction costs, is a key objective for the success of the division. PFP also seeks out acquisitions which can move the division into complementary product categories and add further distribution capability.

HOW WE'VE PERFORMED

2009	15.9
2008	26.7
2007	22.7

Operating profit[1]

£15.9m (40.4%)

2009	95.3
2008	114.6
2007	96.6

Revenue

£95.3m (16.8%)

2009	131.1
2008	127.7
2007	111.4

Revenue per employee

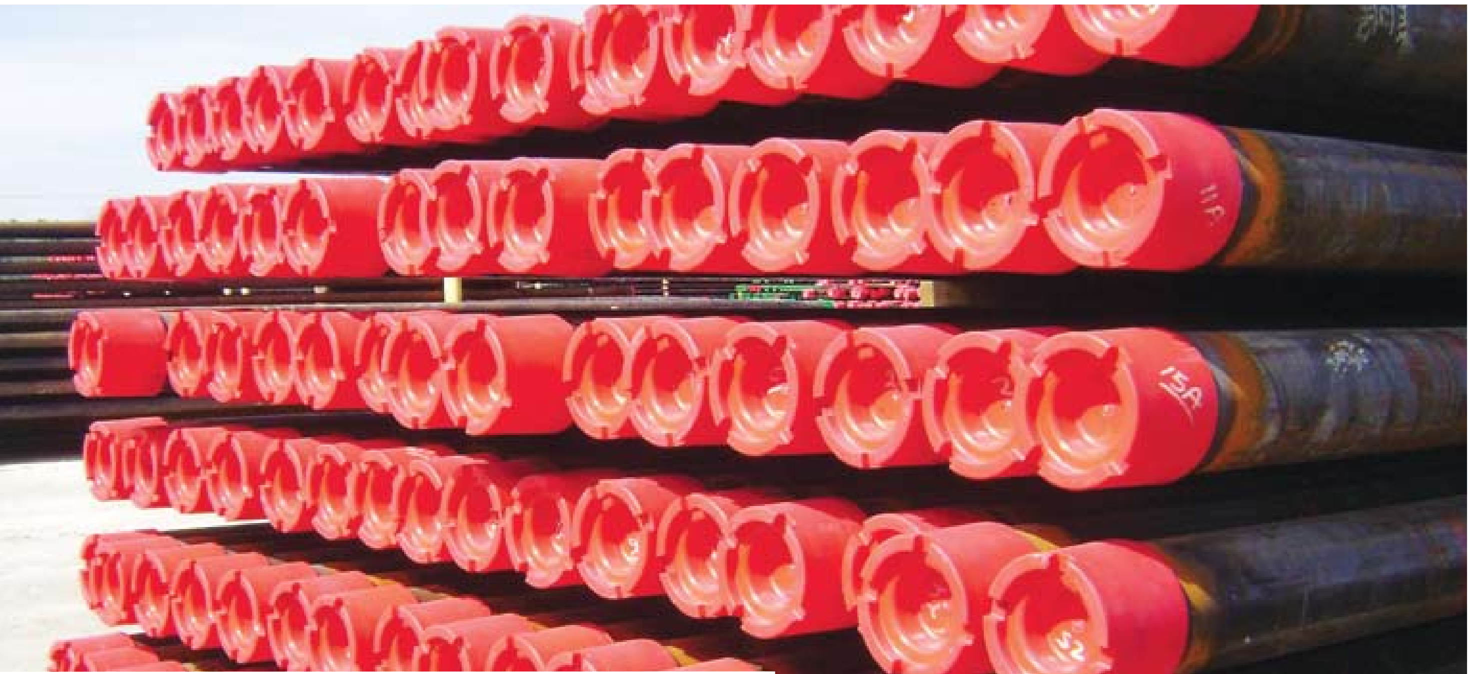
£131.1k +2.7%

2009	16.7
2008	23.3
2007	23.5

Operating margin[1]

16.7%

1 Before intangible amortisation and major restructuring costs



2010 INITIATIVES

- Further development of the IT platform, with an emphasis on the data mining resource to further align marketing programmes with customer profiles
- Continued product range development and new catalogue launches to generate expansion into new markets and sectors outside manufacturing
- Geographic expansion with Duraco and Moss moving further into China and Moss exploring potential start up sites across Europe
- Identify, acquire and successfully integrate acquisition opportunities which provide the potential for higher growth and higher margins

> "Cost reduction actions in response to the difficult trading environment were a key focus for 2009. However, the strategic decision to sustain marketing investment has generated strong lead indicators for when economic conditions improve."

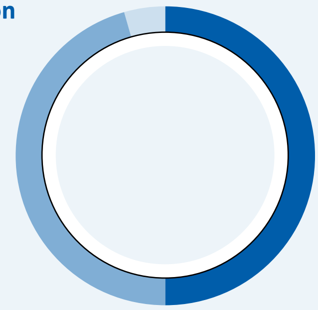
Rob Purcell, *Managing Director, Protection & Finishing Products*

Review of Operations

Protection & Finishing Products

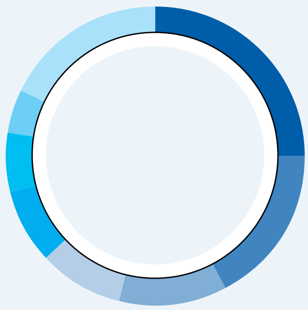
2009 Revenue by destination (%)

Europe	49.8
North America	45.9
Rest of World	4.3



2009 Revenue by end market (%)

Fabrication machinery	25.0
Oil and gas	17.4
Point of purchase	11.5
Automotive	9.3
Distributors	8.1
Electrical Electronics	6.4
Hydraulics/Pneumatics	4.7
Other	17.6



How we've performed

Revenue declined by 16.8% to £95.3m (2008: £114.6m) and, at constant exchange rates, declined by 25.3%. Adjusted operating profit fell by 40.4% to £15.9m (2008: £26.7m) due to the adverse operational gearing impact of the revenue decline. At constant exchange rates, the decline in adjusted operating profit was 46.8%.

Cash conversion was strong with a 155% conversion ratio of adjusted operating profit into operating cash flow. Adjusted operating margin fell from 23.3% to 16.7%, supported by significant cost reduction actions which occurred at the end of 2008 and the early part of 2009. The quality of analysis available through the division's IT systems facilitated its ability to take prompt action in response to the rapid and severe volume declines which were experienced in a number of key served markets. Headcount in the division fell from 902 in November 2008 to 722 at the end of December 2009. Despite the headcount reduction, revenue per employee at constant exchange rates fell from £142k at the end of 2008 to £131k at the end of 2009.

Whilst all the PFP businesses were hit by the downturn in 2009, with MSI hit particularly hard, the performance demonstrates the fundamental strength and resilience of the business model which is employed across the majority of the division. As demand recovers, the cost reductions which have been made in 2009 should serve to drive future performance. With the consistent application of the established strategy the division has continued to win new business in record numbers and grown market share. Investment continued across the businesses during the year, though the constraints imposed by the prevailing economic conditions lead to potential start-up projects being put on hold.

The Company made a strategic decision to sustain the level of marketing investment in the divisional operating units, generating strong lead indicators which will benefit the Company as and when economic conditions improve.

During the year, the division generated 30% more catalogue and sample requests which led to an 18% increase in new accounts opened. The division increased its utilisation of e-marketing techniques which continue to grow in importance. As a result of the ongoing marketing programme, the higher margin proprietary parts sales grew as a proportion of total divisional revenue to 67% .

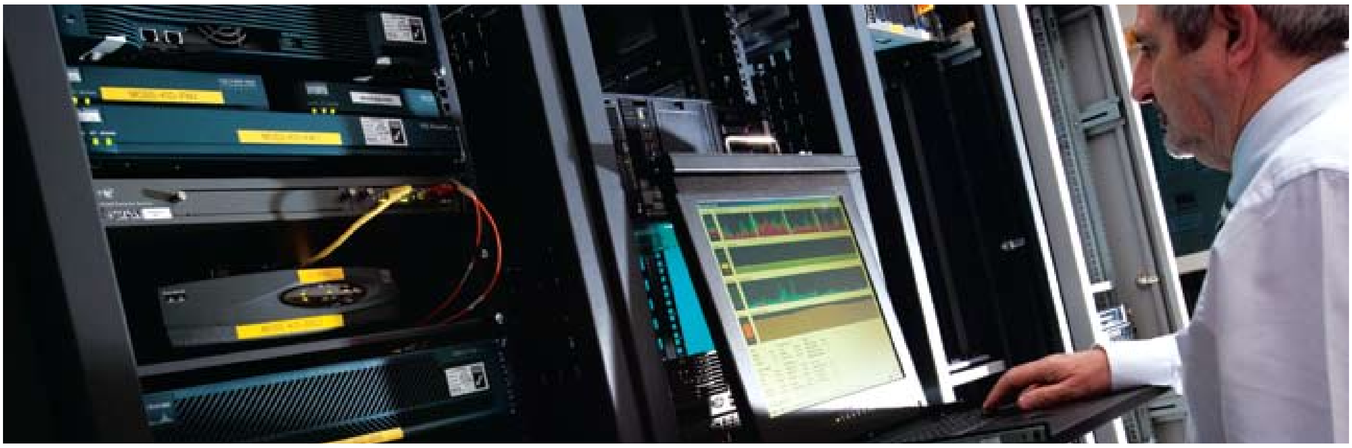
In North America, the divisional businesses were all affected by the economic downturn, but were impacted differently in timing and severity. The flexibility of the US labour market enabled each of these businesses to react promptly to market conditions with significant lay-offs.

Alliance, the US-based plastic parts supplier, encountered difficult market conditions and market sectors dependent upon consumer and business capital spending, such as automotive and off-road machinery and equipment, were particularly badly affected. MSI, the oil country tubular goods thread protector business, was severely impacted by the downturn in the North American drilling rig count which occurred in the first quarter of 2009 and the management of the cost base remained the key focus for the rest of the year.

Duraco, the US-based manufacturer and distributor of speciality pressure-sensitive foam tapes, was impacted slightly earlier than the other businesses and showed a smoother demand profile due in part to its core point of purchase market. The business was concentrated on the further implementation of the divisional commercial strategy as the integration continued in accordance with the plans established at the time of the acquisition in 2007. Significant cost reductions were made and the launch of a new catalogue late in the year is anticipated to benefit performance in 2010. Progress has been made with the health and safety performance at the facility in Chicago, US, culminating in the achievement of a gold standard as recognised in the Filtrona Group HSE Awards for 2009. Environmental initiatives have also been adopted in response to Filtrona's programmes and customers' demands.

In Europe, Moss and Skiffy, the industrial parts suppliers, encountered similarly difficult market conditions as weakness was experienced in all served markets and geographies. However, the recent start-up in Madrid, Spain, is growing well and Moss has begun to exploit some opportunities within non-manufacturing based markets and these proved successful during the year.

In general, activity in emerging markets was encouraging during the year. The Alliance operation in Brazil was impacted by the downturn in that market, but recovered strongly in the fourth quarter. Recent new business start-ups have continued to develop and those in Eastern Europe are beginning to show early signs of recovery. Revenue from the Moss, China operation increased by 177% from a small base and sales of Duraco product into China grew rapidly, indicating that the Duraco proposition satisfies a developing requirement within the Chinese market.



WHAT WE MEASURE	WHY WE MEASURE IT	HOW WE DID (COMPARED WITH 2008)
New customer acquisition	Reflects the success of targeting organic growth opportunities	Increased by 18%
Success of marketing activity	Indicates the potential revenue generating impact of marketing investment	Increased by 30%
On time in full	Demonstrates ability to meet delivery demands	Improved by 4%

Our responsibility
The division's focus on corporate responsibility issues centres on the fundamental objective of securing the health and safety of all its employees and continuous improvements were made during the year in the risk assessment processes supported by a renewed emphasis on near miss reporting.

The table below details the extent of the accreditations held at the main manufacturing sites across the division. Additional auditing protocols are also being implemented across the distribution sites to drive similar standards of performance.

	ISO 9000	ISO 14001	OHSAS 18001
Moss Kidlington	✓	✓	✓
Alliance Erie	✓	✓	✓
Duraco Chicago	✓	✓	✓
MSI Houston	✓	✓	✓
MSI Mexico	✓	✓	✓
Skiffy Holland	✓	✓	✓
Skiffy France	✓	✓	✓

ISO 9000 is the international standard for quality performance
ISO 14001 is the international standard for environmental performance
OHSAS 18001 is the internationally recognised standard for occupational health commitment and performance

In addition to compliance with environmental standards and a commitment to reducing their impact on the environment, the PFP businesses are increasingly focused on the extent to which new environmentally friendly products and processes may drive down costs and present new opportunities to add value in response to customer demands.

As an example, Alliance Plastics introduced a new product line featuring a general protection product that is constructed from a combination of renewable, managed resources and recycled materials. These paper caps offer customers a biodegradable and recyclable general protection alternative and the new range features 39 products covering a wide array of uses.

Outlook
Order input trends experienced late in 2009 and early in 2010 have been favourable. In particular, MSI has experienced a rapid improvement in activity due to improvements in the North American drilling rig count and the levy by the US government of significant duties on the importation of steel pipe made in China. Looking forward to 2010, while recovery in many of the division's served markets and key geographies is anticipated, the extent and precise timing of any such recovery is currently unclear. In addition, the Company will continue to seek further acquisitions in this higher growth potential area.

Review of Operations

Porous Technologies

WHAT WE DO

The Porous Technologies division ('PT') is the leading global technology developer and manufacturer of custom bonded fibre and hydrophilic foam components. Its components handle fluid and vapour and deliver 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 medical diagnostics and wound care, inkjet printer cartridges, writing instruments, and air fresheners.

The division's aim is to be the world leading technology developer and supplier of porous media custom technical components. The division operates from manufacturing locations in the US, Germany and China together with, additional strategically located global, sales and customer service functions, including Japan. PT develops and manufactures functional components that deliver high value and precision performance to many well-known consumer, industrial and medical brands. These components are used in a wide range of product applications, including inkjet printer cartridges, advanced wound care, surgical and medical diagnostic devices, and consumer based products such as writing instruments and air fresheners.

HOW WE DO IT

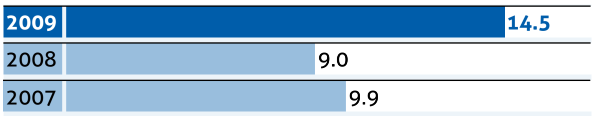
The division focuses on working closely with customers from project inception to commercialisation by applying existing technologies or developing entirely new product technologies to meet performance requirements.

PT consistently delivers high quality service with performance levels reflected by a variety of international accreditations. The business is supported by skilled research and development and engineering departments that generate a significant amount of intellectual property in the areas of new materials, manufacturing processes, and applications.

Customers benefit from customised solutions for their applications that are produced to the high quality levels that result from robust and proprietary processes, material specifications, and manufacturing systems.

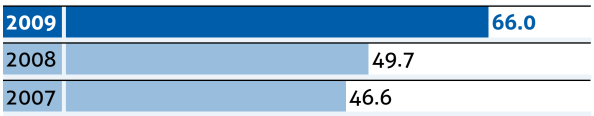
Customers also benefit from supply security, with the division utilising its global footprint to provide back up supply capabilities from multiple locations utilising identical proprietary processes and independent raw material supply chains.

HOW WE'VE PERFORMED



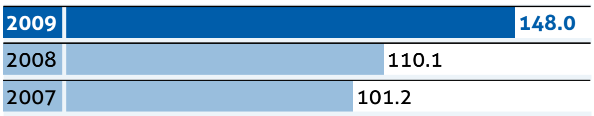
Operating profit[1]

£14.5m +61.1%



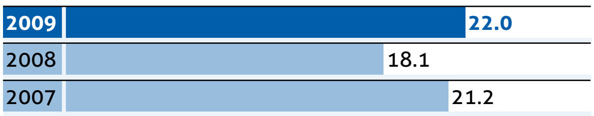
Revenue

£66.0m +32.8%



Revenue per employee

£148.0k +34.4%



Operating margin[1]

22.0%

1 Before intangible amortisation

2010 INITIATIVES

Focus new business development resources globally on higher potential growth opportunities within attractive markets

Secure diversification across multiple markets on an international scale to reduce exposure to economic and competitive threats

Drive the development of new proprietary technologies and explore further use of ecologically friendly products and components

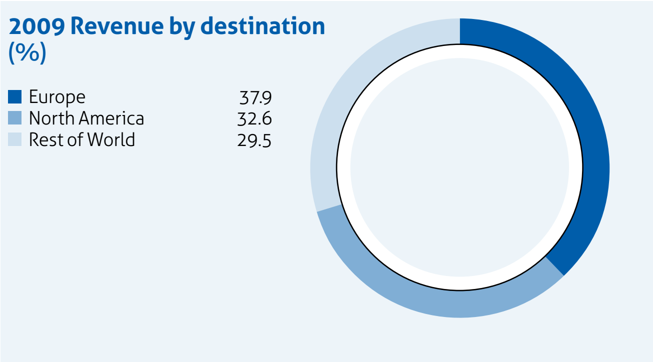
Seek acquisition opportunities to increase the portfolio of porous media technologies and presence in existing and adjacent markets and technologies

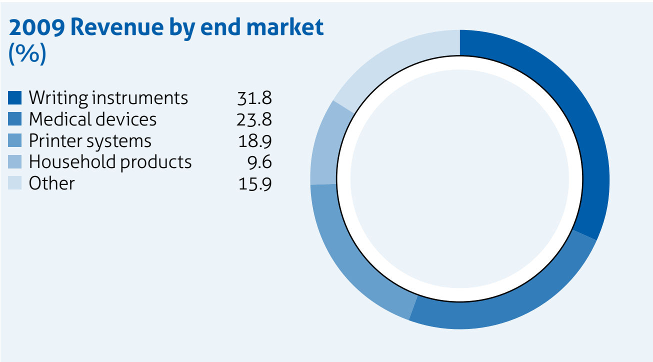
"2009 saw a strong performance, including the successful launch of new products in the healthcare and printer systems markets. These markets provide attractive opportunities for future growth."

Russ Rogers, *President, Porous Technologies*

Review of Operations

Porous Technologies





How we've performed

During 2009, the division delivered a strong performance, largely due to the positive impact of new products and applications, and the first full year contribution from the Lendell business which was acquired in October 2008. This performance was underpinned by tight cost control.

Revenue increased by 32.8% to £66.0m (2008: £49.7m), up 15.0% at constant exchange rates and up 5.1% after adjusting for the impact of the Lendell acquisition. Adjusted operating profit increased by 61.1% to £14.5m (2008: £9.0m), up 39.4% at constant exchange rates and up 18.9% after adjusting for the impact of the Lendell acquisition.

Cash conversion was strong with a 103% conversion ratio of adjusted operating profit into operating cash flow. Adjusted operating margin increased to 22.0% from 18.1% in 2008. Revenue per employee at constant exchange rates increased by 16.5% from £127k to £148k. Headcount reduced from 461 to 445 during the year.

PT had a particularly strong second half of the year, due primarily to the commercialisation of new products in the healthcare and printer systems markets. New business in the printer system market, including new business with another major original equipment inkjet printer manufacturer, together with some improvement in the aftermarket business, led to revenue growth of 91.6% during the year in the printer system segment.

Revenue in the medical products category increased by 4.8% with the benefit of a new product launch in quarter four for a component used by a market leading surgical device manufacturer.

The division's continued strategic emphasis on healthcare and medical product development also saw increased activity with a medical grade foam technology application due to the global H1N1 pandemic and emerging opportunities in Europe with advanced medical wound care customers.

Revenue in the division's more traditional markets of writing instruments and household products was depressed by reductions in consumer expenditure, particularly in the US and Europe. Although relative improvement was experienced in the second half of the year, the writing instruments product category finished down 12.7% and household products finished down 25.1%.

During the year, the renovation of the Reinbek, Germany facility progressed well and this will be completed in 2010. This comprehensive three year project has been focused on securing future operational efficiencies and it is already providing many of its expected benefits, such as improved energy efficiency, improved process flows and modernised factory infrastructure.

The integration of the Lendell hydrophilic foam products acquisition progressed smoothly and is now complete. The global marketing and cross-selling of fibre and foam technologies has already yielded new business and an encouraging pipeline of opportunities. In addition, significant operational improvements have been made in health and safety and product quality.

The division remained focused on the continuous development of intellectual property that will support future growth, with 16 patent applications being active in 2009. The drive to exploit synergy between the fibre and foam technologies produced the market introduction of a patent pending foam-fibre composite product for the woundcare market. Proprietary technologies will continue to be generated in support of the division's very strong development project pipeline, which is a mix of long, medium, and short-term projects that are distributed across high, medium, and low risk categories. The division is committed to dedicating a significant amount of its research and development resources on pure long-range technology development, but more aimed at next generation technologies and new market exploration as opposed to any specific product application.

WHAT WE MEASURE	WHY WE MEASURE IT	HOW WE DID (COMPARED WITH 2008)
Innovation Percentage of sales derived from recently developed products	Demonstrates the success of new products and technologies	Increased by 23%
Sustained IP development	Continuous development of intellectual property to support future growth and strong development project pipeline	16 active patent applications
Customer complaints	Drives performance of quality systems and service delivery	Reduced by 27%
Man hours per machinery hour	Indicative of shop floor productivity	Improved by 5%[1]

1 Excludes Lendell

Our responsibility

The division is focused on the delivery of the highest standards of safety, quality and performance across its international operations. The international accreditations held by PT are shown in the table below.

Global health and safety initiatives delivered year-on-year improvements, with the division having achieved a 40% reduction in reportable accidents with no lost-time accidents in the year.

All four PT factories received one of the Filtrona Group Safety Awards for 2009, and the overall safety performance across the division resulted in the division being awarded the Filtrona Chief Executive's award for health and safety performance during the year. The commitment by the management team and employees to the occupational safety awareness campaign which has been sustained over the last two years was fundamental in securing this award.

	ISO 9000	ISO 14001	OHSAS 18001
Fibertec Richmond	✓	✓	✓
Fibertec Ningbo	✓	✓	✓
Fibertec Reinbek	✓	✓	✓
Lendell Chicago	✓	✓	✓

ISO 9000 is the international standard for quality performance
ISO 14001 is the international standard for environmental performance
OHSAS 18001 is the internationally recognised standard for occupational health commitment and performance

Outlook

Looking forward to 2010, PT will sustain investment in developing its intellectual property which is a fundamental component of its business model. Investment in research & development continues to generate new materials and production technologies, and the new product pipeline remains healthy. It is anticipated that revenue in writing instruments and household products will show some recovery in 2010, and that revenue in printer systems and medical products will continue on their positive growth path. PT remains active in seeking acquisition opportunities within this higher margin, higher growth potential division.

Review of Operations

Coated & Security Products

WHAT WE DO

The Coated & Security Products division ('CSP') is a global market leading producer of high quality self-adhesive tear tape and a growing 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. The division also includes plastic profile extrusion activities in The Netherlands.

The two key markets for the CSP division are the packaging of consumer products, most notably for the tobacco industry, and document and identity solutions. The division's expertise lies in the development and manufacture of functional products designed to serve these markets, including self-adhesive tear tape for the easy opening of filmic overwrapped products, self-adhesive labels, films for the protection of valuable documents and plastic identity cards.

HOW WE DO IT

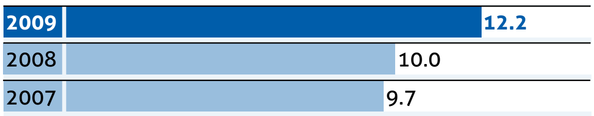
The strategy within CSP is to be the premier provider within markets of choice for creative and secure packaging, identity and security solutions to customers. The division focuses on the delivery of value added products and services to customers over the long-term through the continuous development of production capabilities and new technologies.

The division's competitive advantage is strengthened by its technical capability to provide additional functionality within its products to help customers improve their own products or to help them meet the challenges they face in conducting their business. In many cases, the greater functionality provided by the division involves adding print to enable the customer to promote their product, communicate with their customer or identify a product, a person or a document.

The innovation offered by the division also leads to the development of security technologies which give customers, or the Government agencies with whom they work, the ability to authenticate products and identities and to utilise the data which is generated in a more secure manner.

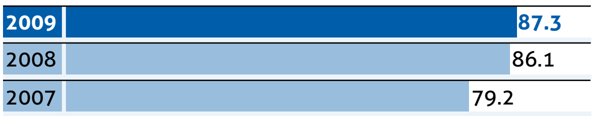
The division's investment in its facilities and employees, securing ongoing innovation, manufacturing excellence and high quality service delivery, underpin its proposition of value added products to an international customer base.

HOW WE'VE PERFORMED



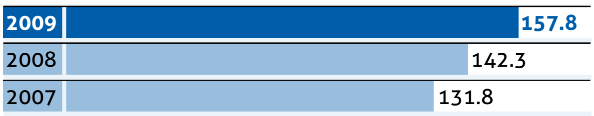
Operating profit[1]

£12.2m +22.0%



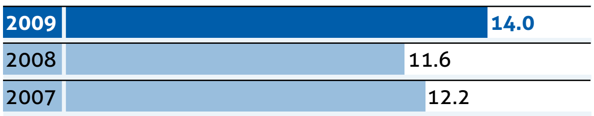
Revenue

£87.3m +1.4%



Revenue per employee

£157.8k +10.9%



Operating margin[1]

14.0%

1 Before intangible amortisation and major restructuring costs

OVERVIEW

BUSINESS REVIEW

CORPORATE GOVERNANCE

FINANCIAL STATEMENTS

2010 INITIATIVES

- Continue to develop sales from new products, capabilities, systems, applications, technologies, services and tooling
- Further investment in the development of new authentication systems
- Utilise the skills and experience developed alongside the FractureCode technology with other technologies to secure new revenue streams
- Further enhance capabilities in label manufacturing and card personalisation and fulfilment

"The division performed well in 2009. We maintained our market leading position for tear tape and the strategic development of new security technologies and applications continued."

Tony Edwards, *Managing Director, Coated & Security Products*

PAYNE

PAYNE SECURITY

FRACTURECODE CORPORATION

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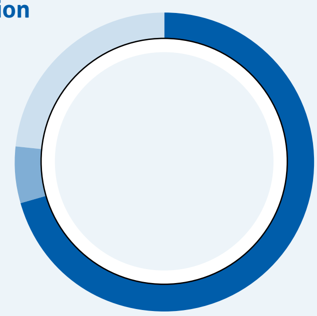
Review of Operations

Coated & Security Products

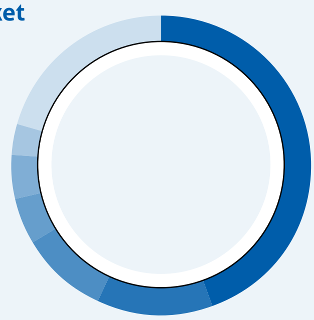
2009 Revenue by destination (%)

Europe	70.7
North America	6.0
Rest of World	23.3



2009 Revenue by end market (%)

Tobacco	44.5
Consumer goods	12.5
Point of purchase	9.6
Personal ID	4.9
Document authentication	4.7
Transit packaging	3.4
Other	20.4



How we've performed

During 2009, the 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. In the year, the division performed well with improvements in revenue, adjusted operating profit and adjusted operating margin.

Revenue increased by 1.4% to £87.3m (2008: £86.1m), although down 4.5% at constant exchange rates due to the sales contraction in the Enitor plastic extrusion business. Adjusted operating profit increased by 22.0% to £12.2m (2008: £10.0m) with the assistance of a £0.7m non-recurring payment from the termination of the FractureCode licence agreement. At constant exchange rates, adjusted operating profit was up by 17.3%, while adjusted operating margin improved to 14.0% (2008: 11.6%) as costs continued to be well controlled across the division. Cash conversion of adjusted operating profit into operating cash flow was 137%. Revenue per employee at constant exchange rates increased by 4.6% from £151k to £158k. Headcount was at the end of the year 564 (2008: 527).

The Payne tear tape business performed well in more difficult market conditions. Market share was maintained but volumes declined by 4% due to tobacco industry de-stocking and cigarette volume reductions in a number of markets around the world. However, product mix improved with a 12% increase in volumes of promotional tapes, and sales in the food and drink category also grew, driven by new applications and enhanced added value.

The division's entry into the security label market continued with further success achieved in the tobacco industry. Label sales increased by 183% to £1.7m in the year.

The Payne Security document authentication and personal identity segments of the division experienced softer trading conditions. Reduced passport issuance due to the recession combined with downward pressures on public spending and lower volumes for transport schemes and sporting events led to a performance reduction. Costs were reduced in the personal identity business as the Mold facility was closed and card production activities were successfully transferred to the Banbury, UK operation. This move will provide an improved platform for further enhancing service levels. In addition, the personal identity operation in Madrid, Spain was closed.

Due to the division's customer losing the tender for the next generation UK passport, volumes of this application will run down during the first half of 2010 and cease in the third quarter. However, the lost contribution from this contract is expected to be replaced by success in winning new business for the Payne authentication system.

The FractureCode business was profitable in the year and was assisted by the previously mentioned termination payment from the single licensee. The intellectual property claims involving FractureCode were settled in the year and costs of £1.6m were incurred relating to the protection of the Company's proprietary technology. The management of FractureCode is in the process of exploring alternative business models in the track and trace market given the absence of any current licensees. In March, the Company's former joint venture partner exercised a put option for a cash consideration of €3.1m.

The Enitor plastic extrusion business in The Netherlands had a difficult year with significant reductions in both revenue and operating profit. A number of Enitor's served markets were impacted by the GDP contraction across Europe and customer de-stocking exacerbated the impact. Cost reduction measures were taken, and the headcount reduction delivered flat revenue per employee versus the prior year, although this action could not mitigate the operational leverage impact of the revenue decline.

Our responsibility

During 2009, the Brazilian tear tape facility secured OHSAS 18001, meaning that all of the division's manufacturing facilities now have this important international health and safety standard to add to the high standards of environmental and quality systems which underpin the division's performance. Details of the international accreditations held across the division are detailed opposite.

WHAT WE MEASURE	WHY WE MEASURE IT	HOW WE DID (COMPARED WITH 2008)
Innovation Percentage of packaging sales derived from recently developed products	Demonstrates the success of new products and technologies	Increased by 2%
Innovation Development of new tooling in extrusion	Shows the amount of new tooling introduced to expand production capabilities	Increased by 26%
Customer satisfaction On time in full Customer complaints	Drives performance of quality systems and service delivery	Improved by 3% Reduced by 5%

	ISO 9000	ISO 14001	OHSAS 18001	BRC/IOP	SA 8000
Payne Nottingham	✓	✓	✓	✓	
Payne Banbury	✓	✓	✓		
Payne Richmond	✓	✓	✓		
Payne Sao Paulo	✓	✓	✓		
Payne Bangalore	✓	✓	✓	✓	
Payne Surabaya	✓	✓	✓		✓
Enitor	✓	✓	✓		

ISO 9000 is the international standard for quality performance
ISO 14001 is the international standard for environmental performance
OHSAS 18001 is the internationally recognised standard for occupational health commitment and performance
BRC/IOP is the global standard for packaging and packaging materials
SA8000 is the international standard for human rights principles

In addition, the Payne facility at Nottingham won the 2009 Filtrona Group Environmental Award. Building on the submission that *Good Environmental Sense is Good Business Sense*, the division demonstrated sustained, long-term environmental programmes effecting CO_2 emission reduction, waste reduction, waste recycling, ecological impacts and ongoing energy efficiency improvements. By way of example, a potential alternative heat source was identified by reclaiming heat from equipment used to handle emissions from printing and coating processes.

As part of its ongoing commitment to continuous improvement in health and safety across all its sites, the division conducted a self-assessment evaluation of health and safety compliance with its employees. The review served to further strengthen employee awareness of health and safety practice and responsibility and identified a number of actions to further drive health and safety performance in 2010.

The division seeks to monitor employee satisfaction by ensuring a high degree of management engagement with employees at all locations and, during 2009, it undertook an extensive employee survey. The results of that survey indicated a number of positive developments in employees' commitment to the division and the role they have to play in its future success. The division will be looking to build on those findings through its comprehensive communication and training programmes.

Outlook

Looking forward to 2010, it is anticipated that the division will deliver a resilient performance, with growth driven by revenue from new products and services more than offsetting the reduction in UK passport volumes.

Review of Operations

Filter Products

WHAT WE DO

The Filter Product division ('FP') is the only global independent cigarette filter supplier. The 12 worldwide locations, including a UK-based research facility and three regional development centres provide a flexible infrastructure strategically positioned to serve the cigarette industry. The division supplies a wide range of value adding high quality innovative filters from monoacetate to multi-segment speciality filters with sophisticated adsorbent materials.

With highly flexible and strategically-positioned manufacturing plants worldwide, the division is focused on the cost-effective delivery of high-quality, innovative products to cigarette manufacturers on a global scale whilst offering a local support infrastructure.

HOW WE DO IT

The production capabilities of the division enable the business to supply over 700 product specifications to over 300 customers, including all multi-national tobacco companies. Customers benefit from the flexibility of international supply which enables rapid response to market changes and surge volumes. Those capabilities are supported by consistently high standards of quality and service and together they establish the foundation for the long-term customer relationships which the division maintains.

The constant focus on cost control and production efficiency serves to further underpin the division's competitive advantage and drive market share.

In seeking to maintain its position as the leading global manufacturer of filter products, and in response to the changing dynamics of its markets, the division's ability to innovate new added value products and services is key to its future success. The Filtrona Technology Centre, based at Jarrow in the UK, continuously strives to develop innovative solutions that give customers' brands' differentiation and identity.

The new Scientific Services facility is one of the few independent UKAS accredited laboratories for the testing of cigarettes and cigarette filters and provides an invaluable testing facility for both independent and multinational customers.

By working closely alongside employees from research and development, the sales and operations teams are able to focus on customer requirements to deliver top class products and services.

HOW WE'VE PERFORMED

2009	22.1
2008	19.8
2007	21.8

Operating profit[1]

£22.1m +11.6%

2009	202.9
2008	187.5
2007	187.0

Revenue

£202.9m +8.2%

2009	131.4
2008	114.6
2007	105.1

Revenue per employee

£131.4k +14.7%

2009	10.9
2008	10.6
2007	11.7

Operating margin[1]

10.9%

1 Before intangible amortisation and major restructuring costs

2010 INITIATIVES

- Focusing on speciality products for niche markets, and development activities and sample revenues in mature markets of US, Western Europe and Japan
- Capture tender volumes and increase coverage of independent and monopoly markets in the emerging regions
- Introduction of new business concepts and joint development activity with strategic customers
- Introduction of the Filtrona Global Quality System and implementation of Customer Perception Index to secure further improvements in the standards of delivery and service

"We believe that the results for 2009, in a challenging economic environment, reflects our ability to successfully adapt to the needs of our customers. Our continued focus on innovations, flexibility, pace to market and cost will further enhance our leading position in the market."

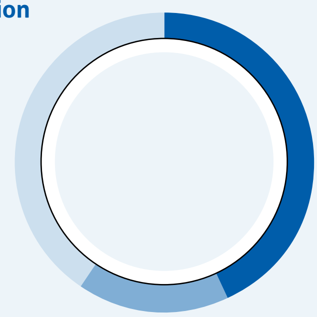
P T Sreekumar, *Managing Director, Filter Products*

Review of Operations

Filter Products

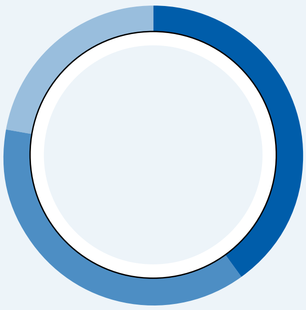
2009 Revenue by destination (%)

Europe	43.3
North America	16.4
Rest of World	40.3



2009 Sales volume by type (%)

Monoacetate	40.1
Carbon	37.8
Other special	22.1



How we've performed

In the year, the division performed well with improvements in revenue, adjusted operating profit and adjusted operating margin. Revenue increased by 8.2% to £202.9m (2008: £187.5m), up 0.4% at constant exchange rates. Adjusted operating profit increased by 11.6% to £22.1m (2008: £19.8m), up 0.9% at constant exchange rates. Adjusted operating margin increased to 10.9% (2008: 10.6%) and cash conversion of adjusted operating profit into operating cash flow was 128%.

There was a decline in volume in the division of 10.6% to 50.2 billion filter rods, with a 4.1% decline in monoacetate volumes and 14.4% in special filters. The special filters reduction relates to a previously announced insourcing decision by a multinational in the Asia region combined with general volume softness in the Americas. In the year, the Asia region accounted for 48.3% of total divisional volume, with Europe at 30.4% and the Americas 21.3%, and it is a key area for future growth.

In response to the continued pressures on costs, declining smoking rates in more western markets and the potential threat of insourcing, the division has continued the shift of its manufacturing capability to low cost locations. These strategic moves facilitate the ability of FP to service its customers on a competitive basis as they seek growth opportunities in emerging markets within Eastern Europe and Asia.

The division undertook a substantial restructuring programme at the Jarrow facility in the UK, with a headcount reduction from 369 to 211 during the year. The restructuring will be completed in April 2010 when the total factory headcount will be further reduced to approximately 135 people. The facility in Sao Paulo, Brazil was closed early in 2009. The divisional restructuring has incurred cash costs of £3.6m and associated non-cash costs of £3.2m, generating gross annual savings of approximately £5.9m.

The division's focus on productivity improvement, quality enhancement and cost reduction continued. Conversion costs improved in the year by 0.3% to 31.5%. Waste performance deteriorated marginally by 0.2% due primarily to the Hungarian facility which is rapidly gaining in experience and performance improvement.

As a result of the volume declines and restructuring, total divisional headcount fell by 8.8% from 1,578 to 1,439. Revenue per employee at constant exchange rates improved 6.5% from £123k to £131k.

The division continued its investment in new product development and new proprietary products involving coloured and coated carbons were developed and are now ready for commercialisation. A major investment with a key customer was successfully supported and delivered during the year, with a number of other process advancements installed successfully across the divisions' facilities. In addition, a new development centre was established in Surabaya, Indonesia to complement those already established in the UK and US. The low circumference "super slim" filters launched during 2008 continued to develop well with notable growth in the Russian and South Korean markets.

The division has identified a market opportunity for which it has designed a new range of products to reflect the trend away from standard recess filters with specialised segments to new alternatives such as shaped acetate filters and shaped plastic filters.

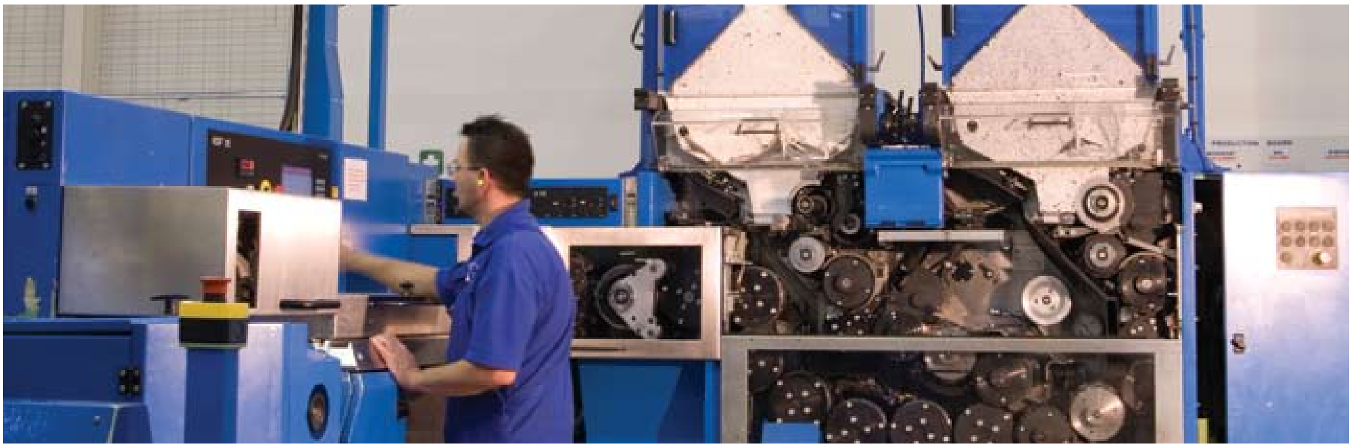
The division continued to reduce its dependency on any single customers and has further increased the diversity of its customer base of multinational tobacco companies, independent suppliers and government monopolies. Expansion in new markets in the Middle East and Asia has also served to secure new customers.

The success of the division's quality performance against customer agreed targets was recognised by customers in the US, securing quality related performance incentives for the division.

A knowledge warehouse for the division, which looks to share best practice across the facilities, was established during the year and there are currently 230 active projects focusing on cost, quality, service and development within the division.

Our responsibility

FP is committed to the environment and sustainability and, in seeking to secure operational efficiencies and cost reductions, it maintains a focus on the optimisation of energy usage and new developments on sustainable solutions whilst minimising impacts on the environment. This has resulted in a reduction in energy usage of 12% since 2007, together with a 14% reduction in measured carbon dioxide emissions.



WHAT WE MEASURE	WHY WE MEASURE IT	HOW WE DID (COMPARED WITH 2008)
Conversion costs as percentage of sales	Continued focus delivers improved financial performance	Improved by 0.3%
On time in full	Demonstrates ability to meet delivery demands	Declined by 0.4%
Quality complaints	Reflects performance of quality systems and service delivery	Improved by 12%
Waste	Drives productivity and the efficient use of material	Increased by 0.2%

Combined with comprehensive health and safety programmes, the division has achieved key international accreditations across its facilities, as detailed below.

	ISO 9000	ISO 14001	OHSAS 18001	SA8000	IQRS
Jarrow, UK	✓	✓			4
Filter Technology Centre	✓	✓	✓		
Italy	✓	✓	✓		5
Jordan	✓	✓	✓	✓	
Hungary	✓	✓	✓		
Greensboro, US	✓	✓	✓		5
Thailand	✓	✓	✓	✓	5
Indonesia	✓	✓	✓	✓	5
India	✓	✓	✓	✓	
Paraguay	✓	✓	✓		
Mexico	✓	✓	✓		6
Venezuala	✓	✓	✓	✓	

ISO 9000 is the international standard for quality performance
ISO 14001 is the international standard for environmental performance
OHSAS 18001 is the internationally recognised standard for occupational health commitment and performance
SA8000 is the international standard for human rights principles
IQRS is Filtrona's global quality system which drives towards business excellence through a comprehensive audit system

During the year, Mexico achieved IQRS level 6 and Greensboro level 5 with the Hungary facility achieving ISO 14001 and OHSAS 18001. It is intended that the Jarrow facility will achieve OHSAS 18001 accreditation no later than 2011.

Across the division, health and safety performance has shown continuous improvement, with a 45% reduction in lost time accidents and a 50% reduction in days lost through injury in the last three years.

Outlook

The Filter Products division is focused on driving innovation, improving the pace to market, enhancing flexibility and reducing costs. Looking forward to 2010, the Filter Products division is expected to deliver another resilient performance with continuing strong cash flow.

Financial Review

Principal exchange rates
Principal exchange rates for Filtrona were:

	Average		Closing	
	2009	2008	**2009**	2008
US$:£	**1.57**	1.85	**1.61**	1.44
€:£	**1.12**	1.26	**1.13**	1.03

Retranslating at 2009 average exchange rates increases the prior year revenue and operating profit by £39.6m and £7.2m respectively.

Revenue, Operating profit, Operating margin
Group revenue from continuing operations increased by 2.8% to £444.0m (2008: £431.7m). Revenue decreased by 5.8% when translated at constant exchange rates. The operating profit before intangible amortisation, major restructuring costs and exceptional acquisition fees ("adjusted operating profit") was 1.1% lower than in 2008 (12.2% lower when translated at constant exchange rates).

The operating margin, before intangible amortisation, major restructuring costs and exceptional acquisition fees ("adjusted operating margin") reduced to 12.7% (2008: 13.2%).

Net finance expense
The total net finance expense increased to £10.0m (2008: £6.8m).

The net interest charge on net debt decreased to £7.0m (2008: £7.8m) primarily as a result of lower average debt levels and LIBOR rates. Additionally, the amortisation of bank fees incurred when the Company refinanced its bank facilities during the period, was £1.7m.

The IAS 19 (Revised) pension finance charge of £1.9m compared to a credit in the prior period of £0.3m, whilst the net finance expense was reduced by £0.6m as a result of the unwinding of the discount on the deferred consideration from the 2007 sale of Globalpack (2008: £0.7m).

Tax
The tax charge of £12.1m (2008: £15.3m) represents an effective tax rate of 37.5% (2008: 32.8%) on the profit before tax.

The charge equates to a tax rate of 31.0% on profit before charging major restructuring costs and exceptional acquisition fees and is net of a deferred tax credit of £1.3m arising from the major restructuring costs.

The effective rate is higher than the nominal UK rate of 28% because most of the Group's operations are in countries with higher tax rates. Additionally, a significant proportion of the major restructuring costs and the exceptional acquisition fees are not tax-deductible in 2009.

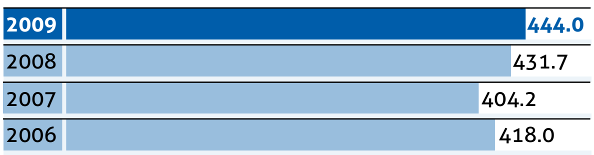
Earnings per share
Basic earnings per share from continuing operations were 9.1p, a decrease of 38.5% from 14.8p in 2008. Adjusting for intangible amortisation of £3.1m (2008: £2.0m), major restructuring costs of £8.9m and exceptional acquisition fees of £1.9m (2008: exceptional acquisition fees of £1.3m) less tax relief on the adjustments of £2.2m (2008: £0.7m), gives an adjusted earnings per share of 14.8p (2008: 16.1p).

Dividends
An interim dividend of 2.70p (2008: 2.70p) per share and a proposed final dividend of 5.08p (2008 : 5.08p) per share will result in a total dividend in line with last year.

Cash flow, Balance sheet and Return on average operating assets
Operating cash flow from the business (adjusted operating profit before depreciation, share option expense and other non-cash items less working capital movements less net capital expenditure) increased 28.8% to £72.5m.

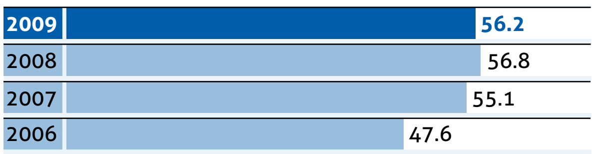
This was achieved in part by an inflow of working capital for the year of £2.2m (2008: outflow of £0.3m) and gross capital expenditure of £11.0m (2008: £20.6m), with net capital expenditure at £10.8m (2008: £20.5m).

HOW WE'VE PERFORMED



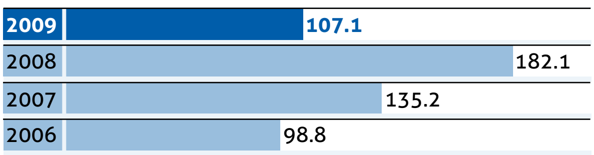
Revenue

£444.0m +2.8%



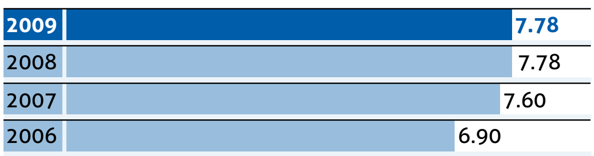
Operating profit[1]

£56.2m (1.1%)



Net debt

£107.1m



Dividend per share

7.78p

1 Before intangible amortisation, major restructuring costs and exceptional acquisition fees
2 Before intangible amortisation, major restructuring costs and exceptional acquisition fees less tax relief on intangible amortisation and major restructuring costs

Net capital expenditure for the year equated to 52% (2008: 108%) of the depreciation charge for the year of £20.7m (2008: £18.9m).

Net debt reduced by £75.0m to £107.1m (2008: £182.1m), due primarily to the strong operating cash flow and the £54.0m net cash proceeds from the disposal of the North American Plastic Profile & Sheet business. The ratio of net debt to EBITDA at the year end reduced to 1.4 from 2.1 on 31 December 2008. Interest cover was 7.2x compared with 9.6x at the end of 2008.

The return on average operating assets (excluding intangibles) was 23.6% (2008: 25.0%).

Pensions

At 31 December 2009, the Group's IAS 19 (revised) gross pension liability was £22.6m (2008: £37.4m) with a net liability of £15.8m (2008: £26.1m) after accounting for a deferred tax asset of £6.8m (2008: £11.3m). The deficit has been calculated after updating the actuarial assumptions and asset values as at 31 December 2009. The asset values have increased significantly since the prior year which has contributed to the reduced liability.

The UK defined benefit schemes account for approximately 46% of the gross pension liability and the last full independent actuarial valuation was conducted as at 5 April 2009. Discussions with the trustees of the UK defined benefit schemes regarding the actuarial valuations and the appropriate deficit recovery plans are ongoing.

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.

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. At 31 December 2009, Filtrona's euro denominated assets were fully hedged by its euro denominated borrowings, whilst its US dollar denominated assets were approximately 68% hedged by the remaining US dollar denominated borrowings.

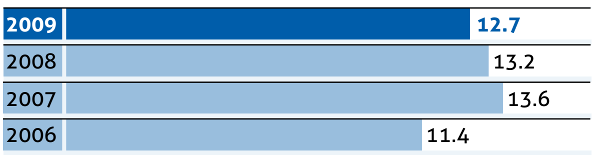
The Company does not hedge the translation effect of exchange rate movements on the income statement.

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 the exposures as soon as they are committed using forward foreign exchange contracts.

Discontinued operations

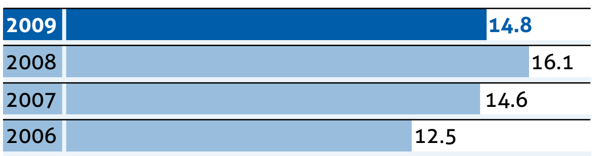
On 27 March 2009, Filtrona completed the disposal of Filtrona Extrusion, its North American Plastic Profile & Sheet business, to Saw Mill Capital Partners, L.P., for an initial gross consideration of £59.2m. This included a loan note of £4.5m which was repaid during the period. The disposal resulted in a loss before tax of £8.6m which, together with the results up to completion, has been recognised as a net loss from discontinued operations in the income statement of £6.7m.

Steve Crummett
Group Finance Director
25 February 2010



Operating margin[1]

12.7%



Adjusted earnings per share[2]

14.8p (8.1%)

Management of Principal Risks

Effective management of risk and opportunity is essential to the protection of the Filtrona's reputation and the achievement of sustainable shareholder value.

The management of risk underpins the Company's strategy, focusing on the challenges which arise in the international environment in which Filtrona conducts business and reflecting the Company's appetite for risk in the delivery of its business objectives. The underlying principles are that risks are continuously monitored, associated action plans are reviewed, appropriate contingencies are provisioned and that information is reported through established management control procedures.

Filtrona recognises that the ability to monitor, assess and respond to business risks can often provide competitive advantage. Reporting within the Group is structured so that key issues are escalated through the management team, ultimately to the Board if appropriate. Each area of the business is required to formally and regularly review its principal areas of risk and uncertainty so that major risks are reviewed at all levels across the Group. This is an ongoing process, ensuring that there are clear consistent procedures for monitoring, updating and implementing appropriate controls to manage identified risks.

The performance, both long-term and short-term, of the Group can be impacted by any number of risks and uncertainties not all of which are within the Company's control.

The Company is subject to the general risks and uncertainties which impact on any other international business, including political instability in the countries in which the Company operates and sources raw materials, the impact of natural disasters and changes in general economic conditions, including currency and interest rate fluctuations, tax regimes and raw material costs.

Detailed below are the principal risks and uncertainties which the Board, believes are specific to Filtrona, together with the Company risk management response thereto. The details provided are not exhaustive and do not purport to be a complete explanation of all potentially relevant issues. There may be other risks and uncertainties which are unknown to the Board or which may not be deemed by the Board to be material now but which could turn out to be material in the future.

Disruption to operational sites/loss of critical assets

RISK

A catastrophic loss of the use of all or a portion of any of Filtrona's manufacturing or distribution facilities due to accident, labour issues, fire, weather conditions, terrorist attack, natural disaster or otherwise and whether short or long-term could adversely affect the Company's ability to meet the demands of its customers. Some of the assets maintained by the Company, such as tooling and IT systems, are critical to the manufacture and delivery of particular products.

IMPACT

A material disruption to operational facilities or the loss of critical assets may negatively affect the Company's:
- production capability and asset base
- supply chain management
- reputation
- revenue
- profit
- financial condition

MITIGATION

Filtrona seeks to manage the risk of potential disruption of the supply of its customers by:
- operating within a flexible global infrastructure
- installing fire and other risk prevention systems
- implementing disaster recovery plans
- assessing operational risks
- maintaining insurance

Competitive pressures

RISK

Filtrona faces pressures from direct competitors as well as competition from alternative technologies. Some of the Company's competitors may derive competitive advantage from the benefits of greater financial resources, economies of scale, additional purchasing powers or lower cost bases and Filtrona may face aggressive pricing practices.

IMPACT

Demand for competitors' products and the development of competing technologies may result in:
- loss of market positions
- erosion of margins
- intellectual property challenges
- decline in revenue
- decline in profitability
- reduction in financial condition

MITIGATION

Filtrona seeks to drive its strong competitive market positions by:
- sustained investment in research and development to develop the quality and breadth of its product and service offering
- exploiting its innovative and manufacturing capabilities in new technologies, products and services
- protecting its intellectual property rights
- expanding its international distribution, sales and marketing expertise
- investing in both organic and acquisition growth opportunities

Relationship with tobacco industry

RISK

A significant part of Filtrona's business relates to the supply of filter products and tear tape to manufacturers in the tobacco industry. Future performance may be affected by changes in the conditions within those sections of the tobacco industry which the Company supplies, such as changes in the consumption of filter products, self manufacture and increasingly restrictive regulations affecting the industry. Tobacco related litigation also could adversely affect Filtrona, although there is no history of the Company being involved in such claims.

IMPACT

Filtrona's relationship with the tobacco industry may lead to:
- reduced revenue
- restructuring costs
- profit decline
- reputational damage
- deterioration in financial condition

MITIGATION

In seeking to minimise the impact of the challenges arising out of its exposure to the tobacco industry, Filtrona:
- focuses on low cost filter production
- invests in the research and development of innovative value added filter products and services
- takes internal and external legal advice to manage litigation risk
- targets growth opportunities outside the manufacture of filter products

Management of Principal Risks

Customer concentration

RISK

In some of Filtrona's businesses, particularly filter products and tear tape, the customer base is relatively concentrated. Trends in particular markets may reduce the demands for the Company's products. Should Filtrona's customers decide to satisfy their requirements internally or from other suppliers and if Filtrona was unable to secure new business this could result in a significant loss of business.

IMPACT

The loss of certain of Filtrona's key customers exposes the Company to:
- reduced revenue
- restructuring costs
- profit decline
- deterioration in financial condition
- reputational damage

MITIGATION

To counteract the Company's exposure to a number of key customers, Filtrona:
- invests in innovative, high quality, value added products and services
- develops long-term relationships with customers at a senior level
- seeks new markets and growth opportunities to expand the customer base

Pension funding

RISK

Filtrona is exposed to funding risks in relation to the defined benefits pension schemes and other post retirement benefit plans which it operates. The funding of the liabilities associated with those pension arrangements is dependent to a large extent on the performance of stock markets which are subject to volatility. Certain of the pension arrangements are currently under-funded as determined by the latest actuarial valuations.

IMPACT

Subject to the accuracy of actuarial assumptions and the performance of stock markets, Filtrona could be exposed to:
- additional liabilities
- additional contributions to eliminate any pension funding deficits
- deterioration in financial condition
- reputational damage

MITIGATION

Filtrona's seeks to manage its pension funding risk by:
- maintaining regular communication with the trustees of the various pension schemes to ensure they are aware of the Company's financial position
- reviewing the benefits payable under the pension arrangements and proposing changes designed to manage future liabilities
- securing the active management of pension scheme assets and liabilities with external expert advice

Challenges of business development

RISK

Filtrona has achieved the development of its business and growth through the benefit of acquisitions and the success of start-up operations. The rate of any future business development may in part be dependent on the success of additional acquisitions and new start-up operations. There can be no assurance that the Company will be able to successfully identify, complete and integrate suitable acquisitions and successfully develop and expand further start-up operations.

IMPACT

If Filtrona fails to meet the challenges of business development arising from acquisitions and start-up operations, the Company may experience:

- increased costs
- reduced profitability
- lower growth rates
- delay in the achievement of strategic objectives

MITIGATION

Filtrona addresses the challenges presented by the development of its businesses on an international basis with:

- experienced and skilled management
- detailed due diligence and planning
- project risk reviews
- external expert advice

Loss of key executives and certain employees

RISK

Filtrona's international operations are dependent on existing key executives and certain other employees in order to sustain, develop and grow its businesses and there can be no assurances that these employees will remain with the Company. The success of the Company will reflect its ability to retain, attract and motivate highly qualified executives and other personnel equipped to deliver on Filtrona's strategic objectives.

IMPACT

If Filtrona fails to retain, attract or motivate the required calibre of employees, its operational performance and financial condition may be materially impacted by the loss of:

- experience
- expertise
- commercial relationships

MITIGATION

In order to manage the risk of personnel change, the Company:

- provides long-term share-based incentive plans
- conducts management development schemes and other training programmes
- reviews personal development and succession planning

Corporate Responsibility

Corporate Responsibility encompasses a broad range of philosophies, activities and standards. Filtrona considers the issues that are material to its business and seeks to respond to them in a manner appropriate to the interests of all its stakeholders.

Filtrona recognises the significance and importance of 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 adopt business practices that are economically, socially and environmentally sustainable and to promote these to its stakeholders in order to strengthen relationships, share knowledge and encourage best practice.

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 appropriate evaluations of the potential consequences for its employees, customers and suppliers and the environment.

Filtrona Values which are set out on page 42 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 and the effective management of environmental and social performance, at each of its international sites, helps the delivery of the Company's strategic priorities.

Filtrona is listed in 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 list 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, 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 overriding health and safety objectives within which the detailed policies operate and for reviewing progress against those objectives.

PRIORITIES/GOALS

Reduce the impact of carbon emissions and secure continuous improvement in environmental performance

Secure continuous improvement in health and safety

Secure continuous improvement in community relationships

Provide effective management of corporate responsibility issues and ensure compliance with Values and policies and procedures

HOW IT IS MANAGED/ACHIEVED	PRIORITIES/INITIATIVES
• Carbon emission targets are set at each operational location • Reduce carbon emissions, prevent pollution and improve manufacturing efficiency • Implement initiatives to reduce waste and increase recycling • Explore the use of energy-saving technology in manufacturing • Extend the span and quality of data collection • Develop new techniques with suppliers and customers for environmentally friendly products • Gain ISO14001 accreditation	• Achieve the Carbon Trust standard for all UK businesses • Comply with UK Carbon Reduction Commitment initiatives • Reduce carbon emissions by 4% • Maximise the efficiency of the use of natural resources • Continual environmental improvement to ensure retention of accreditations • Secure accreditation for newly acquired site and Jarrow
• Secure OHSAS 18001 accreditation at principal manufacturing sites • Establish group standards for improvements and results • Extend the data collection and workplace investigations to include 'near misses' • Encourage employee initiatives to reinforce company training	• Establish group standards for non-manufacturing sites • Appoint divisional HSE co-ordinators to support the Group HSE manager • Promote group safety campaign 'Hand in Hand' • Continue to monitor incident data and issue safety alerts
• Work to minimise any disruption from the Group's operation • Work to maximise the positive impact of the Group's activities	• Encourage local management to support local communities • Work with customers and suppliers
• Promote Filtrona Values • Ensure employee awareness of the Group Whistleblowing policy • Maintain and respect Code of Business Ethics policy • Promote employee awareness and engagement • Facilitate the Whistleblowing policy	• Develop training • Monitor performance • Improve awareness and compliance

Corporate Responsibility

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.

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.

Ongoing initiatives are designed to monitor, assess and drive improved health and safety performance. Investigations are carried out on all circumstances 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 prevent their reoccurrence or escalation into more serious incidents. 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 the Company's health and safety management.

The Group-wide intranet based management reporting system facilitates an extensive live programme of active monitoring that measures in detail exactly how successful the Company is in managing the safety of its workplaces at individual site level. The Company believes that the elevated visibility of relevant performance statistics provided by the system maintains the fundamental focus of management on all health and safety issues.

The Filtrona Health, Safety and Environmental 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 environmental 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 and Safety Management Systems OHSAS 18001 for all of its principal manufacturing sites, excluding Jarrow and the recently acquired site of Lendell, which has been given, in accordance with Filtrona policy, a period of two years to reach the required standard.

During 2010, the FHSEC is implementing a safety campaign across the Group, focused on awareness to, and reduction of, hand injuries. This has been identified as a key area for improving safety. This campaign aims to eliminate lost time accidents resulting from hand injuries and to promote a focused behavioural approach to hazard reduction.

Details of the Company's health and safety performance for 2009 and subsequent progress throughout 2010 can be viewed on page 15 and at the Company's website www.filtrona.com.

The Company has implemented Filtrona Group Safety Awards which rewards sites with gold, silver or 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: achieving a high Filtrona audit score; OHSAS standard accreditation; regular health and safety meetings; availability of suitably trained employees on site; and achieving accident reduction targets. These standards were raised in 2009 and are subject to continual review. Despite the raising of performance criteria for 2009, all sites have risen to the challenge resulting in seven gold awards (2008: two), 11 silver awards (2008: six) and one bronze awards (2008: six). The achievements in 2009, compared to 2008, is evidence of the health and safety commitment and progress being made internationally across Filtrona businesses.

The Filtrona Chief Executive's Special Award for Health and Safety is made to the division or site which has shown the most successful or innovative safety communication campaign or initiative that best meets the following criteria:

- Demonstrates a significant impact on work methods or behaviours resulting in improvements to employee perception of health and safety standards within a site
- Involves the majority of employees on the site
- Utilises novel or inter-active media or methods in its propagation

In 2009, the award was won by Porous Technologies. Further details can be found in the divisional operational review on page 23.

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.

The Group regularly reviews its organisational structure to ensure that the business has the necessary personnel to deliver its strategic priorities. The Group was forced to make a number of redundancies due to the economic recession experienced globally. This was a difficult process, but one that was handled with professionalism both by the staff affected and the Human Resources team. Where possible, employees were internally deployed but, if appropriate, assistance was given in finding work outside the Group.

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 development of skills focused on fulfilling a particular role within the current operations.

Filtrona is committed to improving employee engagement and learning more about staff's needs. Filtrona believes it is a good employer, but is aware of the need to listen to employees in order to ascertain how it can become an even better place to work. 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 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 non-disabled 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 which details fundamental principles of human rights.

Marketplace

Filtrona's reputation with its customers and suppliers and within the communities where it operates is based not only on the quality of its performance, but also on the integrity in its management of 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 Code of Business Ethics 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

Filtrona applies a structured approach to minimising its environmental impact by:

- Implementing and maintaining formal environmental systems accredited to ISO14001 on a global basis
- Measuring consumption and emissions, and setting targets to improve performance

Corporate Responsibility

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

- Carrying out environmental impact assessments and developing site management plans
- Providing training to employees and engaging with customers and suppliers to raise environmental awareness
- Providing facilities to segregate and reuse or recycle waste

In 2009, Filtrona has further committed to reducing its environmental impact and is actively managing responses to the challenges that the UK Government's latest targets present to its business, as well as complying with international environmental legislation.

With the UK Carbon Reduction Commitment ('CRC') legislation due to become effective in April 2010, Filtrona is on target to have the Carbon Trust Standard applied at its UK manufacturing sites. This standard not only ensures commitment to improved carbon footprint, but also financially rewards participating organisations. CRC is designed to drive energy efficiency and carbon reduction by giving organisations a financial incentive through emissions trading, combined with reputational incentives through publishing organisations' performance in a league table. Filtrona is applying the principles of the Carbon Trust Standard to its global operations and will be well placed to address future anticipated legislative changes in its operating regions.

To ensure that Filtrona is continuously improving its understanding of its environmental impact and how it can improve its global environmental performance, focus continues to be placed on collating and analysing a wide cross-section of environmental data. The strategic environmental focus for Filtrona is to reduce its environmental impact through a decrease in emissions, preventing pollution and improving efficiency in the use of resources including energy, water, packaging and other raw materials.

Filtrona's ongoing challenge is to determine how, through current initiatives and current technology, and with further projects and future innovation, it can achieve this within a realistic financial framework and appropriate timeframe in a manner relevant to, and meaningful in the context of, the Company's overall strategic priorities and financial performance.

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 Company continues to improve data collection on all environmental aspects and aims to set realistic control targets.

Filtrona uses a variety of indicators relevant to each of the operating divisions to monitor environmental performance, but the following core impacts are identified for the Group as a whole:

- Greenhouse gas emission from energy use, including electricity, natural gas, heating fuel, transport and travel
- Use of resources including water
- Generation and disposal of waste

Filtrona has identified that climate change may be the single most important environmental constraint impacting on the future of its businesses and continues to closely monitor the environmental impact of its operations and recognises that a carbon tariff can be assigned to energy used in a wide range of activities associated with its operations. The management of these environmental impacts is focused on methodologies to reduce that impact, and the development of initiatives to secure both economic and environmental benefits and sustainability. Increased reporting procedures reinforce the accountability of the businesses for the consequences of their operations on the environment.

Filtrona is continually seeking to ensure reduction in the use of natural resources and has established research & development facilities in the UK, Asia and the US to investigate the use of renewable resources and recyclable/bio-degradable versions of products.

	2008	**2009**	% change
Carbon emissions[1]	164	**144**	(12%)
Waste[2]	1,140	**836**	(26%)
Water[3]	474m^3	**350m^3**	(26%)

1 Per £million of group revenue
2 Recycled tonnes of production waste
3 Measured per £revenue

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

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 is 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, commercial risk and costs.

Business travel made by Filtrona employees is not considered to have a major environmental impact. However, because of a growing international presence, the Company has invested in video conferencing facilities to connect key sites, both in the UK and overseas.

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

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

Filtrona supports the activities of the Carbon Trust and, during 2009, participated in the 7th annual Carbon Disclosure Project ('CDP') environmental impact survey. It is the Company's intention to participate in the CDP survey during 2010. The Company also supports the FTSE4Good Index and is pleased to maintain its listing in the index through the recognition of its global environmental achievements, corporate responsibility initiatives and health and safety efforts.

The FHSEC provides an opportunity to share best environmental practices and waste minimisation initiatives across all the Group sites. Filtrona is committed to being a good corporate citizen, respecting the environment and seeking practical ways to lessen the impact of business. The Group Environmental Award has been designed to give enhanced recognition to those sites with projects or campaigns that further that objective. The following criteria are taken into consideration:

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

For 2009, the Group Environmental Award was won by the Coated & Security Products division. Details of the initiatives introduced can be found within the divisional operational review on page 27.

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. 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. The Group's support for the communities it operates in is driven at a local rather than a corporate level. The approach, adopted across the globe, is to support and enhance employees efforts in their communities through the application of the Group's resources. 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.

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 & 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.

Group Operating Committee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1. Mark Harper
Chief Executive
The biographical details of Mark Harper are shown on page 47.

2. Steve Crummett
Group Finance Director
The biographical details of Steve Crummett are shown on page 47.

3. Jon Green
Company Secretary & General Counsel
Jon Green, a solicitor, joined Filtrona in March 2005 and 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.

4. Alan Tidy
Director of Group Human Resources
Alan Tidy joined Filtrona as Director of Group Human Resources 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 the Filtrona Group Health, Safety and Environment Council. He is a Chartered Member of the Institute of Personnel and Development.

5. Rob Purcell
Divisional Managing Director Protection & 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 & Finishing Products division in 2003. Rob has been a Trustee of Filtrona Pension Schemes for a number of years.

6. Russ Rogers
Divisional President Porous Technologies
Russ Rogers 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.

7. Tony Edwards
Divisional Managing Director Coated & Security Products
Tony Edwards was previously Finance Director of the Filtrona business area within Bunzl and was appointed to his current role in 2002. Prior to that he was 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, after which he worked for Rio Tinto plc.

8. P T Sreekumar
Divisional Managing Director Filter Products
PT Sreekumar joined Filtrona from Godfrey Philips, an Indian tobacco company, in 1995. 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.

Board of Directors

L-r: Lars Emilson, Mark Harper (front), Steve Crummett, Paul Drechsler, Jeff Harris (front) and Terry Twigger.

Jeff Harris
Non-executive Chairman

Appointed to the Board:	May 2005
Committee membership:	Nomination (Chairman),
External appointments:	Acting chairman of Bunzl plc

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 will be retiring as Chairman and non-executive director of Bunzl plc on 28 February 2010.

Paul Drechsler
Senior Independent Non-executive Director

Appointed to the Board:	May 2005
Committee membership:	Audit, Nomination, Remuneration (Chairman)
External appointments:	Chairman and chief executive of Wates Group

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.

Mark Harper
Chief Executive

Appointed to the Board:	May 2005
Committee membership:	N/A
External appointments:	Non-executive director at BBA Aviation plc

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.

Terry Twigger
Non-executive Director

Appointed to the Board:	June 2009
Committee membership:	Audit (Chairman), Nomination, Remuneration
External appointments:	Chief executive of Meggitt PLC

Terry Twigger was appointed as a Non-executive Director of Filtrona in June 2009. He is currently chief executive of Meggitt PLC, having previously been group finance director. Prior to joining Meggitt PLC he spent 15 years with Lucas Aerospace. He is a Director of ADS and member of the Royal Aeronautical Society. Terry is a Chartered Accountant, having trained with Deloitte & Touche.

Steve Crummett
Group Finance Director

Appointed to the Board:	March 2008
Committee membership:	N/A
External appointments:	N/A

Steve Crummett joined Filtrona in May 2007 as Director of Corporate Development and was appointed Group Finance Director in 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.

Lars Emilson
Non-executive Director

Appointed to the Board:	May 2007
Committee membership:	Audit, Nomination, Remuneration
External appointments:	Non-executive chairman at Charter International plc; director at East Capital Explorer AB

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.

Directors' Report

for the year ended 31 December 2009

The Directors present their Report and audited financial statements of the Company and its subsidiary undertakings for the year ended 31 December 2009.

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.

Business review

This Report has been prepared in accordance with the Companies Act 2006 which requires the Company to provide a fair review of the business of the Group during the financial year ended 31 December 2009, including (i) a balanced and comprehensive analysis of the development and performance of the Group's business during the financial year and the position of the Group's business at the end of the financial year, and (ii) the main trends and factors likely to affect the future development, performance and position of the business including a description of the principal risks and uncertainties facing the Group ('the Business Review'). The purpose of the Business Review is to enable the shareholders to assess how the Directors have performed in carrying out their duty under section 172 of the Companies Act 2006.

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 8 to 9
- Chief Executive's Review on pages 10 to 15
- Review of Operations on pages 16 to 31
- Financial Review on pages 32 to 33
- Management of Principal Risks on pages 34 to 37
- Corporate Responsibility on pages 38 to 43

Cautionary forward-looking statements

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 statement. Each forward-looking statement speaks only as of the date of this Report. 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 2009, which were approved by the Board of Directors on 25 February 2009, are set out on pages 70 to 106.

The Company has paid the following dividends in respect of the year ended 31 December 2009:

	Per share p	Total £m
Interim dividend paid 30 October 2009	2.70	5.5

The Directors recommend that a final dividend of 5.08p (2008: 5.08p) per share be paid, making a total dividend distribution for the year of 7.78p (2008: 7.78p).

The final dividend, subject to shareholder approval, will be paid on 30 April 2010 to shareholders on the register at 16 April 2010

Directors

During the year ended 31 December 2009, the Board of Directors comprised:

Jeff Harris	Non-executive Chairman
Mark Harper	Chief Executive
Steve Crummett	Group Finance Director
Paul Drechsler	Senior Independent Non-executive Director
Lars Emilson	Non-executive Director
Terry Twigger	Non-executive Director (appointed 1 June 2009)
Adrian Auer	Non-executive Director (resigned 1 June 2009)

In accordance with the Company's Articles of Association, Paul Drechsler and Lars Emilson are retiring by rotation at the forthcoming Annual General Meeting ('AGM') and, being eligible, offer themselves for re-election as Directors. Following his appointment as a Director subsequent to the 2009 AGM, Terry Twigger is standing for election at the forthcoming AGM, in accordance with the Company's Articles of Association and the Combined Code of Corporate Governance, issued by the Financial Reporting Council.

Paul Drechsler, Lars Emilson and Terry Twigger do not have service contracts.

In accordance with the Company's Conflict of Interests policy, Directors are required to review their potential conflict of interests at least on an annual basis and to notify any changes to the Company Secretary & General Counsel as soon as possible. The current register was approved by the Board in October 2009 and no material conflict of interests were identified during the year.

At no time during the year has any Director had any material interest in a contract with the Group, being a contract of significance in relation to the Group's business. A statement of Directors' interests in shares of the Company is on page 61.

Share capital

The authorised and issued share capital of the Company is shown in note 19 to the financial statements. The concept of authorised share capital was abolished from 1 October 2009, following the final implementation of the Companies Act 2006. A resolution will be put to the forthcoming AGM to adopt new Articles of Association, which remove the limit created by the statement of authorised share capital and other references.

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:

(a) that certain restrictions may from time to time be imposed by laws and regulations (for example, insider trading laws); and
(b) whereby, pursuant to the Listing Rules of the Financial Services Authority, 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 24 February 2010, the Company was advised of the following voting rights attaching to Filtrona shares in accordance with the Disclosure and Transparency Rules:

	% of total voting rights
Prudential plc	7.56
Pennant Capital Management LLC	7.00
Pennant Windward Master Fund LP	6.30
Schroders plc	5.57
Oppenheimer Funds	5.17
Newton Investment Management Limited	5.05
Cazenove Capital Management	5.00
JPMorgan Chase	4.97
Threadneedle	4.97
Invesco Limited	4.79
Allianz SE	4.74
BT Pension Scheme Trustees Limited	4.08
Legal and General Group	3.93
Ignis Asset Management	3.92
Hermes Specialist UK Focus Fund	3.89

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 2009.

Charitable and political contributions

The Company made no political contributions during the year ended 31 December 2009 (2008: £nil). Donations to charities amounted to £0.1m (2008: £0.1m), of which £nil were made by the Company (2008: £nil), with all contributions being made by its subsidiary companies.

Directors' indemnities

During the year, and 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 & General Counsel, in addition to other senior executives who are directors of subsidiaries of the Company, to the extent permitted by law and the Company's Articles of Association, in respect of all losses arising out of or in connection with the execution of their powers, duties and responsibilities as a director or officer of the Company or any of its subsidiaries, including the pension scheme trustee companies. The scope of the indemnities extends to include liabilities to third parties.

Directors' Report
for the year ended 31 December 2009

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 and conditions.

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

Significant agreements
The Company has committed bank facilities consisting of Euro 84.7m and US$35.9m three-year amortising term loans and a three-year multi-currency revolving credit facility for US$143.7m. 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, involving the Company or its subsidiaries, that take effect, alter or terminate upon a change of control of the Company following a takeover bid, such as commercial contracts and joint venture agreements. None are considered to be significant in terms of their potential impact on the business of the Group as a whole or to any potential bidder for the Company or Group.

There are no contracts of significance of the Company or a subsidiary in which a Director was materially interested or to which a controlling shareholder was a party.

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 22 April 2010 at 12 noon.

In addition to the ordinary business of the AGM, resolutions in respect of the following matters of special business are included in the Notice of Annual General Meeting:

Authority to allot unissued shares
At the last AGM held in 2009, the Directors were granted authority to allot relevant securities up to a nominal amount of £17,138,516, which expires at the end of the forthcoming AGM.

At this year's AGM, shareholders will be asked to grant the Directors authority to allot shares or grant rights to subscribe for or convert any security into shares: (i) up to an aggregate nominal amount of £17,138,516 representing approximately one third of the Company's issued share capital, excluding treasury shares, at 12 March 2010 (such an amount to be reduced by the nominal amount allotted or granted under section (ii) below in excess of such sum); and (ii) comprising equity securities up to an aggregate nominal amount of £34,277,032 representing approximately two-thirds of the issued share capital, excluding treasury shares, at 12 March 2010 (such an amount to be reduced by any allotments or grants made under section (i) above) in connection with an offer by way of a rights issue.

The proposal conforms to the guidelines issued by the institutional investment protection bodies to ensure that existing shareholders' interests are safeguarded. The Directors have no present intention of exercising either of these authorities, which will expire at the end of next year's AGM (or, if earlier, the close of business on 21 June 2011) except in relation to share options.

Allotment of shares for cash
At the last AGM held in 2009, the shareholders approved a special resolution to enable the Directors to allot shares for cash without first offering them to existing shareholders in proportion to their existing shareholdings. That approval expires at the end of the forthcoming AGM and Resolution 10 in the Notice of AGM seeks to renew it.

The resolution authorises the Directors to allot or sell shares for cash without first offering them to existing shareholders in proportion to their existing shareholdings up to an aggregate nominal amount of 5% of the issued share capital of the Company, excluding treasury shares, at 31 December 2009 (equivalent to 10,966,340 ordinary shares).

In respect of this aggregate nominal amount, the Directors confirm their intention to follow the provisions of the Pre-Emption Group's Statement of Principles regarding cumulative usage of authorities within a rolling three-year period where the Principles provide that usage in excess of 7.5% should not take place without prior consultation with shareholders. This authority will expire at the conclusion of the following AGM or, if earlier, on 21 June 2011. 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 2009, the shareholders approved a special resolution to enable the Company to purchase its own shares. That approval expires at the end of the forthcoming AGM.

At this year's AGM, the Directors consider it expedient to seek shareholders' approval to enable the Company to purchase, in the market, up to 10% of its issued share capital (excluding any treasury shares) for cancellation, or to be held in treasury, such power to apply until the end of next year's AGM (or if earlier, 21 June 2011). In accordance with the requirements of the Listing Rules of the Financial Services Authority, the minimum price (exclusive of expenses) which may be paid for a share is its nominal value and the maximum price (exclusive of expenses) for shares which may be paid is the highest of: (i) an amount equal to 105 per cent of the average market value for a share for the five business days immediately preceding the date of the purchase; and (ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venues where the purchase is carried out.

The Directors have no present intention of exercising the authority to make market purchases, however the authority provides the flexibility to allow them to do so in the future. The Directors will only utilise this authority if satisfied that to do so would be in the best interests of the Company and its shareholders generally, and could be expected to result in an increase in earnings per share of the Company.

During the financial year ending 31 December 2009, no ordinary shares were either purchased, cancelled or transferred out of treasury by the Company.

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. Resolutions to reappoint them, and to authorise the Board to set their remuneration, will be proposed at the AGM (Resolution 7 and Resolution 8 respectively 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 policy (d) on page 76, and in note 15 to the financial statements.

Directors' statement as to disclosure of information to the auditor
As required by section 418(2) of the Companies Act 2006, the Directors who were members of the Board at the time of approving this Report, having made enquiries of fellow Directors and of the auditor, confirm that:

- so far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- each Director has taken all steps that he ought to have taken as a director to ascertain any relevant audit information and to ensure that the Company's auditor is aware of that information.

By order of the Board

Jon Green
Company Secretary & General Counsel
25 February 2010

Directors' Responsibilities Statement

Statement of Directors' responsibilities in respect of the Annual Report and the financial statements
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 applicable law and have elected to prepare its parent company financial statements in accordance with United Kingdom Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. 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
- 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 adequate accounting records that are sufficient to show and explain the parent company's transactions and 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 2006. 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.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those 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 of the Company and the undertakings included in the consolidation taken as a whole
- 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

Report of the Remuneration Committee

This Report to shareholders for the year ended 31 December 2009 sets out the policies under which the Executive and Non-executive Directors are remunerated and incorporates tables of information showing details of the remuneration and share interests of the Directors.

As required by the Large and Medium-Sized Companies and Groups (Accounts & Reports) Regulations 2008 (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 issued by the Financial Reporting Council. ('the Code'). KPMG Audit Plc have audited the contents of this 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
Lars Emilson	
Terry Twigger	(appointed 1 June 2009)
Adrian Auer	(resigned 1 June 2009)

The Company Secretary & 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 Remuneration Committee, which are annually reviewed, can be found on the Company's website www.filtrona.com.

The Remuneration Committee's key objectives are to:

- Align senior executives' remuneration with the interests of the shareholders and other stakeholders, particularly in the design of the performance-related elements of their remuneration packages
- Establish a competitive remuneration package attracting, retaining and motivating high quality management
- Promote the achievement of both the Company's annual and longer-term strategic objectives by providing a remuneration package that contains appropriately motivating targets

The Remuneration Committee's main responsibilities are to:

- Develop the Group's remuneration policy for the Executive Directors, members of the Executive Committee and other senior executives, covering basic salary, bonus, long-term incentives, retirement provisions and other benefits
- Strike an appropriate balance between (i) the fixed and variable, and (ii) the cash and equity-related components of total remuneration packages
- Review and determine the terms of employment and remuneration of the individual Executive Directors, including any specific retirement or severance terms
- Determine the remuneration of the Chairman of the Board
- Establish and review the operation of any employee share plans, including the granting of awards, the setting and testing of performance conditions and exercising of any awards under Long-Term Incentive Plans ('LTIP')
- Select, appoint and determine the terms of reference for independent consultants to advise the Remuneration Committee on remuneration matters
- Annually review the Group's Whistleblowing policy

Remuneration Committee processes

The Remuneration Committee met four times during the year. Details of the attendance are shown in the Corporate Governance Report on page 64.

In addition to fulfilling the above responsibilities, the Remuneration Committee also undertook the following:

- Revision of the performance period for earnings per share ('EPS') measurement for both the LTIP A and LTIP B awards
- The Chairman of the Remuneration Committee met with a major shareholder to discuss a variety of issues surrounding the Company's remuneration practices
- Consideration of the Deferred Annual Share Bonus Plan ('DASB') accelerated vesting process
- Consideration of the implications for the Company's remuneration practices as a result of the Walker Review recommendations published in November 2009

During 2010 the Committee will be considering the changes in the Code. In particular, it will be reviewing its remuneration policy in the context of risk and whether it would be appropriate to introduce clawback provisions for any incentive plans.

Report of the Remuneration Committee

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, a part of Hewitt Associates, 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

Mercers provide actuarial and investment consulting services to the Trustees of the UK pension schemes and Hewitt Associates provide actuarial advice to the Company for the US pension schemes.

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 other senior executives 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 Committee has regard to the proposed remuneration policy for other management and employees, across the Group, when determining recommendations on remuneration for the Executive Directors and other senior executives.

The remuneration of the Executive Directors and the Chairman of the Board 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.

Alignment with Group strategy

The Board as a whole establishes the remuneration policy and it considers the alignment of Group performance and the remuneration of its senior executives, including the Executive Directors, to be of the upmost importance. It believes that senior management should be highly rewarded (on a market competitive basis) for the delivery of stretching goals, but should receive reduced rewards when the business does not perform to expectations. To achieve this alignment, Filtrona's remuneration package is leveraged with a high percentage of pay 'at risk' against the achievement of stretching targets. Furthermore, one half of any annual bonus is delivered in the form of Filtrona shares. These requirements closely tie the long-term value of executive remuneration to the interests of shareholders.

The Group's strategic priorities are set out elsewhere in this Annual Report. Those priorities are reflected closely in the design of appropriate remuneration packages which seek to drive their delivery through a combination of financially driven targets and key personal objectives based around operational issues.

Remuneration packages for senior executives including the Executive Directors consists of:

- Basic salary – Internal and external parity in basic salary positioning is an important contributor to a motivational remuneration package. Company policy takes into account a range of market data reflecting practice in other FTSE 250 companies
- Annual bonus plan – Bonus structures are effective if they help drive the achievement of targets, whilst respecting the Company's appetite for risk, and allowing for sustained profitable growth. The targets set should not provide an incentive to promote behaviours which would be detrimental to the Company's long-term interests. As such, management must provide robust justification for the targets it recommends. The Remuneration Committee assures itself that the targets provide appropriate incentives and are sufficiently challenging, but remain achievable
- Long-term incentive plan – The LTIP encourages a longer-term focus on EPS and relative total shareholder return ('TSR'). These metrics measure how the Company is performing, in both absolute and relative terms, for the shareholders

The Remuneration Committee considers all these elements, plus pension and other benefits, as a whole. It looks to ensure that an appropriate balance is maintained between each component so that the need for both short-term success and long-term sustainable growth is recognised. The Remuneration Committee also ensures that the non-financial business measures and individual objectives reflect adequately the Company's environmental, social and governance responsibilities.

Share ownership guidelines

In order to align the interests of the Executive Directors and other senior executives with those of shareholders, the Remuneration Committee has established guidelines recommending that the Executive Directors and other senior executives should build a minimum shareholding in the Company over a five year period. For Executive Directors this is equivalent to 100% of basic salary. Shares held in unvested LTIPs are not taken into account in assessing compliance with this guideline.

At 31 December 2009, Mark Harper had a shareholding of 155% of basic salary and Steve Crummett had a shareholding of 53% of basic salary.

Non-executive Directors are encouraged, under their letters of appointment, to own a minimum of 7,500 shares.

Details of the Directors' shareholdings can be found on page 61.

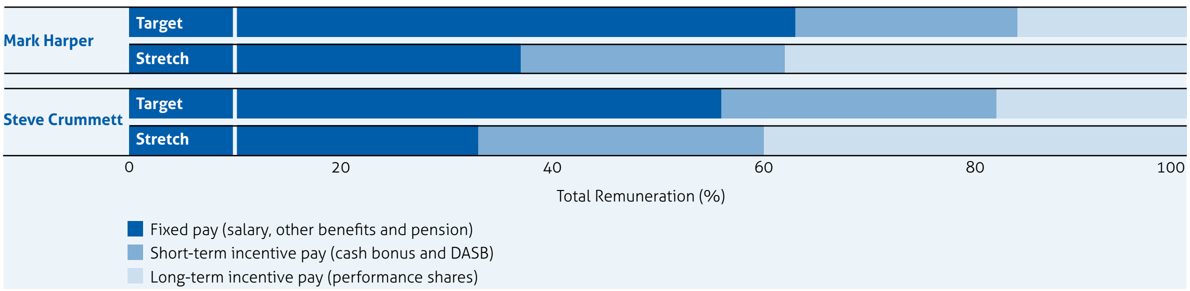
Summary of components of Executive Directors' remuneration for 2010

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	Cash bonuses are capped at 50% of basic salary. 40% is calculated by reference to operating profit at constant exchange rates and 10% by reference to personal objectives.
Deferred Annual Share Bonus[1] ('DASB')	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 and is provided as a match to the quantum of annual cash bonus earned.
Long -Term Incentive Plan ('LTIP')	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	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	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

The Remuneration Committee structures senior executive remuneration in two distinct parts (i) fixed remuneration of basic salary, pension and benefits and (ii) variable performance-related remuneration in the form of cash bonuses, deferred share bonuses and long-term incentive arrangements.

Remuneration for Executive Directors is structured so that the variable (performance-related) pay element forms a significant portion of each package. The majority of total remuneration at the maximum performance level will derive from the Company's long-term incentive arrangements, which are strongly aligned to the Company's strategic objective to secure the creation of long-term shareholder value.



Report of the Remuneration Committee

Components of Directors' remuneration for 2009

The emoluments of the Directors for the year ended 31 December 2009 were as follows:

	Fees £000	**Salary £000**	**Bonus £000**	**Benefits £000**	**Year ended 31 Dec 2009 Total £000**	Fees £000	Salary £000	Bonus £000	Benefits £000	Year ended 31 Dec 2008 Total £000
Executive Directors										
Mark Harper	**–**	**505**	**51**	**23**	**579**	–	490	122	23	635
Steve Crummett[1]	**–**	**275**	**28**	**68**[2]	**371**	–	173	43	45[3]	261
Non-executive Directors										
Jeff Harris	**161**	**–**	**–**	**–**	**161**	156	–	–	–	156
Paul Drechsler	**50**	**–**	**–**	**–**	**50**	42	–	–	–	42
Lars Emilson	**37**	**–**	**–**	**–**	**37**	34	–	–	–	34
Terry Twigger[4]	**23**	**–**	**–**	**–**	**23**	–	–	–	–	–
Adrian Auer[5]	**19**	**–**	**–**	**–**	**19**	42	–	–	–	42

1 Appointed 19 March 2008
2 Includes a supplementary payment of £55,000 to allow the securing of pension benefits
3 Includes a supplementary payment of £34,600 to allow the securing of pension benefits
4 Appointed 1 June 2009
5 Resigned 1 June 2009

The Company paid pension contributions for Steve Crummett of £6,105 into a defined contribution pension plan in 2009 which forms part of the supplementary payment.

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. The Company aims to position base salary around the mid-market level of the relevant comparator companies to remain competitive. A review of salary levels was undertaken in December 2009. In line with average pay awards across the Group, and taking into consideration the overall performance of the business and the markets within which it operates, both Executive Directors were awarded an increase of 2%.

	Mark Harper	Steve Crummett
Annual salary effective from 1 January 2010	£515,100	£280,500[1]
Annual salary effective from 1 January 2009	£505,000	£275,000[1]

1 excluding supplementary pension payment

Annual bonuses

Under the terms of the annual bonus arrangements for 2009, Mark Harper and Steve Crummett were each potentially entitled to a maximum bonus of up to 100% of basic salary. Bonus payments are made 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 2009, the performance targets were approved by the Remuneration Committee and were based upon Filtrona's reported operating profit and with reference to continuing operations adjusted earnings per share at constant exchange rates ('Adjusted EPS') performance relative to prior year. Company performance was required to reach a minimum threshold operating profit of £65.6 million for a cash bonus of 7.94% of basic salary to be payable.

In addition, the Executive Directors had the opportunity, subject to the achievement of personal objectives, to earn a bonus of up to 10% of salary.

The Company failed to meet its financial targets for 2009.

The Executive Directors met their personal objectives during the year and have been awarded a 10% cash bonus.

A matching 10% deferred share bonus award under the DASB will be made to each Executive Director.

When assessing the approval of the bonus awards, the Remuneration Committee carefully considered the impact of certain exceptional items upon the Company's financial performance and had due regard to the interests of the shareholders.

Deferred Annual Share Bonus Plan

The DASB provides for Executive Directors and other 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 and is based upon the performance in 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 the 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 any such other later 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.

During the year the DASBs awarded in March 2006 were transferred to the participants, in accordance with the rules of the DASB. DASBs were also transferred, in accordance with the rules of the DASB, to a relevant senior executive, who left the employment of the Group, following the sale of the North American Plastic Profile & Sheet business in March 2009.

Amendment to the terms of certain DASB awards

A variation to the terms of the awards that were granted under the DASB to senior executives in 2008 and 2009 has been made available to certain United Kingdom tax resident executives.

These awards (including awards held by Mark Harper and Steve Crummett) will be permitted to vest during March 2010, rather than their normal vesting date of 1 March 2011 and 1 March 2012.

The amendment provides an opportunity for the taxation of the awards to fall within the 2009/10 tax year (potentially leading to a taxation saving for the participants). The Remuneration Committee considers it appropriate to have provided the UK participants with such an opportunity, in respect of these historic bonuses.

The terms of such acceleration will include that the shares vesting early under the awards (net of those sold to meet tax liabilities) must then be held subject to a risk of forfeiture until the original vesting date for the relevant award. Such terms of forfeiture shall provide that in the event that the benefit of the awards would have otherwise been lost between the new vesting date and the normal vesting date in accordance with the DASB (e.g. in bad leaver circumstances) the appropriate number of such shares will be forfeited by the executive to the Company's employee benefit trust for nil consideration. In such clawback circumstances, the executive may also be required to pay the Company a cash sum equal in value (as at the time of early vesting) to the value of any shares that would have been lost otherwise, that were sold to meet the tax liabilities arising from the early vesting of the awards.

All other terms of the awards remain unchanged and no additional costs should be incurred by the Company as a result of the amendment.

Executive 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.

The award of shares or options under the executive share-based incentive plans is determined by the Remuneration Committee, taking into account the role of the individual and such other criteria as the Remuneration Committee 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 other senior executives. Since 2008, Executive Directors and other senior executives have not been eligible to receive further awards under LTIP Part A and 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.

Long-Term Incentive Plan – LTIP 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.

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.

Such 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 vest, rising proportionally up to full vesting thereafter. For below median performance, no such awards will vest.

Report of the Remuneration Committee

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 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) 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.

During the year, the Committee decided that any future LTIP B awards which are granted in the last four months in any year will utilise the adjusted EPS figure as at the end of that relevant financial year as the base figure rather than the preceding year's adjusted EPS. The performance period will begin with the three year period commencing with the financial year immediately following the date of grant and awards will therefore have a vesting period of between three and three and a half years. The first awards under this new policy were granted in September 2009. 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:

Scheme	At 1 Jan 2009	Awarded in year	Transferred in year	Lapsed in year	At 31 Dec 2009	Share price at date of award	Earliest vesting date	Expiry date
Mark Harper								
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	29 August 2011	28 August 2014
LTIP Part B 'Performance'	–	378,750	–	–	378,750	115.00p	5 March 2012	4 March 2015
LTIP Part B 'Performance'	–	134,070	–	–	134,070	169.50p	28 February 2013[1]	27 September 2015
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
DASB	–	102,083	–	–	102,083	115.00p	1 March 2012	1 March 2012
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	29 August 2011	28 August 2014
LTIP Part B 'Performance'	–	206,250	–	–	206,250	115.00p	5 March 2012	4 March 2015
LTIP Part B 'Performance'	–	73,008	–	–	73,008	169.50p	28 February 2013[1]	27 September 2015
DASB	29,191	–	–	–	29,191	189.75p	1 March 2011	1 March 2011
DASB	–	42,700	–	–	42,700	115.00p	1 March 2012	1 March 2012

1 Subject to the date of announcement of the Company's financial results for the previous year in accordance with the Model Code

A total of 1,633,821 (2008: 1,841,949) share incentive awards were granted to Executive Directors and other senior executives under the LTIP Part B and the DASB during the year ended 31 December 2009.

The middle market price of an ordinary share in the Company on 31 December 2009 was 189.00p. The middle market price of an ordinary share in the Company during the year ranged from 108.50p to 189.00p.

The awards granted in 2006 and 2007 under LTIP Part B are subject to relative TSR performance targets. For the awards granted in 2007, as at 31 December 2009 Filtrona was ranked between the median and upper quartile of the comparator group, which would indicate potential vesting of 53.32% 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, the LTIP Part B options awarded in March 2006 lapsed due to the performance targets not being met.

The awards granted in 2008 and 2009 under LTIP Part B are subject to a performance condition which is 50% dependent on relative TSR performance targets.

For the awards granted in April 2008, as at 31 December 2009, Filtrona was ranked between the median and upper quartile of the comparator group, which would indicate potential vesting of 83.98% of 50% of the grant. For the awards granted in August 2008, as at 31 December 2009, Filtrona was ranked between the median and upper quartile of the comparator group, which would indicate potential vesting of 72.76% of 50% of the grant. For the awards granted in March 2009, as at 31 December 2009, Filtrona was ranked between the median and upper quartile of the comparator group, which would indicate potential vesting of 25.00% of 50% of the grant.

Long-Term Incentive Plan – LTIP 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 other senior executives no longer receive LTIP Part A share option awards (the last awards being granted in 2007). Awards will continue to be made to other participants and the exercise price set will be equal to the share price at the date of the grant.

During 2008, the Remuneration Committee reviewed the criteria being applied when quantifying the level of individual awards being granted. As a result, the Remuneration Committee has recommended that 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.

The performance conditions attached to the awards granted in 2005 and 2006 have been satisfied.

Save As You Earn Scheme

In addition to the LTIP, the Company operates a Save As You Earn share option scheme ('SAYE'). During 2009, the Company decided not to launch a SAYE, having had regard to the potentially adverse accounting implications.

Mark Harper joined the SAYE in 2006 and Steve Crummett joined the SAYE in 2008, both contributing the statutory maximum monthly amount of £250.

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 2009 and 31 Dec 2009	Exercise price	Earliest vesting date	Expiry date
Mark Harper				
LTIP Part A	156,903	239.00p	23 June 2008	22 June 2015
	148,380	254.75p	8 September 2009	7 September 2016
	190,376	239.00p	31 August 2010	30 August 2017
SAYE	6,793	237.00p	1 May 2011	31 October 2011
Steve Crummett				
LTIP Part A	106,694	239.00p	31 August 2010	30 August 2017
SAYE	6,324	151.80p	1 May 2011	31 October 2011

Performance graph

The graph opposite 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 on the London Stock Exchange until 31 December 2009 (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.

Report of the Remuneration Committee

Source: Thomson Financial (Datastream)

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 notice periods 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 Non-executive Directors, other than the Chairman, are approved by the Board in accordance with the policy adopted by the Remuneration Committee, and are based on a standard fee, with additional fees payable for 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 2009 and a 2% increase was agreed. The fees will be subject to a further annual review in December 2010 in accordance with the policy for the remuneration of Non-executive Directors adopted by the Board.

			Supplementary Fee	
	Chairman	Non-executive Director	Senior Independent Non-executive Director	Additional fee for chairing a Committee
Annual fee effective from 1 January 2010	£164,220	£37,740	£4,386	£8,874
Annual fee effective from 1 January 2009	£161,000	£37,000	£4,300	£8,700

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. Pensionable salary is base salary only. His normal retirement age is 60.

The FSPS provides the following death benefits:

	FSPS Death-in-service before NRD[1]	Death after retirement
Lump sum	Four times annual salary and a refund of member's contributions	Guaranteed pension (5 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 receives a supplementary payment of 20% of his base salary to permit him to secure pension benefits. Steve is a member of the Filtrona Pension Plan – Defined Contribution section ('the DC plan') and he contributes 5% of his base salary up to the scheme specific cap which the Company matches. The DC plan provides death benefits of four times annual salary.

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

	Gross increase in accrued pension £000	Increase in accrued pension net of inflation £000	Total accrued pension at 31 Dec 2009[1] £000	Value of net increase in accrual during the year £000	Value of accrued pension at 1 Jan 2009[2] £000	Value of accrued pension at 31 Dec 2009[2] £000	Total change in value during the year[3] £000
Mark Harper	19	7	265	76	4,796	5,120	280

1 The accrued pension at 31 December 2009 is that which would be paid annually on retirement based on the assumption that service terminated at the year end
2 The value of the accrued pension is calculated on the current transfer value basis applicable to the FSPS 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 contributions during the year

Outside appointments

Filtrona recognises its senior executives can benefit from serving in a personal capacity as non-executive directors of non-Filtrona group companies. It is, at the same time, conscious of the corporate governance recommendations that Executive Directors should take account of the time commitment required by a non-executive position. 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 retained his fees for 2009 of £52,000.

Directors' shareholdings

The interests (both beneficial and family interests) of the Directors in office at 31 December 2009, and at the date of this Report, in the issued ordinary share capital of the Company were as follows:

	At 31 Dec 2009	At 31 Dec 2008 or date of appointment
Jeff Harris	**51,651**	51,651
Mark Harper	**176,850[1]**	147,986[1]
Steve Crummett	**11,600**	6,600
Paul Drechsler	**18,519**	18,519
Lars Emilson	**7,500**	7,500
Terry Twigger	**2,500**	–

1 410 shares are held non-beneficially

The Executive Directors are regarded as being interested in 1,405,270 (2008: 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 2009, potential and actual share issuance through employee-related share plans totalled 3.56%, 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
25 February 2010

Corporate Governance Report

The Filtrona Board is accountable to all the Company's stakeholders, as well as shareholders, for the standards of governance which are maintained across Filtrona's diverse range of international businesses.

Filtrona is committed to high standards of corporate governance, corporate responsibility and risk management throughout the Company. The Filtrona Board believes that the pursuit of, and adherence to, such best practice standards provides competitive advantage across the Group as they improve the efficiency and effectiveness of the Board, strengthen the controls and processes within the businesses and enhance the quality of decision-making and risk management. The standards of corporate governance across the Group ultimately underpin the value proposition of the Company as it pursues its strategic objectives in the delivery of shareholder value and manages its corporate responsibilities.

Compliance with the Combined Code

Filtrona confirms that throughout the year ended 31 December 2009 the Company has complied with the 2008 version of the Combined Code of Corporate Governance issued by the Financial Reporting Council (the 'Code'), in particular with the Main Principles set out in section 1 of the Code.

The Company applies the Code's principles of openness, integrity and accountability through its own behaviour, corporate governance best practice and by adopting, as appropriate and proportionate for a company of the size and nature of Filtrona, 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 also sets out the roles and delegated authorities applying to the Board, the Executive Committee and the businesses. These policies and procedures together with any new requirements or further updates, are communicated across the Group 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 members of the Board and senior executive teams are well equipped to drive, and are capable of delivering on, the Company's strategy.

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

- group strategy
- approval of annual, half year results and quarterly interim management 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 payments

Jeff Harris, Chairman and Jon Green, Company Secretary & General Counsel

The Board reviews the schedule of reserved matters annually and during 2009 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.

During 2009, in the light of the exceptional trading conditions which were experienced across the Group's various businesses as a result of the worldwide recession, the Board was closely engaged in detailed monitoring of performance and the actions necessary to maintain the profitability of the Company. However, despite those short-term challenges, the Board remained focused on the longer term strategic objectives which it has defined and, in particular, during the year the Board:

- Evaluated and approved the sale of the Company's North American Plastic Profile & Sheet business which was completed in March 2009. The disposal of this business reflected the Board's commitment to delivering shareholder value through the development of higher margin businesses
- Evaluated and approved the refinancing of the Group's banking facilities which were due to expire in May 2010. The Board considered that as part of the prudent risk management of the Company, it was appropriate to secure the new financing at the earliest opportunity. The new facilities meet the financing requirements of the Group for its existing businesses and maintains the Company's ability to invest in potential organic growth and acquisition opportunities

- Closely monitored the Company's response to rapidly-changing general economic conditions to ensure delivery of short and long-term value within the Group
- Evaluated and approved a formal bid in relation to a strategically significant acquisition opportunity which was the subject of an auction process. The Board was disappointed not to secure the target business, but was satisfied that the review processes undertaken during the bid preparation were of the highest quality and reflected the Company's commitment to appropriate risk review whilst considering the development of the Group
- Considered the latest actuarial valuations of the Company's defined benefit pension schemes and, in seeking to reduce the potential future liabilities under the schemes, proposed changes in the benefits payable under the respective schemes
- Assessed the quality of the Board's oversight of health and safety matters against best practice and adopted recommendations designed to further enhance the level of its reviews and the communication of its leadership

The Board acknowledges the importance of management development and succession planning in the delivery of the Company's strategic objectives. During the year the Board undertook a detailed review of succession planning across the senior management team. In addition, following on from one of the recommendations made during the Board performance evaluation of 2008, the Board engaged with an external service provider who undertook a leadership development programme with senior executives from the Group Operating Committee ('GOC').

The Board establishes the standards and values that govern the Group and agrees the structure of the Group's internal controls. The Board looks to the Audit Committee to undertake the majority of the work involved in monitoring and seeking assurance as to compliance with the controls within this framework. However, the Board as a whole maintains oversight of such important matters and after each committee meeting the Chairman of the Audit Committee reports on the matters which have been reviewed.

Other specific responsibilities are delegated to the Nomination and Remuneration Committees. These Committees report as appropriate to the Board. All the Committees have clearly defined terms of reference. These are reviewed annually and are available on the website www.filtrona.com.

During the year, there were nine scheduled Board meetings, one of which was held overseas at the new Hungarian Filter Products facility. In addition to the scheduled formal meetings, the Board met on a number of other occasions as required and, in particular, reviewed in detail, in conjunction with outside advisers, the further development and delivery of the Group strategy. 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 to monitor corporate control mechanisms.

The Chairman, in conjunction with the Company Secretary & 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. Additionally, the Board receives presentations and considers reports from senior management about matters of material importance to the Company. The Board receives detailed presentations from each of the Managing Directors or Presidents of the Divisions in relation to the respective strategic plans and budgets for the divisions. 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 67.

Conflict of interests

The Company's Articles of Association permit the Board to consider and, if it sees fit, to authorise situations where a Director has an interest that conflicts, or may possibly conflict, with the interests of the Company. In addition the Company has a conflict of interests policy governing the responsibilities of Directors in such situations. The decision to authorise a conflict of interest can only be made by non-conflicted Directors (those who have no interest in the matter being considered) and in making such a decision the Directors must act honestly and in good faith when giving authorisation where they think this is appropriate, and will be most likely to promote the Company's success. The Company Secretary & General Counsel maintains a register of Directors' interests so that any potential concerns are addressed before any material concerns may arise. During the course of the year there were no material conflicts of interest impacting on the conduct of the Board's activities.

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.

During the year, Terry Twigger was appointed as a Non-executive Director following the resignation of Adrian Auer.

In the opinion of the Board, Paul Drechsler, Lars Emilson and Terry Twigger 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 in the development of the Company's strategy. Non-executive Directors also ensure a sound basis for good corporate governance for the Company, challenging management's performance and, in conjunction with the Executive Directors, ensuring that rigorous financial controls and systems of risk management are maintained as appropriate to the needs of the businesses within Filtrona.

The Chairman and each of the other Non-executive Directors have considerable international experience at a senior level in the management of activities broadly similar to those carried out by the Company and the material issues likely to arise for the Group.

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 AGM.

Paul Drechsler acts as the Senior Independent Non-executive Director and can be contacted via the Company's registered

Corporate Governance Report

office. In that role he is available to shareholders to discuss and develop an understanding of their issues and any concerns which cannot be resolved by discussions with the Chairman, the Chief Executive or 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 reappointment. The Directors retiring at the forthcoming AGM and submitting themselves for reappointment are Paul Drechsler and Lars Emilson.

Terry Twigger was appointed as a Director subsequent to the Company's AGM held in 2009 and, in accordance with the Company's Articles of Association, is putting himself forward for election.

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 2009:

		Board	Audit Committee	Nomination Committee	Remuneration Committee
Held		9	4	3	4
Attended					
Jeff Harris	Chairman	9	–	3	–
Mark Harper	Chief Executive	9	–	–	–
Steve Crummett	Group Finance Director	9	–	–	–
Paul Drechsler	Senior Independent Non-executive Director	9	4	3	4
Lars Emilson	Non-executive Director	9	4	3	4
Terry Twigger[1]	Non-executive Director	4	2	–	1
Adrian Auer[2]	Non-executive Director	4	1	–	2

1 Appointed 1 June 2009
2 Resigned 1 June 2009

Terry Twigger was excused from the December 2009 Board, Audit Committee, Remuneration Committee and Nomination Committee meetings due to an engagement which existed prior to his appointment as a Non-executive Director.

During the year, Jeff Harris was appointed temporary acting chairman of Bunzl plc where he was already a non-executive director. The Board did not consider that such role materially impacted upon his contribution to the Company. Jeff will be resigning as a director from Bunzl plc at the end of February 2010.

Information and professional development

The Chairman, supported by the Company Secretary & 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 an induction programme tailored to their individual needs is available to Directors and designed to assist them in their understanding of Filtrona and its operations. Throughout a Director's tenure they are encouraged to develop their knowledge of the Group through meetings with senior management and site visits. Directors are also provided with updates, as appropriate, on matters such as fiduciary duties, Companies Act requirements, share dealing restrictions and corporate governance matters.

All Directors have access to the advice and services of the Company Secretary & 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 & 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

During 2009, the annual evaluation of the Board's performance was undertaken with an internal self-assessment exercise through the use of web-based software supplied by an external organisation. Questionnaires were developed by the Company Secretary & General Counsel in conjunction with the Chairman and they were submitted with non-attributable, confidential responses and the participants were able to identify opportunities for improvement where applicable.

As part of the 2009 Board performance evaluation, the Non-executive Directors appraised the Chairman's performance and the Senior Independent Director has discussed the results with the Chairman.

The Nomination and Remuneration Committees also conducted an evaluation of their work and effectiveness. The respective evaluations were conducted on a similar basis to that used for the Board and the results were reported to the Board by the respective Committee Chairmen.

Given the appointment of a new Chairman of the Audit Committee part way through the year, it was decided to proceed with an evaluation of the Committee by the members (excluding the Chairman) together with regular attendees to Audit Committee meetings, including the Company Chairman, the Executive Directors, the Company's auditor, the Group Head of Audit, and the Chairman of the Risk Management Committee. The review focused on the Audit Committee's role, processes and performance since demerger and recommended potential areas for improvement. The Chairman of the Committee has reviewed the comments and recommendations with the Company Secretary & General Counsel and reported the results to the Board.

An analysis of the feedback from the evaluation exercise was reviewed and discussed by the Board. The performance evaluation concluded that the Board and each of its Committees were operating effectively in the discharge of their respective duties. However, the Board identified that further value would be added, and additional benefits would be derived, by improvements to communication between the Board and the Group Operating Committee, together with other senior management, and by further developing the Board's knowledge and understanding of the Company businesses. As a result, it has been agreed to implement during 2010 a programme of additional meetings between Board members and other senior management outside the formality of the Boardroom. In support of this, it is intended that an additional Board meeting will be conducted at an operational facility across the Group during the year.

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.

Audit Committee

The Board is required by the Code to establish formal and transparent arrangements for considering how it should apply the required financial reporting and internal control principles and for maintaining an appropriate relationship with the Company's external auditor KPMG Audit Plc. The Audit Committee supports the Board in the achievement of those objectives.

During the year, Terry Twigger was appointed as the Chairman of the Audit Committee following the resignation of Adrian Auer on 1 June 2009. The other members are Paul Drechsler and Lars Emilson.

The Board is satisfied that Terry Twigger 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, along with the Chairman of the Company and the Chief Executive.

The Company Secretary & General Counsel acts as Secretary to the Audit Committee.

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

The responsibilities of the Audit Committee are defined in its Terms of Reference.

In pursuance of its responsibilities the Audit Committee undertook the following work during the year:

- examined the full year financial statements and half year results, reviewing, challenging and approving the going concern basis of preparation, the accounting policies, the financial reporting issues and the judgement of the finance management
- received a report from the external auditor on their review of the effectiveness of the internal controls
- 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 output from the Group-wide process used to identify, evaluate and mitigate risk and considered the key risks arising from the Company's activities and the response of senior management to those challenges
- reviewed the Company's Whistleblowing policy to ensure that appropriate arrangements are in place for facilitate the proportionate and independent investigation of any issues raised by employees
- assessed the qualifications, expertise, resources and independence of the external auditor and the effectiveness of the audit process which enabled the Committee to recommend the reappointment of the external auditor at the AGM
- reviewed and approved proposals for the engagement of the external auditor for non-audit services

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In 2009 the Audit Committee also:

- reviewed and approved the revision of the Group Treasury policies relating to funding and balance sheet hedging
- received a presentation from the Group Head of Tax and Treasury on strategic planning and objectives, the Company's international tax matters, and overall Group tax rate management
- conducted an analysis of areas of uninsured risk following the annual renewal of the Group's insurance programme
- reviewed and approved a revised Group Code of Business Ethics policy designed to further drive appropriate behaviours in the delivery of the Company's strategic objectives
- reviewed and approved a Group Risk policy

The Audit Committee considers annually the engagement of the external auditor to supply non-audit services. The importance of maintaining the objectivity and independence of the external auditor, by minimising its involvement in projects of a non-audit nature, is of concern to the Audit Committee. 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. During the year, the external auditor was employed to provide services in relation to the disposal of the Company's North American Plastic Profile & Sheet business and the significant strategic acquisition opportunity which was discontinued in September 2009.

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

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

The Company Secretary & General Counsel acts as Secretary to the Nomination Committee. 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 Group's Conflict of Interests policy. The Nomination Committee meets as required, and during 2009 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 Terry Twigger to the Board in June 2009.

During the year, the Nomination Committee reviewed the Group Conflict of Interests policy and register and was satisfied that there were no material issues of conflict. The Company has established a procedure whereby actual or potential conflicts of interest are regularly reviewed and proper authorisation is sought prior to the appointment of any new Director. The Board considers these procedures to be working effectively.

Remuneration Committee
The Remuneration Committee currently comprises Paul Drechsler who chairs the Committee, Lars Emilson and Terry Twigger. The composition and role of the Remuneration Committee is described more fully in the Report of the Remuneration Committee on pages 53 to 61.

Shareholder communications
Filtrona seeks to maintain open and transparent relationships with its shareholders and other stakeholders, including providers of finance, customers and suppliers. This is achieved by regular updates through press announcements, the corporate website and other published material.

The Company also 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 meetings were also held with key institutional investors to discuss strategy, financial performance and investment activities. Slide presentations are made immediately available after the full year and half year results and are also available on the Company's website 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 so they are aware of any issues or concerns.

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 AGM 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 which is essential for reliable financial reporting and also for the effective management of the Group . The Audit Committee assesses the quality of the control environment when monitoring and reviewing the integrity of the Group's financial statements and any significant judgements that were made in their preparation.

Filtrona's internal 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.

The following procedures are in place which enable the Board to review the effectiveness of the system of internal control:

- The Board receives detailed reports at each scheduled Board Meeting on the operational and financial performance of the businesses from the Chief Executive and the Group Finance Director, together with regular updates on any material issues which may impact on the Group
- The Board receives reports from the Company Secretary & General Counsel on any material legal and compliance issues which may impact on the Group
- The Board receives copies of the minutes from all Executive Committee meetings and discuss any material issues arising therefrom at each scheduled Board meeting or as otherwise appropriate. The Executive Committee, which meets at least twice per month, is made up of the Chief Executive, the Group Finance Director, the Company Secretary & General Counsel and the Director of Group Human Resources. Each meeting includes a review of health and safety and trading performance, acquisition and investment activity, material contract and litigation issues, risk management and any concerns arising from personnel matters
- The Audit Committee meets regularly and reviews the effectiveness of the internal control environment of the Group, supported by the external auditor and the Group Head of Audit. The Group Head of Audit provides detailed reports and the external auditor advises the Audit Committee in writing of any areas of concern identified during the course of their audit programmes during the year. The Audit Committee considers any issues raised in any reports and monitors the actions taken by the Company in response to those issues. The internal audit programme for each year is planned using a number of factors, including the size and nature of the operations, any previous year's findings and any changes in the day-to-day management processes or teams, and the programme is discussed and agreed with the Audit Committee
- The Audit Committee meets with the external auditor and the Group Head of Audit without the Executive Directors or other senior executives in attendance
- The Audit Committee reviews a risk management report from the Chairman of the Risk Management Committee at each meeting. The risk management report includes an analysis of the key risks at a Group level and within the operating divisions, summarises developments potentially impacting the Group from a risk, governance or compliance perspective and proposes actions for the Company in response to such developments. The Audit Committee considers any issues raised in the report and monitors the actions taken by the Company in response to those issues
- The Audit Committee receives regular risk management presentations from senior management within the respective divisions
- The Audit Committee receives a report from the Company Secretary & General Counsel on any issues raised pursuant to the Company's Whistleblowing policy and monitors the actions taken by the Company in response to those issues
- The Board has the opportunity to review the internal control environment at local sites when Board meetings are held away from the Company's head office
- Every month each Division submits detailed operating and financial reports covering all aspects of performance. These are reviewed within the Group's central finance function and summary reports are communicated to the Executive Committee and the Board
- Compliance certificates are required from the businesses to confirm compliance with the Group's policies and procedures

Operational matters and the responsibility for the day-to-day management of the divisions 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 internal control.

During 2009, the GOC which consists of the Executive Committee members and the Divisional Managing Directors or Presidents, as appropriate, met quarterly 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. The GOC was particularly focused on the management responses to the rapidly changing economic environment, ensuring that the Group was able to react quickly as stakeholders also changed their focus during the year. Biographies of the GOC members demonstrating the range of management expertise within the Company's senior executive team appear on page 45.

Corporate Governance Report

Policies and procedures, which are subject to ongoing review and updated as required in response to strategic, operational, business, legal or regulatory developments, with the approval of the Board or its respective Committees as appropriate, 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 considers that there is considerable comfort in the fact that the Group's cash flow from operating activities represented in excess of 100% of underlying operating profit in 2009, reflecting what it believes to be a robust control environment.

Control of significant risks
The Board has two main responsibilities in relation to risk. One is to determine the risk appetite of the Group and communicate to the organisation what constitutes acceptable risk-taking. The second responsibility is to oversee the management process for the identification, assessment and mitigation of risk across the Group.

During the year, the Audit Committee approved a new Group Risk policy to support the Board in fulfilling those responsibilities and to reinforce the continuing risk review processes embedded within the divisions.

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 2009 and up to the date of approval of this Annual Report for 2009.

This process includes:

- Businesses are required to implement 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 significant risks and the related financial, operational and compliance controls to mitigate their impact
- Divisional executives are required to include risk management on agendas for their regular management meetings and to report to the Risk Management Committee ('RMC') on actions taken to review the effectiveness of their controls
- The submission by each division of quarterly risk profiles to the RMC for its review and reporting to the Audit Committee
- Each division presenting during the year to either the RMC or the Audit Committee on issues detailed within the quarterly risk profiles and matters such as business continuity planning and disaster recovery. This schedule of presentations was implemented in 2009 to further enhance the Board's oversight and understanding of the key risks impacting on the conduct of the Group's businesses and the actions taken to minimise their effect on the delivery of Filtrona's strategic objectives.
- Group manuals detailing accounting requirements and establishing comprehensive policies in relation to matters which are regarded as prudent to ensure that appropriate controls are maintained across the Group, including in relation to business conduct, conflict of interests, health and safety and other corporate responsibility matters
- A comprehensive insurance programme

The RMC is chaired by the Company Secretary & General Counsel, which ensures an appropriate separation of powers and division of responsibilities particularly in relation to financial matters. The other members are the Executive Directors, the Director of Group Human Resources, the Group Head of Audit and the Group Head of Tax and Treasury. The RMC met five times during the year.

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 the year, the RMC gave particular attention to the risks associated with refinancing, disposal of businesses, acquisition activity, business performance and the transfer of business operations in response to customer needs and operational demands. The RMC review not only gives consideration to financial and operational matters but also has regard to non-financial matters such as health and safety, environmental, social and employee issues impacting the Group and reputational risk. 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. During 2009, in addition to the Risk Policy, the RMC continued to review the Group policies which are in place to support the corporate governance framework. This resulted in a revised Code of Business Ethics policy being approved by the Audit Committee. This review will continue into 2010 with particular emphasis on the introduction of an Anti-Corruption and Bribery policy to further strengthen the Company's existing controls. Additional measures will be established to ensure that all Company policies are fully implemented, appropriately communicated and continually supported, with ongoing training and monitoring, throughout the various jurisdictions within which Filtrona operates.

Where appropriate, the Company takes external expert advice when reviewing the Company's exposure to risk.

The resources of the Company's internal audit department are augmented with independent expert external resource 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.

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 & General Counsel, whilst the Chief Executive, supported by the Director of Group Human Resources and the Company Secretary & General Counsel, reports to the Board on corporate responsibility issues.

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 Statement of Directors' Responsibilities set out on page 52, 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 page 107, 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 disclosure
Further information regarding the financial position of the Group, its cash flows, liquidity position, and borrowing facilities are described in the Financial Review on pages 32 to 33. 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 12 to the financial statements.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and accordingly have adopted the going concern basis in preparing the consolidated financial statements. This disclosure has been prepared in accordance with the Financial Reporting Council's Going Concern and Liquidity Risk: 'Guide for Directors of UK Companies 2009'.

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 43.

Consolidated Income Statement
for the year ended 31 December 2009

	Note	2009 £m	Restated 2008 £m
Revenue	2	**444.0**	431.7
Operating profit before intangible amortisation, major restructuring costs and exceptional acquisition fees		**56.2**	56.8
Intangible amortisation		**(3.1)**	(2.0)
Major restructuring costs		**(8.9)**	–
Exceptional acquisition fees		**(1.9)**	(1.3)
Operating profit	2,3	**42.3**	53.5
Finance income	4	**9.3**	11.5
Finance expense	4	**(19.3)**	(18.3)
Profit before tax		**32.3**	46.7
Income tax expense	5	**(12.1)**	(15.3)
Profit from continuing operations		**20.2**	31.4
(Loss)/profit from discontinued operations	24	**(6.7)**	4.7
Profit for the year		**13.5**	36.1
Attributable to:			
Equity holders of Filtrona plc		**11.8**	35.0
Minority interests		**1.7**	1.1
Profit for the year		**13.5**	36.1
Earnings per share attributable to equity holders of Filtrona plc:			
Basic	7	**5.8p**	17.1p
Diluted	7	**5.7p**	17.0p
Earnings per share from continuing operations attributable to equity holders of Filtrona plc:			
Basic	7	**9.1p**	14.8p
Diluted	7	**9.0p**	14.7p

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2009

	Note	2009 £m	Restated 2008 £m
Profit for the year		**13.5**	36.1
Other comprehensive income			
Actuarial gains/(losses) on defined benefit pension schemes	18	**6.4**	(18.1)
Deferred tax (expense)/credit on actuarial gains/(losses) on defined benefit pension schemes		**(2.0)**	5.7
Effective portion of changes in fair value of cash flow hedges:			
Net change in fair value of cash flow hedges transferred to the income statement		**8.0**	–
Effective portion of changes in fair value of cash flow hedges		**(1.0)**	(7.7)
Foreign exchange translation differences:			
Transferred to loss on disposal of discontinued operations	24	**(1.1)**	–
Attributable to equity holders of Filtrona plc:			
Arising on translation of foreign operations		**(16.6)**	54.9
Arising on effective net investment hedges		**2.2**	(30.9)
Income tax credit on effective net investment hedges		**2.2**	0.4
Attributable to minority interests		**(0.5)**	1.4
		(2.4)	5.7
Total comprehensive income		**11.1**	41.8
Attributable to:			
Equity holders of Filtrona plc		**9.9**	39.3
Minority interests		**1.2**	2.5
Total comprehensive income		**11.1**	41.8

Consolidated Balance Sheet
at 31 December 2009

	Note	2009 £m	Restated 2008 £m
Assets			
Property, plant and equipment	8	**153.9**	210.5
Intangible assets	9	**98.1**	132.2
Deferred tax assets	16	**2.2**	1.3
Other receivables	1,11	**5.3**	8.4
Total non-current assets		**259.5**	352.4
Inventories	10	**51.7**	78.5
Income tax receivable		**2.3**	5.9
Trade and other receivables	1,11	**67.1**	87.7
Derivative assets	1,15	**0.6**	5.3
Cash and cash equivalents	1,12	**32.0**	21.3
Total current assets		**153.7**	198.7
Total assets		**413.2**	551.1
Equity			
Issued capital	19	**54.8**	54.8
Capital redemption reserve		**0.1**	0.1
Other reserve	20	**(132.8)**	(132.8)
Cash flow hedging reserve		**(1.0)**	(8.0)
Translation reserve		**13.0**	26.3
Retained earnings	20	**219.6**	219.7
Attributable to equity holders of Filtrona plc		**153.7**	160.1
Minority interests		**7.4**	7.0
Total equity		**161.1**	167.1
Liabilities			
Interest bearing loans and borrowings	1,14	**139.1**	198.1
Derivative liabilities	1,15	**1.8**	2.7
Retirement benefit obligations	18	**22.6**	37.4
Income tax payable		**4.7**	0.6
Provisions	17	**1.5**	4.6
Deferred tax liabilities	16	**8.6**	13.8
Total non-current liabilities		**178.3**	257.2
Interest bearing loans and borrowings	1,14	**–**	5.3
Derivative liabilities	1,15	**1.3**	17.0
Income tax payable		**12.3**	15.2
Trade and other payables	1,13	**55.3**	86.3
Provisions	17	**4.9**	3.0
Total current liabilities		**73.8**	126.8
Total liabilities		**252.1**	384.0
Total equity and liabilities		**413.2**	551.1

The consolidated financial statements on pages 70 to 102 were approved by the Board of Directors on 25 February 2010 and were signed on its behalf by:

Mark Harper
Chief Executive

Steve Crummett
Group Finance Director

Consolidated Statement of Changes in Equity

for the year ended 31 December 2009

	Issued capital £m	Capital redemption reserve £m	Other reserve £m	Cash flow hedging reserve £m	Translation reserve £m	Retained earnings £m	Minority interests £m	Total £m
								2009
At 1 January 2009	**54.8**	**0.1**	**(132.8)**	**(8.0)**	**26.3**	**219.7**	**7.0**	**167.1**
Total comprehensive income for the year				7.0	(13.3)	16.2	1.2	**11.1**
Acquisition of minority interest						(2.9)		**(2.9)**
Share option expense						2.5		**2.5**
Dividends paid						(15.9)	(0.8)	**(16.7)**
At 31 December 2009	**54.8**	**0.1**	**(132.8)**	**(1.0)**	**13.0**	**219.6**	**7.4**	**161.1**

	Issued capital £m	Capital redemption reserve £m	Other reserve £m	Cash flow hedging reserve £m	Translation reserve £m	Retained earnings £m	Minority interests £m	Total £m
								Restated 2008
At 1 January 2008	54.8	0.1	(132.8)	(0.3)	1.9	211.6	4.8	140.1
Prior period restatement						(0.2)		(0.2)
At 1 January 2008 as restated	54.8	0.1	(132.8)	(0.3)	1.9	211.4	4.8	139.9
Total comprehensive income for the year				(7.7)	24.4	22.6	2.5	41.8
Share option expense						1.6		1.6
Dividends paid						(15.9)	(0.3)	(16.2)
At 31 December 2008	54.8	0.1	(132.8)	(8.0)	26.3	219.7	7.0	167.1

Consolidated Statement of Cash Flows
for the year ended 31 December 2009

	Note	2009 £m	Restated 2008 £m
Operating activities			
Profit before tax from continuing operations		**32.3**	46.7
Adjustments for:			
Net finance expense	4	**10.0**	6.8
Intangible amortisation	3,9	**3.1**	2.0
Major restructuring costs	2	**8.9**	–
Exceptional acquisition fees	2	**1.9**	1.3
Depreciation	3,8	**20.7**	18.9
Share option expense	18	**2.4**	1.4
Impairments to property, plant and equipment	8	**1.0**	–
Other movements		**0.8**	–
Decrease/(increase) in inventories		**11.3**	(7.4)
Decrease/(increase) in trade and other receivables		**5.1**	(1.4)
(Decrease)/increase in trade and other payables		**(14.2)**	8.5
Major restructuring costs paid		**(3.7)**	–
Exceptional acquisition fees paid		**(1.9)**	(1.3)
Additional pension contributions		**(7.1)**	(7.0)
Cash inflow from operating activities of continuing operations		**70.6**	68.5
Income tax paid in respect of continuing operations		**(12.1)**	(13.4)
Net cash inflow from operating activities of continuing operations		**58.5**	55.1
Net cash (outflow)/inflow from operating activities of discontinued operations		**(3.0)**	9.4
Net cash inflow from operating activities		**55.5**	64.5
Investing activities			
Interest received		**0.1**	0.9
Acquisition of property, plant and equipment		**(11.0)**	(20.6)
Proceeds from sale of property, plant and equipment		**0.2**	0.1
Acquisition of businesses net of cash acquired	23	**(2.9)**	(20.5)
Proceeds from sale of businesses	24	**56.6**	2.3
Income tax paid on sale of businesses		**(3.5)**	–
Net cash inflow/(outflow) from investing activities of continuing operations		**39.5**	(37.8)
Net cash outflow from investing activities of discontinued operations		**(0.2)**	(2.2)
Net cash inflow/(outflow) from investing activities		**39.3**	(40.0)
Financing activities			
Interest paid		**(6.9)**	(8.1)
Dividends paid to equity holders		**(15.9)**	(15.9)
Dividends paid to minority interests		**(0.8)**	(0.3)
Realised losses on hedges of net investments		**(2.0)**	(19.8)
(Repayments of)/proceeds from short-term loans		**(5.3)**	4.1
Repayment of long-term loans		**(214.1)**	–
Proceeds from long-term loans		**161.8**	5.6
Net cash outflow from financing activities of continuing operations		**(83.2)**	(34.4)
Net cash outflow from financing activities of discontinued operations		**–**	–
Net cash outflow from financing activities		**(83.2)**	(34.4)
Net increase/(decrease) in cash and cash equivalents	21	**11.6**	(9.9)
Net cash and cash equivalents at the beginning of the year		**21.3**	23.6
Net increase/(decrease) in cash and cash equivalents		**11.6**	(9.9)
Net effect of currency translation on cash and cash equivalents		**(0.9)**	7.6
Net cash and cash equivalents at the end of the year	1,12	**32.0**	21.3

Accounting Policies

a Basis of preparation

The consolidated financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the European Union ('EU') in accordance with EU law (IAS Regulation EC 1606/2002) ('adopted IFRS') and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The Company has elected to prepare its individual company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice ('UK GAAP'); these are presented on pages 103 to 106.

The financial statements are prepared under the historical cost convention except for derivatives and retirement benefit obligations 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 standards were adopted by the Group during the year:

Amendment to IAS 38: *Intangible assets*

The amendment clarified that all marketing and production costs associated with promotional activities, such as the Group's catalogue costs, should be recognised in the income statement when access is received to those goods. The Group's previous accounting policy had been to treat these costs as an expense when the catalogues were distributed to customers. This change in accounting policy has been applied retrospectively, decreasing net assets by £0.5m and £0.2m at 31 December 2008 and 31 December 2007 respectively. The impact on the income statement in 2008 was to reduce operating profit by £0.4m and income tax expense by £0.1m.

IFRS 8: *Operating segments*

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*. In accordance with IFRS 8, the Group has revised its operating segments as shown in note 2.

IAS 1 (Revised): *Presentation of financial statements*

This only impacted the Group's presentation of its financial results and did not effect reported profits or total equity.

Amendment to IFRS 2: *Share based payments*

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. This amendment did not have a significant impact on the accounting for existing share option schemes.

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

IFRS 3 (2009): *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.

Amendment to IAS 27 (2008): *Consolidated and separate financial statements* (effective for annual periods beginning on or after 1 July 2009)

This addresses the accounting for changes in ownership interests in a subsidiary and is not expected to have a significant impact upon the Group although during 2009 the Group applied the principles of IAS 27 (2008) in accounting for the acquisition of the minority interest in FractureCode Corporation ApS (see note 23).

All other standards and interpretations recently adopted by the EU not discussed above did not have or are not expected to have a significant impact on the Group.

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

The results for the year ended 31 December 2008 have been restated on a continuing basis following the disposal of Filtrona Extrusion (see note 24).

The consolidated financial statements have been prepared on a going concern basis the statement of which can be found on page 69.

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 consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expense arising from intragroup transactions are eliminated in preparing the consolidated financial statements.

c Foreign currency

Items included in the consolidated financial statements of the Group's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates ('functional currency'). The consolidated financial statements are prepared in sterling (functional currency of the parent company).

Accounting Policies continued

(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 into sterling at the exchange rate ruling at the balance sheet date. The revenues and expenses of foreign operations are translated into sterling at average exchange rates.

(iii) Net investment in foreign operations
Exchange differences on retranslation at the closing rate of the opening balances of overseas entities are taken to 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.

d Financial instruments
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) Fair value hedges
Where a derivative is used to hedge the foreign exchange exposure of a monetary asset or liability, any gain or loss on the derivative is recognised in the income statement.

(ii) Cash flow hedges
Where a derivative is designated as a hedging instrument in a cash flow hedge the change in fair value is recognised in 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.

(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
Rentals associated with operating leases are 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. The cost of an acquisition is measured as the fair value of the assets given plus costs directly attributable to the acquisition. 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. All other development costs are recognised in the income statement and expensed as incurred.

(iii) Other intangible assets
An intangible asset acquired in a business combination is recognised to the extent it is probable that the expected future economic benefits attributable to the asset will flow to the Group and that its cost can be measured reliably. Intangible assets principally relate to customer relationships which were valued using discounted cash flows based on historical customer attrition rates and developed technology which was valued using an income approach. The cost of intangible assets is amortised through 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 fair value less costs to sell, and is recognised in the income statement.

Value in use is estimated based on future cash flows discounted using a pre-tax discount rate based upon the Group's weighted average cost of capital.

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 in the income statement over the term of the borrowings.

m Trade and other receivables

Trade and other receivables carrying value 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 Catalogue costs

The costs associated with the production and printing of catalogues are expensed to the income statement when access is received to those goods.

p 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, on temporary differences arising between the tax bases and the carrying amounts of assets and liabilities in the financial statements. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they will not reverse in the foreseeable future. Deferred tax is determined using tax rates that are expected to apply when the related deferred tax asset or liability is settled.

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.

q 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 customer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated expenses or the possible return of goods.

r Finance income and expense

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

s Segment reporting

A segment is identified on the basis of internal reports that are regularly reviewed by the Group Operating Committee in order to allocate resources to the segment and assess its performance.

t 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 consolidated statement of comprehensive income.

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.

u 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 option awards 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.

Accounting Policies continued

v One-off items in the consolidated income statement
The costs below are separately identified by virtue of their size and incidence. They are shown as a separate line item within operating profit on the face of the income statement in order for the reader to obtain a proper understanding of the financial information and performance. These costs exclude amortisation of acquired intangible assets which are also presented separately in the income statement.

(i) Exceptional acquisition fees
In 2009 and 2008, Filtrona withdrew from significant potential acquisitions at an advanced stage and had to expense £1.9m (2008: £1.3m) of professional adviser fees which would otherwise have been treated as part of the consideration for the acquisition.

(ii) Major restructuring costs
The major restructuring of Filtrona's operations in 2009 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.

w 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.

x Provisions
A provision is recognised when there is a probable legal or constructive obligation as a result of a past event and a reliable estimate can be made of the outflow of resources that will be required to settle the obligation. The outflow is the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date.

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

z Dividends
Dividends are recognised as a liability in the period in which they are approved by the shareholders of the Company (final dividend) or paid (interim dividend).

aa Discontinued operations
In 2009 Filtrona disposed of Filtrona Extrusion and this is classified as a discontinued operation in accordance with IFRS 5: *Non-current assets held for sale and discontinued operations* on the basis that it represented a separate major line of business. The profit after tax of Filtrona Extrusion, including loss on disposal, is disclosed as a single line item in the income statement and similarly the cash flows are 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 and balance sheet.

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
Accruals for tax contingencies require management judgements and estimates in respect of tax audit issues and exposures in each of the jurisdictions in which it operates. Management is also required to make an estimate of the current tax liability together with an assessment of the temporary differences which arise as a consequence of different accounting and tax treatments.

iv Provisions
Filtrona's provisions are management's best estimate of exposure in cases where there is a probable legal or constructive obligation as a result of a past event, 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 34 to 37.

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.

	2009 £m	2008 £m
Not impaired or past due:		
New customers (less than one year)	**2.4**	4.4
Existing customers (more than one year) with no defaults in the past	**45.6**	58.1
1–30 days past due not impaired	**7.9**	11.2
31–60 days past due not impaired	**1.4**	2.5
61–90 days past due not impaired	**0.4**	0.5
More than 90 days past due not impaired	**0.6**	0.6
Impaired	**0.7**	0.9
	59.0	78.2

Notes continued

1. Risk management continued

Trade and other receivables carried at £72.4m (2008: £96.1m) include prepayments and accrued income of £5.1m (2008: £6.2m) which are not financial assets. Therefore, these amounts are excluded from the above analysis. Trade and other receivables also include deferred consideration of £8.3m (2008: £11.7m) 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.

Occasionally disputes arise that result in accounts becoming past due. These are generally recovered in due course and the impairment allowance reflects management's best estimate of recovery. During the year impairment losses on trade and other receivables of £0.3m (2008: £0.8m) 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.

Cash and cash equivalents

Credit risk relating to cash and cash equivalents is monitored daily, on a counterparty by counterparty basis. The credit limits imposed specify the maximum amount of cash which can be invested in, or with, any single counterparty. These limits are determined by geographic presence, expertise and credit rating. 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.

						2009
	AAA £m	**AA £m**	**A £m**	**BBB £m**	**Not rated £m**	**Total £m**
Deferred consideration	**–**	**8.3**	**–**	**–**	**–**	**8.3**
Derivative assets	**–**	**0.6**	**–**	**–**	**–**	**0.6**
Cash and cash equivalents	**1.8**	**11.6**	**16.3**	**0.8**	**1.5**	**32.0**
	1.8	**20.5**	**16.3**	**0.8**	**1.5**	**40.9**

						2008
	AAA £m	AA £m	A £m	BBB £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

Filtrona's maximum credit risk exposure is £99.9m (2008: £116.5m) and no collateral is held against this amount (2008: £nil).

ii) Market price risk

Market price risk is the risk that changes in foreign exchange rates and interest rates will affect income or the value of financial assets and liabilities. 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 price 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. The Company resumed this policy in 2009 after temporarily suspending it in 2008 when, following the significant weakening of sterling against the US dollar and euro in the fourth quarter, the Company repaid substantially all of its US dollar and euro denominated financial liabilities and replaced them with sterling denominated debt to reduce the effect of currency movements on the Group's net debt. As a result, at 31 December 2008, Filtrona's net assets were exposed to the impact of foreign currency translation.

1. Risk management continued

At 31 December 2009, Filtrona's euro denominated assets were fully hedged by its euro denominated borrowings, whilst its US dollar denominated assets were approximately 68% hedged by the remaining US dollar denominated borrowings.

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 12 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 most US dollar and euro (2008: some US dollar) 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.

						2009
	Weakening in sterling			**Strengthening in sterling**		
	10% £m	**5% £m**	**1% £m**	**1% £m**	**5% £m**	**10% £m**
Impact on the income statement – gain/(loss)	**3.9**	**1.8**	**0.4**	**(0.3)**	**(1.7)**	**(3.2)**
Impact on equity – gain/(loss)	**12.9**	**6.1**	**1.2**	**(1.2)**	**(5.5)**	**(10.6)**

						2008
	Weakening in sterling			Strengthening in sterling		
	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)

b) Interest rate risk

Filtrona's strategy is to ensure with a reasonable degree 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.

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 borrowings 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.

						2009
	Decrease in interest rates			**Increase in interest rates**		
	200bp £m	**100bp £m**	**50bp £m**	**50bp £m**	**100bp £m**	**200bp £m**
Impact on the income statement – gain/(loss)	**1.2**	**0.6**	**0.3**	**(0.3)**	**(0.6)**	**(1.2)**
Impact on equity – gain/(loss)	**(1.3)**	**(0.7)**	**(0.3)**	**0.3**	**0.7**	**1.4**

						2008
	Decrease in interest rates			Increase in interest rates		
	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)

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

Notes continued

1. Risk management continued

iii) Liquidity risk

Liquidity risk is the risk that Filtrona, although solvent, will encounter difficulties in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

On 16 April 2009 Filtrona signed an agreement with a syndicate of relationship banks to provide new banking facilities until April 2012. This facility replaced its existing facilities, which would have expired in November 2009 and May 2010. Fees of £4.3m paid in respect of these facilities have been capitalised and are being expensed in the income statement over the expected life of the facilities in accordance with the effective interest rate method.

Filtrona's objective is to maintain a balance between continuity of funding and flexibility. Filtrona is mostly funded by syndicated 3-year €84.7m and US$35.9m term loans and a syndicated US$143.7m revolving credit facility from its bankers. Loan repayments of €8.0m and US$3.6m are due in both April 2011 and October 2011 with the balance of the loans and the facility maturing in April 2012. At 31 December 2009 the available bank facilities totalled £186.5m of which £141.7m 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:

	2009 £m	2008 £m
Expiring within one year	**–**	27.8
Expiring after one but within two years	**18.6**	16.9
Expiring after two years	**26.2**	–
	44.8	44.7

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

The maturity of Filtrona's financial liabilities, including estimated interest payments, is analysed below.

					2009
	Carrying amount £m	**Contractual cash flows £m**	**<1 yr £m**	**1–2 yrs £m**	**2–5 yrs £m**
Unsecured bank loans	**139.1**	**156.1**	**6.0**	**24.4**	**125.7**
Derivative liabilities	**3.1**	**3.1**	**1.2**	**1.5**	**0.4**
Trade and other payables	**34.1**	**34.1**	**34.1**	**–**	**–**
	176.3	**193.3**	**41.3**	**25.9**	**126.1**

					2008
	Carrying amount £m	Contractual cash flows £m	<1 yr £m	1–2 yrs £m	2–5 yrs £m
Unsecured bank loans	203.4	212.7	12.0	200.7	–
Derivative liabilities	19.7	19.7	17.0	1.5	1.2
Trade and other payables	60.0	60.0	60.0	–	–
	283.1	292.4	89.0	202.2	1.2

Trade and other payables carried at £55.3m (2008: £86.3m) include accruals and deferred income of £21.2m (2008: £26.3m) 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.

1. Risk management continued

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.

	2009				2008			
	Fair value £m	**Loans and receivables £m**	**Amortised cost £m**	**Total carrying and fair value £m**	Fair value £m	Loans and receivables £m	Amortised cost £m	Total carrying and fair value £m
Trade and other receivables	–	67.3	–	**67.3**	–	89.9	–	89.9
Derivative assets	0.6	–	–	**0.6**	5.3	–	–	5.3
Cash and cash equivalents	–	32.0	–	**32.0**	–	21.3	–	21.3
Interest bearing loans and borrowings	–	–	(139.1)	**(139.1)**	–	–	(203.4)	(203.4)
Derivative liabilities	(3.1)	–	–	**(3.1)**	(19.7)	–	–	(19.7)
Trade and other payables	–	–	(34.1)	**(34.1)**	–	–	(60.0)	(60.0)
	(2.5)	**99.3**	**(173.2)**	**(76.4)**	(14.4)	111.2	(263.4)	(166.6)

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 trade and other payables, 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. Interest bearing loans and borrowings incur interest at floating rates and as a result their carrying amounts also approximate fair values at the reporting date. The fair values of the derivative assets and liabilities fall within level 1 in the fair value hierarchy as they have been calculated using quoted prices in active markets for identical assets and liabilities.

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 to 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, 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 and other amounts written off property, plant and equipment, share option expense, intangible amortisation, major restructuring costs and exceptional acquisition fees (2008: includes discontinued operations). Net debt is adjusted to exclude prepaid facility fees. During 2009, Filtrona's strategy, which was unchanged from 2008, 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	**2009 £m**	Restated 2008 £m
Net debt excluding prepaid facility fees	21	**109.7**	182.1
Operating profit before intangible amortisation, major restructuring costs and exceptional acquisition fees		**56.2**	64.6
Plus depreciation and other amounts written off property, plant and equipment	3	**21.7**	22.2
Plus share option expense	18	**2.4**	1.6
EBITDA		**80.3**	88.4
Net debt-to-EBITDA ratio		**1.37**	2.06

Notes continued

2. Segment analysis

In accordance with IFRS 8, Filtrona has determined its operating segments based upon the information reported to the Group Operating Committee. These segments are as follows:

Protection & Finishing Products provides product protection and finishing solutions, manufacturing and distributing plastic injection moulded, dip moulded adhesive-coated foam and metal products.

Porous Technologies manufactures custom bonded fibre and hydrophilic foam fluid and vapour handling components used in a wide range of product applications including medical diagnostic and wound care, inkjet printer cartridges, writing instruments and air fresheners.

Coated & Security Products is a producer of high quality self-adhesive tear tape, a supplier of products and technologies for brand protection, document authentication, personal identification and track and trace and a manufacturer of proprietary and customised thermoplastic profiles.

Filter Products is an independent cigarette filter manufacturer supplying a wide range of value adding high quality innovative filters from monoacetate to multi-segment speciality filters.

Under IAS 14 Protection & Finishing Products, Coated & Security Products together with discontinued operations were previously reported as Plastic Technologies and Filter Products and Porous Technologies were previously reported as Fibre Technologies.

										2009
	Protection & Finishing Products £m	Porous Technologies £m	Coated & Security Products £m	Filter Products £m	Eliminations £m	Central Services[1] £m	Continuing operations £m	Discontinued operations £m	Discontinued eliminations £m	Total £m
External revenue	95.2	58.5	87.3	202.9	–	–	**443.9**	22.8	–	**466.7**
Intersegment revenue	0.1	7.5	–	–	(7.5)	–	**0.1**	–	(0.1)	**–**
Total revenue	**95.3**	**66.0**	**87.3**	**202.9**	**(7.5)**	**–**	**444.0**	**22.8**	**(0.1)**	**466.7**
Operating profit/(loss) before intangible amortisation, major restructuring costs and exceptional acquisition fees	15.9	14.5	12.2	22.1	–	(8.5)	**56.2**	0.9	–	**57.1**
Intangible amortisation	(1.9)	(0.8)	(0.2)	(0.2)	–	–	**(3.1)**	–	–	**(3.1)**
Major restructuring costs	(1.3)	–	(0.8)	(6.8)	–	–	**(8.9)**	–	–	**(8.9)**
Exceptional acquisition fees	–	–	–	–	–	(1.9)	**(1.9)**	–	–	**(1.9)**
Operating profit/(loss)	**12.7**	**13.7**	**11.2**	**15.1**	**–**	**(10.4)**	**42.3**	**0.9**	**–**	**43.2**
Segment assets	67.7	47.7	55.5	96.7	–	10.4	**278.0**	–	–	**278.0**
Intangible assets	63.4	19.8	14.8	0.1	–	–	**98.1**	–	–	**98.1**
Unallocated items						37.1	**37.1**			**37.1**
Total assets	**131.1**	**67.5**	**70.3**	**96.8**	**–**	**47.5**	**413.2**	**–**	**–**	**413.2**
Segment liabilities	11.8	6.3	8.9	25.6	–	6.0	**58.6**	3.3	–	**61.9**
Unallocated items						190.2	**190.2**			**190.2**
Total liabilities	**11.8**	**6.3**	**8.9**	**25.6**	**–**	**196.2**	**248.8**	**3.3**	**–**	**252.1**
Other segment items										
Capital expenditure	2.2	2.5	1.7	4.6	–	–	**11.0**	0.2	–	**11.2**
Impairment to property, plant and equipment	0.3	–	–	0.7	–	–	**1.0**	–	–	**1.0**
Depreciation	5.7	2.9	4.7	7.2	–	0.2	**20.7**	0.9	–	**21.6**
Average number of employees	726	446	553	1,544	–	29	**3,298**	140	–	**3,438**

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

Continuing operations' net finance expense of £10.0m (2008: £6.8m) and income tax expense of £12.1m (2008: £15.3m) 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.

2. Segment analysis continued

Revenue of £45.1m (2008: £44.2m) is derived from a single external customer. This is attributable to the Coated & Security Products and Filter Products operating segments. Revenue in the UK is £44.9m (2008: £43.2m) with revenue in the US of £96.0m (2008: £105.1m) being the Group's other significant geographical market. Non-current assets in the UK total £48.9m (2008: £59.0m) with other significant locations being the US and The Netherlands with non-current assets of £91.1m and £39.7m (2008: £156.5m and £46.2m) respectively.

Included within revenue is the net change in the fair value of forward exchange cash flow hedges transferred to the income statement of £7.0m (2008: £nil).

										Restated 2008
	Protection & Finishing Products £m	Porous Technologies £m	Coated & Security Products £m	Filter Products £m	Eliminations £m	Central Services[1] £m	Continuing operations £m	Discontinued operations £m	Discontinued eliminations £m	Total £m
External revenue	114.4	43.5	86.1	187.5	–	–	431.5	94.9	–	526.4
Intersegment revenue	0.2	6.2	–	–	(6.2)	–	0.2	0.3	(0.5)	–
Total revenue	114.6	49.7	86.1	187.5	(6.2)	–	431.7	95.2	(0.5)	526.4
Operating profit/(loss) before intangible amortisation and exceptional acquisition fees	26.7	9.0	10.0	19.8	–	(8.7)	56.8	7.8	–	64.6
Intangible amortisation	(1.6)	(0.1)	(0.1)	(0.2)	–	–	(2.0)	–	–	(2.0)
Exceptional acquisition fees	–	–	–	–	–	(1.3)	(1.3)	–	–	(1.3)
Operating profit/(loss)	25.1	8.9	9.9	19.6	–	(10.0)	53.5	7.8	–	61.3
Segment assets	82.2	52.3	65.0	118.0	–	12.8	330.3	54.8	–	385.1
Intangible assets	71.8	23.0	16.2	0.3	–	–	111.3	20.9	–	132.2
Unallocated items						33.8	33.8			33.8
Total assets	154.0	75.3	81.2	118.3	–	46.6	475.4	75.7	–	551.1
Segment liabilities	14.1	5.7	12.0	33.4	–	8.3	73.5	20.4	–	93.9
Unallocated items						290.1	290.1			290.1
Total liabilities	14.1	5.7	12.0	33.4	–	298.4	363.6	20.4	–	384.0
Other segment items										
Capital expenditure	7.4	4.3	3.0	5.8	–	0.1	20.6	2.2	–	22.8
Depreciation	5.2	2.2	4.5	6.9	–	0.1	18.9	3.3	–	22.2
Average number of employees	897	451	605	1,642	–	36	3,631	959	–	4,590

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

3. Net operating expense

Continuing operations	2009 £m	Restated 2008 £m
Changes in inventories of finished goods and work-in-progress	**4.1**	(1.7)
Raw materials and consumables	**185.6**	186.0
Personnel expense (note 6)	**105.4**	101.4
Depreciation and other amounts written off property, plant and equipment	**21.7**	18.9
Amortisation and other amounts written off intangible assets	**3.1**	2.0
Major restructuring costs	**8.9**	–
Exceptional acquisition fees	**1.9**	1.3
Hire of plant and machinery – rentals payable under operating leases	**0.6**	0.6
Other operating expenses	**70.4**	69.7
Net operating expense	**401.7**	378.2

Income of £0.1m (2008: £nil) was recognised in operating expense during the year in respect of ineffective cash flow hedges. Filtrona's hedges of net investments were entirely effective in 2009 and 2008, as defined by IAS 39, and therefore no hedge ineffectiveness has been recognised in net operating expense in 2009 (2008: £nil).

Notes continued

3. Net operating expense continued

Auditor's remuneration

	Note	2009 £m	2008 £m
Audit of these financial statements		**0.2**	0.2
Audit of financial statements of subsidiaries pursuant to legislation		**0.6**	0.7
Total audit fees		**0.8**	0.9
Other services pursuant to such legislation	i,v	**0.1**	0.1
Other services relating to tax	ii	**0.3**	0.3
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	**0.7**	0.6
Total non-audit fees	iv	**1.1**	1.0
Total fees		**1.9**	1.9

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 (2008: £0.8m) of the total non-audit fees were charged in the UK

v Fees of £21,725 (2008: £21,000) were paid in relation to the audit of the Filtrona pension schemes

4. Net finance expense

Continuing operations	2009 £m	2008 £m
Finance income		
Bank deposits	**0.1**	0.4
Unwind of discount on Globalpack deferred consideration	**0.6**	0.7
Other finance income	**0.3**	0.2
Expected return on pension scheme assets (note 18)	**8.3**	10.2
	9.3	11.5
Finance expense		
Interest on loans and overdrafts	**(9.0)**	(8.1)
Other finance expense	**(0.1)**	(0.3)
Interest on pension scheme liabilities (note 18)	**(10.2)**	(9.9)
	(19.3)	(18.3)
Net finance expense	**(10.0)**	(6.8)

5. Income tax expense

Continuing operations	2009 £m	Restated 2008 £m
Amounts charged/(credited) in the consolidated income statement		
Current tax	**16.2**	19.1
Prior years' tax	**(3.0)**	0.8
Double tax relief	**(1.7)**	(5.1)
Deferred tax (note 16)	**0.6**	0.5
Income tax expense	**12.1**	15.3
Amounts recognised in the consolidated statement of comprehensive income		
Deferred tax expense/(credit) on actuarial movements on defined benefit pension schemes	**2.0**	(5.7)
Income tax credit on effective net investment hedges	**(2.2)**	(0.4)
Income tax credit	**(0.2)**	(6.1)

Income tax expense in the UK is £1.7m (2008: £0.8m).

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.

Continuing operations	2009 £m	Restated 2008 £m
Profit before income tax	**32.3**	46.7
Tax at weighted average (2009: 32.8%; 2008: 30.2%)	**10.6**	14.1
Effects of:		
Exceptional acquisition fees	**0.5**	0.4
Other permanent disallowables	**0.9**	0.1
Overseas state and local tax	**0.4**	0.4
Unrelieved tax losses	**1.9**	0.6
Prior year adjustments	**(3.0)**	(0.5)
Other items	**0.8**	0.2
Income tax expense	**12.1**	15.3

6. Personnel expense

Continuing operations	2009 £m	Restated 2008 £m
Wages and salaries	**88.9**	84.8
Social security expense	**10.3**	10.1
Pension expense (note 18)	**3.8**	5.1
Share option expense (note 18)	**2.4**	1.4
	105.4	101.4

The Report of the Remuneration Committee on pages 53 to 61 sets out information on Directors' remuneration.

Key management remuneration

	2009 £m	2008 £m
Salary	**1.9**	1.9
Bonus	**0.4**	0.5
Benefits	**0.5**	0.6
	2.8	3.0

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.

Notes continued

7. Earnings per share

	2009 £m	Restated 2008 £m
Continuing operations		
Earnings attributable to equity holders of Filtrona plc	**18.5**	30.3
Adjustments		
Intangible amortisation	**3.1**	2.0
Major restructuring costs	**8.9**	–
Exceptional acquisition fees	**1.9**	1.3
	13.9	3.3
Tax relief on adjustments	**(2.2)**	(0.7)
Adjusted earnings	**30.2**	32.9
Discontinued operations		
Earnings attributable to equity holders of Filtrona plc	**(6.7)**	4.7
Basic weighted average ordinary shares in issue (million)	**204.2**	204.1
Dilutive effect of employee share option plans (million)	**2.5**	1.3
Diluted weighted average ordinary shares (million)	**206.7**	205.4
Continuing operations		
Basic earnings per share	**9.1p**	14.8p
Adjustment	**5.7p**	1.3p
Adjusted earnings per share	**14.8p**	16.1p
Diluted basic earnings per share	**9.0p**	14.7p
Diluted adjusted earnings per share	**14.6p**	16.0p
Discontinued operations		
Basic earnings per share	**(3.3)p**	2.3p
Diluted basic earnings per share	**(3.3)p**	2.3p

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.

8. Property, plant and equipment

				2009
	Land and buildings £m	**Plant and machinery £m**	**Fixtures, fittings and equipment £m**	**Total £m**
Cost				
Beginning of year	87.7	321.2	50.0	**458.9**
Additions	1.3	8.7	1.2	**11.2**
Divestment of Filtrona Extrusion	(17.6)	(49.8)	(5.6)	**(73.0)**
Disposals	(0.2)	(7.5)	(1.9)	**(9.6)**
Reclassification	3.0	(3.0)	–	**–**
Currency translation	(6.5)	(13.6)	(2.4)	**(22.5)**
End of year	**67.7**	**256.0**	**41.3**	**365.0**
Depreciation				
Beginning of year	19.3	192.6	36.5	**248.4**
Expense in year	2.3	16.2	3.1	**21.6**
Divestment of Filtrona Extrusion	(3.9)	(32.7)	(4.8)	**(41.4)**
Disposals	(0.1)	(7.3)	(1.7)	**(9.1)**
Impairments	1.0	3.0	–	**4.0**
Reclassification	1.5	(1.8)	0.3	**–**
Currency translation	(1.4)	(9.4)	(1.6)	**(12.4)**
End of year	**18.7**	**160.6**	**31.8**	**211.1**
Net book value at end of year	**49.0**	**95.4**	**9.5**	**153.9**

Impairments include £3.0m expensed against major restructuring costs in the income statement during 2009.

				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
Net book value at beginning of year	48.9	110.5	11.3	170.7

Notes continued

9. Intangible assets

Goodwill	2009 £m	2008 £m
Beginning of year	**78.9**	53.8
Acquisitions (note 23)	**–**	6.7
Divestment of Filtrona Extrusion (note 24)	**(20.9)**	–
Currency translation	**(5.0)**	18.4
End of year	**53.0**	78.9

Customer relationships		
Cost		
Beginning of year	**54.3**	37.3
Acquisitions (note 23)	**–**	3.6
Currency translation	**(5.1)**	13.4
End of year	**49.2**	54.3
Amortisation		
Beginning of year	**7.5**	3.9
Expense in year	**2.5**	1.9
Currency translation	**(0.7)**	1.7
End of year	**9.3**	7.5
Net book value at end of year	**39.9**	46.8
Net book value at beginning of year	**46.8**	33.4

Other		
Cost		
Beginning of year	**6.6**	–
Acquisitions (note 23)	**–**	5.5
Currency translation	**(0.7)**	1.1
End of year	**5.9**	6.6
Amortisation		
Beginning of year	**0.1**	–
Expense in year	**0.6**	0.1
Currency translation	**–**	–
End of year	**0.7**	0.1
Net book value at end of year	**5.2**	6.5
Net book value at beginning of year	**6.5**	–
Total net book value of intangible assets at end of year	**98.1**	132.2

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 (2008: 22.9 years and 12.1 years) respectively.

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

9. Intangible assets continued

Goodwill is allocated to cash generating units, being the operating segments, as follows:

	Goodwill	
Operating segment	2009 £m	Restated 2008 £m
Protection & Finishing Products	**27.3**	29.8
Porous Technologies	**11.0**	12.2
Coated & Security Products	**14.7**	15.9
Discontinued operations	**–**	21.0
	53.0	78.9

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

		Customer relationships and other intangible assets	
Business	Operating Segment	2009 £m	2008 £m
Moss and Skiffy	Protection & Finishing Products	**21.0**	24.1
Duraco	Protection & Finishing Products	**15.0**	17.8
Lendell	Porous Technologies	**8.8**	10.8
Multiple businesses	Multiple segments	**0.3**	0.6
		45.1	53.3

The tests are based on the following assumptions:

- Cash flows for the next 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 a pre-tax discounted rate based upon Filtrona's estimated weighted average cost of capital of 9.0% (2008: 10.0%) adjusted for the risk applicable to each operating segment. The pre-tax discount rates used ranged from 12.3% to 14.5%.

Any impairments identified as a result of the analysis are expensed 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

	2009 £m	2008 £m
Raw materials and consumables	**20.7**	34.2
Work-in-progress	**1.7**	2.0
Finished goods and goods held for resale	**29.3**	42.3
	51.7	78.5

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

Notes continued

11. Trade and other receivables

	2009 £m	Restated 2008 £m
Non-current assets		
Other receivables	**5.3**	8.4
Current assets		
Trade receivables	**53.0**	69.7
Other receivables	**9.0**	11.8
Prepayments and accrued income	**5.1**	6.2
	67.1	87.7
Total trade and other receivables	**72.4**	96.1

Other receivables include an amount of deferred consideration of £8.3m (2008: £11.7m) due from the Itavema Group for the purchase of the Globalpack business.

12. Cash and cash equivalents

	2009 £m	2008 £m
Bank balances	**30.9**	21.3
Short-term investments	**1.1**	–
Cash and cash equivalents in the statement of cash flows	**32.0**	21.3

13. Trade and other payables

	2009 £m	2008 £m
Trade payables	**29.1**	51.5
Other tax and social security contributions	**2.8**	3.6
Other payables	**2.2**	4.9
Accruals and deferred income	**21.2**	26.3
	55.3	86.3

14. Interest bearing loans and borrowings

	2009 £m	2008 £m
Non-current liabilities		
Unsecured bank loans	**139.1**	198.1
Current liabilities		
Unsecured bank loans	**–**	5.3

At 31 December 2009, the majority of Filtrona's interest bearing loans and borrowings were drawn in euros and US dollars at floating rates of interest set by reference to LIBOR for three months. The Group had €70m of bank loans that were effectively fixed through interest rate swaps at an interest rate of 4.93% until July 2011 and US$30m of bank loans that were effectively fixed through interest rate swaps at an interest rate of 5.21% until November 2011.

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 5.39% until November 2009.

At 31 December 2009 and 31 December 2008, the Group retained euro interest rate caps (2008: US dollar and euro interest rate caps) but these were not effective in providing protection against increases in interest rates.

14. Interest bearing loans and borrowings continued

The currency profile of the carrying and nominal values of Filtrona's loans and borrowings is as follows:

	2009		2008	
	Carrying value £m	**Nominal value £m**	Carrying value £m	Nominal value £m
Sterling	**–**	**–**	182.1	182.1
US dollar	**65.2**	**66.7**	20.8	20.8
Euro	**73.9**	**75.0**	–	–
Other	**–**	**–**	0.5	0.5
	139.1	**141.7**	203.4	203.4

The difference between the total nominal and carrying value of loans and borrowings relates to the amortised value of directly attributable transaction costs of £2.6m (2008: £nil).

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 2009				
Fair value derivatives				
Forward foreign exchange contracts	–	–	(1.2)	5.7
Cash flow hedges				
Forward foreign exchange contracts	0.6	22.3	(0.9)	20.7
Interest rate swaps	–	–	(1.0)	80.6
Other				
Interest rate caps	–	26.5	–	–
	0.6	**48.8**	**(3.1)**	**107.0**

	Assets		Liabilities	
	Fair values £m	Contractual or notional amounts £m	Fair values £m	Contractual or notional amounts £m
At 31 December 2008				
Fair value derivatives				
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
Other				
Interest rate caps	–	63.8	–	–
	5.3	129.9	(19.7)	150.4

Notes continued

15. Derivatives continued

Fair value derivatives protect the Group from currency risk exposure from 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.

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

At 31 December 2009, Filtrona had US dollar and euro denominated borrowings which it has designated as hedges of its net investments in subsidiary undertakings. The exchange gains of £0.6m on the US dollar borrowings and the gains of £1.6m on the euro borrowings were recognised in reserves at 31 December 2009.

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 investment in subsidiary undertakings.

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:

			2009			Restated 2008
	Assets £m	**Liabilities £m**	**Net £m**	Assets £m	Liabilities £m	Net £m
Property, plant and equipment	(1.0)	12.0	11.0	(1.2)	17.1	15.9
Intangible assets	–	7.9	7.9	–	13.2	13.2
Employee benefits	(7.1)	0.2	(6.9)	(11.5)	–	(11.5)
Other	(5.8)	0.2	(5.6)	(5.5)	0.4	(5.1)
Tax (assets)/liabilities	**(13.9)**	**20.3**	**6.4**	(18.2)	30.7	12.5
Set off of tax	11.7	(11.7)	–	16.9	(16.9)	–
Net tax (assets)/liabilities	**(2.2)**	**8.6**	**6.4**	(1.3)	13.8	12.5

Movements in temporary differences in the year:

	2009 £m	Restated 2008 £m
Beginning of year	**12.5**	11.9
Expense to the income statement in respect of current year – continuing operations (note 5)	**0.6**	0.5
(Credit)/expense to the income statement in respect of current year – discontinued operations	**(6.2)**	0.2
(Credit)/expense to the income statement in respect of prior years	**(2.0)**	2.2
Expense/(credit) to reserves on movements on defined benefit pension schemes	**2.0**	(5.7)
Currency translation	**(0.5)**	3.4
End of year	**6.4**	12.5

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 £0.8m (2008: £0.9m) in respect of temporary differences have not been recognised where their realisation is not considered probable. These assets include capital losses of £0.3m (2008: £0.6m) and other temporary differences of £0.5m (2008: £0.3m). No deferred tax assets have been recognised in respect of unutilised tax losses of £33.8m (2008: £27.3m) or unused tax credits of £1.5m (2008: £1.5m).

17. Provisions

	Discontinued £m	Restructuring £m	Other £m	2009 Total £m
Movements				
Beginning of year	6.3	–	1.3	**7.6**
Provisions made during the year	–	2.8	0.4	**3.2**
Provisions released during the year	–	–	(0.2)	**(0.2)**
Utilised	(0.1)	(0.9)	–	**(1.0)**
Transferred to income tax payable	(4.2)	–	–	**(4.2)**
Expensed against discontinued operations	0.5	–	–	**0.5**
Currency translation	0.5	–	–	**0.5**
End of year	**3.0**	**1.9**	**1.5**	**6.4**
Non-current	0.5	0.6	0.4	**1.5**
Current	2.5	1.3	1.1	**4.9**
	3.0	**1.9**	**1.5**	**6.4**

	Discontinued £m	Other £m	2008 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

Discontinued provisions relate to warranties made on the disposal of Globalpack and Filtrona Extrusion. Restructuring provisions are held against future redundancy and onerous property costs. 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

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 2009 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.

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:

	2009 £m	2008 £m
Amounts expensed/(credited) against operating profit		
Defined contribution schemes – continuing operations	**1.7**	2.2
Defined contribution schemes – discontinued operations	**0.2**	0.8
Defined benefit schemes:		
Current service cost – continuing operations	**2.1**	2.9
Current service cost – discontinued operations	**0.1**	0.4
Curtailment gain	**(0.2)**	(0.4)
Total operating expense	**3.9**	5.9
Amounts included as finance (income)/expense		
Expected return on scheme assets (note 4)	**(8.3)**	(10.2)
Interest on scheme liabilities (note 4)	**10.2**	9.9
Net financial expense/(income)	**1.9**	(0.3)
Amounts recognised in the consolidated statement of comprehensive income		
Actual return less expected return on scheme assets	**18.9**	(36.9)
Impact of changes in assumptions relating to the present value of scheme liabilities	**(12.5)**	18.8
Actuarial gain/(loss)	**6.4**	(18.1)

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

		2009		2008
	Europe	US	Europe	US
Rate of increase in salaries	**4.10%**	**3.50%**	3.30%	4.00%
Rate of increase in pensions	**3.50%**	**n/a[1]**	2.80%	n/a[1]
Discount rate	**5.70%**	**5.75%**	6.00%	6.27%
Inflation rate	**3.50%**	**n/a[1]**	2.80%	n/a[1]
Expected return on scheme assets	**6.60%**	**7.80%**	5.70%	8.20%

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:

		2009		2008
	Europe	US	Europe	US
Male retiring today at age 65	**20.8**	**18.4**	21.8	18.3
Female retiring today at age 65	**23.5**	**20.6**	24.7	20.5
Male retiring in 20 years at age 65	**22.8**	**18.4**	23.0	18.3
Female retiring in 20 years at age 65	**25.5**	**20.6**	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:

					2009
	Long-term rate of return	Europe £m	Long-term rate of return	US £m	Total £m
Equities	7.70%	82.6	8.65%	19.1	**101.7**
Bonds	5.40%	16.4	4.95%	14.3	**30.7**
Gilts	4.20%	23.5		–	**23.5**
Other	0.20%	2.1	0.20%	0.7	**2.8**
Fair value of scheme assets		124.6		34.1	**158.7**
Present value of scheme liabilities		(135.2)		(46.1)	**(181.3)**
Retirement benefit obligations		**(10.6)**		**(12.0)**	**(22.6)**

18. Employee benefits continued

	Long-term rate of return	Europe £m	Long-term rate of return	US £m	Total £m
					2008
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)

	Long-term rate of return	Europe £m	Long-term rate of return	US £m	Total £m
					2007
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)

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

	2009			2008		
	Scheme assets £m	**Scheme liabilities £m**	**Total £m**	Scheme assets £m	Scheme liabilities £m	Total £m
Beginning of year	**131.6**	**(169.0)**	**(37.4)**	143.5	(165.8)	(22.3)
Service cost – continuing operations	**–**	**(2.1)**	**(2.1)**	–	(2.9)	(2.9)
Service cost – discontinued operations	**–**	**(0.1)**	**(0.1)**	–	(0.4)	(0.4)
Employer contributions	**9.3**	**–**	**9.3**	10.3	–	10.3
Employee contributions	**0.7**	**(0.7)**	**–**	0.8	(0.8)	–
Actuarial gains/(losses)	**18.9**	**(12.5)**	**6.4**	(36.9)	18.8	(18.1)
Finance income/(expense)	**8.3**	**(10.2)**	**(1.9)**	10.2	(9.9)	0.3
Benefits paid	**(6.6)**	**6.6**	**–**	(5.7)	5.7	–
Curtailment benefit recognised against operating profit	**–**	**0.2**	**0.2**	–	0.4	0.4
Curtailment benefit recognised against loss on disposal	**–**	**1.8**	**1.8**	–	–	–
Reclassification from other payables	**–**	**(0.6)**	**(0.6)**	–	–	–
Currency translation	**(3.5)**	**5.3**	**1.8**	9.4	(14.1)	(4.7)
End of year	**158.7**	**(181.3)**	**(22.6)**	131.6	(169.0)	(37.4)

	2009		2008	
	% of scheme assets/ liabilities	**£m**	% of scheme assets/ liabilities	£m
Experience gains and losses				
Difference between actual and expected return on scheme assets	**14.4**	**18.9**	(25.7)	(36.9)
Net actuarial gains/(losses) recognised in the statement of comprehensive income	**3.8**	**6.4**	(10.9)	(18.1)

Notes continued

18. Employee benefits continued

Sensitivity

For the significant assumptions used in determining post-retirement costs and liabilities, the following sensitivity analysis gives the estimate of the impact on the income statement and balance sheet for the year ended 31 December 2009.

	Scheme liabilities			Annual service cost		
	Europe £m	US £m	**Total £m**	Europe £m	US £m	**Total £m**
0.5% decrease in the discount rate	12.7	3.0	**15.7**	0.4	0.1	**0.5**
1.0% increase in the rate of inflation	16.3	–	**16.3**	0.8	–	**0.8**
1 year increase in life expectancy	3.1	1.2	**4.3**	0.1	–	**0.1**
0.5% increase in the discount rate	(11.2)	(2.7)	**(13.9)**	(0.3)	(0.1)	**(0.4)**
1.0% decrease in the rate of inflation	(12.2)	–	**(12.2)**	(0.6)	–	**(0.6)**

Historical information

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Scheme assets	**158.7**	131.6	143.5	134.8	124.4
Scheme liabilities	**(181.3)**	(169.0)	(165.8)	(165.7)	(160.2)
Retirement benefit obligations	**(22.6)**	(37.4)	(22.3)	(30.9)	(35.8)
Actual return less expected return on scheme assets	**18.9**	(36.9)	(0.3)	5.5	5.7
Impact of changes in assumptions relating to the present value of scheme liabilities	**(12.5)**	18.8	7.2	(3.3)	(7.7)

Share-based incentives

Filtrona operates share-based incentive plans for its Executive Directors and employees. The total expense for continuing operations in respect of these plans during the year was £2.4m (2008: £1.4m) with a further expense of £0.1m (2008: £0.2m) in respect of discontinued operations. Details of these plans are set out below:

Share options outstanding

												2009
	At 1 Jan 2009	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 2009**	**Weighted average exercise price**	**Exercisable at 31 Dec 2009**	**Weighted average exercise price**
LTIP Part A	7,619,531	226.4p	2,116,161	169.5p	(830,649)	217.4p	–	–	**8,905,043**	**213.7p**	**3,021,675**	**247.8p**
LTIP Part B 'Performance'	1,931,301	–	2,222,318	–	(509,644)	–	–	–	**3,643,975**	**–**	**–**	**–**
DASB	585,476	–	338,245	–	–	–	(151,837)	–	**771,884**	**–**	**–**	**–**
SAYE 3 year plan	814,260	165.0p	–	–	(310,278)	178.2p	–	–	**503,982**	**156.8p**	**–**	**–**
SAYE 5 year plan	541,701	161.7p	–	–	(148,799)	160.1p	–	–	**392,902**	**162.3p**	**–**	**–**
	11,492,269		**4,676,724**		**(1,799,370)**		**(151,837)**		**14,217,786**		**3,021,675**	

												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	

18. Employee benefits continued

Fair value model inputs for share options outstanding

	2009				
	LTIP Part A	**LTIP Part B 'Performance'**	**DASB**	**SAYE 3 year plan**	**SAYE 5 year plan**
Weighted average fair value at grant	43.6p	100.2p	143.5p	52.8p	55.1p
Weighted average share price at grant	213.7p	157.9p	164.6p	196.0p	202.8p
Weighted average exercise price	213.7p	–	–	156.8p	162.3p
Weighted average volatility	28.1%	32.0%	n/a[1]	27.3%	24.5%
Weighted average dividend yield	3.72%	5.33%	5.23%	4.31%	4.20%
Weighted risk free rate	3.92%	3.29%	3.25%	4.07%	4.45%
Expected employee retention rates	82.5%	98.0%	98.0%	32.5%	28.3%
Expected term	3.21 years	3.30 years	3.00 years	3.00 years	5.00 years
Valuation model	Binomial	Monte Carlo	Binomial	Binomial	Binomial

	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	–	–	–	165.0p	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

1 Not applicable

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

	2009 and 2008				
	LTIP Part A	**LTIP Part B 'Performance'**	**DASB**	**SAYE 3 year plan**	**SAYE 5 year plan**
Contractual life	3–10 years	3–6 years	3 years	3 years	5 years

Details of the vesting conditions of the LTIP Part A, LTIP Part B 'Performance' and DASB share option schemes are set out in the Report of the Remuneration Committee on pages 53 to 61.

All options are settled with equity.

19. Share capital

	2009 £m	2008 £m
Authorised: 500 million (2008: 500 million) ordinary shares of 25p (2008: 25p) each	**125.0**	125.0
Issued and fully paid ordinary shares of 25p (2008: 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 2009 the Company held 13,664,604 (2008: 13,664,604) of its own shares in treasury.

20. Reserves

Within retained earnings the Company has deducted the value of own shares purchased for an employee trust and treasury shares held by the Company with a total cost of £34.5m (2008: £34.5m).

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 53 to 61. The assets, liabilities and expenditure of the trust have been incorporated in these financial statements.

Notes continued

20. Reserves continued

At 31 December 2009 the trust held 1,405,270 (2008: 1,557,107) shares, upon which dividends have been waived, with an aggregate nominal value of £0.4m (2008: £0.4m) and market value of £2.7m (2008: £2.1m).

The Company holds 13,664,604 ordinary shares with a nominal value of £3.4m in treasury. 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 2009 £m	Cash flow £m	Exchange movements £m	Non-cash movements £m	31 Dec 2009 £m
Cash at bank and in hand	20.0	4.6	(0.9)	–	**23.7**
Short-term bank deposits repayable on demand	1.3	7.0	–	–	**8.3**
Cash and cash equivalents in the statement of cash flows	21.3	11.6	(0.9)	–	**32.0**
Debt due within one year	(5.3)	5.3	–	–	**–**
Debt due after one year	(198.1)	52.3	8.4	(1.7)	**(139.1)**
Net debt	(182.1)	69.2	7.5	(1.7)	**(107.1)**

The non-cash movement is the amortisation of prepaid bank facility fees.

	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)

22. Commitments

Operating leases

At 31 December Filtrona had the following future minimum lease payments under non-cancellable operating leases:

	2009 £m	2008 £m
Payable within one year	**2.5**	2.7
Payable between one and five years	**4.9**	4.5
Payable after five years	**3.5**	2.8
	10.9	10.0

The commitments shown above include commitments for an onerous lease which has already been provided for. At 31 December 2009 provisions include an amount of £0.6m in respect of this lease.

23. Acquisitions

On 2 March 2009, Filtrona received notification that ITO Technologies ApS ('ITO') wished to exercise its put option over 20% of the share capital of FractureCode Corporation ApS under a share purchase agreement dated 22 December 2005 between ITO, FIL International Limited, Filtrona and Jens Jacob Juul Rasmussen. The cash consideration was €3.1m which has been recorded directly to equity as acquisition of non-controlling minority interests.

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 Porous Technologies division.

Lendell contributed £1.1m to revenue and £0.3m to operating profit before intangible amortisation, major restructuring costs and exceptional acquisition fees in 2008.

23. Acquisitions continued

On acquisition the assets and liabilities of the businesses acquired were adjusted to reflect their fair values to Filtrona.

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 accounting policies.

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.

24. Discontinued operations

On 27 March 2009, Filtrona completed the disposal of its North American Plastic Profile & Sheet business ('Filtrona Extrusion') to Saw Mill Capital Partners, L.P. for an initial gross consideration of £59.2m. The disposal resulted in a loss before tax of £8.6m which has been recognised as discontinued operations in the income statement.

The results for Filtrona Extrusion are presented below:

	2009 £m	2008 £m
Revenue	**22.8**	95.2
Operating profit	**0.9**	7.8
Finance income	**–**	–
Finance expense	**–**	–
Profit before tax from discontinued operations	**0.9**	7.8
Loss on disposal of discontinued operations	**(8.6)**	–
Income tax credit/(expense)	**1.0**	(3.1)
(Loss)/profit for the year attributable to equity holders of Filtrona plc	**(6.7)**	4.7
Earnings per share attributable to equity holders of Filtrona plc:		
Basic	**(3.3)p**	2.3p
Diluted	**(3.3)p**	2.3p

Notes continued

24. Discontinued operations continued

Income tax (credit)/expense is analysed as follows:

	2009 £m	2008 £m
On profit on ordinary activities	**0.6**	3.1
On the loss on disposal	**(1.6)**	–
	(1.0)	3.1

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	31.6
Intangible assets	20.9
Inventories	11.8
Trade and other receivables	11.2
Income tax payable	(0.2)
Trade and other payables	(10.6)
Net assets disposed of other than cash and cash equivalents	**64.7**

	£m
Loss on disposal of discontinued operations	
Initial cash consideration	54.2
Loan note and other consideration settled in the period	5.0
Disposal expenses settled in cash during the period	(4.9)
Cash and short-term deposits in Filtrona Extrusion on disposal	(0.3)
Net cash inflow in respect of disposal of Filtrona Extrusion	**54.0**
Net assets disposed	(64.7)
Cumulative exchange gains previously deferred in equity	1.1
Accrued disposal expenses	(0.3)
Warranty provisions	(0.5)
Pension curtailment	1.8
Loss on disposal of discontinued operations	**(8.6)**

In June 2009, Filtrona received £2.6m from the Itavema Group which represented the second instalment due in relation to the deferred consideration for the disposal on 29 June 2007 of Globalpack, its Brazilian consumer packaging business. The first instalment of £2.3m was received in June 2008.

25. Dividends

	Per share		Total	
	2009 p	2008 p	2009 £m	2008 £m
2008 interim: paid 24 October 2008		2.70		5.5
2008 final: paid 8 May 2009		5.08		10.4
2009 interim: paid 30 October 2009	**2.70**		**5.5**	
2009 proposed final: payable 30 April 2010	**5.08**		**10.4**	
	7.78	7.78	**15.9**	15.9

26. Transactions with related parties

Filtrona has not entered into any material transactions with related parties other than the compensation of key management as disclosed in note 6. Furthermore, throughout 2009 and 2008, no Director had a personal interest in any significant transaction of Filtrona.

27. Parent company

Filtrona plc is a limited liability company incorporated in England and Wales and domiciled in the United Kingdom. It operates as the ultimate parent company of the Filtrona Group. Its registered office is Avebury House, 201-249 Avebury Boulevard, Milton Keynes MK9 1AU.

Filtrona plc Company Balance Sheet
at 31 December 2009

	Note	2009 £m	2008 £m
Fixed assets			
Investment in subsidiary undertaking	2,8	**281.7**	279.2
Current assets			
Debtors	3	**0.3**	1.3
Current liabilities			
Creditors: amounts falling due within one year	4	**(70.7)**	(61.2)
Net current liabilities		**(70.4)**	(59.9)
Net assets		**211.3**	219.3
Capital and reserves			
Issued capital	5	**54.8**	54.8
Capital redemption reserve	6	**0.1**	0.1
Profit and loss account	6	**156.4**	164.4
Shareholders' funds: equity interests		**211.3**	219.3

The Company financial statements on pages 103 to 106 were approved by the Board of Directors on 25 February 2010 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 2006 and applicable UK accounting standards.

Under Section 408 of the Companies Act 2006, Filtrona plc is exempt from the requirements to present its own profit and loss account. In accordance with FRS1: *Cash flow statements* the Company is exempt from the requirements to prepare a cash flow statement as the consolidated financial statements have been published.

The following principal accounting policies have been consistently applied.

b Investment in subsidiary undertaking
Investment in subsidiary undertaking is held at cost less any provision for impairment. The Company assesses at each balance sheet date whether the investment in its subsidiary has been impaired.

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 approved by the shareholders of the Company (final dividend) or paid (interim dividend).

Notes

1. Net operating charges

The auditor was paid £5,500 (2008: £4,450) 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 86.

The Directors' remuneration, which was paid by Filtrona International Ltd is disclosed in the Report of the Remuneration Committee on pages 53 to 61.

2. Investments held as fixed assets

	Investment in subsidiary undertaking	
	2009 £m	2008 £m
At beginning of year	**279.2**	277.6
Additions	**2.5**	1.6
At end of year	**281.7**	279.2

3. Debtors

	2009 £m	2008 £m
Corporate taxes	**0.3**	1.3

4. Creditors

	2009 £m	2008 £m
Amounts falling due within one year		
Amounts owed to subsidiary undertakings	**70.7**	61.2

5. Share capital

	2009 £m	2008 £m
Authorised: 500 million (2008: 500 million) ordinary shares of 25p (2008: 25p) each	**125.0**	125.0
Issued and fully paid ordinary shares of 25p (2008: 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 2009 the Company held 13,664,604 (2008: 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 2009	0.1	198.9	(34.5)
Profit for the year ended 31 December 2009		5.4	
Share-based payments		2.5	
Dividends paid		(15.9)	
31 December 2009	**0.1**	**190.9**	**(34.5)**

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 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)

As permitted by section 406 of the Companies Act 2006, the profit and loss account of the Company has not been separately presented in these financial statements. The profit attributable to equity holders included in the accounts of the Company is £5.4m (2008: loss of £1.8m).

Included in retained earnings are accumulated share-based payments of £7.6m (2008: £5.1m) which are not distributable. Full details of these share-based payments are set out in the Report of the Remuneration Committee on pages 53 to 61 and also on pages 98 to 99.

7. Dividends

	Per share		Total	
	2009 p	2008 p	**2009 £m**	2008 £m
2008 interim: paid 24 October 2008		2.70		5.5
2008 final: paid 8 May 2009		5.08		10.4
2009 interim: paid 30 October 2009	**2.70**		**5.5**	
2009 proposed final: payable 30 April 2010	**5.08**		**10.4**	
	7.78	7.78	**15.9**	15.9

8. Principal subsidiary undertakings

	Country of incorporation
Filtrona International GmbH	Germany
PT Filtrona Indonesia	Indonesia
Filtrona de Mexico S de RL de CV	Mexico
Filtrona BV	The Netherlands
Cigarette Components Ltd	UK
Filtrona Finance Ltd	UK
Filtrona International Ltd	UK
FIL International Ltd	UK
Filtrona United Kingdom Ltd	UK
Moss Plastic Parts Ltd	UK
Filtrona Industrial Corporation	US
FIL Holdings Corp	US
Filtrona US Holdings Inc	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 2009 consisting of the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and parent company Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the related notes.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU). The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditors' 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

As explained more fully in the Directors' Responsibilities Statement set out on page 52, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/UKP.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2009 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Report of the Remuneration Committee to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 62 to 69 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Report of the Remuneration Committee to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance Statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 69, in relation to going concern; and
- the part of the Corporate Governance Statement on pages 62 relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Richard Broadbelt (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
25 February 2010

8 Salisbury Square
London EC4Y 8BB
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 22 April 2010 at 12 noon.

Financial calendar 2010

Annual General Meeting	22 April 2010
1st Interim Management Statement	22 April 2010
Final dividend	30 April 2010
Half Year Report	26 August 2010

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