



Filtrona plc
Annual Report 2010

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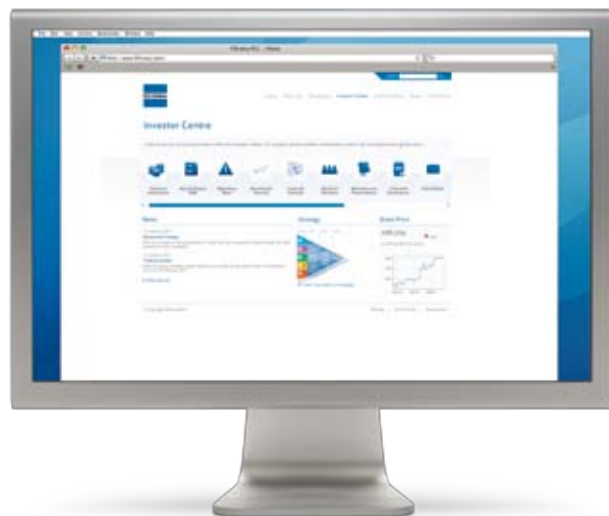
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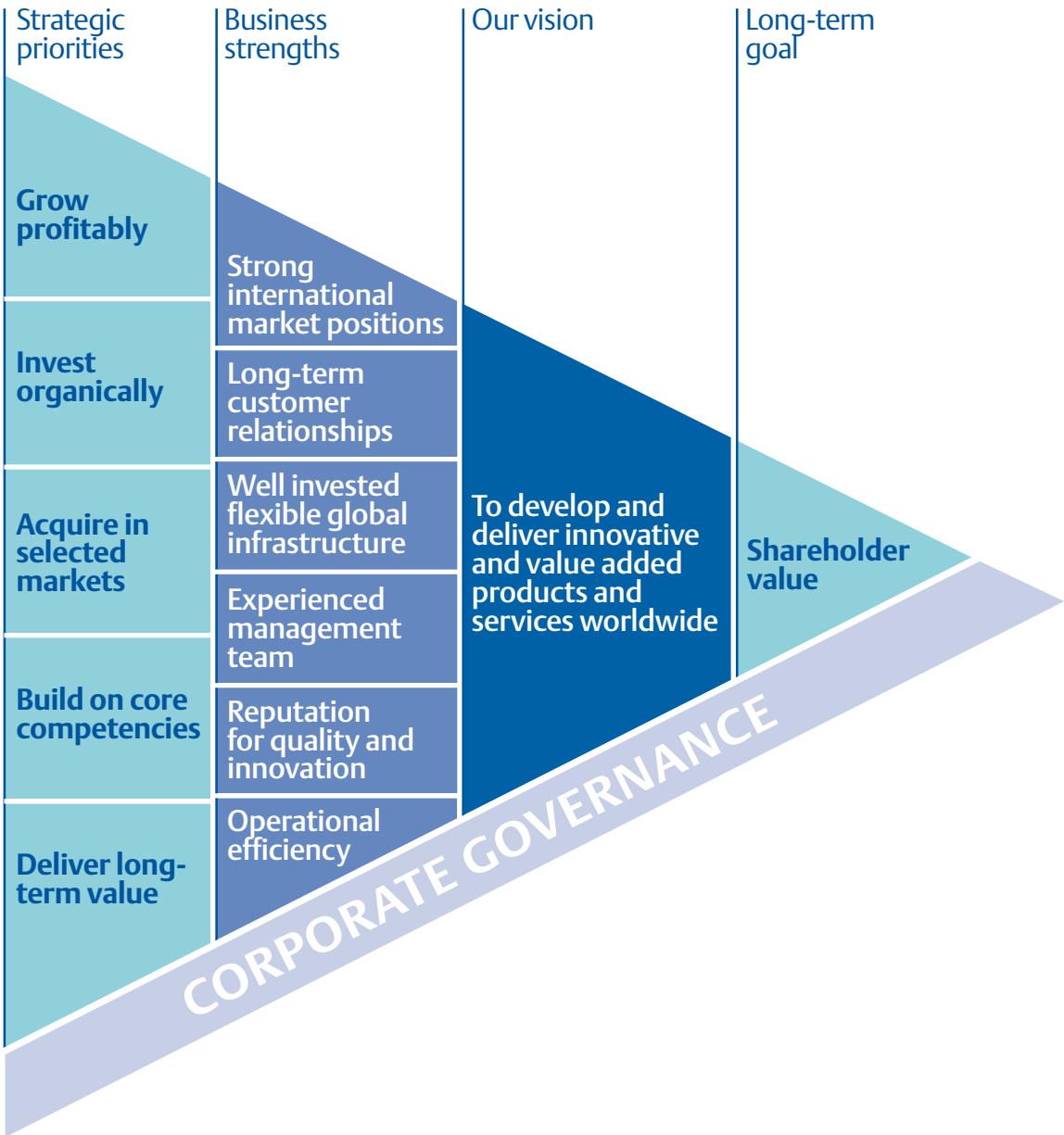
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www.filtrona.com



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

Our strategy





Filtrona plc
Corporate Overview 2010

→ **Overview**

Operations

History

Strengths

Strategy

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

Overview

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.

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 and 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 exploitations 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 Values

Style

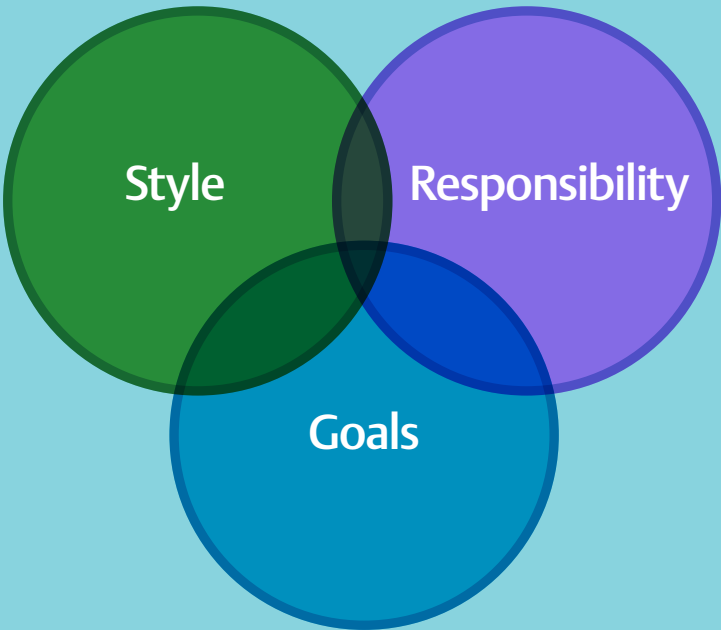
At Filtrona, we pride ourselves as being open, honest and enthusiastic, whilst celebrating our successes and learning from our experiences. We aim to be passionate in our pursuit of excellence and dedicate ourselves to the very best of quality in everything we do. We will work as a team, valuing everyone's contribution and minimising bureaucracy. We will treat each other in a consistent and fair manner.

Responsibility

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.

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.



Overview

→ Operations

History

Strengths

Strategy

Filtrona operates through four key divisions: Protection & Finishing Products, Porous Technologies, Coated & Security Products, and Filter Products



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. 41 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.



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 healthcare, consumer and industrial 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.



Coated & Security Products

The global market leading producer of high quality self-adhesive tear tape and a growing supplier of labels, 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.



Filter Products

This division is the only global independent cigarette filter supplier. The 10 worldwide locations, including a UK-based research facility and three regional development centres, provide a flexible infrastructure strategically positioned to serve the tobacco 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.

Filtrona's strong competitive position has developed from significant investment in global production and service capabilities

The Austrian business Bunzl began manufacturing filters in Jarrow, UK during the 1940s and expanded through the formation of Filtrona Corporation in the US during the 1950s. The formation of Moss Plastics Parts in 1955 introduced the company to the manufacture and distribution of protection and finishing products.





2005

Filtrona demerged from Bunzl plc and became a separately listed company on the London Stock Exchange.

2007

Acquisition of Duraco Inc, a leading provider of adhesive coated products to many industries.

2008

Acquisition of Lendell Inc, a producer of speciality hydrophilic foam products.

2010

Acquisition of BP Labels a manufacturer of secure self adhesive labels. Acquisition of Stera Tape a manufacturer of speciality adhesive tapes.

Filtrona's business is built around several key factors, including many years' experience of manufacturing within our chosen market sectors



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.

Well invested flexible global infrastructure

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.

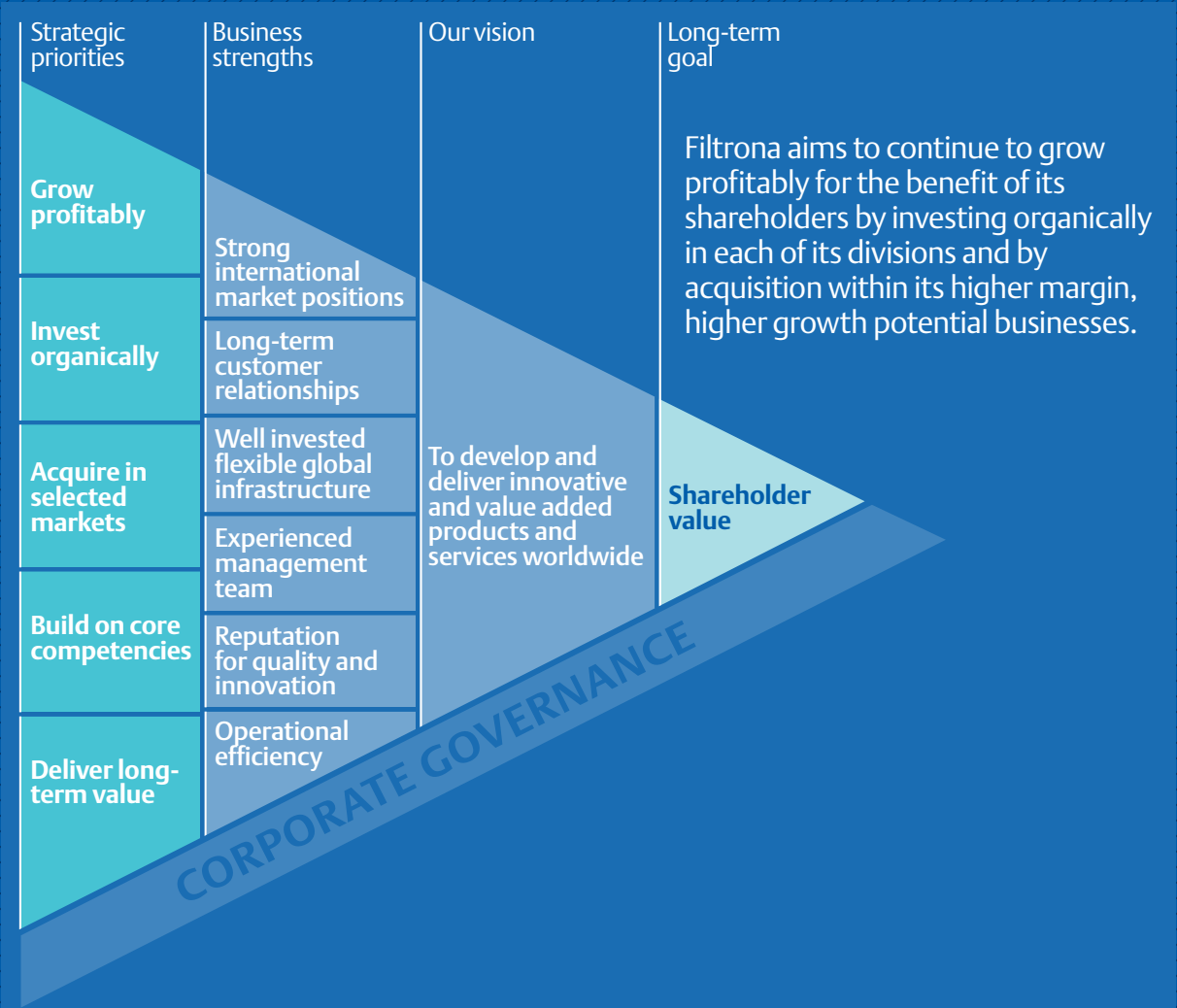
Reputation for quality and innovation

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.

Filtrona’s strategic approach is to build on its core competencies and strong global positions through continuous investment



2010 Principal highlights

Protection & Finishing Products

- Strong recovery of adjusted operating profit
- Cash conversion rate of 101%
- Acquisition of the Stera Tape business
- Continued marketing investment drove improved market share gains

Porous Technologies

- Increase in adjusted operating profit
- Continued strength from printer systems and traditional markets
- Successful completion of refurbishment for the Reinbek operational facility
- Continued good progress in new technologies, products and applications

Coated & Security Products

- Acquisition of the BP Labels business
- Increased adjusted operating profit
- Good growth achieved in Asia
- Continued investment securing innovation and manufacturing excellence

Filter Products

- Continued improvement in operating margins
- Ongoing success with independent cigarette customers
- Further growth in Asia
- Increased revenue from laboratory services

2011 Principal initiatives

- Integration and development of the newly acquired Stera Tape business
- Significant improvement to the e-commerce platform
- New manufacturing facility at MSI Houston
- Further product range development
- 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
- Continue to develop sales from new products, capabilities, systems, applications, technologies, services and tooling
- Continue to establish an international label business in our markets of choice following the BP Labels acquisition
- Further investment in the development of new authentication systems
- Selective investment in new production equipment and facilities
- Continue growth of wider service offerings via new business models
- Increase revenue from scientific services and new products
- Continue focus on cost through productivity improvements and selective capacity and capability balancing
- Further strengthen customer relationships through supporting innovation and improving speed to market



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How we've performed in 2010

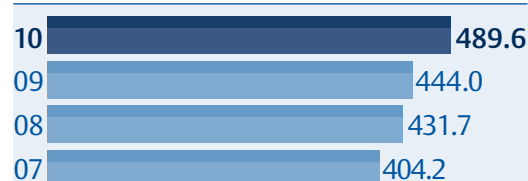
Financial highlights

- Revenue growth of 10.3%
- Increase in adjusted operating profit* of 33.5%
- Operating margin* of 15.3% up 260 basis points from 12.7%
- Adjusted earnings per share* increase of 41.9% to 21.0p
- Operating cash flow of £74.9m
- Cash conversion of 100%
- Strong balance sheet with net debt of £90.8m
- Total dividend increased 15.7% to 9.0p

Operational highlights

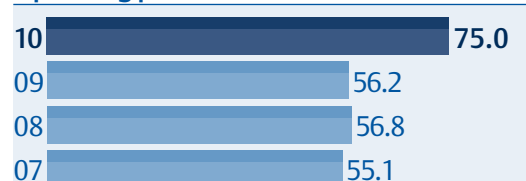
- Protection & Finishing Products: strong recovery with adjusted operating profit* up 81.1% and 560 basis point improvement in margin to 22.3%
- Porous Technologies: continued strength from printer systems and traditional markets, with a 22.1% increase in adjusted operating profit*
- Coated & Security Products: good growth in the Payne authentication system with adjusted operating profit* up 20.5%
- Filter Products: continued resilience with further improvement in operating margin* derived from operational efficiency

Revenue → £million



£489.6m **+10.3%**

Operating profit* → £million



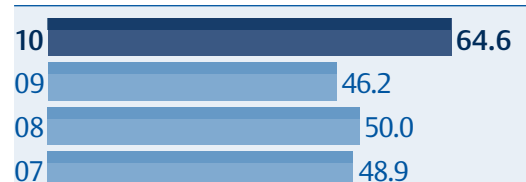
£75.0m **+33.5%**

Operating margin* → %



15.3%

Profit before tax* → £million



£64.6m **+39.8%**

* before intangible amortisation, major restructuring costs and exceptional acquisition fees

Divisional Overview

Protection & Finishing Products

The Protection and Finishing Products ('PFP') division is a global market leading provider of product protection and finishing products, manufacturing and distributing plastic injection moulded, dip moulded, adhesive-coated foam and metal products.

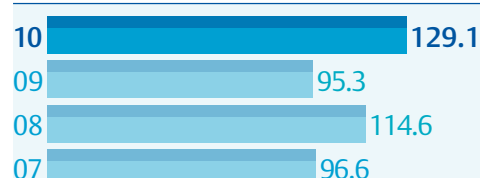
What we do

The division has 41 operating units in 14 countries serving a very broad base of over 85,000 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 superior levels of service and low transaction costs for the high volumes of daily sales activity with multiple customers.

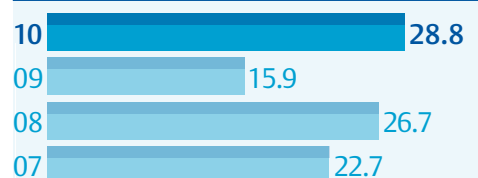
How we've performed

Revenue → £million



£129.1m **+35.5%**

Operating profit* → £million



£28.8m **+81.1%**

* before intangible amortisation and major restructuring costs

Porous Technologies

The Porous Technologies division is the leading global technology developer and manufacturer of custom bonded fibre and hydrophilic foam components.

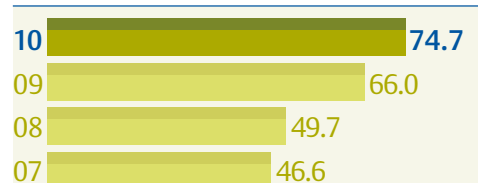
What we do

The division's components handle fluid and vapour and deliver high value and precision performance to many of the most well-known healthcare, consumer and industrial brand owners in the world. These 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 sales and customer service functions located globally, including Japan.

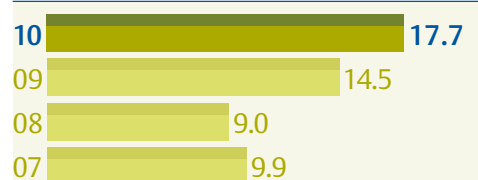
How we've performed

Revenue → £million



£74.7m **+13.2%**

Operating profit* → £million



£17.7m **+22.1%**

* before intangible amortisation



Coated & Security Products

The Coated & Security Products division ('CSP') is a global market leading producer of high quality self-adhesive tear tape and a growing supplier of labels, products and technologies for brand protection, document authentication, personal identification and track and trace.

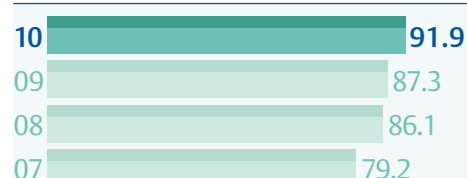
What we do

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 traditional expertise lies in the development and manufacture of printed, 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. The division is demonstrating a growing ability to develop technologies and services that can help its customers authenticate brands, identities and data in a highly secure manner.

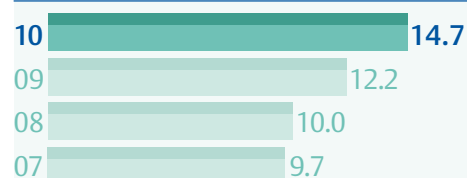
How we've performed

Revenue → £million



£91.9m **+5.3%**

Operating profit* → £million



£14.7m **+20.5%**

* before intangible amortisation and major restructuring costs

Filter Products

The Filter Products division is the only global independent cigarette filter supplier. The 10 worldwide locations, including a UK-based research facility and three regional development centres provide a flexible infrastructure strategically positioned to serve the tobacco industry.

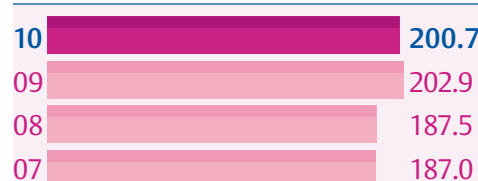
What we do

The division supplies a wide range of value adding high quality innovative filters from monoacetate to multi-segment speciality filters with sophisticated adsorbent materials.

The manufacturing focus is complemented and supported by a continued focus on technological development, and innovation in products and services, to provide solutions to the tobacco industry.

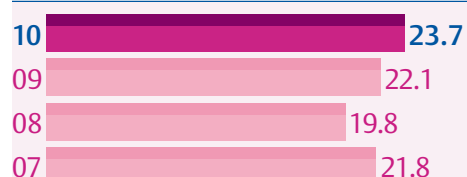
How we've performed

Revenue → £million



£200.7m **(1.1%)**

Operating profit* → £million



£23.7m **+7.2%**

* before intangible amortisation and major restructuring costs

Chairman's Statement

A high quality and financially strong business

Overview

I am delighted to report that Filtrona has delivered a record set of results, with operating profit up 33.5% to £75.0m and adjusted earnings per share rising to 21.0p, up 41.9%. The quick and positive response of the Company to the challenges of the recessionary conditions experienced during 2009 combined with sustained investment in research and development and marketing left the Group well placed to return to growth as trading conditions have improved.

Having demonstrated its resilience in 2009, Filtrona has shown in 2010 its ability to benefit from its leading marketing positions, operational capabilities and responsiveness to customer demands.

All the divisions performed well during 2010. The Protection & Finishing Products division had an excellent year, with all of the catalogue-based businesses doing well and MSI seeing a strong recovery in the oil and gas sector. The investment in a new expanded facility for MSI, combined with the acquisition of Stera Tape, reflected the Board's commitment to the strategy of seeking growth in the Company's higher margin businesses.

Porous Technologies continued to make strong progress, driven by printer system and writing instrument sales, and a number of new product developments are moving towards commercialisation. During the course of the year the Board had the opportunity to visit the division's operations at Reinbek in Germany where we saw that the extensive refurbishment has established a world class facility capable of delivering future growth.

Coated & Security Products delivered increased operating profit driven by improved margins. The Payne authentication system generated good growth and the acquisition of BP Labels provides new opportunities for the division's security applications.

Filter Products achieved a highly creditable result given market conditions, once again demonstrating its manufacturing flexibility and product development abilities.

Dividend

Having regard to the excellent performance of the Group, including the reduction in year end borrowings, the Board is recommending a final dividend of 6.0p per share, which, if approved by shareholders on 14 April 2011, will make a total dividend of 9.0p per share (2009: 7.78p) for the full year which represents an increase of 15.7%. The final dividend will be paid on 28 April 2011 to shareholders on the register at 15 April 2011.

Funding

Following the refinancing of the Group's main banking facilities in 2009, we successfully issued US Private Placement notes totalling US\$160m in April 2010, comprising two series of notes, with seven year and ten year terms (US\$80m each), with fixed annual coupon rates of 5.37% and 5.91% respectively. The notes diversify Filtrona's sources of funding and secure extended maturities and additional flexibility to support the future development of the Company. The positive response from investors reflected the strength of Filtrona's cash flows and international market positions.



Filtrona has shown in 2010 its ability to benefit from its leading market positions, operational capabilities and responsiveness to customer demands



Governance

The Filtrona Board is accountable to all the Company's stakeholders for the standards of governance which are maintained across Filtrona's wide range of international businesses. The Board has consistently demonstrated its commitment to high standards of governance and no major changes to our approach are expected as a result of the new UK Corporate Governance Code. During the year the Company has implemented a new compliance programme and a comprehensive review of its internal audit and risk management processes in conjunction with an external service provider. A number of recommendations will be implemented during 2011 as the Board seeks to drive continuous improvement in governance matters. The Board is adopting the annual re-election of all directors with effect from this year's Annual General Meeting.

The Board

Mark Harper will be handing over his responsibilities as Chief Executive to Colin Day with effect from 1 April 2011. Colin has an outstanding reputation for delivering international growth and the Board believes that his extensive experience, combined with his commitment and enthusiasm for new opportunities will provide further impetus to Filtrona's strong financial performance.

Mark will stand down from the Board at the Company's Annual General Meeting on 14 April 2011. With 25 years service, and having led Filtrona for eight years, the last five as Chief Executive since the Company's public listing in June 2005, Mark has chosen to take early retirement and he will leave the Company in May 2011.

On behalf of the Board, I would like to thank Mark for the huge commitment and contribution that he has made to Filtrona over many years, culminating in the record performance of 2010. He is working closely with Colin and the Board to ensure a smooth transition and he leaves Filtrona with the best wishes of all those who have worked with him.

Employees

The delivery of Filtrona's excellent results in 2010 would not have been possible without the dedication and support of all the Group's employees. The Board is always impressed by the levels of enthusiasm, commitment and skill demonstrated across Filtrona's international businesses, irrespective of the nature of the challenges which are presented by economic conditions or customer demands. I was particularly impressed by the progress which I saw on my recent visit to our operations in China.

On behalf of the Board, I would like to thank all of my colleagues who work for Filtrona for their great contribution to our success in 2010.

Jeff Harris
Chairman

24 February 2011

The Filtrona Board believes that the pursuit of and adherence to best practice standards

- establishes the culture and core Filtrona Values throughout the Group
- provides competitive advantage across the Group, improving the efficiency and effectiveness of the Board and all employees, strengthening controls and processes, and enhancing the quality and objectivity of decision-making and risk management
- underpins the shareholder value proposition of the Company in pursuing its strategic objectives and the management of its corporate responsibilities

Chief Executive's Review

Strong profitable growth

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. Filtrona is engaged in the light manufacture and distribution of high volume, small but essential value-added products to a wide range of customers across diverse geographies within a broad but targeted range of international markets. These markets are served from a global network of 28 principal manufacturing facilities, 41 sales & distribution operations and six research & development centres.

The general improvement in economic activity during 2010, combined with the benefits of investments made during 2009 to develop new revenue streams and to win market share, enabled the Company to deliver strong financial results. The rapid recovery in organic growth rates vindicated both the Company's investment strategy and the proactive measures taken during 2009 to reduce costs and further enhance the Company's competitive position. The strength and quality of the businesses within Filtrona was again demonstrated by the profit growth and margin enhancements achieved in each of the divisions.

During the year, the Company successfully completed two small, yet strategically important acquisitions. BP Labels provides a new carrier medium for the technologies being developed within the Coated & Security Products division. The acquisition of Stera Tape broadens the range of speciality tapes supplied by the Protection & Finishing Products division and is highly complementary to the Duraco business which was acquired in 2007.

The Company successfully completed an issue of Private Placement notes totalling US\$160m in April, with seven and ten year terms (US\$80m each) and fixed annual coupon rates of 5.37% and 5.91% respectively. These notes provide a stable, long-term funding platform for the Company.

The Company's focus on costs and productivity improvement continued throughout the year. Company headcount at the year end was 3,198 (2009: 3,160) and, combined with the significant revenue growth, generated an 11% increase in revenue per employee from £137k to £152k at constant exchange rates.

The positive momentum from 2010 has continued into the early part of the current year giving the Board confidence that the Company continues to be well positioned to grow in 2011.

Strategy

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.



The 2010 out-turn demonstrated the return to a positive growth path. Trading in the early part of the current year gives the Board confidence that further growth will be a feature of the Company's performance in 2011



Financial Summary

Protection & Finishing Products

£34.6m
EBITDA^{1,2}

22.3%
Operating margin⁴

81.1%
Profit growth³

48.2%
Return on assets⁵

Porous Technologies

£21.0m
EBITDA^{1,2}

23.7%
Operating margin⁴

22.1%
Profit growth³

34.9%
Return on assets⁵

**Strong
profitable
growth**

Coated & Security Products

£19.7m
EBITDA^{1,2}

16.0%
Operating margin⁴

20.5%
Profit growth³

29.6%
Return on assets⁵

Filter Products

£32.1m
EBITDA^{1,2}

11.8%
Operating margin⁴

(1.7%)
Profit growth³

29.5%
Return on assets⁵

21.6%
Group ROIC⁶

- 1 Excludes central services
- 2 Adjusted operating profit before depreciation and share option expense
- 3 Adjusted operating profit 2010 versus 2009 at constant exchange rates
- 4 Adjusted operating profit divided by revenue
- 5 Adjusted operating profit for last 12 months divided by the average invested capital (excluding intangibles) for last 12 months
- 6 Operating profit divided by average invested capital (including intangibles) for last 12 months

Filtrona's key served markets represent important industrial and consumer product segments with a bias towards more defensive markets which provide resilience against the exposure to more cyclical sectors such as the oil and gas industry.

Performance

Trading performance in 2010 was strong across the Company, with adjusted operating profit growth and margin improvement delivered in all four divisions.

Revenue of £489.6m was up 10.3% against the prior year (2009: £444.0m) and up 8.3% at constant exchange rates. Adjusted operating profit of £75.0m was up 33.5% (2009: £56.2m) and up 28.9% at constant exchange rates. Adjusted operating margin increased by 260 basis points to 15.3% (2009: 12.7%) due to the operational leverage benefits from the increased revenue, the benefit from ongoing effective cost management and the mix impact of higher growth rates being achieved in the higher margin divisions.

The principal drivers of the increase in adjusted operating profit were the Protection & Finishing Products division, which delivered an 81.1% uplift in profit, the Porous Technologies and the Coated & Security Products divisions, where profit grew by 22.1% and 20.5% respectively. Filter Products generated a 7.2% increase in profits, although this was slightly down by 1.7% on prior year at constant exchange rates.

Chief Executive's Review

The increase in Company profit, combined with the ongoing focus on working capital management with net capital expenditure below depreciation, generated operating cash flow of £74.9m (2009: £72.5m), representing a 100% conversion of adjusted operating profit to operating cash flow. This performance once again demonstrated the strength of the Company's cash generative business model and its ability to generate significant positive operating cash flows at all stages of the economic cycle. Working capital as a percentage of revenue increased marginally to 14.0% from 13.9% in 2009 and net capital expenditure of £18.8m represented 92% of the depreciation charge of £20.4m.

Adjusted earnings per share increased by 41.9% to 21.0p (2009: 14.8p), primarily as a result of the strong improvement in adjusted operating profit. Basic earnings per share for continuing operations increased by 119.8% to 20.0p (2009: 9.1p), driven by the absence of any negative impacts from exceptional items.

Net debt reduced by £16.3m to £90.8m (2009: £107.1m), primarily driven by the strong operating cash flow. Additionally the Company received £8.2m, relating to the early settlement of the earn-out from the sale of Filtrona's North American Plastic Profile and Sheet business in 2009, and a further deferred payment of £2.7m relating to the sale of the Globalpack Brazilian consumer packing business in 2007, which were more than off-set by the consideration paid for the two acquisitions referred to earlier.

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 0.9 from 1.4 at 31 December 2009. Interest cover was 7.1x compared with 7.2x at the end of 2009.

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 10 to 11. As well as being used to measure the performance at Group level, a number of them are also used as principal qualitative 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 their businesses are detailed in the respective business reviews.

Our responsibility

Filtrona continues to operate within a strong corporate responsibility framework where activities are managed to ensure that the Company maintains the high standards which reflect the expectations of the Company's internal and external stakeholders. The success of this framework is demonstrated by the various initiatives introduced within Filtrona's global businesses.

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



The 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 this year is provided in the Corporate Responsibility Report on pages 35 to 41.

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 responsibility.

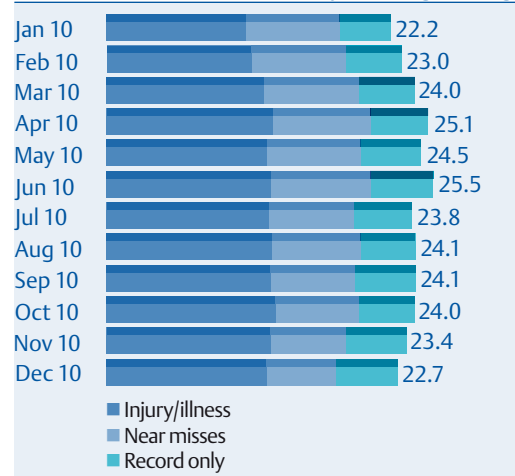
The Company manages occupational health by identifying key risk activities, undertaking health assessments and, where appropriate, implementing health surveillance programmes. The Company has achieved the Occupational Health & Safety Management Systems OHSAS 18001 for all of its principal manufacturing sites, excluding the recently acquired site of BP Labels and Stera Tape, which have been given, in accordance with Filtrona policy, a period of 24 months to reach the required standard. The site at Jarrow has not achieved the standard during 2010 and this remains a key priority for the first half of 2011.

Total accidents and lost time accidents remain two key performance indicators within the Company in recognition of the primary importance of good health & safety in securing optimal operational efficiency. It was particularly pleasing that, for the first time, the Filtrona gold standard for health & safety was achieved by no less than 15 operations. Filtrona's health & safety performance and awareness of potential hazards is detailed opposite.

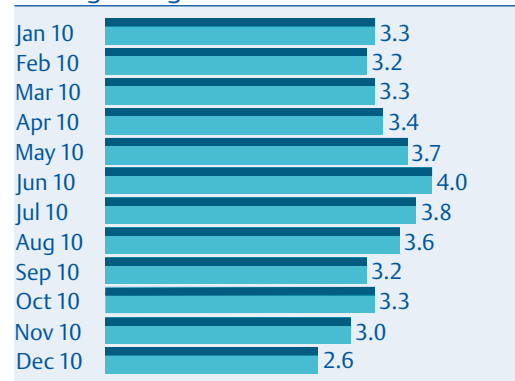
Filtrona's reputation as an employer is important to ensure the attraction and retention of suitably motivated, experienced and skilled personnel. The customer and supplier perception of Filtrona's values and standards of conduct across a variety of regions and cultures can impact on the development of the long-standing business relationships which the Company has maintained and continues to foster. Filtrona strives to maintain the highest ethical standards at all times in the conduct of its international operations, and the new compliance programmes implemented across the Group in 2010 reflect the Company's commitment to those standards.

Mark Harper
Chief Executive
24 February 2011

Accident Trend → 12 monthly moving average



Lost Time Accident Trend → 12 monthly moving average



Key Performance Indicators

Measuring up against our strategy

Grow profitably

Delivering success

- The growth in **underlying operating profit** provides the key measure of the performance of the Company over time
- 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
- **Operating margin** monitors operating efficiency and added value
- **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

2010 Progress

↑33.5%

Growth in underlying operating profit

↑10.3%

Growth in revenue

↑260bps

Growth in operating margin

↑3.3%

Growth in underlying cash flow

Acquire in selected markets

Delivering success

- Identification of **corporate transactions** to enable further focus on higher margin, higher growth potential businesses

2010 Progress

Corporate transactions

- Duraco and Lendell performing well
- Stera Tape acquisition adds to Duraco's capabilities
- BP Labels provides new carrier medium for security technologies

Build on core competencies

Delivering success

- Product innovation
- Customer service
- Operational efficiency
- International capability

2010 Progress

Product innovation

- Success with the launch of new products and services continues
- Further investment in research and development with new capability established within Porous Technologies
- Intellectual property portfolio expands

Customer service

- Quality standards and delivery performance show further improvements

Operational efficiency

- Benefits derived from cost reduction and productivity improvements within Filter Products
- Porous Technologies securing benefits from the modernisation of Reinbek facility

International capability

- Further strategic development of flexible infrastructure to strengthen capability to respond to customers' demands



Invest organically

Delivering success

Investments in:

- **Sales & marketing** to increase demand and attract new customers
- **Research & development** to secure new and innovative products and services
- **Infrastructure** to provide the cost – competitive delivery of high quality products and services

2010 Progress

Sales & marketing

- Increased catalogue and sample requests and new accounts within Protection & Finishing Products
- Protection & Finishing Products: Generation of positive lead indicators for 2011
- Successful launch of ecofriendly products in Porous Technologies
- Coated & Security Products: success of Payne Authentication
- Filter Products: progress with scientific services and launch of smooth core filter

Research & development

- Continued generation of healthy pipeline of innovative new products and services in several key markets
- Continued project development with strategic partners
- Successful launch of new products and services in all divisions

Infrastructure

- Enhanced distribution capabilities for Protection & Finishing Products in Poland, China, Brazil and UK
- Approval of new MSI facility in Houston, Texas
- Completion of renovation of Porous Technologies' Reinbek, Germany facility
- Move to high quality Brazilian tear tape facility
- Redevelopment of technology centre for Coated & Security Products in Nottingham
- Investment in new factory for Filter Products in Thailand

Deliver long-term value

Delivering success

- **Return on average invested capital** reflects the success of the Company in achieving superior returns on its invested capital
- **Adjusted earnings per share** measures the benefits generated for shareholders from the Company's overall performance.
- **Dividend** payment for year
- **Share price**

2010 Progress

↑ **470bps**

Increase in return on average invested capital

↑ **41.9%**

Increase in adjusted earnings per share

↑ **15.7%**

Increase in total dividend for the year

↑ **28.5%**

Increase in share price during the year

Management of Principal Risks

Protecting our achievement of sustainable shareholder value

Effective management of risk and opportunity is essential to the protection of 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 reviewed, appropriate contingencies are provisioned and 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 on pages 12 to 15 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
- customer relationships
- 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 and business continuity 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 power 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 & 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 could also 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 products and services
- targets growth opportunities outside the manufacture of filter products
- takes internal and external legal advice to manage litigation risk

Customer concentration

Risk

In some of Filtrona's businesses, particularly filter products and tear tape, the customer base is relatively concentrated. Trends in certain markets, particularly within the oil and gas industry 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

Management of Principal Risks

Raw material supply

Risk

The Company uses significant quantities of plastic resins which are subject to price fluctuations from supply shortages and changes in the prices of natural gas, crude oil and other petrochemical intermediaries from which resins are produced. Some of Filtrona's businesses are dependent on the availability of specialist raw materials or components which are incorporated into the Company's products. If there are rapid increases in resin or other raw materials prices, including energy costs, or supply shortages, the Company's revenue and profitability may be materially and adversely affected.

Impact

If Filtrona is exposed to raw material price increases or supply shortages, the Company may suffer:

- reduced revenue
- increased costs
- profit decline
- disruption to supply

Mitigation

To counteract the Company's exposure to increases in raw material costs or supply shortages, Filtrona seeks to:

- adopt appropriate procurement practices
- secure longer-term supply agreements
- implement cost recovery programmes
- ensure the availability of alternative supply options

Intellectual property development and protection

Risk

A key component to Filtrona's future success is the ability to develop new and innovative products and services. In addition to seeking patent and trademark rights applied around the world, the Company relies on unpatented proprietary know-how and trade secrets. In the event that Filtrona is unable to respond to competitive technological advances or to protect its intellectual property portfolio, the future performance of the Company may be adversely affected.

Impact

Failure to develop and protect intellectual property rights exposes the Company to:

- reduced revenue
- profit decline
- litigation
- reputational damage

Mitigation

To counteract the Company's exposure to the erosion of its intellectual property portfolio, Filtrona:

- invests in R&D
- secures formal registrations of patent and trademark rights
- adopts appropriate confidentiality and licensing practices
- monitors potential infringements

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 attract, motivate and retain, highly qualified executives and other personnel equipped to deliver on Filtrona's strategic objectives.

Impact

If Filtrona fails to attract, motivate or retain 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

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 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

Review of Operations

Protection & Finishing Products



How we do it

The key components of the PFP business model are active business to business marketing, an extensive product range and geographic distribution capability, supported by efficient sourcing and manufacturing operations and a sophisticated 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 supported by 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. The division also seeks out acquisitions which can move the division into complementary product categories and add further distribution capability.

How we've performed

Revenue recovered strongly during 2010 with an increase of 35.5% to £129.1m (2009: £95.3m) and, at constant exchange rates, increased by 35.0% with each of the businesses in the division trading well. Adjusted operating profit increased by 81.1% to £28.8m (2009: £15.9m) due to the operational gearing impact of the strong revenue growth and the lower cost base resulting from the cost reduction measures taken during late 2008 and throughout 2009. At constant exchange rates, the increase in adjusted operating profit was also 81.1%.

Operating cash flow was again strong at £29.0m, representing a conversion ratio of 101% of adjusted operating profit into operating cash flow. Adjusted operating margin increased by 560 basis points to 22.3% (2009: 16.7%) as a result of the recovery in each of the businesses, the reduced cost base, and the operational gearing benefit of the revenue increases. Headcount in the division increased by 157 from 722 to 879 at the year end due to the significant increase in activity levels and the Stera Tape acquisition. Revenue per employee at constant exchange rates increased substantially from £132k at the end of 2009 to £161k at the end of 2010.

The division continued to pursue its strategic goal of gaining market share through marketing investment, product range expansion and the further development of its infrastructure.

The marketing investment not only drove market share gains during the year, but also continued to deliver strong lead indicators which underpin confidence in the division's future performance. In 2010, the division generated 10% more catalogue and sample requests than in 2009 and, with an 8% increase in new accounts opened, the number of live accounts increased by 12% during the year to almost 87,000 accounts. The continued strategic focus on the development of the higher margin revenue from proprietary parts, as opposed to custom parts, saw this segment increase to 71% in 2010, from 69% in 2009, as a percentage of total divisional revenue.



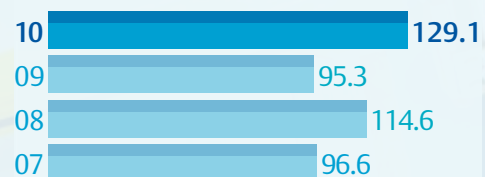
We continue to pursue our strategic goal of gaining market share through marketing investment, product range expansion and infrastructure development

*Rob Purcell
Managing Director,
Protection & Finishing Products*



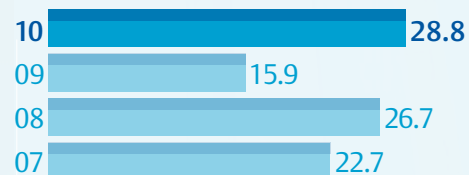
How we've performed

Revenue → £million



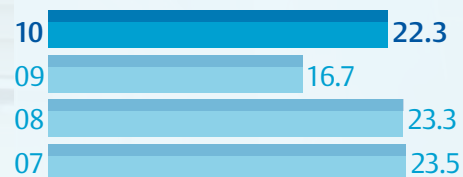
£129.1m **+35.5%**

Operating profit* → £million



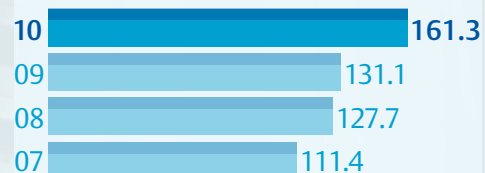
£28.8m **+81.1%**

Operating margin* → %



22.3%

Revenue per employee → £thousand



£161.3k **+23.0%**

* before intangible amortisation and major restructuring costs

Review of Operations

Protection & Finishing Products continued



Marketing brochures from Moss

Each of the businesses continued to broaden its product offering during the year and sales of new products were an integral part of the overall division's revenue growth. The Stera Tape business was acquired in November, with the dual strategic goals of expanding the Duraco range of speciality tapes into the US market and providing a bridgehead into the European market for the Duraco product range.

The division continued to strengthen and expand its distribution infrastructure throughout the year. In Poland and Brazil, larger distribution sites were occupied as a result of strong organic growth and the Chinese warehouse operation was expanded as sales into the domestic Chinese market more than doubled, albeit from a low base. At the Moss operation in Oxford, a new high bay warehouse extension project commenced, which will substantially increase the available storage capacity.

A new Duraco operation in China was established successfully, and at the end of the year a Duraco Express business began trading in Los Angeles at the existing Alliance Plastics location, thereby achieving overhead efficiency.

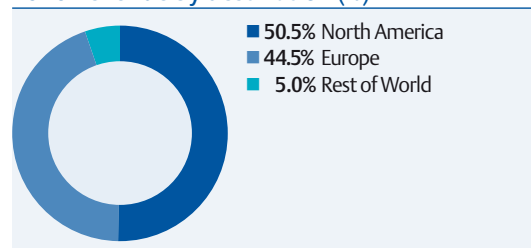
The division's standardised ERP system was rolled out successfully to the Duraco, Chicago and Skiffy, Amsterdam operations during the year. A number of other IT improvement projects were completed during the year and significant improvement of the division's e-commerce platform is a key objective for 2011.

At MSI, the oil country tubular goods thread protector business, revenue recovered strongly with the sharp rise in the North American drilling rig count supplemented by the decision of the US and Canadian governments to levy anti-dumping duties on the importation of pipe and tubing from China. Activity was also boosted by the growth in horizontal drilling associated with the exploitation of the large North American shale gas deposits. Given the significant weighting in MSI's business to land-based drilling, the operation was not materially affected by the Gulf of Mexico oil spill and subsequent drilling moratorium. As a result of business recovery, the Board approved the construction of a new US\$11m manufacturing facility on land adjacent to the existing MSI site in Houston, Texas and this is targeted to be operational in the first half of 2012.

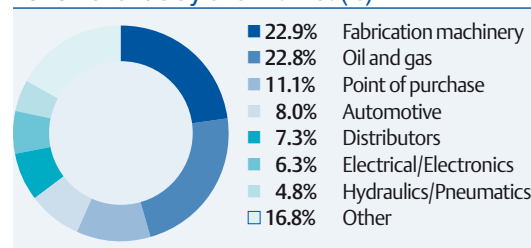
Principal 2011 initiatives

- Integration and development of the newly acquired Stera Tape business
- Significant improvement to the e-commerce platform
- New manufacturing facility at MSI Houston
- Further product range development

2010 Revenue by destination (%)



2010 Revenue by end market (%)



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

* In accordance with Group policy the site has two years from acquisition to achieve certifications.

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



What we measure	Why we measure it	How we did
New customer acquisition	Reflects the success of targeting organic growth opportunities	↑7.8%
Success of marketing activity	Indicates the potential revenue generating impact of marketing investment	↑9.9%
On Time In Full	Demonstrates ability to meet delivery demands	↓2.0%

The division experienced persistent increases in raw material costs throughout the year. To offset the impact, pricing programmes were enacted late in 2010 and at the beginning of 2011.

Our responsibility

The division's focus on corporate responsibility issues centres on the fundamental objective of securing the health & safety of all its employees.

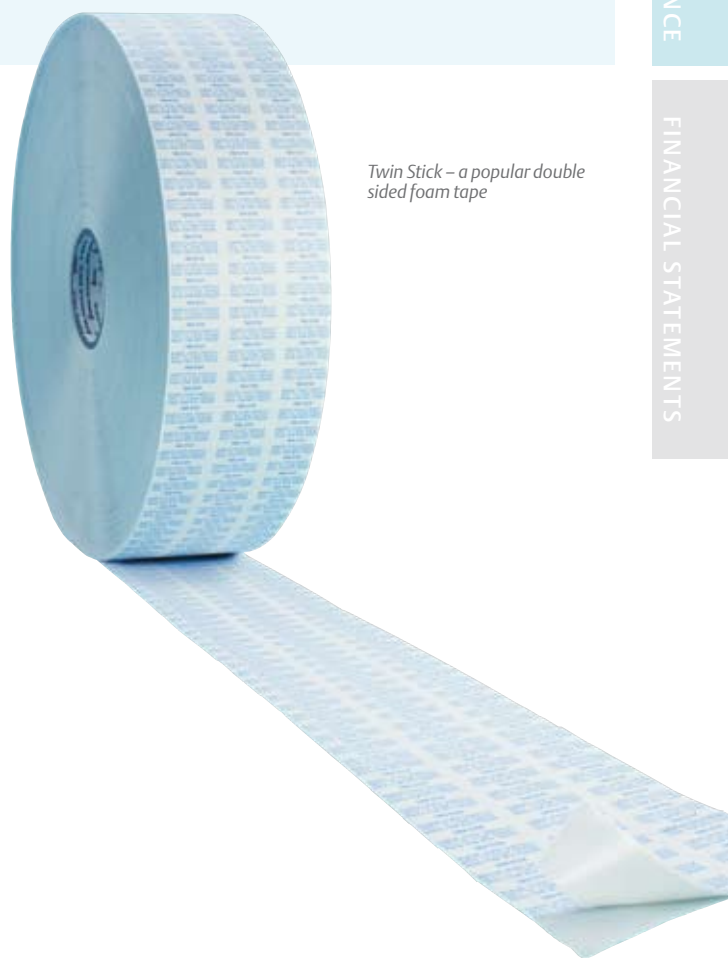
The table opposite details the extent of the accreditations held at the main manufacturing sites across the division. Additional auditing protocols are also being implemented across the distribution sites to drive similar standards of performance.

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.

Moss Plastics Parts gained accreditation to the Carbon Trust Standard in November 2010. Over a three year period the absolute carbon footprint for Moss has been reduced by 21.9%. The division achieved three gold awards (2009: one) in the Filtrona Group Safety Awards showing successful achievement in attaining a safer workplace environment.

Outlook

Order input and activity trends early in 2011 have been favourable across the division and in all geographies. Looking forward to the year in full, continued growth in industrial markets around the world, projected strength in the price of oil and gas, and the benefit of pricing programmes, provide a good foundation for further progress in 2011.



Twin Stick – a popular double sided foam tape

Review of Operations

Porous Technologies



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 customers' functional performance requirements for their devices.

The division consistently delivers high levels of quality and service, with performance levels supported by certifications of all of its production facilities in ISO 9001:2000, ISO 14001, and OHSAS 18001, and for foam products in ISO 13485:2003.

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 backup supply capabilities from multiple locations utilising identical proprietary processes and independent raw material supply chains. It operates from manufacturing locations in the US, Germany and China, together with additional sales and customer service functions located globally, including Japan.

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. It operates R&D centres for both fibre and foam technologies, as well as projects aimed at expanding its portfolio of technologies through strategic development initiatives.

How we've performed

During 2010 the division delivered a strong performance due to the positive full year impact of new product launches during the course of 2009, as well as a range of additional new products introduced in 2010. This performance was underpinned by strong cost control but also included targeted investment in long-term strategic growth based initiatives and skill sets.

Revenue progressed well during 2010 with an increase of 13.2% to £74.7m (2009: £66.0m) and, at constant exchange rates, increased by 14.0%. Adjusted operating profit increased by 22.1% to £17.7m (2009: £14.5m) due to the good revenue growth and improved mix. At constant exchange rates, the increase in adjusted operating profit was also 22.1%.

Operating cash flow was again robust at £16.2m, representing a 92% conversion ratio of adjusted operating profit into operating cash flow. Adjusted operating margin increased by 170 basis points to 23.7% (2009: 22.0%) as a result of the operational gearing benefits of the revenue growth and improved mix. Headcount in the division increased by 12 to 457 (2009: 445) and revenue per employee at constant exchange rates improved by 12% to £164k (2009: £147k).

The division continued its successful track record of converting its intellectual property and manufacturing know-how into commercial success and also experienced a strong recovery in its traditional product sectors.



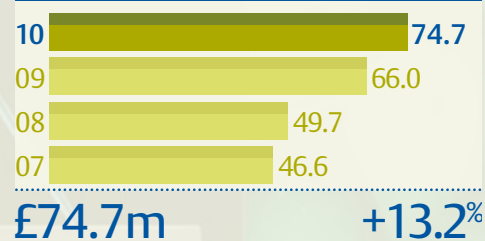
“
We have continued
our successful track
record of converting
intellectual property into
commercial success,
meeting the most
challenging requirement
of our customers”

Russ Rogers
President,
Porous Technologies

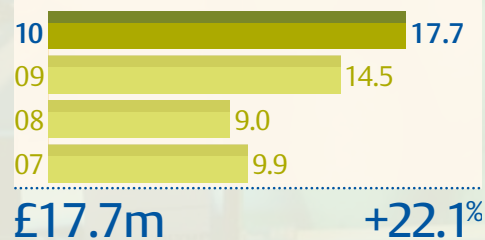


How we've performed

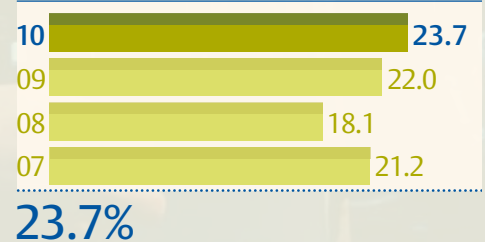
Revenue → £million



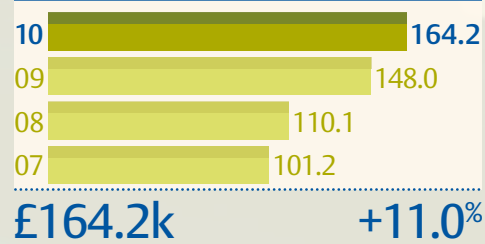
Operating profit* → £million



Operating margin* → %



Revenue per employee → £thousand



* before intangible amortisation

Review of Operations

Porous Technologies continued



Continued investment in next generation products

The strongest product category performance was delivered in printer systems, where revenue increased by 33%, making printer systems the second largest product category in the division. Revenue growth was particularly strong with the principal original equipment manufacturer customers, and aftermarket revenues were also up in the year.

Revenue in healthcare sciences reduced by 4%, reduction in sales of surgical mask components after very strong 2009 sales due to the H1N1 flu scare and a temporary reduction in pregnancy test kit wick sales due to the relocation of a customer's manufacturing site. Household products revenue increased by an encouraging 4.9%.

Writing instrument reservoirs, which remain the division's largest product category, saw revenue increase by 20% as consumer markets improved in both the US and Europe as the year progressed.

A number of longer term supply agreements were concluded in the year with important customers in each of the product categories.

In order to prepare the division for future growth, it added state-of-the-art production equipment for its medical and printing system markets in both fibre and foam technologies, as well as adding capacity that will allow for a vertical integration of a significant in-process raw material to control cost and provide a more stable source of supply.

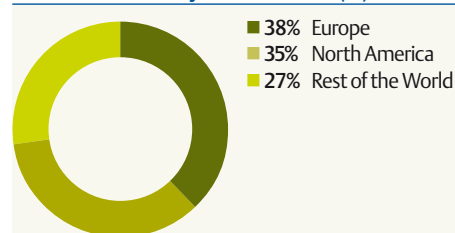
The three year renovation programme at the Reinbek, Germany facility was completed during 2010 on time and to budget without operational disruption. The modernised factory infrastructure is already yielding benefits in energy efficiency, process flows and labour productivity.

At Lendell, a new foam process line was successfully commissioned delivering a significant increase in capacity and improved process capability. In addition, a full R&D capability was established at the St. Charles, Michigan facility where ISO 14001 and OHSAS 18001 accreditations were also achieved.

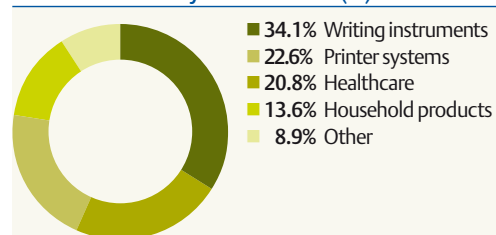
Principal 2011 initiatives

- 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

2010 Revenue by destination (%)



2010 Revenue by end market (%)





What we measure	Why we measure it	How we did
Innovation – percentage of sales derived from products launched in the last three years	Demonstrates the success of new products and technologies	10.2%
Sustained IP development	Continuous development of intellectual property to support future growth and strong development project pipeline	12 active patent applications
Customer complaints	Drives performance of quality systems and service delivery	↓15% improvement
Man hours per machinery hour	Indicative of shop floor productivity	↓7% improvement

The division continued to make good progress in the development of new technologies, products and applications in existing and completely new product categories. A new range of 'eco-reservoirs' made entirely from recycled materials was launched with 12 patent applications remaining active. 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.

Our responsibility

The division is focused on the delivery of the highest standards of safety, quality and performance across its international operations.

Global health & safety initiatives delivered year-on-year improvements, with the division maintaining an exceptionally low rate of reportable accidents, and surpassing a two year milestone of no lost time accidents across the division. All four Porous Technologies factories received a gold award in the Filtrona Group Safety Awards in 2010. The overall safety performance across the division resulted in the division being awarded the Filtrona Chief Executive's award for health & safety performance again in 2010. This was achieved due to the commitment by the management team and employees to the occupational safety awareness campaign, which has been sustained over the last two years and was fundamental in securing this award.

Outlook

Looking forward to 2011, the division will sustain its revenue investments in the development of new technologies, products and applications. Investment in R&D remains at the core of the strategy for the division. It is anticipated that each of the principal product categories will deliver growth, and that the healthcare sciences category will benefit from the absence of the influences which held back its performance in 2010.



Inkjet printer cartridge reservoir

	ISO 9000	ISO 14001	OHSAS 18001
Porous Technologies Richmond	✓	✓	✓
Porous Technologies Ningbo	✓	✓	✓
Porous Technologies Reinbek	✓	✓	✓
Porous Technologies St Charles	✓	✓	✓

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

Review of Operations

Coated & Security Products



How we do it

The strategy of the division is to be the premier provider within its markets of choice for creative and secure packaging, identity and security solutions. 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 and services.

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, identities and data 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. In 2010 this included an investment in refurbishing and extending the divisional technology centre at the Nottingham site and moving to improved facilities in Brazil.

How we've performed

During 2010 the division continued to pursue its strategy of commercialising new security technologies and applications for its international markets whilst sustaining its world leadership position in the self-adhesive tear tape market. The division has been expanded this year by the acquisition of BP Labels, which significantly enhances its label capability and brings new customers and opportunity in food, drink, cosmetics, toiletries, and pharmaceuticals and healthcare. In the year the division performed well with improvements in revenue, adjusted operating profit and adjusted operating margin.

Revenue in the division increased by 5.3% to £91.9m (2009: £87.3m) and at constant exchange rates, revenues were up by 5.5% with growth in tear tape, security technologies and at Enitor, the Dutch plastic extrusion business, plus a first revenue contribution from BP Labels. Adjusting for the impact of BP Labels, revenue growth was 2.2% at constant exchange rates.

Adjusted operating profit increased by 20.5% to £14.7m (2009: £12.2m), up 20.5% at constant exchange rates and up 19.5% after adjusting for the impact of BP Labels. The adjusted operating margin increased by 200 basis points to 16.0% (2009: 14.0%) with the benefit of an improved mix from security technologies.

Operating cash flow of £13.4m represented a 91% conversion rate of adjusted operating profit. Revenue per employee at constant exchange rates increased from £157k to £159k.



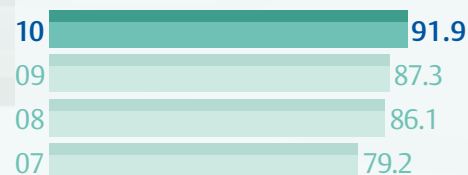
The acquisition of BP Labels is an important addition to our creative packaging solutions offering as well as providing another platform for our growing stable of brand protection technologies

*Tony Edwards
Managing Director,
Coated & Security Products*



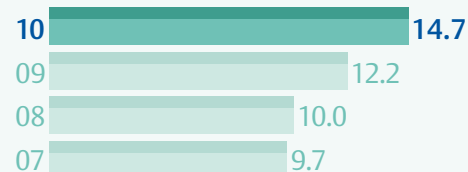
How we've performed

Revenue → £million



£91.9m **+5.3%**

Operating profit* → £million



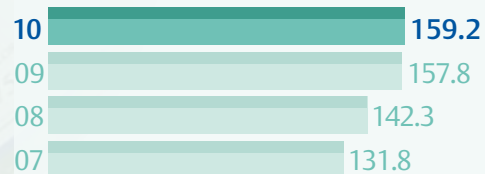
£14.7m **+20.5%**

Operating margin* → %



16.0%

Revenue per employee → £thousand



£159.2k **+0.9%**

* before intangible amortisation and major restructuring costs

Review of Operations

Coated & Security Products continued



Security Print development

The Payne tear tape business performed well, with tear tape volume up 2% and value up 5%. Good growth was achieved in the Asia region where revenue increased by 9% and sales development in the food and drink and shelf ready packaging sectors was particularly encouraging. Product mix was assisted by successful variable data promotions with tobacco industry customers in Russia and Japan.

The business' position as market leader was underpinned by a very positive customer survey and also by a continued improvement in On Time In Full performance and a significant reduction in customer complaints.

Polymer price increases impacted tear tape material costs progressively during the year and a pricing programme was implemented to recover these cost increases. The Brazilian tear tape operation moved to higher quality premises during the year and the divisional technology centre in Nottingham was refurbished and expanded.

Revenue from the Payne authentication system was again strong, with a revenue increase of 72% driven by the successful implementation of another major contract with a global fast moving consumer goods company.

The acquisition of BP Labels, which was completed in February, provides an important new carrier medium for the division's security technologies. BP Labels contributed revenues of £2.8m in the year and the new project pipeline is healthy entering 2011.

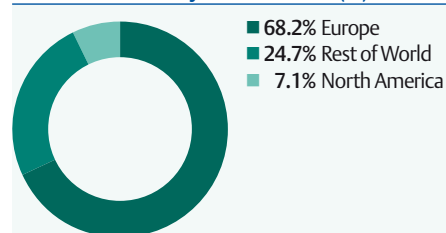
At the end of the year the division announced that it was combining the established brand protection label business with BP Labels and that the enlarged operation would trade under the Payne brand, building on the pedigree of the tear tape business as a supplier of creative packaging solutions on an international basis.

As previously announced, revenue from the UK passport contract ceased, albeit later than expected, in the last quarter of 2010. As a result, a restructuring programme was completed at the division's Banbury facility to match the cost base to the reduced level of activity.

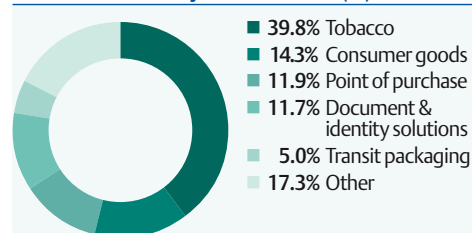
Principal 2011 initiatives

- Continue to develop sales from new products, capabilities, systems, applications, technologies, services and tooling
- Continue to establish an international label business in our markets of choice following the BP Labels acquisition
- Further investment in the development of new authentication systems

2010 Revenue by destination (%)



2010 Revenue by end market (%)





What we measure

Innovation – percentage of packaging sales derived from recently developed products

Why we measure it

Demonstrates the success of new products and technologies

How we did

22%

Innovation – development of new tooling in extrusion

Shows the amount of new tooling introduced to expand production capabilities

81 new tools

Customer satisfaction

– On Time In Full

– Customer complaints

Drives performance of quality systems and service delivery

↑0.8%

↓33% improvement



Labels for tamper evidence authentication

A highlight in the year was the supply of security laminates for the VIP passes for a major winter sporting event, following on from the successes with similar winter and summer events. Fulfilled personalised card volumes grew in the year helped by the improved service performance following the relocation to Banbury of the personal ID business.

The Enitor plastic extrusion business in The Netherlands achieved a good recovery in the year with an encouraging progression in financial performance including strong cash conversion. Production volume increased by 11.7%, and efficiency improved along with significant gains in on time delivery.

Our responsibility

Following a move to new premises the Brazilian sales and conversion operation successfully recertified for ISO 9001, ISO 14001 and OHSAS 18001. The Nottingham and Banbury operations achieved accreditation to the Carbon Trust Standard. Following acquisition of BP Labels, the operation in Cardiff is making good progress towards achieving ISO 14001. Details of the international accreditations held across the division are detailed opposite.

The division continued to develop sustained, long-term environmental programmes effecting CO₂ emission reduction, waste reduction, waste recycling, ecological impacts and ongoing energy efficiency improvements.

The division seeks to monitor employee satisfaction by ensuring a high degree of management engagement with employees at all locations. During 2010 good progress was made implementing the improvement programmes identified during the 2009 employee survey.

Outlook

Looking forward to 2011, it is anticipated that the Coated & Security Products division will continue to progress well with revenue growth from new products and services.

	ISO 9000	ISO 14001	OHSAS 18001	BRC/IOP Global Standard for Packaging Materials	SA 8000
Payne Nottingham	✓	✓	✓	✓	
Payne Banbury	✓	✓	✓		
BP Labels	✓				
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

Review of Operations

Filter Products



the difference is { everything }

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 the multi-national tobacco companies. Customers benefit from the flexibility of Filtrona's global manufacturing footprint, which enables rapid response to market changes and demand for surge volumes. This production base is continually monitored to ensure both capability and capacity are balanced with customer needs.

Consistent high standards of quality and service support these capabilities and form 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.

Customers can also benefit from the division's ability to provide a wider service offering. New business models are available, which allow customers to take advantage of Filtrona's long experience and expertise to complement their own strengths and assets in a variety of tolling, or outsourced management, relationship arrangements.

The division's recognised ability to innovate new added value products and services is key to its continued success, as the tobacco market dynamics evolve.

Research is carried out at the Filtrona Technology Centre ('FTC') in the UK, to continuously develop forward looking innovations that give customers' brands differentiation and identity. Supporting this, development expertise is provided by three regional development centres. These work closely with local customers to understand their specific needs and deliver solutions at the pace required by local market conditions.

Filtrona's 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 multi-national 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

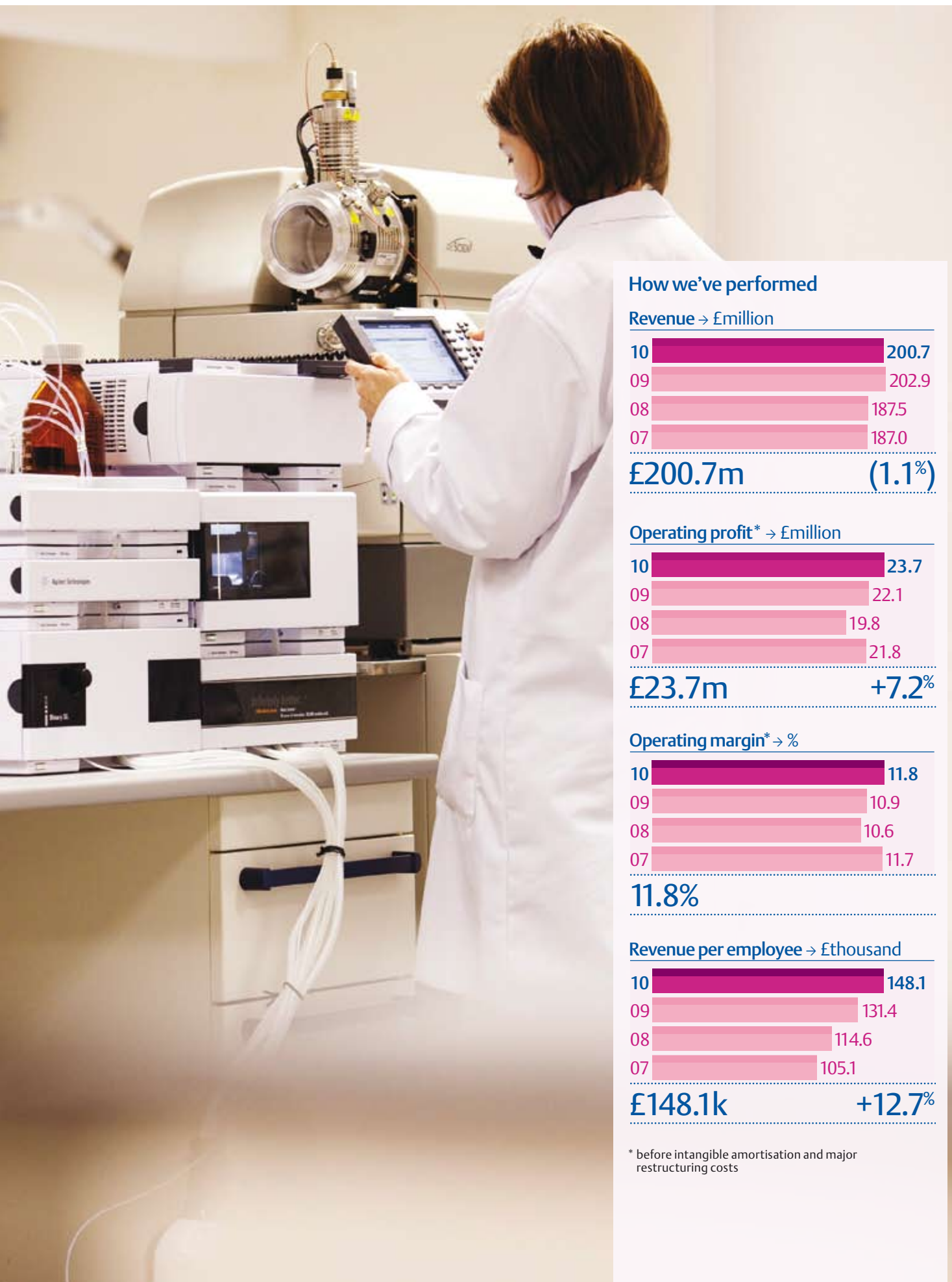
In the year the division continued to perform well under challenging conditions with continued improvements in operating margins and operating profit despite revenue being reduced by 1.1% to £200.7m (2009: £202.9m), was down 4.8% at constant exchange rates. Adjusted operating profit increased by 7.2% to £23.7m (2009: £22.1m) and was down by 1.7% at constant exchange rates. Adjusted operating margin increased by 90 basis points to 11.8% (2009: 10.9%) as a result of ongoing productivity improvements. Cash conversion of adjusted operating profit into operating cash flow was 97%.

Total divisional volumes reduced by 2.9% to 48.7 billion filter rods, with an 11% increase in monoacetate volumes and a 10% reduction in special filters. The special filters reduction was impacted by the closure of the Venezuelan facility in the second half of the year. The increase in the monoacetate volume was due to ongoing success with independent customers and further growth in Asia which accounted for 52% of total divisional volume (2009: 48%).



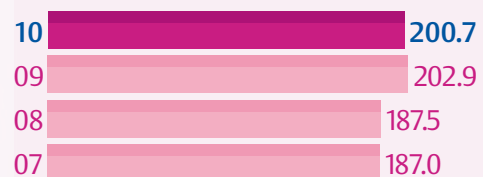
The global tobacco industry is going through rapid changes. Our capability and success in innovation support to new filter solutions has enhanced our status in the industry

*PT Sreekumar
Managing Director,
Filter Products*



How we've performed

Revenue → £million



£200.7m (1.1%)

Operating profit* → £million



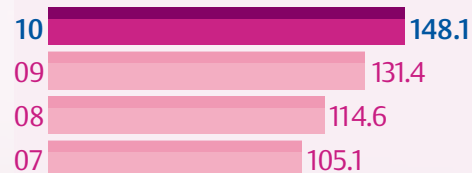
£23.7m +7.2%

Operating margin* → %



11.8%

Revenue per employee → £thousand



£148.1k +12.7%

* before intangible amortisation and major restructuring costs

Review of Operations

Filter Products continued



Advanced technology smoking machine

Venezuela was closed following continued political uncertainty. The closure progressed smoothly with the land and buildings being sold to a third party with no adverse impact on profit.

The restructuring at the Jarrow production facility was completed on schedule in the second quarter of 2010 and the Jarrow Technical Centre was downsized in the third quarter in response to the expansion of development capability in the Americas and Asia regions. FTC Jarrow will continue to focus principally on scientific research and smoke testing whilst the Asian development centre in Indonesia will expand its technical development capabilities into the region.

The division's focus on productivity improvement, quality enhancement and cost reduction continued throughout the year. Conversion costs improved by a further 1.0% to 30.5% and total headcount fell by 12.9% from 1,439 to 1,254 at the year end. Revenue per employee at constant exchange rates improved by 9% to £148k (2009: £136k).

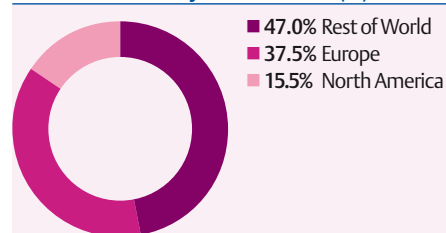
The division continued its investment in new products, capabilities and services. Revenue from laboratory services increased by 60%, albeit from a small base, as the division sought to market its scientific services capability to tobacco companies around the world. The division continued to develop its intellectual property portfolio and applications for eight UK, four international and four utility patents were filed in the year. The division increased its focus on the growing 'roll your own' sector and specialist packing operations were established in the UK and Indonesia. The Company launched its innovative 'smooth core' filter and the capability to produce filters with flavour capsules was introduced into the Greensboro, US facility.

As a further initiative to ensure customer satisfaction, a major, web-based, customer perception survey was implemented. The opportunities for improvement identified will be executed during 2011.

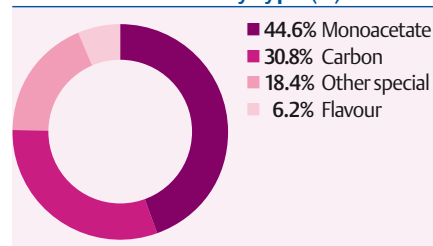
Principal 2011 initiatives

- Selective investment in new production equipment and facilities
- Continue growth of wider service offerings via new business models
- Increase revenue from scientific services and new products
- Continue focus on cost through productivity improvements and selective capacity and capability balancing
- Further strengthen customer relationships through supporting innovation and improving speed to market

2010 Revenue by destination (%)



2010 Sales volume by type (%)





What we measure	Why we measure it	How we did
Conversion costs as percentage of sales	Continued focus delivers improved financial performance	↓1.0% improvement
On Time In Full	Demonstrates ability to meet delivery demands	↑1.2%
Quality complaints	Reflects performance of quality systems and service delivery	↓13.7% improvement
Waste	Drives productivity and the efficient use of material	— no change

Growth and development in the Asia region has triggered the construction of a new leasehold facility in Bangkok, Thailand in the second half of the year and this is expected to be operational in the third quarter of 2011. The purchase of the freehold of the division's largest production facility in Surabaya, Indonesia was completed in the first half of 2010.

Our responsibility

Filter Products is committed to the environment and its sustainability and, in seeking to secure operational efficiencies and cost reductions, it maintains focus on the optimisation of energy usage and new developments on sustainable solutions, this has resulted in a reduction in energy usage of 27% over the last three years.

For 2010 Filter Products achieved the Group Environmental Award for adopting a global, structured approach focusing on Energy Reduction. Both of the UK sites gained the Carbon Trust Standard, the first sites within the Group to achieve this, and the Standard has now been incorporated into the Group's internal energy audit process. The environmental improvement was approached in two different ways: (i) changing behaviour; and (ii) changing the infrastructure.

Having introduced a group wide system and been able to demonstrate improvement and accreditation in energy, the focus in 2011 and 2012 will be (i) maintaining the energy reduction system and improvement; (ii) elimination of landfill; and (iii) reduction in air miles impact.

Combined with comprehensive health & safety programmes, the division has achieved key international accreditations across its facilities and these are detailed opposite.

Across the division, health & safety performance has shown continuous improvement, with a 12% reduction in lost time accidents compared to 2009, and a 35% reduction over the last three years.

During 2010 Filtrona PT Indonesia won a government certificate for achieving 2 million man hours without an accident.

Outlook

Looking forward to 2011, the division will continue to be focused on driving innovation, improving speed to market, and reducing unit costs. The division is expected to continue to demonstrate its resilience and deliver excellent financial returns with strong operating cash flow.



Clear visual differentiation provides brand identity

	ISO 9000	ISO 14001	OHSAS 18001	Integrated Management System	SA8000	IQRS
Jarrow	✓	✓				4
Filters						
Tech Centre	✓	✓	✓			
Italy	✓	✓	✓	✓		5
Jordan	✓	✓	✓	✓	✓	
Hungary	✓	✓	✓	✓		
Greensboro	✓	✓	✓	✓	✓	5
Thailand	✓	✓	✓	✓	✓	5
Indonesia	✓	✓	✓	✓	✓	6
India	✓	✓	✓	✓	✓	7
Paraguay	✓	✓	✓	✓		
Mexico	✓	✓	✓	✓		6

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 a global quality system which drives towards business excellence through a comprehensive audit system

Financial Review

Strong growth strong returns

Principal exchange rates

Principal exchange rates for Filtrona were:

	Average		Closing	
	2010	2009	2010	2009
US\$:£	1.55	1.57	1.57	1.61
€:£	1.17	1.12	1.17	1.13
IDR:£	14,100	16,200	14,100	15,200

Retranslating at 2010 average exchange rates increases the prior year revenue and operating profit by £7.9m and £2.0m respectively.

Revenue, Operating profit, Operating margin

Revenue from continuing operations increased by 10.3% to £489.6m (2009: £444.0m), an increase of 8.3% when translated at constant exchange rates. When also excluding the impact of acquisitions, revenue growth was 7.6%. Adjusted operating profit was 33.5% higher than in 2009 (28.9% higher when translated at constant exchange rates).

The operating margin before intangible amortisation ('adjusted operating margin') increased to 15.3% (2009: 12.7%).

Net finance expense

The total net finance expense increased to £10.4m (2009: £10.0m).

The net interest charge on net debt increased to £9.1m (2009: £7.0m) primarily as a result of the higher rates of interest payable on the Private Placement notes, issued in April 2010. Additionally, the amortisation of bank fees increased to £2.5m (2009: £1.7m) reflecting the full year impact of fees arising from the refinancing of the Company's banking facilities in April 2009.

The IAS 19 (Revised) pension finance credit of £0.6m compared to a charge in the prior period of £1.9m, 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 (2009: £0.6m).

Tax

The tax charge of £19.1m (2009: £12.1m) represents an effective tax rate of 31.0% (2009: 37.5%) on the profit before tax.

The 2009 charge equated to a tax rate of 31.0% on profit before charging major restructuring costs and exceptional acquisition fees and was 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 Company's operations are in countries with higher tax rates.

Earnings per share

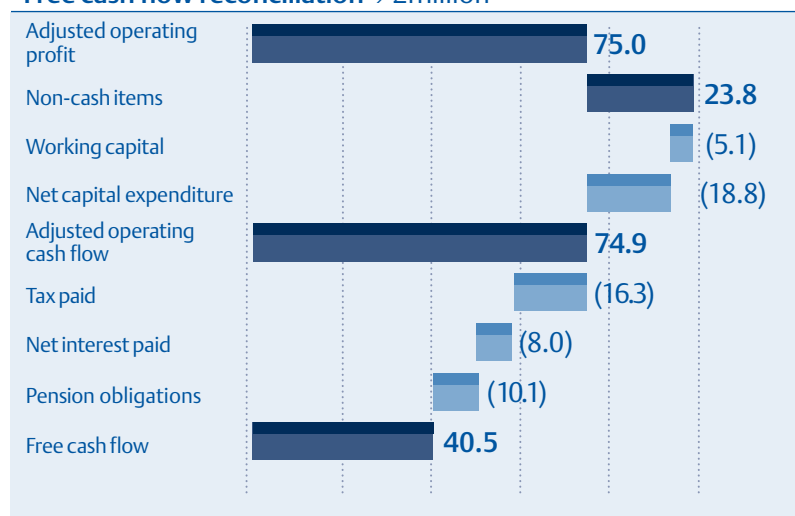
Basic earnings per share from continuing operations were 20.0p, an increase of 119.8% from 9.1p in 2009. Adjusting for intangible amortisation of £3.0m, less tax relief thereon of £0.9m, gives an adjusted earnings per share of 21.0p.



“
Dividend increase
reflects growth in
profits and
cash generation
”



Free cash flow reconciliation → £million



Dividends

An interim dividend of 3.0p (2009: 2.70p) per share and a proposed final dividend of 6.0p (2009: 5.08p) per share will result in a total dividend of 9.00p per share, an increase of 15.7% on prior year (2009: 7.78p).

Cash flow, Balance sheet and Return on average operating assets

Operating cash flow ('adjusted operating profit before depreciation, share option expense and other non-cash items less working capital movements less net capital expenditure') was £74.9m (2009: £72.5m).

This included an outflow of working capital for the year of £5.1m (2009: inflow of £2.2m) and gross capital expenditure of £20.1m (2009: £11.0m), with net capital expenditure at £18.8m (2009: £10.8m).

Net capital expenditure for the year equated to 92% (2009: 52%) of the depreciation charge for the year of £20.4m (2009: £20.7m).

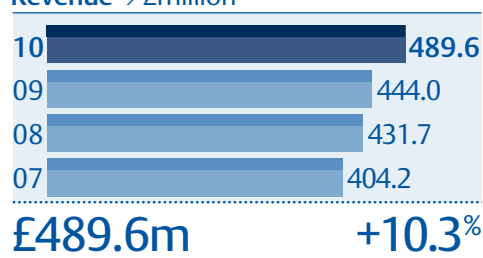
Net debt reduced by £16.3m to £90.8m (2009: £107.1m). The ratio of net debt to EBITDA at the year end reduced to 0.9 from 1.4 on 31 December 2009. Interest cover was 7.1x compared with 7.2x at the end of 2009.

The return on average invested capital (including intangibles) was 21.6% (2009: 16.9%), driven by the higher profits in the year.

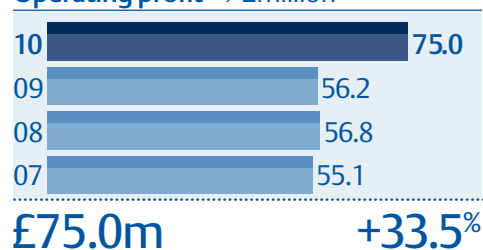
Pensions

At 31 December 2010, the Company's IAS 19 (revised) gross pension liability was £17.6m (2009: £22.6m) with a net liability of £12.4m (2009: £15.8m) after accounting for a deferred tax asset of £5.2m (2009: £6.8m). The deficit has been calculated after updating the actuarial assumptions and asset values as at 31 December 2010. The asset values have increased significantly since the prior year which has contributed to the reduced liability, however offset in part by the use of lower discount rates applied to the calculation of the scheme liabilities.

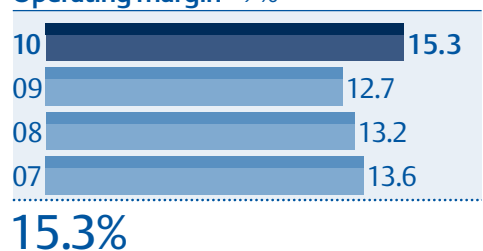
Revenue → £million



Operating profit* → £million



Operating margin* → %



* before intangible amortisation and major restructuring costs and exceptional acquisition fees

Financial Review

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

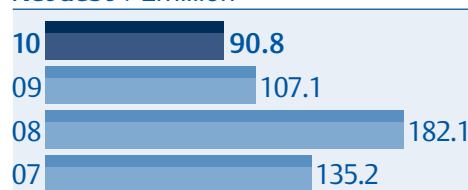
The majority of Filtrona's net assets are in currencies other than sterling. The Company's normal policy is to limit the translation exposure and the resulting impact on shareholders' funds by borrowing in those currencies in which the Company has significant net assets. At 31 December 2010, Filtrona's US dollar denominated assets were approximately 88% hedged by its US dollar denominated borrowings, whilst its euro denominated assets were approximately 47% hedged by its euro 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 Company's policy is to hedge the exposures as soon as they are committed using forward foreign exchange contracts.

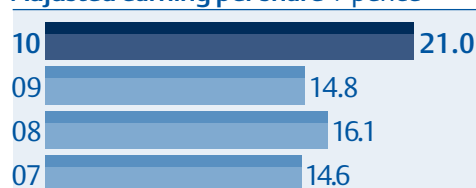
Steve Crummett
Group Finance Director
24 February 2011

Net debt → £million



£90.8m

Adjusted earning per share → pence



21.0p **+41.9%**

Dividend per share → pence



9.00p **+15.7%**



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.

The Filtrona 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.

Workplace Health & 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 & safety leadership and the Chief Executive has primary responsibility for setting the overriding health & safety objectives within which the detailed policies operate and for reviewing progress against those objectives.

The Company has designed procedures and developed a culture which aims for continuous improvement with the sharing of best practice in all areas of health & 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 & safety policies and principles which Filtrona has adopted. Health & 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.

Filtrona's Values

Our style

- We will be open, honest and enthusiastic, celebrating our successes and learning from our experiences
- We will be passionate in our pursuit of excellence and dedicate ourselves to the very best of quality in everything we do
- We will work as a team, valuing everyone's contribution and minimising bureaucracy
- We will treat each other in a consistent and fair manner

Our responsibilities

- We will share our Company strategy and ensure we understand the part we play in it
- We will all have clear goals, the necessary resources and freedoms to achieve them, and honest assessment of our performance
- We will always conduct ourselves with integrity and respect for our fellows and for our environment
- We will aim to advance our knowledge, skills and professionalism in all we do
- We will do our best and accept accountability for our actions

Our goals

- We will strive to delight our customers and hold the respect of our suppliers
- We will work together to grow our business for the benefit of our stakeholders

“
*We believe that our values
are a sound basis for the
successful delivery of long-
term value for Filtrona
shareholders*
”

Mark Harper
Chief Executive

Corporate Responsibility

Ongoing initiatives are designed to monitor, assess and drive performance. Investigations are carried out on all circumstances that may have resulted in injury or near miss incidents. Continued 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. Additional reporting introduced during 2010 was a 'non work related injury' record, which seeks to record external factors where an injury occurs outside the workplace. An employee is required to report the incident to an occupational health representative so that the injury can be managed during working hours.

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 & safety issues.

Filtrona has established a Group Health, Safety & Environmental Council (the 'FHSEC') which is an international group and includes senior operating management from all divisions. The FHSEC's primary task is to review progress with the implementation of HS&E policy and performance and set objectives and standards for the Group worldwide. The FHSEC meets bi-annually and discusses the physical, regulatory and financial risks associated with all HS&E issues including climate change. There is a mechanism for identifying and allocating suitable resources to specifically identified risks and reporting to the Board.

The Company manages occupational health by identifying key risk activities, undertaking health assessments and, where appropriate, implementing health surveillance programmes. The Company has achieved the Occupational Health & Safety Management Systems OHSAS 18001 for all of its principal manufacturing sites, excluding Jarrow, where major restructuring has taken place, and the recently acquired sites of BP Labels and Stera Tape which have been given, a period of two years to reach the required standard in accordance with Filtrona policy.

During 2010 the FHSEC implemented a safety campaign across the Group, driven by senior management, and focusing on the awareness to, and reduction of, hand injuries. The successful campaign aimed to eliminate lost time accidents resulting from hand injuries and to promote a focused behavioural approach to hazard reduction. The campaign identified that employee behaviour is a major contributor to workplace incidents and as a result the Company will be implementing further training.

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 & safety management.

Details of the Company's health & safety performance for 2010 and throughout 2011 can be viewed on page 9 and on the Company's website www.filtrona.com.

Priorities/goals

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

How do we manage it?

- Carbon emission targets set at each operational location
- Reduce carbon emissions, prevent pollution and improve manufacturing efficiency
- Implement initiatives for the efficient use of water and other natural resources and increase recycling
- Exploring the use of energy-saving technology in manufacturing
- Extending the span and quality of data collection
- Develop new techniques with suppliers and customers for environmentally friendly products
- Gaining ISO14001 accreditation

How did we do?

- Achieved the Carbon Trust standard for all UK businesses
- Complied with UK Carbon Reduction Commitment initiatives
- Reduced carbon emissions by 8%
- All manufacturing sites recertified to latest ISO14001 standard
- Lendell, a recently acquired site, achieved ISO14001 and ISO18001
- Recycling/biodegradable processes

How will we do it?

- Roll out Carbon Trust principles to global businesses
- Continue with global carbon reduction initiatives
- Maximise the efficiency of the use of natural resources
- Offset emissions when possible
- Continue environmental improvement to ensure retention of accreditations
- Secure accreditation for newly acquired sites



The Company has implemented Filtrona Group Safety Awards which reward manufacturing 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 & safety meetings; availability of suitably trained employees on site; completion of all critical risk assessments and achieving accident reduction targets. These standards were maintained during 2010 and are subject to continual review. For 2010, all sites have risen to the challenge resulting in 15 gold awards (2009: seven), five silver awards (2009: 11) and two bronze awards (2009: one). The achievements in 2010, compared to 2009, continue to be evidence of the health & safety commitment and progress being made internationally across Filtrona businesses. It is the recommendation of the FHSEC that the criteria for achieving these awards during 2011 to 2013 period be raised to a higher level thus driving continuous improvement.

During 2010 a Certificate of Health & Safety Conformity was introduced for all sales & distribution and office administration locations. This award was structured in a similar way to the Group safety awards with a strict set of criteria. 85% of the relevant locations received an Excellent rating with the balance achieving a Merit status.

The Filtrona Chief Executive's Special Award for Health & Safety recognises the achievements of the division or site that best meets the following criteria:

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

This Award is made to the division or site which has shown the most successful or innovative safety communication campaign or initiative.

In 2010, the award was won by Porous Technologies. This achievement reflects the commitment of the management team and employees to the occupational safety awareness campaign sustained over the last two years.

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 again forced to make a number of redundancies, including in Venezuela. 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.

Priorities/goals

Secure continuous improvement in health & safety

How do we manage it?

- Secure OHSAS 18001 accreditation at principal manufacturing sites
- Establishing group standards for improvements and results
- Extending the data collection and workplace investigations to include 'near misses'
- Encouraging employee initiatives to reinforce Company training

How did we do?

- Established Group standards for non-manufacturing sites
- Appointed divisional HSE co-ordinators for all divisions
- Ran the Group safety campaign 'Hand in Hand'
- Continued to monitor incident data and issue safety alerts
- Commenced reporting of non work related injuries

How will we do it?

- Additional behavioural training to be introduced in 2011 and beyond
- Introduce corporate health & safety training for all employees
- Identify other training needs

Corporate Responsibility

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 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 and Thailand 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.

Priorities/goals

Ensure highest standards of business integrity and conduct

How do we manage it?

- Promote Filtrona Values
- Establish clear policies and guidance
- Secure employee awareness and engagement
- Facilitate the 'Right to Speak' policy

How did we do?

- Improved communication of core policies
- Implemented new compliance systems
- Established new training programmes
- Designed new whistleblowing procedures

How will we do it?

- Respond to new risks and requirements
- Provide further learning
- Drive employee responsibility
- Seek increased assurance
- Investigate complaints



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
- 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

Filtrona continues to be committed to reducing its environmental impact and is actively managing responses to the challenges that the UK Government's latest targets present to the business, as well as complying with wider environmental issues and legislation.

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.

During the year the FTSE CDP Carbon Strategy Index Series (the 'Series') was introduced which aims to support investors in incorporating climate change risks into their investment strategy. It features future-orientated criteria that assess the exposure of individual companies to higher future costs associated with greenhouse gas emissions. The FTSE CDP Carbon Strategy 350 Index is a carbon-risk tilted version of the FTSE 350 Index where the constituent companies remain the same but the weights of the companies are varied on the basis of their exposure to carbon risk relative to their sector peers and, for the 2010 Series, Filtrona was ranked number 30.

With the UK Carbon Reduction Commitment ('CRC') legislation becoming effective in April 2010, Filtrona achieved the Carbon Trust Standard at all its UK manufacturing sites. This standard ensures commitment to improved carbon footprint and enhanced reputation. CRC is designed to drive energy efficiency and carbon reduction by giving organisations a financial incentive through emissions trading. 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.

Filtrona supports the activities of the Carbon Trust and, during 2010 participated in the 8th annual Carbon Disclosure Project ('CDP'), environmental impact survey. It is the Company's intention to participate in the CDP survey during 2011.

Corporate Responsibility

To ensure that Filtrona is continuously improving its understanding of its environmental impact and how it can improve its global environmental performance, focus has to be, and will continue 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 objectives 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 have 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.

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.

How did we do?

	2010	2009	% change
Carbon emissions ¹	132	144	↓ 8.3%
General waste ²	2,293	2,795	↓ 18.0%
Recycled factory waste ³	1,041	836	↑ 24.5%
Water ⁴	250m ³	350m ³	↓ 28.6%

1 tonnes of CO₂ per £million of Group revenue

2 tonnes of waste to landfill

3 tonnes of production waste

4 per £million of Group revenue



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.

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 and is given to the most successful and innovative environmental improvement or initiative on a site or division which meets one or several of the following criteria:

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

And which impacts one or all of:

- local community
- local ecology
- public perception of the business
- profitability of the Company

For 2010 the Group Environmental Award was won by the Filter Products division. Details of the initiatives introduced can be found within the divisional operation review on page 30.

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 employee 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.

By way of example, as part of the ongoing corporate social responsibility programme Filthai employees planted 500 mangrove trees in association with a local nature education centre. The aim of the planting was to increase the number of mangrove forested areas to maintain the balance of the mangrove ecosystems, which provide a habitat to many marine animals and help to prevent coastal erosion, reducing damage from storm surges as well as acting as a natural water filter. Employees received training on planting and maintenance and immersed themselves in the muddy coastal shores to complete the planting initiative.

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 & 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



L-r: Alan Tidy, Rob Purcell, Mark Harper and Jon Green.

Mark Harper Chief Executive

The biographical details of Mark Harper are shown on page 45.

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.

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.

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 and Finishing Products division in 2003. Rob has been a Trustee of the Filtrona Senior Pension Scheme for a number of years.



L-r: Matthew Gregory, Russ Rogers, Steve Crummett, PT Sreekumar and Tony Edwards.

Steve Crummett

Group Finance Director

The biographical details of Steve Crummett are shown on page 44.

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.

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.

PT 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.

Matthew Gregory

Director of Corporate Development

Matthew Gregory joined the group in 2003 as Finance Director, Moss Plastic Parts, having previously held senior finance positions within The Rank Group plc. In August 2010, after four years as Finance Director, Protection & Finishing Products division, he was appointed Director of Corporate Development. Matthew is a Chartered Accountant, having qualified with Ernst & Young and worked in both the UK and Italy.

Board of Directors



L-r: Paul Drechsler, Jeff Harris and Steve Crummett.

Jeff Harris

Non-executive Chairman

Jeff Harris was appointed Chairman in May 2005. He was chairman of Alliance UniChem plc from 2001 until 2005, having been 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 was a non-executive director and chairman of Bunzl plc until February 2010. With effect from 1 April 2010 Jeff was appointed to the board of Cookson Group plc, becoming chairman from 13 April 2010. Jeff is also the Chairman of the Company's Nomination Committee.

Paul Drechsler

Senior Independent Non-executive Director

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

Steve Crummett

Group Finance Director

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



L-r: Lars Emilson, Terry Twigger and Mark Harper.

Mark Harper Chief Executive

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

Terry Twigger Non-executive Director

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, and is Chairman of the Company's Audit Committee.

Lars Emilson Non-executive Director

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

Directors' Report for the year ended 31 December 2010

The Directors present their Report and audited financial statements of the Company and its subsidiary undertakings for the year ended 31 December 2010.

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 2010, including (i) a balanced and comprehensive analysis of the development and performance 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 4 to 5
- Chief Executive's Review on pages 6 to 9
- Key Performance Indicators on pages 10 to 11
- Management of Principal Risks on pages 12 to 15
- Review of Operations on pages 16 to 31
- Financial Review on pages 32 to 34
- Corporate Responsibility on pages 35 to 41

Cautionary forward-looking statement

This Report contains forward-looking statements based on current expectations and assumptions. Various known and unknown risks, uncertainties and other factors may cause actual results to differ from any future results or developments expressed or implied from the forward-looking 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 2010 which were approved by the Board of Directors on 24 February 2011 are set out on pages 70 to 110.

The Company has paid the following dividends in respect of the year ended 31 December 2010:

	Per share p	Total £m
Interim dividend paid 29 October 2010	3.00	6.2

The Directors recommend that a final dividend of 6.00p (2009: 5.08p) per share be paid, making a total dividend distribution for the year of 9.00p (2009: 7.78p).

The final dividend, subject to shareholder approval, will be paid on 28 April 2011 to shareholders on the register at 15 April 2011.

Directors

During the year ended 31 December 2010, 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

The Company is adopting the requirements of the UK Corporate Governance Code (June 2010) (formerly the UK Combined Code) in relation to Directors' appointments and in particular the annual re-election of all Directors. Therefore in accordance with provision B.7.1 of the UK Corporate Governance Code all the Directors, except for Mark Harper, will retire at the AGM and being eligible offer themselves up for re-election. As previously announced, Mark Harper will be retiring as a Director of the Company immediately following the AGM.



Colin Day will be appointed as a Director and the Chief Executive on 1 April 2011. Colin will be standing for election at the forthcoming AGM in accordance with the Company's Articles of Association.

Colin was previously the chief financial officer of Reckitt Benckiser plc from September 2000 to March 2011 having previously been the Group Finance Director of Aegis Group plc. Colin is currently a non-executive director of WPP plc and AMEC plc.

None of the Non-executive Directors have service contracts.

In accordance with the Company's Conflict of Interests policy, Directors are required to review their potential conflict of interests at least on an annual basis and to notify any changes to the Company Secretary & General Counsel as soon as possible. The current register was approved by the Board in June 2010 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 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 implementation of the Companies Act 2006. A resolution was passed at the AGM held in April 2010 adopting new Articles of Association, which removed 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) 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 approval of the Company to deal in the Company's ordinary shares

No persons hold securities in the Company carrying special rights with regard to control of the Company. The Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or on voting rights.

Unless expressly specified to the contrary in the Articles of Association of the Company, the Company's Articles of Association may be amended by special resolution of the Company's shareholders.

Substantial shareholders

At the close of business on 23 February 2011, 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
Oppenheimer Funds	7.00
Schroders plc	5.57
Ameriprise Financial Inc	5.35
Newton Investment Management Limited	5.05
Cazenove Capital Management	4.99
JPMorgan Chase	4.84
Invesco Limited	4.79
Allianz SE	4.73
Legal and General Group	3.93
Ignis Asset Management	3.92
Hermes Specialist UK Focus Fund	3.88
BT Pension Scheme Trustees Limited	3.65

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 2010.

Charitable and political contributions

The Company made no political contributions during the year ended 31 December 2010 (2009: £nil). Donations to UK charities amounted to £0.1m (2009: £0.1m), of which £nil were made by the Company (2009: £nil), with all contributions being made by its subsidiary companies.

Directors' Report for the year ended 31 December 2010

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.

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 a €35.0 million three year amortising term loan and a three year multi-currency revolving credit facility for US\$143.7 million. 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.

Under a note purchase agreement dated 29 April 2010 relating to US\$80m senior notes due 29 April 2017 and US\$80m senior notes due 29 April 2020, on a change of control the Company must make an offer to prepay all the notes at par, without any premium of any kind, together with accrued and unpaid interest thereon.

All of the Company's share schemes contain provisions relating to a change in control. Outstanding options and awards normally vest and become exercisable on a change of control subject to the satisfaction of any performance conditions at that time.

There are a number of other agreements, involving the Company or its subsidiaries, that take effect, alter or terminate upon a change of control of the Company following a takeover bid, such as commercial contracts and joint venture agreements. None are considered to be significant in terms of their potential impact on the business of the Group as a whole, to any potential bidder for the Company or Group.

Annual General Meeting

The AGM of the Company will be held at the Holiday Inn Hotel, 500 Saxon Gate West, Central Milton Keynes, Buckinghamshire MK9 2HQ on Thursday 14 April 2011 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 2010, 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 £17,154,936 representing approximately one third of the Company's issued share capital, excluding treasury shares, at 23 February 2011 (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 £34,309,872 representing approximately two-thirds of the issued share capital, excluding treasury shares, at 23 February 2011 (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 13 June 2012) except in relation to share options.

Allotment of shares for cash

At the last AGM held in 2010, 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 13 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, including treasury shares, at 23 February 2011 (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 13 June 2012. 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 2010, 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, 13 June 2012). 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% 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 2010, 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 10 and 11 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 Policies on page 76, and in note 15.

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, confirm that:

- As 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.

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 34. In addition, note 1 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and exposures to credit, market and liquidity risk. Cash balances and borrowings are included in note 21 to the financial statements.

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 6 to 41.

By order of the Board

Jon Green
Company Secretary & General Counsel
24 February 2011

Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements

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

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU') and 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The Directors are responsible for keeping 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; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Mark Harper
Chief Executive

Steve Crummett
Group Finance Director



Report of the Remuneration Committee

This Report to shareholders for the year ended 31 December 2010 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 the Report to the extent required by the Regulations.

Role of the Remuneration Committee

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

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

Paul Drechsler	Chairman
Lars Emilson	
Terry Twigger	

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 reviewed annually, 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 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 the Long-Term Incentive Plans ('LTIP')
- Select, appoint and determine the terms of reference for independent consultants to advise the Remuneration Committee on remuneration matters

Remuneration Committee processes

The Remuneration Committee met three times during the year. Details of the attendance are shown in the Corporate Governance Statement on page 66.

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

- Consideration of the changes in the Code
- Conducted a detailed review, in conjunction with external service providers, of the risks surrounding the Company's remuneration policies and practices
- Reviewed and introduced clawback provisions for the DASB
- Reviewed and approved a Save As You Earn share option scheme invitation for 2010
- Considered best practice terms with respect to the retirement of Mark Harper as the Chief Executive and the recruitment of Colin Day as his successor (see page 53 for further details)

Report of the Remuneration Committee continued

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 Aon Hewitt, 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 Aon Hewitt provide actuarial advice to the Company for the US pension schemes.

In addition, the Remuneration Committee took account of the advice provided to the Company by PricewaterhouseCoopers in relation to the actuarial valuation of the UK pension schemes and the actions taken to manage the liabilities of those 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 review of the risks surrounding the Remuneration Committee policies concluded that there were no material issues of concern.

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 long-term 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 utmost 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 goals. Furthermore one half of any bonus is delivered in the form of Filtrona shares which normally vest after a three year period. These requirements closely tie the long-term value of executive remuneration to the long-term interests of shareholders.

The Group's strategic priorities as set out on pages 10 to 11 are to grow profitably, invest organically, acquire in selected markets, build on core competencies and to deliver long-term value to shareholders. Those priorities are reflected closely in the design of the remuneration packages which seek to drive their delivery through a combination of financially driven targets, key personal objectives based around operational issues and relative shareholder return.

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

- Basic salary – Internal and external parity in basic salary positioning is an important contributor to a motivational remuneration package. The Committee takes into account a range of factors, including individual and corporate performance, when undertaking basic salary reviews
- 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 Earnings Per Share ('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 them 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 the 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 the equivalent to 100% of basic salary. Shares held in unvested LTIPs are not taken into account in assessing compliance with this guideline.

As at 31 December 2010 Mark Harper held shares to the value of more than 100% of base salary. Under the terms of the policy Steve Crummett has five years from the date of his appointment in March 2008 to attain a 100% holding.

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

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

Retirement of Mark Harper

As announced on 13 January 2011, Mark Harper will stand down from the Board at the Company's AGM on 14 April 2011 and retire from the Company on 5 May 2011. Mark has worked for the Company for 25 years and has led the Company for over 15 years (becoming Managing Director of Filtrona in 1996 and Chief Executive in May 2005). Mark will receive salary, benefits and pension contributions until the date of his departure from the Company. The Committee has determined that any bonus earned in respect of 2010 and 2011 (pro-rata entitlement) will be paid in cash (with no share deferral requirement) following receipt of the Company's audited accounts for the relevant financial year. Mark's bonus in respect of 2010 was £515,100, see page 54 for further details. His outstanding share awards under LTIP Part B will continue to vest on the normal vesting dates, subject to performance and time pro-rating. Any outstanding deferred shares granted under the Deferred Annual Share Bonus Scheme ('DASB') will be transferred to him on departure from the Company.

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. The normal retirement age of the scheme is 60. In accordance with the rules of the FSPS, which are applicable to all members, early retirement can be taken from the age of 55. Pension accrued at that date will be subject to discount factors applied in accordance with the rules of the FSPS.

Recruitment of Colin Day

Colin Day will join the Company as Chief Executive on 1 April 2011. The terms of his appointment are consistent with Filtrona's existing remuneration policy, as set out in this Remuneration Report, save for the annual bonus where, to be competitive, his maximum bonus will be capped at 125% of salary (62.5% in cash and 62.5% DASB). He will participate in the LTIP on the same terms as the other Directors. Colin has been appointed on a salary of £550,000 per annum and he will receive a 25% of salary cash supplement in lieu of pension benefits. It is intended that a grant of LTIP Part B share awards equivalent to 150% of his basic salary will be made to Colin as soon as practicable on or after 1 April 2011. The Committee believes that such a package is appropriate given Colin's extensive experience and reputation both in the UK and internationally.

Summary of components of Executive Directors' remuneration for 2011

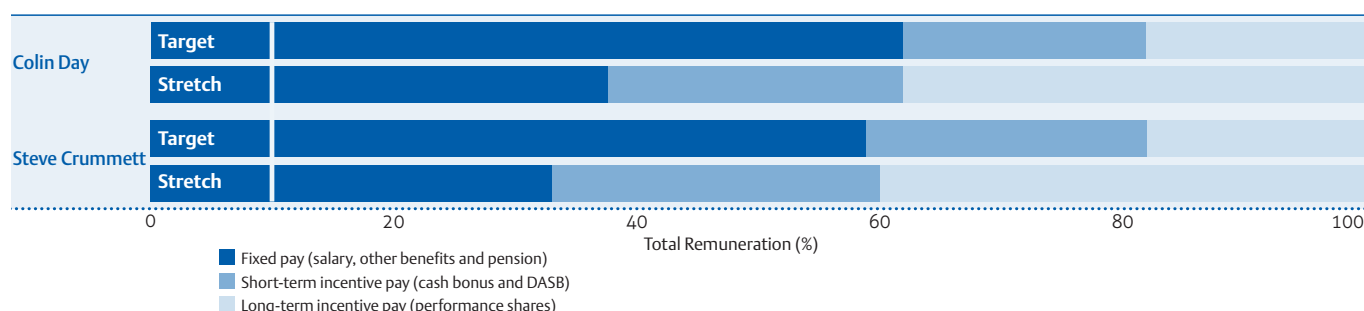
Type	Objective	Performance Period	Policy
Basic salary	To reflect the particular skills and experience of an individual and to provide a competitive base salary compared with similar roles in similar companies.	Annual (reviewed on 1 January)	Pay is determined by reference to the skills and performance of the individual, their role and responsibilities and external market data. The Committee also takes into account pay and employment conditions elsewhere in the Company when considering increases to base salary levels.
Annual cash bonus ¹	To incentivise the delivery of Group performance-related objectives.	Annual	Normally one half of the total annual bonus is paid in cash. 80% of the bonus opportunity is calculated by reference to operating profit at constant exchange rates and 20% by reference to personal objectives.
Deferred Annual Share Bonus ¹	To aid retention and to align Directors' interests with those of the Company's shareholders. To incentivise the delivery of Group performance-related objectives.	3 years	The aggregate value of shares made subject to any award granted under the DASB in any one financial year will normally not exceed one half of the total annual bonus 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 (125% of salary for Colin Day) normally comprising of one half annual cash bonus and one half DASB award

Report of the Remuneration Committee continued

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 incentive arrangements, which are strongly aligned to the Company's strategic objective to secure long-term shareholder value.



Components of Directors' remuneration for 2010

The emoluments of the Directors for the year ended 31 December 2010 were as follows:

	Year ended 31 Dec 2010					Year ended 31 Dec 2009				
	Fees £000	Salary £000	Cash bonus £000	Benefits £000	Total £000	Fees £000	Salary £000	Cash bonus £000	Benefits £000	Total £000
Executive Directors										
Mark Harper	–	515	515	17	1,047	–	505	51	23	579
Steve Crummett	–	281	140	69 ¹	490	–	275	28	68 ²	371
Non-executive Directors										
Jeff Harris	164	–	–	–	164	161	–	–	–	161
Paul Drechsler	51	–	–	–	51	50	–	–	–	50
Lars Emilson	38	–	–	–	38	37	–	–	–	37
Terry Twigger ³	47	–	–	–	47	23	–	–	–	23
Adrian Auer ⁴	–	–	–	–	–	19	–	–	–	19

1 Includes a supplementary payment of £56,100 to allow the securing of pension benefits

2 Includes a supplementary payment of £55,000 to allow the securing of pension benefits

3 Appointed 1 June 2009

4 Resigned 1 June 2009

The Company paid pension contributions for Steve Crummett of £6,180 into a defined contribution pension plan in 2010 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 2010. Whilst the Company does not have a fixed policy on annual pay awards they aim to pay fairly across all employees. Taking into account average pay awards across the Group, the need for continuity during the change of leadership in 2011 and having regard to his performance and development over the last 12 months, the Committee awarded Steve Crummett an increase of 5.2%. Mark Harper was awarded an increase of 2.5%.

	Mark Harper	Colin Day	Steve Crummett
Annual salary effective from 1 January 2011 ¹	£528,000	£550,000 ²	£295,000 ²
Annual salary effective from 1 January 2010	£515,100	N/a	£280,500 ²

1 Or date of appointment

2 Excluding supplementary pension payment

Annual bonuses

Under the terms of the annual bonus arrangements for 2010, 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 2010 the financial performance targets, accounting for 80% of the bonus opportunity, were approved by the Remuneration Committee and were based upon Filtrona's adjusted operating profit and with reference to continuing operations adjusted earnings per share at constant exchange rates performance relative to prior year. Company performance was required to reach a minimum threshold operating profit of £54.5 million for a cash bonus of 12% of basic salary to be payable.

In addition the Executive Directors had the opportunity, subject to the achievement of personal objectives, to be entitled to a bonus of up to 20% of salary.

For the year ended 31 December 2010, the Company having exceeded the stretch performance of adjusted operating profit of £63.8 million the Remuneration Committee approved a total bonus of 80% of basic salary for each of the Executive Directors based on financial performance.

In addition the Executive Directors received a further 20% of salary based on achievement of their personal objectives. Steve Crummett will have his bonus paid 50% in cash and 50% in deferred shares under the DASB. Mark Harper will have his total bonus for 2010 paid in cash, in accordance with the terms agreed by the Remuneration Committee in relation to his retirement from the Company in May 2011.

The annual bonus (including DASB element) is intended to operate along the same lines for 2011. The maximum bonus opportunity will be 100% of salary for Steve Crummett and Mark Harper (pro-rata entitlement based on time served) and 125% of salary for Colin Day. The performance targets will be disclosed in next year's remuneration report. The bonus will continue to be paid one half in cash and one half in shares (DASB), except for any bonus due to Mark Harper which will be paid in cash on the normal payment date, in accordance with the terms agreed by the Remuneration Committee in relation to his retirement from the Company.

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, 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 DASB will not normally exceed one half of the total annual bonus.

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.

Report of the Remuneration Committee continued

During the year the DASBs awarded in March 2007 were transferred to the participants, in accordance with the rules of the DASB. As reported in the 2009 Report of the Remuneration Committee DASBs awarded in March 2008 and March 2009 were also transferred to a number of participants during March 2010. The terms of such acceleration included that the shares which vested early under the awards (net of those sold to meet tax liabilities) are held subject to a risk of forfeiture until the original vesting date for the relevant award. Such terms of forfeiture provide that in the event that the benefit of the awards would otherwise have 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 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 were sold to meet the tax liabilities arising from the early vesting of the awards.

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

No additional costs were incurred by the Company as a result of the acceleration.

For 2010 awards onwards, the Committee has the discretion to reduce the size of unvested DASB awards if it is found that the performance, on which the original award was determined, was materially misstated.

As noted on page 53, Mark Harper will be treated as a 'good leaver' under the terms of the DASB and, on his departure from the Company, any forfeiture restrictions applying to his 2009 awards will fall away and the shares granted in 2010 will be transferred to him.

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 other such criteria as they may determine from time to time. The current policy is that participation in the DASB and LTIP Part B is restricted to Executive Directors and nominated senior executives. Since 2008, Executive Directors and other nominated 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 – 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.

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.

Since 2009 LTIP B awards which are granted in the last four months in any year will utilise the EPS figure as at the end of that relevant financial year as the base figure rather than the preceding year's 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 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	Date of grant	At 1 Jan 2010	Awarded in year	Transferred in year	Lapsed in year	At 31 Dec 2010	Share price at date of award	Earliest vesting date	Expiry date
Mark Harper									
LTIP Part B	2 March 2007	173,073	–	76,377	96,696	–	249.75p	2 March 2010	–
LTIP Part B	25 April 2008	325,581	–	–	–	325,581	150.50p	25 April 2011	24 April 2014
LTIP Part B	29 August 2008	121,991	–	–	–	121,991	180.75p	29 August 2011	28 August 2014
LTIP Part B	5 March 2009	378,750	–	–	–	378,750	115.00p	5 March 2012	4 March 2015
LTIP Part B	28 September 2009	134,070	–	–	–	134,070	169.50p	28 February 2013*	27 September 2015
LTIP Part B	1 March 2010	–	275,454	–	–	275,454	187.00p	1 March 2013	28 February 2016
LTIP Part B	31 August 2010	–	108,756	–	–	108,756	236.90p	28 February 2014*	30 August 2016
DASB	2 March 2007	58,858	–	58,858	–	–	246.00p	1 March 2010	–
DASB	1 March 2008	114,499	–	114,499	–	–	189.75p	1 March 2011	1 March 2011
DASB	1 March 2009	102,083	–	102,083	–	–	115.00p	1 March 2012	1 March 2012
DASB	1 March 2010	–	27,005	–	–	27,005	187.00p	1 March 2013	1 March 2013
Steve Crummett									
LTIP Part B	25 April 2008	146,179	–	–	–	146,179	150.50p	25 April 2011	24 April 2014
LTIP Part B	29 August 2008	91,286	–	–	–	91,286	180.75p	29 August 2011	28 August 2014
LTIP Part B	5 March 2009	206,250	–	–	–	206,250	115.00p	5 March 2012	4 March 2015
LTIP Part B	28 September 2009	73,008	–	–	–	73,008	169.50p	28 February 2013*	27 September 2015
LTIP Part B	1 March 2010	–	150,000	–	–	150,000	187.00p	1 March 2013	28 February 2016
LTIP Part B	31 August 2010	–	59,202	–	–	59,202	236.90p	28 February 2014*	30 August 2016
DASB	1 March 2008	29,191	–	29,191	–	–	189.75p	1 March 2011	1 March 2011
DASB	1 March 2009	42,700	–	42,700	–	–	115.00p	1 March 2012	1 March 2012
DASB	1 March 2010	–	14,705	–	–	14,705	187.00p	1 March 2013	1 March 2013

* Subject to the announcement of the Company's financial results for the previous year.

Share price of LTIP B for March 2007 award on transfer to participant was £2.11

Share price of DASB for March 2007 award on transfer to participant was £1.88

Share price of DASB for March 2008 and 2009 awards on transfer to participants was £2.13

A total of 1,342,142 (2009: 1,633,821) 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 2010.

The middle market price of an ordinary share in the Company on 31 December 2010 was 242.9p. The middle market price of an ordinary share in the Company during the year ranged from 168.0p to 259.0p.

The awards granted in 2007 under LTIP Part B were subject to relative TSR performance targets only. For the awards granted in 2007, as at the date of vesting Filtrona was ranked between the median and upper quartile of the comparator group, therefore there was a vesting of 44.13% of options awarded.

Report of the Remuneration Committee continued

The awards granted in 2008, 2009 and 2010 under LTIP B are subject to a performance conditions which is 50% dependent on relative TSR performance targets and 50% based on adjusted EPS performance targets. The table below sets out the potential vesting for these awards based on Filtrona's TSR performance as at 31 December 2010. The actual level of vesting of this awards will depend on the Company's performance as at the end of the relevant performance period for each award and therefore may differ from that set out below.

Grant Date	Vesting Date	TSR Performance	Indicative Vesting*
April 2008	April 2011	Top quartile	100%
August 2008	August 2011	Top quartile	100%
March 2009	March 2012	Between median and upper quartile	62%
September 2009	February 2013	Top quartile	100%
March 2010	March 2013	Between median and upper quartile	95%
August 2010	February 2014	Not yet measured	n/a

* Based on performance to date

Long-Term Incentive Plan – Part A

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

In accordance with the recommendations of the Remuneration Committee, Executive Directors and other nominated 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.

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, 2006 and 2007 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 the year the Company launched an SAYE option grant in March 2010.

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	Date of grant	At 1 Jan 2010 and 31 Dec 2010	Exercise price	Earliest vesting date	Expiry date
Mark Harper					
LTIP Part A	23 June 2005	156,903	239.00p	23 June 2008	22 June 2015
	8 September 2006	148,380	254.75p	8 September 2009	7 September 2016
	31 August 2007	190,376	239.00p	31 August 2010	30 August 2017
SAYE	29 March 2006	6,793	237.00p	1 May 2011	31 October 2011
Steve Crummett					
LTIP Part A	31 August 2007	73,221	239.00p	31 August 2010	30 August 2017
SAYE	28 March 2008	6,324	151.80p	1 May 2011	31 October 2011



Performance graph

The graph below represents the comparative TSR performance of the Company against the FTSE 250 (excluding investment trusts) Index over the past five years (highlighting the intervening financial year-ends). The index has been selected as it is considered the most appropriate published general index in which the Company is a constituent.



Executive Directors' service contracts

The policy for senior executive service contracts is that notice periods will normally not exceed 12 months. Mark Harper has a service contract dated 12 May 2005, Steve Crummett has a service contract dated 19 March 2008 and Colin Day has a service contract effective from 1 April 2011, all with a notice period of 12 months from either party. The service contracts for the Executive Directors are available for inspection by members at each AGM and during normal business hours at the Company's registered office.

The Remuneration Committee's policy in relation to termination of service contracts is to apply an appropriate level of mitigation, having regard to all of the circumstances of the individual and the termination of employment, and to any legal advice received. The Company has the right to make a payment in lieu of notice, which includes salary (all executives) and bonus (for Mark Harper and Steve Crummett), 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 2010 and a 6% increase was agreed. The fees will be subject to a further annual review in December 2011 in accordance with the policy for the remuneration of Non-executive Directors adopted by the Board.

	Chairman	Non-executive Director	Supplementary Fee Senior Independent Non-executive Director	Additional fee for chairing a Committee
Annual fee effective from 1 January 2011	£168,500	£40,000	£4,386	£8,874
Annual fee effective from 1 January 2010	£164,220	£37,740	£4,386	£8,874

Report of the Remuneration Committee continued

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 2.0% 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. Mark's normal retirement age is 60. In accordance with the rules of the FSPS, which are applicable to all members, early retirement can be taken from the age of 55. Pension accrued at that date will be subject to discount factors in accordance with the rules of the FSPS.

During 2010 a number of adjustments were made to FSPS these include a reduction in accrual rate to 2% of pensionable salary for each future year of pension membership, and the introduction of a cap on future annual increases in pensionable salary equal to RPI, but subject to a maximum of 3%.

The FSPS provides the following death benefits:

	Death-in-service before NRD ¹	Death after retirement
Lump sum	Four times annual salary and a refund of member's contributions	Guaranteed pension (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 ('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.

Colin Day will receive a supplementary payment equal to 25% of annual salary to permit him to secure pension benefits.

The table below shows the accrued pension in the scheme to date in respect of Mark Harper together with the transfer value of such accrued pension. As set out in the notes to the table, the increase in the value of the accrued pension during the year is primarily due to changes in the actuarial assumptions used to value the scheme which are applicable to all active members of the scheme. The pension due to Mark Harper on his retirement from the Company in May 2011 will be determined in accordance with the rules of the FSPS with discount factors applied and no enhancements.

	Gross increase in accrued pension	Increase in accrued pension net of inflation	Total accrued pension at 31 Dec 2010	Value of net increase in accrual during the year	Value of accrued pension at 1 Jan 2010	Value of accrued pension at 31 Dec 2010	Total change in value during the year
	£000	£000	(i) £000	£000	(ii) £000	(ii) £000	(iii) £000
Mark Harper	17	17	282	296	5,120	6,336	1,170

(i) The accrued pension at 31 December 2010 is that which would be paid annually on retirement based on the assumption that service terminated at the year end and is therefore the deferred pension entitlement upon leaving at that time

(ii) The value of the accrued pension is calculated on the current transfer value basis which was updated in October 2010 and is not the actual cost of providing the pension. In line with legal advice received by the Trustees and instructions from the Company, the figures as at 31 December 2010 allow for the changes to CPI indexation applying for deferred revaluation

(iii) 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 such as changes in market conditions and changes to the basis of calculation. It is calculated in accordance with current legislation and is after the deduction of the Director's 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 2010 of £54,000. Colin Day is a non-executive director of AMEC plc and WPP plc.

Directors' shareholdings

The interests (both beneficial and family interests) of the Directors in office at 31 December 2010, and the date of this Report, in the issued ordinary share capital of the Company were as follows:

	At 31 Dec 2010	At 31 Dec 2009
Jeff Harris	51,651	51,651
Mark Harper	384,135 ¹	176,850 ¹
Steve Crummett	53,956	11,600
Paul Drechsler	18,519	18,519
Lars Emilson	7,500	7,500
Terry Twigger	2,500	2,500

1 410 shares are held non-beneficially

The Executive Directors are regarded as being interested in 1,004,490 (2009: 1,405,270) ordinary shares in Filtrona plc held by the Filtrona Employee Benefit Trust ('EBT') at 31 December 2010, 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 2010, potential and actual share issuance through employee related share plans totalled 7.2% 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
24 February 2011

Corporate Governance Report



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

During the year the Company has undertaken a comprehensive review of its internal audit and risk management processes in seeking to drive continuous improvement and a number of recommendations will be implemented during 2011

Jeff Harris
Chairman

Filtrona confirms that throughout the year ended 31 December 2010 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.

There are clearly defined roles and delegated authorities applying to the Board, the Executive Committee and the businesses and together with the policies and procedures adopted by the Board these are communicated across the Group as appropriate. The implementation of a new web-based compliance system during 2010 has enhanced the Company's ability to communicate with and train all its employees on the standards of business conduct which the Board establishes. A copy of the Group's Code of Business Ethics policy which addresses the Group's responsibilities to a range of stakeholders and for the environment can be found on the Company's website www.filtrona.com.

Board Composition and Independence

During 2010 the Filtrona Board continued to comprise of a Non-executive Chairman, two Executive Directors and three Non-executive Directors. Balance is considered a key requirement for the composition of the Board not only in terms of numbers but also with regard to the mix of skills, experience and knowledge. The Board is of the view that it has a highly competent Chairman and that the members of the Board in conjunction with the senior executive teams are well equipped to drive, and are capable of delivering on, the Company's strategy. Biographical details of all the current directors are set out on page 44 to 45.

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.

The Filtrona Board believes that the pursuit of and adherence to best practice standards

- establishes the culture and core Filtrona Values throughout the Group
- provides competitive advantage across the Group, improving the efficiency and effectiveness of the Board and all employees, strengthening controls and processes, and enhancing the quality and objectivity of decision-making and risk management
- underpins the shareholder value proposition of the Company in pursuing its strategic objectives and the management of its corporate responsibilities

During 2010, the Company has

- complied with the Combined Code on Corporate Governance
- implemented new web-based compliance programmes across the Group
- undertaken an extensive review of its internal audit and risk management processes



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



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 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 Company is adopting the requirements of the new UK Corporate Governance Code and will be proposing the re-election of all Directors at this year's AGM.

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 Conduct of Board Matters

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 manages the affairs of the Company in accordance with the principles of good corporate governance, securing effective contributions from all Board members and engaging in challenging but constructive discussions on issues relevant to the strategic direction of the Group.

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

- strategy and resources
- annual budgets
- treasury policies
- major capital and operating expenditure proposals
- acquisitions and disposals
- debt facilities
- key Group policies
- appointments to the Board
- systems of internal control
- dividend payments
- categories of public announcements

The detailed implementation of all these matters and general operational matters are the responsibility of executive senior management and regular formal management reports, including the detailed monitoring of performance, are provided to the Board.

During 2010, the Board was closely engaged in the detailed monitoring of performance and the actions necessary to maintain the profitability of the Company and remained focused on the longer-term strategic objectives which it has defined and the appropriate management of particular risks impacting the Group.

Key Activities of the Board during the year

- evaluated and approved the acquisition of Stera Tape, a manufacturer of high quality speciality tapes
- evaluated and approved the acquisition of BP Labels, a high quality, creative, secure self-adhesive labels business
- evaluated and approved the issue of \$160m of US Private Placement Loan Notes to secure additional financing and diversify away from the bank market
- evaluated and approved substantial investment in a new facility for MSI in Houston to assist future growth opportunities
- concluded agreements with the Company's pension scheme trustees relating to deficit repayment and future funding requirements
- considered key strategic opportunities and risks for the Filter Products business
- reviewed the new UK Corporate Governance Code and assessed its implications for the Board and its leadership of Filtrona

Corporate Governance Report continued

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 seven scheduled Board meetings, of which one was held overseas at the recently refurbished Reinbek, Germany, Porous Technologies facility and one was held at Nottingham, UK, Coated & Security 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, discuss succession issues, and to monitor corporate control mechanisms.

Attendance at Board meetings

Name	Attendance
Chairman	
Jeff Harris	7 of 7
Chief Executive	
Mark Harper	7 of 7
Executive Director	
Steve Crummett	7 of 7
Non-executive Directors	
Paul Drechsler (Senior Independent Director)	7 of 7
Lars Emilson	7 of 7
Terry Twigger	7 of 7

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 & safety performance and current trading, a financial review from the Group Finance Director and other significant business issues. 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 pages 67 to 68.

Engagement with Management

The Board receives detailed presentations from each of the Managing Directors or Presidents of the divisions during the course of the year in addition to reviewing their respective strategic plans and budgets. The Board also considers reports from senior management about matters of material importance to the Company which arise from time to time. There is a programme of meetings, both formal and informal, with members of the Group Operating Committee ('GOC') during the year and the Board has the opportunity to engage with local management during site visits. The Board derives a better understanding of the Company's operations and business model as a result of such contact.

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 situation. 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 Director's 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.

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 meetings 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

Continuous improvement and development of the Board and its Committees is key to ensuring that governance structures remain in line with best practice.

For 2010 the Company adopted an internal self assessment evaluation process with the use of web based software supplied by an external organisation.

The 2010 process was led by the Chairman, assisted by the Company Secretary & General Counsel, and consisted of a confidential survey in response to a variety of targeted questions which were completed by all Directors.

The process was designed to address a number of key areas regarding the overall performance of the Board and its Committees but it particularly focused on the work of the Board and its Committees in relation to risk. The risk focused approach was adopted to further develop the Board's processes relating to the determination of risk appetite and risk oversight in support of the work being undertaken by the Company following a detailed review of its risk management processes in conjunction with an external service provider.

For the evaluation there were no separate committee questionnaires, but each of the Chairmen of the Board Committees separately reviewed the performance of the individual Committees in discussion with the respective members.

The Non-executive Directors appraised the Chairman's performance and the Senior Independent Director discussed the results with the Chairman.

An analysis of the feedback from the evaluation process was reviewed and discussed by the Board in early 2011. In general, the Board noted that the process had concluded that the Board and each of its Committees were considered to be operating effectively, with each Director contributing effectively, and that the adoption of recommendations arising from previous evaluations had been embedded successfully and improved the conduct of Board and Committee matters.

The process did highlight the importance of the Board's engagement with management at all levels of the business to ensure the Board's understanding of the Company's operations and knowledge of the talent pool available for future management succession. As a result, further steps are to be taken to enable the Board to have greater exposure to more junior management, including those on the Company's graduate programme. In addition, the Board is to receive more regular updates on the status of succession issues identified during the formal organisation and management development review conducted in alternate years.

The feedback from the risk based evaluation is being further considered as part of the Company's review and development of its internal audit and risk management processes.

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 LLP. The Audit Committee supports the Board in the achievement of those objectives.

Terry Twigger is the appointed Chairman of the Audit Committee and the Board is satisfied that Terry has recent and relevant financial experience. The other members are Paul Drechsler and Lars Emilson.

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

The Audit Committee considers that both management and the external auditor should attend meetings where possible in order to provide the members of the Committee with the information they require and to answer any questions. Accordingly, 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. During the course of the year, the Audit Committee meets with the external auditor and the Group Head of Audit without the Company management being present.

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

Name	Attendance
Chairman	
Terry Twigger	4 of 4
Non-executive Directors	
Paul Drechsler (Senior Independent Director)	3 of 4
Lars Emilson	4 of 4

The responsibilities of the Audit Committee are defined in its Terms of Reference, copies of which are available at www.filtrona.com.

Corporate Governance Report continued

Key Activities of the Audit Committee 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 independence and objectivity including quality control procedures
- 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 output from the Group 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
- 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 and implemented a revised policy relating to any such engagements
- oversaw the implementation of new compliance programmes across the Group and approved the adoption of new whistleblowing procedures
- engaged in a formal review of the Company's internal audit and risk management processes in consultation with external service providers

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 is often beneficial 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 course of the year, the Audit Committee adopted a revised policy relating to the engagement of the external auditor.

Nomination Committee

The Nomination Committee currently comprises Jeff Harris, who chairs the Committee, Paul Drechsler, Lars Emilson and Terry Twigger. The Chief Executive and Director of Group Human Resources attend by invitation as appropriate.

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

Name	Attendance
Chairman	
Jeff Harris	5 of 5
Non-executive Directors	
Paul Drechsler	4 of 5
Lars Emilson	5 of 5
Terry Twigger	5 of 5

The Nomination Committee is responsible for selecting and recommending candidates for appointment as Executive and Non-executive Directors of the Company. 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.

The Nomination Committee meets as required and during 2010 it met five times.

The Nomination Committee was focused on the appointment of a new Chief Executive in the light of Mark Harper's intention to take early retirement at a mutually agreed opportunity. The Nomination Committee worked in conjunction with external service providers in the development of an appropriate job specification and conducted a thorough and comprehensive search in the identification of suitable candidates for the role. The culmination of the Nomination Committee's work during 2010 saw the announcement of the appointment of Colin Day as the Group's new Chief Executive with effect from 1 April 2011.

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 as necessary prior to the appointment of any new Director.

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 51 to 61.

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

Name	Attendance
Chairman	
Paul Drechsler	3 of 3
Non-executive Directors	
Lars Emilson	3 of 3
Terry Twigger	3 of 3



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, including a site visit to Kidlington and Nottingham, 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.

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.

The number of proxy votes lodged on each resolution proposed at the AGM 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 & 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 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 businesses, 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 procedure 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

Corporate Governance Report continued

- 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

The external auditors are engaged to express an opinion on the financial statements. The audit includes the review and test of the system of internal financial control and the data contained in the financial statements to the extent necessary for expressing an audit opinion on the truth and fairness of the financial statements.

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

During 2010 the GOC which consists of the Executive Committee members, the Divisional Managing Directors or Presidents, as appropriate, and the Director of Corporate Development, met quarterly to discuss health & safety performance, risk management, business performance, employee-related matters, including succession planning, and key operational and financial management issues across Filtrona's international businesses. Biographies of the GOC members demonstrating the range of management expertise within the Company's senior executive team appear on pages 42 to 43.

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 100% of underlying operating profit in 2010, reflecting what is believed to be a robust control environment.

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

Control of significant risks

The Board has two main responsibilities in relation to risk. One is to determine the risk appetite 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.

A Group Risk policy to support the Board in fulfilling those responsibilities and to reinforce the continuing risk review processes embedded within the businesses is in place. 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 2010 and up to the date of approval of the Annual Report for 2010.

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 regular schedule of presentations enhances 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 & 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 Committee, 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 continued to receive presentations from each of the Divisions focusing attention on the local contingency plans that the businesses have in place. Additionally there was the consideration of risks associated with refinancing, 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 & safety, environmental, social and employee issues impacting the Group and reputational risk.

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.

The externally facilitated review of the Company's internal audit and risk management functions concluded that whilst the current processes continued to meet the appropriate standards for corporate governance requirements, further benefits could be derived in response to the ongoing business needs of the Group. A number of recommendations will be implemented during 2011 which will further enhance the risk management process.

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 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 procedure.

Financial reporting

The Directors have acknowledged, in the Statement of Directors' Responsibilities set out on page 50, 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 111, 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.

Consolidated Income Statement

for the year ended 31 December 2010

	Note	2010 £m	2009 £m
Revenue	2	489.6	444.0
Operating profit before intangible amortisation (2009: intangible amortisation, major restructuring costs and exceptional acquisition fees)		75.0	56.2
Intangible amortisation		(3.0)	(3.1)
Major restructuring costs		–	(8.9)
Exceptional acquisition fees		–	(1.9)
Operating profit	2,3	72.0	42.3
Finance income	4	12.0	9.3
Finance expense	4	(22.4)	(19.3)
Profit before tax		61.6	32.3
Income tax expense	5	(19.1)	(12.1)
Profit from continuing operations		42.5	20.2
Profit/(loss) from discontinued operations	24	6.8	(6.7)
Profit for the year		49.3	13.5
Attributable to:			
Equity holders of Filtrona plc		47.7	11.8
Non-controlling interests		1.6	1.7
Profit for the year		49.3	13.5
Earnings per share attributable to equity holders of Filtrona plc:			
Basic	7	23.3p	5.8p
Diluted	7	22.9p	5.7p
Earnings per share from continuing operations attributable to equity holders of Filtrona plc:			
Basic	7	20.0p	9.1p
Diluted	7	19.6p	9.0p

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2010

	Note	2010 £m	2009 £m
Profit for the year		49.3	13.5
Other comprehensive income			
Actuarial (losses)/gains on defined benefit pension schemes	18	(5.0)	6.4
Deferred tax credit/(expense) on actuarial (losses)/gains on defined benefit pension schemes		1.3	(2.0)
Effective portion of changes in fair value of cash flow hedges:			
Net change in fair value of cash flow hedges transferred to the income statement		0.7	8.0
Effective portion of changes in fair value of cash flow hedges		(0.3)	(1.0)
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		2.9	(16.6)
Arising on effective net investment hedges		2.7	2.2
Income tax (charge)/credit on effective net investment hedges		(1.0)	2.2
Attributable to non-controlling interests		0.9	(0.5)
		2.2	(2.4)
Total comprehensive income		51.5	11.1
Attributable to:			
Equity holders of Filtrona plc		49.0	9.9
Non-controlling interests		2.5	1.2
Total comprehensive income		51.5	11.1

Consolidated Balance Sheet

at 31 December 2010

	Note	2010 £m	2009 £m
Assets			
Property, plant and equipment	8	156.1	153.9
Intangible assets	9	107.3	98.1
Deferred tax assets	16	1.4	2.2
Other receivables	1,11	2.9	5.3
Total non-current assets		267.7	259.5
Inventories	10	59.1	51.7
Income tax receivable		4.2	2.3
Trade and other receivables	1,11	73.1	67.1
Derivative assets	1,15	0.4	0.6
Cash and cash equivalents	1,12	40.0	32.0
Total current assets		176.8	153.7
Total assets		444.5	413.2
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		(0.6)	(1.0)
Translation reserve		17.6	13.0
Retained earnings	20	248.7	219.6
Attributable to equity holders of Filtrona plc		187.8	153.7
Non-controlling interests		9.6	7.4
Total equity		197.4	161.1
Liabilities			
Interest bearing loans and borrowings	1,14	116.8	139.1
Derivative liabilities	1,15	0.5	1.8
Retirement benefit obligations	18	17.6	22.6
Income tax payable		4.5	4.7
Provisions	17	1.2	1.5
Deferred tax liabilities	16	9.5	8.6
Total non-current liabilities		150.1	178.3
Interest bearing loans and borrowings	1,14	14.0	–
Derivative liabilities	1,15	2.0	1.3
Income tax payable		14.5	12.3
Trade and other payables	1,13	63.6	55.3
Provisions	17	2.9	4.9
Total current liabilities		97.0	73.8
Total liabilities		247.1	252.1
Total equity and liabilities		444.5	413.2

The consolidated financial statements on pages 70 to 106 were approved by the Board of Directors on 24 February 2011 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 2010

	2010							Total equity £m
	Issued capital £m	Capital redemption reserve £m	Other reserve £m	Cash flow hedging reserve £m	Translation reserve £m	Retained earnings £m	Non-controlling interests £m	
At 1 January 2010	54.8	0.1	(132.8)	(1.0)	13.0	219.6	7.4	161.1
Profit for the year						47.7	1.6	49.3
Other comprehensive income/(loss) for the year				0.4	4.6	(3.7)	0.9	2.2
Acquisition of employee trust shares						(1.1)		(1.1)
Share option expense						2.8		2.8
Dividends paid						(16.6)	(0.3)	(16.9)
At 31 December 2010	54.8	0.1	(132.8)	(0.6)	17.6	248.7	9.6	197.4

	2009							Total equity £m
	Issued capital £m	Capital redemption reserve £m	Other reserve £m	Cash flow hedging reserve £m	Translation reserve £m	Retained earnings £m	Non-controlling interests £m	
At 1 January 2009	54.8	0.1	(132.8)	(8.0)	26.3	219.7	7.0	167.1
Profit for the year						11.8	1.7	13.5
Other comprehensive income/(loss) for the year				7.0	(13.3)	4.4	(0.5)	(2.4)
Acquisition of non-controlling 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

Consolidated Statement of Cash Flows

for the year ended 31 December 2010

	Note	2010 £m	2009 £m
Operating activities			
Profit for the year from continuing operations		42.5	20.2
Adjustments for:			
Income tax expense		19.1	12.1
Net finance expense	4	10.4	10.0
Intangible amortisation	3,9	3.0	3.1
Major restructuring costs	2	–	8.9
Exceptional acquisition fees	2	–	1.9
Depreciation	3,8	20.4	20.7
Share option expense	18	2.8	2.4
Impairments to plant and equipment	3,8	1.5	1.0
Other movements		(0.9)	0.8
(Increase)/decrease in inventories		(5.5)	11.3
(Increase)/decrease in trade and other receivables		(3.9)	5.1
Increase/(decrease) in trade and other payables		4.3	(14.2)
Major restructuring costs paid		(1.3)	(3.7)
Exceptional acquisition fees paid		–	(1.9)
Employee trust shares		(1.1)	–
Additional pension contributions		(10.1)	(7.1)
Other provisions utilised in the year		(0.5)	–
Cash inflow from operating activities of continuing operations		80.7	70.6
Income tax paid in respect of continuing operations		(16.3)	(12.1)
Net cash inflow from operating activities of continuing operations		64.4	58.5
Net cash outflow from operating activities of discontinued operations		–	(3.0)
Net cash inflow from operating activities		64.4	55.5
Investing activities			
Interest received		0.2	0.1
Acquisition of property, plant and equipment		(20.1)	(11.0)
Proceeds from sale of property, plant and equipment		1.3	0.2
Acquisition of businesses net of cash acquired	23	(12.0)	(2.9)
Proceeds from sale of businesses	24	10.9	56.6
Income tax paid on sale of businesses		(3.2)	(3.5)
Net cash (outflow)/inflow from investing activities of continuing operations		(22.9)	39.5
Net cash outflow from investing activities of discontinued operations		–	(0.2)
Net cash (outflow)/inflow from investing activities		(22.9)	39.3
Financing activities			
Interest paid		(8.2)	(6.9)
Dividends paid to equity holders		(16.6)	(15.9)
Dividends paid to non-controlling interests		(0.3)	(0.8)
Realised losses on hedges of net investments		–	(2.0)
Proceeds from/(repayments of) short-term loans		0.2	(5.3)
Repayment of long-term loans		(117.2)	(214.1)
Proceeds from long-term loans		104.3	161.8
Net cash outflow from financing activities of continuing operations		(37.8)	(83.2)
Net cash outflow from financing activities of discontinued operations		–	–
Net cash outflow from financing activities		(37.8)	(83.2)
Net increase in cash and cash equivalents	21	3.7	11.6
Net cash and cash equivalents at the beginning of the year		32.0	21.3
Net increase in cash and cash equivalents		3.7	11.6
Net effect of currency translation on cash and cash equivalents		4.3	(0.9)
Net cash and cash equivalents at the end of the year	1,12	40.0	32.0



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 107 to 110.

The financial statements are prepared under the historical cost convention except for derivatives which are stated at fair value and retirement benefit obligations which are valued in accordance with IAS 19 (Revised): *Employee benefits*.

The preparation of financial statements that conform with adopted IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expense during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from those estimates.

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:

IFRS 3 (Revised): *Business combinations* ('IFRS 3')

The principal changes of the revised standard were to the treatment of contingent consideration and transaction costs and have been applied prospectively. Directly attributable acquisition costs are to be expensed rather than included as part of the purchase price and contingent consideration is to be accounted for at fair value at the acquisition date with subsequent changes in the fair value being recognised in the income statement. The impact on the Group is shown in note 23.

Amendment to IAS 27 (2008): *Consolidated and Separate Financial Statements*

This addresses the accounting for changes in ownership interests in a subsidiary and has not had a significant impact upon the Group. During 2009 the Group applied the principals of IAS 27 (2008) in accounting for the acquisition of the non-controlling interest in FractureCode Corporation ApS (see note 23).

The following accounting standards and interpretations, issued by the IASB or IFRIC, have been adopted by the Group with no significant impact on its consolidated results or financial position:

Amendment to IAS 7: *Classification of expenditures on unrecognised assets*

Amendment to IAS 17: *Classification of leases of land and buildings*

Amendment to IAS 32: *Financial instruments*

Amendment to IAS 36: *Impairment of assets*

Amendment to IAS 38: *Intangible assets, fair value of intangible asset acquired in a business combination*

Amendment to IAS 39: *Financial instruments: recognition and measurement – Eligible hedged items*

Amendment to IFRS 5: *Non-current assets held for sale and discontinued operations*

IFRIC 17: *Distribution of non-cash assets to owners*

IFRIC 18: *Transfers of assets from customers*

The following standards or interpretations have not yet been adopted by the Group. The Group does not currently believe the adoptions of these standards or interpretations would have a material impact on the consolidated results or financial position of the Group:

Amendment to IAS 24: *Related party disclosures* (effective for annual periods beginning on or after 1 January 2013)

IFRIC 19: *Extinguishing financial liabilities with equity instruments* (effective for annual periods beginning on or after 1 July 2010)

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 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. Further detail is contained in the Directors' Report on page 49.

Accounting Policies continued

b Basis of consolidation

(i) Subsidiaries

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

(ii) Transactions eliminated on consolidation

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

c Foreign currency

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

(i) Foreign currency transactions

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into sterling at the exchange rate ruling at that date and recognised in the income statement unless hedge accounting criteria apply (see policy for 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.

Since 1 January 2010 the Group has expensed costs attributable to acquisitions in the income statement.

(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 their 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.

Accounting Policies continued

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.

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 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.

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.



v One-off items in the consolidated income statement continued

(i) Exceptional acquisition fees

In 2009, Filtrona withdrew from significant potential acquisitions at an advanced stage and had to expense £1.9m 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 Judgements and Estimates

The following provides information on those policies that management considers critical because of the level of judgement and estimation required which often involves assumptions regarding future events which can vary from what is anticipated. The Directors believe that the financial statements reflect appropriate judgements and estimates and provide a true and fair view of 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 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.

	2010 £m	2009 £m
Not impaired or past due:		
New customers (less than one year)	5.0	2.4
Existing customers (more than one year) with no defaults in the past	44.8	45.6
Past due not impaired	15.5	10.3
Impaired	2.4	4.7
Gross trade and other receivables	67.7	63.0
Impairment	(2.4)	(4.0)
	65.3	59.0

Trade and other receivables carried at £76.0m (2009: £72.4m) include prepayments and accrued income of £4.7m (2009: £5.1m) which are not financial assets. Therefore, these amounts are excluded from the above analysis. Trade and other receivables also include deferred consideration of £6.0m (2009: £8.3m) 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 net impairment losses on trade and other receivables of £0.1m (2009: £0.3m) have been recognised within net operating expense and £1.5m (2009: £nil) of the impairment provision has been utilised.

Derivative assets

Credit risk with respect to derivatives is controlled by limiting transactions to major banking counterparties where internationally agreed standard form documentation exists. The credit ratings of these counterparties are monitored.

Notes continued

1. Risk management continued

Cash and cash equivalents

Credit risk relating to cash and cash equivalents is monitored 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.

	2010					
	AAA £m	AA £m	A £m	BBB £m	Not rated £m	Total £m
Deferred consideration	–	6.0	–	–	–	6.0
Derivative assets	–	0.4	–	–	–	0.4
Cash and cash equivalents	0.9	10.4	24.0	1.0	3.7	40.0
	0.9	16.8	24.0	1.0	3.7	46.4

	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

Filtrona's maximum credit risk exposure is £111.7m (2009: £99.9m) and no collateral is held against this amount (2009: £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 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. At 31 December 2010, Filtrona's euro denominated assets were 47% hedged by its euro denominated borrowings (2009: 100%), whilst its US dollar denominated assets were approximately 88% (2009: 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.

1. Risk management continued

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 some euro exposure is hedged. Accordingly the effect on equity is calculated by increasing or decreasing the closing rate of all currencies with an adjustment for the movement in currency hedges. It is assumed that all net investment and cash flow hedges will be 100% effective.

	2010					
	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)	5.1	2.4	0.5	(0.5)	(2.2)	(4.2)
Impact on equity – gain/(loss)	17.5	8.3	1.6	(1.6)	(7.5)	(14.3)

	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)

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 fixed interest rate debt, 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 floating rate 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.

	2010					
	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)	0.3	0.1	0.1	(0.1)	(0.1)	(0.3)
Impact on equity – gain/(loss)	0.3	0.1	0.1	(0.1)	(0.1)	(0.3)

	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 – (loss)/gain	(1.3)	(0.7)	(0.3)	0.3	0.7	1.4

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

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 29 April 2010, Filtrona completed the issue of US\$160m US Private Placement Loan Notes. The two series of Notes of US\$80m each pay interest at 5.37% and 5.91% per annum respectively. Fees of £1.5m 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 method. Part of the proceeds were used to repay the US\$35.9m term loan, originally borrowed in April 2009, €14.7m of the €84.7m term loan and the Group's drawings on its US\$ revolving credit facility. During October 2010 the Group repaid a further €35.0m of the remaining term loan from surplus cash funds.

On 16 April 2009 Filtrona signed an agreement with a syndicate of relationship banks to provide banking facilities until April 2012. 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 method. At 31 December 2010, fees of £0.2m remain to be expensed in 2011.

Notes continued

1. Risk management continued

Filtrona's objective is to maintain a balance between continuity of funding and flexibility. Filtrona is mostly funded by two series of US\$80m Loan Notes from various financial institutions, a syndicated three-year €35.0m term loan and a syndicated US\$143.7m revolving credit facility from its bankers. The two series of Loan Notes of US\$80m have maturities of seven and ten years. Two loan repayments of €8.0m each are due in April 2011 and October 2011 with the balance of the bank loans and the revolving credit facility maturing in April 2012. At 31 December 2010 the available bank and non-bank facilities totalled £223.4m (2009: £186.5m) of which £131.8m (2009: £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:

	2010 £m	2009 £m
Expiring after one but within two years	91.6	18.6
Expiring after two years	—	26.2
	91.6	44.8

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.

	2010						
	Fair value £m	Carrying amount £m	Contractual cash flows £m	<1 yr £m	1–2 yrs £m	2–5 yrs £m	>5 yrs £m
Unsecured bank loans	30.2	30.2	31.8	14.9	16.9	—	—
Loan Notes	108.1	100.6	148.6	5.8	5.8	17.4	119.6
Derivative liabilities	2.5	2.5	2.5	2.0	0.5	—	—
Trade and other payables	37.1	37.1	37.1	37.1	—	—	—
	177.9	170.4	220.0	59.8	23.2	17.4	119.6

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

Total trade and other payables carried at £63.6m (2009: £55.3m) include accruals and deferred income of £26.5m (2009: £21.2m) which are not financial liabilities. Therefore, these amounts are excluded from the above analysis.

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

Total financial assets and liabilities

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

	2010				2009			
	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	—	71.3	—	71.3	—	67.3	—	67.3
Derivative assets	0.4	—	—	0.4	0.6	—	—	0.6
Cash and cash equivalents	—	40.0	—	40.0	—	32.0	—	32.0
Interest bearing loans and borrowings	—	—	(130.8)	(130.8)	—	—	(139.1)	(139.1)
Derivative liabilities	(2.5)	—	—	(2.5)	(3.1)	—	—	(3.1)
Trade and other payables	—	—	(37.1)	(37.1)	—	—	(34.1)	(34.1)
	(2.1)	111.3	(167.9)	(58.7)	(2.5)	99.3	(173.2)	(76.4)



1. Risk management continued

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.

Included within interest bearing loans and borrowings are \$160m US Private Placement Loan Notes. The Loan Notes are held at amortised cost with a carrying value of £100.6m (2009: £nil). The Group estimates that the total fair value of the Loan Notes is £108.1m (2009: £nil).

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. Net debt is adjusted to exclude prepaid facility fees. During 2010, Filtrona's strategy, which was unchanged from 2009, 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	2010 £m	2009 £m
Net debt excluding prepaid facility fees	21	92.3	109.7
Operating profit before intangible amortisation, major restructuring costs and exceptional acquisition fees		75.0	56.2
Plus depreciation and other amounts written off property, plant and equipment	3	21.9	21.7
Plus share option expense	18	2.8	2.4
EBITDA		99.7	80.3
Net debt-to-EBITDA ratio		0.93	1.37

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 is a global market leading provider of product protection and finishing products, manufacturing and distributing plastic injection moulded, dip moulded, adhesive-coated foam and metal products. 41 operating units in 14 countries serving a very broad base of over 85,000 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.

Porous Technologies 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.

Coated & Security Products is the global market leading producer of high quality self-adhesive tear tape and a growing supplier of labels, 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 includes plastic profile extrusion activities in The Netherlands.

Filter Products is the only global independent cigarette filter supplier. The 10 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.

Notes continued

2. Segment analysis continued

	2010								
	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	Total £m
External revenue	129.1	67.9	91.9	200.7	–	–	489.6	–	489.6
Intersegment revenue	–	6.8	–	–	(6.8)	–	–	–	–
Total revenue	129.1	74.7	91.9	200.7	(6.8)	–	489.6	–	489.6
Operating profit/(loss) before intangible amortisation	28.8	17.7	14.7	23.7	–	(9.9)	75.0	–	75.0
Intangible amortisation	(1.9)	(0.9)	(0.1)	(0.1)	–	–	(3.0)	–	(3.0)
Operating profit/(loss)	26.9	16.8	14.6	23.6	–	(9.9)	72.0	–	72.0
Segment assets	77.7	51.1	56.2	99.1	–	7.1	291.2	–	291.2
Intangible assets	70.1	19.2	18.0	–	–	–	107.3	–	107.3
Unallocated items	–	–	–	–	–	46.0	46.0	–	46.0
Total assets	147.8	70.3	74.2	99.1	–	53.1	444.5	–	444.5
Segment liabilities	18.3	7.0	8.2	22.9	–	8.6	65.0	2.7	67.7
Unallocated items	–	–	–	–	–	179.4	179.4	–	179.4
Total liabilities	18.3	7.0	8.2	22.9	–	188.0	244.4	2.7	247.1
Other segment items									
Capital expenditure	6.8	3.8	2.1	7.4	–	–	20.1	–	20.1
Impairment to property, plant and equipment	–	–	–	1.5	–	–	1.5	–	1.5
Depreciation	5.3	3.0	4.7	7.3	–	0.1	20.4	–	20.4
Average number of employees	800	455	577	1,355	–	26	3,213	–	3,213

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 £10.4m (2009: £10.0m) and income tax expense of £19.1m (2009: £12.1m) 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.

In 2010 no customer accounted for more than 10% of revenue. In 2009 £45.1m was derived from a single external customer which was attributable to the Coated & Security Products and Filter Products operating segments. Revenue in the UK is £44.7m (2009: £44.9m) with revenue in the US of £113.7m (2009: £96.0m) being the Group's other significant geographical market. Non-current assets in the UK total £58.9m (2009: £48.9m) with other significant locations being the US and The Netherlands with non-current assets of £92.6m and £37.0m (2009: £91.1m and £39.7m) respectively.

Included within revenue is the net change in the fair value of forward exchange cash flow hedges transferred to the income statement of £nil (2009: £7.0m).

2. Segment analysis continued

	2009									Total £m
	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	
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

3. Net operating expense

	2010 £m	2009 £m
Continuing operations		
Changes in inventories of finished goods and work-in-progress	(3.3)	4.1
Raw materials and consumables	209.4	185.6
Personnel expense (note 6)	113.0	105.4
Depreciation and other amounts written off property, plant and equipment	21.9	21.7
Amortisation and other amounts written off intangible assets	3.0	3.1
Major restructuring costs	–	8.9
Exceptional acquisition fees	–	1.9
Hire of plant and machinery – rentals payable under operating leases	0.5	0.6
Other operating expenses	73.1	70.4
Net operating expense	417.6	401.7

Income of £nil (2009: £0.1m) 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 2010 and 2009, as defined by IAS 39, and therefore no hedge ineffectiveness has been recognised in net operating expense in 2010 (2009: £nil).

Notes continued

3. Net operating expense continued

Auditor's remuneration

	Note	2010 £m	2009 £m
Audit of these financial statements		0.2	0.2
Audit of financial statements of subsidiaries pursuant to legislation		0.6	0.6
Total audit fees		0.8	0.8
Other services pursuant to such legislation	i, v	0.1	0.1
Other services relating to tax	ii	0.3	0.3
Services relating to corporate finance transactions	iii	–	0.7
Total non-audit fees	iv	0.4	1.1
Total fees		1.2	1.9

Notes

- i Fees for other services pursuant to such legislation related principally to the review of the half year 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 £0.1m (2009: £0.8m) of the total non-audit fees were charged in the UK
- v Fees of £22,182 (2009: £21,725) were paid in relation to the audit of the Filtrona pension schemes

4. Net finance expense

Continuing operations	2010 £m	2009 £m
Finance income		
Bank deposits	0.1	0.1
Unwind of discount on Globalpack deferred consideration	0.6	0.6
Other finance income	–	0.3
Expected return on pension scheme assets (note 18)	11.3	8.3
	12.0	9.3
Finance expense		
Interest on loans and overdrafts	(9.2)	(7.3)
Amortisation of bank facility fees	(2.5)	(1.7)
Other finance expense	–	(0.1)
Interest on pension scheme liabilities (note 18)	(10.7)	(10.2)
	(22.4)	(19.3)
Net finance expense	(10.4)	(10.0)

5. Income tax expense

Continuing operations	2010 £m	2009 £m
Amounts charged/(credited) in the consolidated income statement		
Current tax	20.4	16.2
Prior years' tax	(3.0)	(3.0)
Double tax relief	(0.5)	(1.7)
Deferred tax (note 16)	2.2	0.6
Income tax expense	19.1	12.1
Amounts recognised in the consolidated statement of comprehensive income		
Deferred tax (credit)/expense on actuarial movements on defined benefit pension schemes	(1.3)	2.0
Income tax charge/(credit) on effective net investment hedges	1.0	(2.2)
Income tax credit	(0.3)	(0.2)

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.

	2010 £m	2009 £m
Continuing operations		
Profit before income tax	61.6	32.3
Tax at weighted average (2010: 30.4%; 2009: 32.8%)	18.7	10.6
Effects of:		
Other permanent disallowables	0.9	0.9
Overseas state and local tax	1.3	0.4
Unrelieved tax losses	0.7	1.9
Prior year adjustments	(3.0)	(3.0)
Exceptional acquisition fees	–	0.5
Other items	0.5	0.8
Income tax expense	19.1	12.1

Income tax expense in the UK is £2.6m (2009: £1.7m). The UK corporate tax rate is 28% but a reduction in the rate to 27% with effect from 1 April 2011 was enacted during the year. The UK government has announced its intention to further reduce the rate to 24% by April 2014.

6. Personnel expense

	2010 £m	2009 £m
Continuing operations		
Wages and salaries	95.7	88.9
Social security expense	10.9	10.3
Pension expense (note 18)	3.6	3.8
Share option expense (note 18)	2.8	2.4
	113.0	105.4

The Report of the Remuneration Committee on pages 51 to 61 sets out information on Directors' remuneration.

Key management remuneration

	2010 £m	2009 £m
Salary	2.0	1.9
Bonus	1.0	0.4
Benefits	0.5	0.5
	3.5	2.8

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

	2010 £m	2009 £m
Continuing operations		
Earnings attributable to equity holders of Filtrona plc	40.9	18.5
Adjustments		
Intangible amortisation	3.0	3.1
Major restructuring costs	–	8.9
Exceptional acquisition fees	–	1.9
	3.0	13.9
Tax relief on adjustments	(0.9)	(2.2)
Adjusted earnings	43.0	30.2
Discontinued operations		
Earnings attributable to equity holders of Filtrona plc	6.8	(6.7)
Basic weighted average ordinary shares in issue (million)	204.9	204.2
Dilutive effect of employee share option plans (million)	4.2	2.5
Diluted weighted average ordinary shares (million)	209.1	206.7
Continuing operations		
Basic earnings per share	20.0p	9.1p
Adjustment	1.0p	5.7p
Adjusted earnings per share	21.0p	14.8p
Diluted basic earnings per share	19.6p	9.0p
Diluted adjusted earnings per share	20.6p	14.6p
Discontinued operations		
Basic earnings per share	3.3p	(3.3)p
Diluted basic earnings per share	3.3p	(3.3)p

As noted on page 11 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

	2010			Total £m
	Land and buildings £m	Plant and machinery £m	Fixtures, fittings and equipment £m	
Cost				
Beginning of year	67.7	256.0	41.3	365.0
Acquisitions	–	1.3	0.2	1.5
Additions	5.4	11.3	3.4	20.1
Disposals	(1.2)	(1.7)	(1.9)	(4.8)
Currency translation	0.5	3.4	0.7	4.6
End of year	72.4	270.3	43.7	386.4
Depreciation				
Beginning of year	18.7	160.6	31.8	211.1
Expense in year	2.1	15.4	2.9	20.4
Disposals	(1.0)	(1.7)	(1.9)	(4.6)
Impairments	–	1.5	–	1.5
Currency translation	–	1.4	0.5	1.9
End of year	19.8	177.2	33.3	230.3
Net book value at end of year	52.6	93.1	10.4	156.1

	2009			Total £m
	Land and buildings £m	Plant and machinery £m	Fixtures, fittings and equipment £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
Net book value at beginning of year	68.4	128.6	13.5	210.5

The impairments relate to plant and machinery and land and buildings that have been assessed as non-recoverable through on-going use in the Group and are expected to have no value on disposal. In 2009, impairments include £3.0m expensed against major restructuring costs in the income statement.

Included within land and buildings and plant and machinery are assets in the course of construction of £3.5m (2009: £0.6m) which were not depreciated during the year.

Notes continued

9. Intangible assets

	2010 £m	2009 £m
Goodwill		
Beginning of year	53.0	78.9
Acquisitions (note 23)	5.8	–
Divestment of Filtrona Extrusion (note 24)	–	(20.9)
Currency translation	0.1	(5.0)
End of year	58.9	53.0
Customer relationships		
Cost		
Beginning of year	49.2	54.3
Acquisitions (note 23)	5.9	–
Currency translation	(0.3)	(5.1)
End of year	54.8	49.2
Amortisation		
Beginning of year	9.3	7.5
Expense in year	2.4	2.5
Currency translation	–	(0.7)
End of year	11.7	9.3
Net book value at end of year	43.1	39.9
Net book value at beginning of year	39.9	46.8
Other		
Cost		
Beginning of year	5.9	6.6
Acquisitions (note 23)	0.5	–
Currency translation	0.2	(0.7)
End of year	6.6	5.9
Amortisation		
Beginning of year	0.7	0.1
Expense in year	0.6	0.6
Currency translation	–	–
End of year	1.3	0.7
Net book value at end of year	5.3	5.2
Net book value at beginning of year	5.2	6.5
Total net book value of intangible assets at end of year	107.3	98.1

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 21.8 years and 11.7 years (2009: 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.

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

	Goodwill	
	2010 £m	2009 £m
Operating segment		
Protection & Finishing Products	31.8	27.3
Porous Technologies	11.0	11.0
Coated & Security Products	16.1	14.7
	58.9	53.0

9. Intangible assets continued

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

Business	Operating segment	Customer relationships and other intangible assets	
		2010 £m	2009 £m
Moss and Skiffy	Protection & Finishing Products	19.3	21.0
Duraco	Protection & Finishing Products	14.5	15.0
Lendell	Porous Technologies	8.2	8.8
Multiple businesses	Multiple segments	6.4	0.3
		48.4	45.1

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 growth rates specific to each business which range from nil to 3%
- The estimated cash flows are discounted using a pre-tax discounted rate based upon Filtrona's estimated weighted average cost of capital of 8.5% (2009: 9.0%) adjusted for the risk applicable to each operating segment. The pre-tax discount rates used ranged from 11.6% to 13.8% (2009: 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 reducing future cash flows by up to 25%, reducing terminal growth rates by up to 8 percentage points or increasing pre-tax discount rates by up to 100bp. The results of these analyses showed that, despite significantly lower post tax operating cash flows or increased pre-tax discount rates, the carrying value of goodwill and other intangible assets continued to be supported.

10. Inventories

	2010 £m	2009 £m
Raw materials and consumables	23.9	20.7
Work-in-progress	2.8	1.7
Finished goods and goods held for resale	32.4	29.3
	59.1	51.7

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

11. Trade and other receivables

	2010 £m	2009 £m
Non-current assets		
Other receivables	2.9	5.3
Current assets		
Trade receivables	58.6	53.0
Other receivables	9.8	9.0
Prepayments and accrued income	4.7	5.1
	73.1	67.1
Total trade and other receivables	76.0	72.4

Other receivables include an amount of deferred consideration of £6.0m (2009: £8.3m) due from the Itavema Group for the purchase of the Globalpack business.

Notes continued

12. Cash and cash equivalents

	2010 £m	2009 £m
Bank balances	38.7	30.9
Short-term investments	1.3	1.1
Cash and cash equivalents in the statement of cash flows	40.0	32.0

13. Trade and other payables

	2010 £m	2009 £m
Trade payables	30.7	29.1
Other tax and social security contributions	2.9	2.8
Other payables	3.5	2.2
Accruals and deferred income	26.5	21.2
	63.6	55.3

14. Interest bearing loans and borrowings

	2010 £m	2009 £m
Non-current liabilities		
Unsecured bank loans	16.2	139.1
Private Placement Loan Notes	100.6	–
	116.8	139.1
Current liabilities		
Unsecured bank loans	14.0	–

At 31 December 2010, the Group had €35m of unsecured bank loans, drawn in euros at floating rates of interest set by reference to LIBOR for three months, that were effectively fixed through interest rate swaps at 4.93% until July 2011. Filtrona's two US\$80m Loan Notes pay interest at 5.37% and 5.91% per annum respectively.

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 2009, the Group retained euro interest rate caps, but these were not effective in providing protection against increases in interest rates.

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

	2010		2009	
	Carrying value £m	Nominal value £m	Carrying value £m	Nominal value £m
Sterling	0.3	0.3	–	–
US dollar	100.6	101.9	65.2	66.7
Euro	29.7	29.9	73.9	75.0
Other	0.2	0.2	–	–
	130.8	132.3	139.1	141.7

The difference between the total nominal and carrying value of loans and borrowings relates to the amortised value of directly attributable transaction costs of £1.5m (2009: £2.6m).



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	Contractual or notional amounts	Fair values	Contractual or notional amounts
	£m	£m	£m	£m
At 31 December 2010				
Fair value derivatives				
Forward foreign exchange contracts	0.1	4.6	(1.1)	25.2
Interest rate swaps	0.1	49.0	(0.6)	49.0
Cash flow hedges				
Forward foreign exchange contracts	0.2	16.6	(0.6)	15.2
Interest rate swaps	–	–	(0.2)	29.9
	0.4	70.2	(2.5)	119.3

	Assets		Liabilities	
	Fair values £m	Contractual or notional amounts £m	Fair values £m	Contractual or notional amounts £m
At 31 December 2009				
<i>Fair value derivatives</i>				
Forward foreign exchange contracts	–	–	(1.2)	5.7
<i>Cash flow hedges</i>				
Forward foreign exchange contracts	0.6	22.3	(0.9)	20.7
Interest rate swaps	–	–	(1.0)	80.6
<i>Other</i>				
Interest rate caps	–	26.5	–	–
	0.6	48.8	(3.1)	107.0

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.

During 2010, Filtrona had US dollar and euro denominated borrowings which it designated as hedges of its net investments in subsidiary undertakings. The exchange gains of £1.0m on the US dollar borrowings and the gains of £1.7m on the euro borrowings were recognised in reserves at 31 December 2010.

During 2009, Filtrona had US dollar and euro denominated borrowings which it 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.

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.

Notes continued

16. Deferred tax

Deferred tax assets and liabilities are attributable to the following:

	2010			2009		
	Assets £m	Liabilities £m	Net £m	Assets £m	Liabilities £m	Net £m
Property, plant and equipment	(1.6)	12.2	10.6	(1.0)	12.0	11.0
Intangible assets	–	10.1	10.1	–	7.9	7.9
Employee benefits	(5.8)	–	(5.8)	(7.1)	0.2	(6.9)
Other	(6.8)	–	(6.8)	(5.8)	0.2	(5.6)
Tax (assets)/liabilities	(14.2)	22.3	8.1	(13.9)	20.3	6.4
Set off of tax	12.8	(12.8)	–	11.7	(11.7)	–
Net tax (assets)/liabilities	(1.4)	9.5	8.1	(2.2)	8.6	6.4

Movements in temporary differences in the year:

	2010 £m	2009 £m
Beginning of year	6.4	12.5
Expense to the income statement in respect of current year – continuing operations (note 5)	2.2	0.6
Credit to the income statement in respect of current year – discontinued operations	–	(6.2)
Credit to the income statement in respect of prior years	(1.3)	(2.0)
(Credit)/expense to reserves on movements on defined benefit pension schemes	(1.3)	2.0
Acquisitions (note 23)	2.2	–
Currency translation	(0.1)	(0.5)
End of year	8.1	6.4

No deferred tax liability is provided in respect of any future remittance of earnings of foreign subsidiaries where Filtrona is able to control the remittance of earnings and it is probable that such earnings will not be remitted in the foreseeable future, or where no liability would arise on the remittance. Deferred tax assets of £0.9m (2009: £0.8m) in respect of temporary differences have not been recognised where their realisation is not considered probable. These assets include capital losses of £0.3m (2009: £0.3m) and other temporary differences of £0.6m (2009: £0.5m). No deferred tax assets have been recognised in respect of unutilised tax losses of £32.0m (2009: £33.8m) or unused tax credits of £nil (2009: £1.5m).

17. Provisions

	2010			Total £m
	Discontinued £m	Restructuring £m	Other £m	
Movements				
Beginning of year	3.0	1.9	1.5	6.4
Provisions made during the year	–	–	0.4	0.4
Provisions released during the year	–	–	(0.5)	(0.5)
Utilised	–	(1.3)	(0.5)	(1.8)
Transfer	–	(0.6)	0.6	–
Released against discontinued operations	(0.5)	–	–	(0.5)
Currency translation	0.1	–	–	0.1
End of year	2.6	–	1.5	4.1
Non-current	–	–	1.2	1.2
Current	2.6	–	0.3	2.9
	2.6	–	1.5	4.1

17. Provisions continued

	2009			Total £m
	Discontinued £m	Restructuring £m	Other £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 provisions relate to warranties made on the disposal of Globalpack (2009: Globalpack and Filtrona Extrusion). In 2009, restructuring provisions were held against onerous property costs and future redundancy costs. During 2010 the onerous property costs provision was transferred to other provisions. 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.

The UK government announced on the 8 July 2010 that it will in future use the Consumer Price Index rather than the Retail Price Index for the purpose of determining statutory minimum pension increases for private sector occupational pension schemes. The Group's current UK defined benefit pension scheme rules specify that pensions in deferment will increase in line with the annual statutory order published by the UK government. The Group has therefore amended its assumptions for increases to pensions in deferment to reflect this. The resulting reduction in the present value of the schemes liabilities of £4.0m is included as a change in assumptions within other comprehensive income.

Contributions to all schemes are determined in line with actuarial advice, local conditions and practices. Defined benefit contributions in 2011 are expected to be £9.5m, which consists of payments to fund future service accruals and contributions to amortise the deficit in respect of past service.

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:

	2010 £m	2009 £m
Amounts expensed/(credited) against operating profit		
Defined contribution schemes – continuing operations	1.8	1.7
Defined contribution schemes – discontinued operations	–	0.2
Defined benefit schemes:		
Current service cost – continuing operations	1.8	2.1
Current service cost – discontinued operations	–	0.1
Curtailment gain	–	(0.2)
Total operating expense	3.6	3.9
Amounts included as finance (income)/expense		
Expected return on scheme assets (note 4)	(11.3)	(8.3)
Interest on scheme liabilities (note 4)	10.7	10.2
Net financial (income)/expense	(0.6)	1.9
Amounts recognised in the consolidated statement of comprehensive income		
Actual return less expected return on scheme assets	5.7	18.9
Impact of changes in assumptions relating to the present value of scheme liabilities	(10.7)	(12.5)
Actuarial (loss)/gain	(5.0)	6.4

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

	2010		2009	
	Europe	US	Europe	US
Increase in salaries (pre-2010) ¹	4.20%	3.00%	4.10%	3.50%
Increase in salaries (post-2010) ¹	3.00%	3.00%	–	–
Increase in pensions (pre-2010) ¹	3.60%	n/a ²	3.50%	n/a ²
Increase in pensions (post-2010) ¹	2.95%	n/a ²	–	n/a ²
Discount rate	5.40%	5.30%	5.70%	5.75%
Inflation rate	3.60%	n/a ²	3.50%	n/a ²
Expected return on scheme assets	6.20%	7.80%	6.60%	7.80%

1 For service prior to April 2010, pension at retirement is linked to salary at retirement. For service after April 2010, pension is linked to salary at April 2010 with annual increases capped at 3%

2 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:

	2010		2009	
	Europe	US	Europe	US
Male retiring today at age 65	20.8	18.5	20.8	18.4
Female retiring today at age 65	23.5	20.7	23.5	20.6
Male retiring in 20 years at age 65	22.8	18.5	22.8	18.4
Female retiring in 20 years at age 65	25.5	20.7	25.5	20.6



18. Employee benefits continued

The fair value of scheme assets, which are not intended to be realised in the short-term and may be subject to significant change before they are realised, and the present value of the scheme liabilities, which are derived from cash flow projections over long periods and are therefore inherently uncertain, are:

	2010				
	Long-term rate of return	Europe £m	Long-term rate of return	US £m	Total £m
Equities	7.40%	85.3	8.50%	23.2	108.5
Bonds	5.10%	23.9	4.24%	15.4	39.3
Gilts	3.90%	31.3	–	–	31.3
Other	3.90%	8.0	5.80%	0.1	8.1
Fair value of scheme assets		148.5		38.7	187.2
Present value of scheme liabilities		(154.5)		(50.3)	(204.8)
Retirement benefit obligations		(6.0)		(11.6)	(17.6)

	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)

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

To develop the expected long-term rate of return on assets assumption, the Company considers the current level of expected returns on risk-free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for the future returns of each asset class. The expected return for each asset class is then weighted based on the actual asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

Notes continued

18. Employee benefits continued

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

	2010			2009		
	Scheme assets £m	Scheme liabilities £m	Total £m	Scheme assets £m	Scheme liabilities £m	Total £m
Beginning of year	158.7	(181.3)	(22.6)	131.6	(169.0)	(37.4)
Service cost – continuing operations	–	(1.8)	(1.8)	–	(2.1)	(2.1)
Service cost – discontinued operations	–	–	–	–	(0.1)	(0.1)
Employer contributions	11.9	–	11.9	9.3	–	9.3
Employee contributions	0.6	(0.6)	–	0.7	(0.7)	–
Actuarial gains/(losses)	5.7	(10.7)	(5.0)	18.9	(12.5)	6.4
Finance income/(expense)	11.3	(10.7)	0.6	8.3	(10.2)	(1.9)
Benefits paid	(8.6)	8.6	–	(6.6)	6.6	–
Curtailment benefit recognised against operating profit	–	–	–	–	0.2	0.2
Curtailment benefit recognised against loss on disposal	–	–	–	–	1.8	1.8
Reclassification from other payables	–	–	–	–	(0.6)	(0.6)
Currency translation and other	7.6	(8.3)	(0.7)	(3.5)	5.3	1.8
End of year	187.2	(204.8)	(17.6)	158.7	(181.3)	(22.6)

	2010		2009	
	% of scheme assets/liabilities	£m	% of scheme assets/liabilities	£m
Experience gains and losses				
Difference between actual and expected return on scheme assets	3.6	5.7	14.4	18.9
Net actuarial (losses)/gains recognised in the statement of comprehensive income	2.8	(5.0)	3.8	6.4

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 2010.

	Scheme liabilities			Annual service cost		
	Europe £m	US £m	Total £m	Europe £m	US £m	Total £m
0.5% decrease in the discount rate	14.4	3.2	17.6	0.2	0.1	0.3
1.0% increase in the rate of inflation	18.6	n/a	18.6	–	–	–
1 year increase in life expectancy	3.5	1.3	4.8	–	–	–
0.5% increase in the discount rate	(12.7)	(2.9)	(15.6)	(0.2)	–	(0.2)
1.0% decrease in the rate of inflation	(14.9)	n/a	(14.9)	–	–	–

Historical information

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Scheme assets	187.2	158.7	131.6	143.5	134.8
Scheme liabilities	(204.8)	(181.3)	(169.0)	(165.8)	(165.7)
Retirement benefit obligations	(17.6)	(22.6)	(37.4)	(22.3)	(30.9)
Actual return less expected return on scheme assets	5.7	18.9	(36.9)	(0.3)	5.5
Impact of changes in assumptions relating to the present value of scheme liabilities	(10.7)	(12.5)	18.8	7.2	(3.3)

18. Employee benefits continued

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 £2.8m (2009: £2.4m). No further expense was charged in respect of discontinued operations (2009: £0.1m). Details of these plans are set out below:

Share options outstanding

	2010											
	At 1 Jan 2010	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 2010	Weighted average exercise price	Exercisable at 31 Dec 2010	Weighted average exercise price
LTIP Part A	8,905,043	213.7p	1,699,621	236.9p	(619,053)	226.2p	(8,937)	239.0p	9,976,674	216.9p	2,649,637	247.2p
LTIP Part B	3,643,975	–	1,218,595	–	(271,600)	–	(214,527)	–	4,376,443	–	–	–
DASB	771,884	–	123,547	–	–	–	(648,989)	–	246,442	–	–	–
SAYE 3 year plan	503,982	156.8p	391,363	151.0p	(55,329)	169.4p	(44,130)	199.8p	795,886	151.4p	–	–
SAYE 5 year plan	392,902	162.3p	103,176	151.0p	(37,766)	182.9p	(10,564)	199.8p	447,748	157.6p	–	–
	14,217,786		3,536,302		(983,748)		(927,147)		15,843,193		2,649,637	

	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	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	

Fair value model inputs for share options outstanding

	2010				
	LTIP Part A	LTIP Part B	DASB	SAYE 3 year plan	SAYE 5 year plan
Weighted average fair value at grant	52.2p	112.9p	146.3p	64.9p	59.2p
Weighted average share price at grant	216.9p	159.6p	168.1p	203.7p	203.6p
Weighted average exercise price	216.9p	–	–	151.4p	157.6p
Weighted average volatility	30.5%	35.7%	36.9%	34.3%	26.8%
Weighted average dividend yield	3.68%	5.21%	4.91%	4.04%	4.12%
Weighted risk free rate	3.48%	2.70%	2.43%	3.11%	4.15%
Expected employee retention rates	83.4%	91.9%	98.4%	43.15	40.0%
Expected term	3.31 years	2.91 years	3.00 years	3.00 years	5.00 years
Valuation model	Binomial	Monte Carlo	Binomial	Binomial	Binomial

	2009				
	LTIP Part A	LTIP Part B	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

1 Not applicable

Notes continued

18. Employee benefits continued

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

	2010 and 2009				
	LTIP Part A	LTIP Part B	DASB	SAYE 3 year plan	SAYE 5 year plan
Contractual life	3–10 years	3–6 years	3 years	3 years	5 years

Details of the vesting conditions of the LTIP Part A, LTIP Part B and DASB share option schemes are set out in the Report of the Remuneration Committee on pages 51 to 61.

All options are settled with equity.

19. Share capital

	2010 £m	2009 £m
Issued and fully paid ordinary shares of 25p (2009: 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 2010 the Company held 13,664,604 (2009: 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 £35.2m (2009: £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 51 to 61. The assets, liabilities and expenditure of the trust have been incorporated in these financial statements. At 31 December 2010 the trust held 1,004,490 (2009: 1,405,270) shares, upon which dividends have been waived, with an aggregate nominal value of £0.3m (2009: £0.4m) and market value of £2.4m (2009: £2.7m).

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 2010 £m	Cash flow £m	Exchange movements £m	Non-cash movements £m	31 Dec 2010 £m
Cash at bank and in hand	23.7	3.7	4.3	–	31.7
Short-term bank deposits and investments	8.3	–	–	–	8.3
Cash and cash equivalents in the statement of cash flows	32.0	3.7	4.3	–	40.0
Debt due within one year	–	(0.2)	–	(13.8)	(14.0)
Debt due after one year	(139.1)	12.9	(1.5)	10.9	(116.8)
Net debt	(107.1)	16.4	2.8	(2.9)	(90.8)

The non-cash movements are the amortisation of prepaid bank facility fees, acquired finance leases and movement of debt due after one year to debt due within one year.

21. Analysis of net debt continued

	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 and investments	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)

22. Commitments**Operating leases**

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

	2010 £m	2009 £m
Payable within one year	2.9	2.5
Payable between one and five years	6.8	4.9
Payable after five years	5.3	3.5
	15.0	10.9

The commitments shown above include commitments for an onerous lease which has already been provided for. At 31 December 2010 provisions include an amount of £0.6m (2009: £0.6m) in respect of this lease.

23. Acquisitions

On 26 February 2010, Filtrona acquired the entire issued share capital of both Summercombe 110 Ltd and BP Secure Solutions Limited, which together carry on the business of BP Labels. BP Labels, based in Cardiff, UK, is a manufacturer of high quality, creative and secure self-adhesive labels and is highly complementary with Filtrona's Coated & Security Products division.

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

BP Labels contributed £2.8m to revenue and £0.1m to operating profit before intangible amortisation in the period from acquisition to 31 December 2010 after deducting acquisition expenses of £0.1m.

On 22 November 2010, Filtrona acquired the entire issued share capital of Stera Holdings Limited, trading as Stera Tape, from family and employee shareholders of the acquired company. Stera Tape, based in Bridlington, UK, is a manufacturer of high quality speciality adhesive tapes and is highly complementary to Duraco, a business within Filtrona's Protection & Finishing Products division.

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

Stera Tape contributed £0.6m to revenue and an operating loss of £0.2m in the period from acquisition to 31 December 2010 after deducting acquisition expenses of £0.2m.

Notes continued

23. Acquisitions continued

A summary of the acquisitions is detailed below:

	Book value at acquisition £m	Reclassification £m	Revaluation £m	Fair value of assets acquired £m
Property, plant and equipment	1.6	(0.1)	–	1.5
Inventories	0.9	–	(0.1)	0.8
Receivables	1.8	(0.1)	–	1.7
Cash and cash equivalents	0.4	–	–	0.4
Deferred tax	(0.2)	–	(2.0)	(2.2)
Payables	(1.3)	0.2	(0.1)	(1.2)
Finance leases	(0.4)	–	–	(0.4)
	2.8	–	(2.2)	0.6
Customer relationships				5.9
Other intangible assets				0.5
Goodwill				5.8
Consideration				12.8
Satisfied by:				
Initial cash consideration				12.4
Deferred contingent consideration				0.3
Other deferred consideration				0.1
Cash consideration				12.4
Cash and cash equivalents acquired				(0.4)
Net cash outflow in respect of the acquisitions				12.0

The reclassification adjustment to property, plant and equipment, receivables and payables reflects the impact of reclassifying a government grant used to purchase machinery and a receivable balance due from a Filtrona Group company.

The adjustment to deferred tax is the tax affect of recognising customer relationships and other intangibles.

Payables and inventories were reassessed to their fair value.

Deferred contingent consideration of £0.3m is payable by the Group if BP Labels exceeds a targeted revenue and gross profit margin in the period of 12 months to 30 April 2011.

Included in the £5.8m of goodwill recognised above is the value of the unique revenue and cost synergies and an assembled workforce. Due to its nature this asset cannot be individually identified or measured.

It is estimated that if the acquisition of Stera Tape and BP Labels had been completed on 1 January 2010 the contribution to 2010 Group revenue would have been £9.7m and to Group operating profit before intangible amortisation would have been £1.4m.

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 was recorded directly to equity as acquisition of non-controlling interests.

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 was recognised as discontinued operations in the income statement.

On 22 June 2010, Filtrona received further consideration of £8.7m from Saw Mill Capital LLC for the settlement of an earn-out in relation to the disposal. The settlement resulted in a profit after tax of £6.8m which has been recognised as discontinued operations in the income statement.

24. Discontinued operations continued

The results for Filtrona Extrusion are presented below:

	2010 £m	2009 £m
Revenue	–	22.8
Operating profit	–	0.9
Finance income	–	–
Finance expense	–	–
Profit before tax from discontinued operations	–	0.9
Profit/(loss) on disposal of discontinued operations	8.7	(8.6)
Income tax (expense)/credit	(1.9)	1.0
Profit/(loss) for the period attributable to equity holders of Filtrona plc	6.8	(6.7)
Earnings per share attributable to equity holders of Filtrona plc:		
Basic	3.3p	(3.3)p
Diluted	3.3p	(3.3)p

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

	2010 £m	2009 £m
On profit on ordinary activities	–	0.6
On the profit/(loss) on disposal	1.9	(1.6)
	1.9	(1.0)

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

	2010 £m	2009 £m
Profit/(loss) on disposal of discontinued operations		
Initial cash consideration	–	54.2
Other consideration (2009: loan note) settled in the period	8.7	5.0
Disposal expenses settled in cash during the period	(0.5)	(4.9)
Cash and short-term deposits in Filtrona Extrusion on disposal	–	(0.3)
Net cash inflow in respect of disposal of Filtrona Extrusion	8.2	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	(0.5)
Pension curtailment	–	1.8
Profit/(loss) on disposal of discontinued operations	8.7	(8.6)

In June 2010, Filtrona received £2.7m from the Itavema Group which represented the third instalment due in relation to the deferred consideration for the disposal on 29 June 2007 of Globalpack, its Brazilian consumer packaging business.

Notes continued

25. Dividends

	Per share		Total	
	2010 p	2009 p	2010 £m	2009 £m
2009 interim: paid 30 October 2009		2.70		5.5
2009 final: paid 30 April 2010		5.08		10.4
2010 interim: paid 29 October 2010	3.00		6.2	
2010 proposed final: payable 28 April 2011	6.00		12.3	
	9.00	7.78	18.5	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 2010 and 2009, 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.

28. Non-GAAP measures

Management reviews the adjusted operating profit and operating cash flow as measures of the performance of the business. Adjusted operating profit is stated before intangible amortisation, which is considered not relevant to measuring the performance of the business. In 2009, management also adjusted for major restructuring costs and exceptional acquisition fees on the basis of their size and incidence. Operating cash flow is adjusted operating profit before depreciation, share option expense and other non-cash items, less working capital movements and net capital expenditure as shown below:

	2010 £m	2009 £m
Operating profit	72.0	42.3
Intangible amortisation	3.0	3.1
Major restructuring costs	–	8.9
Exceptional acquisition fees	–	1.9
Adjusted operating profit	75.0	56.2
Depreciation and other amounts written off property, plant and equipment	21.9	21.7
Share option expense	2.8	2.4
Other non-cash items	(0.9)	0.8
Working capital movements	(5.1)	2.2
Net capital expenditure	(18.8)	(10.8)
Operating cash inflow	74.9	72.5



Filtrona plc Company Balance Sheet

at 31 December 2010

	Note	2010 £m	2009 £m
Fixed assets			
Investment in subsidiary undertaking	2,10	284.5	281.7
Current assets			
Debtors	3	39.7	0.3
Cash at bank and in hand		0.6	–
		40.3	0.3
Current liabilities			
Creditors: amounts falling due within one year	4	(1.0)	(70.7)
Net current assets/(liabilities)		39.3	(70.4)
Non-current liabilities			
Creditors: amounts falling due after more than one year	5	(100.6)	–
Net assets		223.2	211.3
Capital and reserves			
Issued capital	7	54.8	54.8
Capital redemption reserve	8	0.1	0.1
Profit and loss account	8	168.3	156.4
Shareholders' funds: equity interests		223.2	211.3

The Company financial statements on pages 107 to 110 were approved by the Board of Directors on 24 February 2011 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 and cash flow statement.

The Company has taken advantage of the exemption in FRS29: *Financial Instruments: Disclosures*, because the published consolidated financial statements of the Group include disclosures which comply with the Standard.

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).

f Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account. Exchange differences arising from movements in spot rates are included in the profit and loss account as exchange gains or losses, while those arising from the interest differential elements of forward currency contracts are included in external interest income or expense.

g Financial instruments

Financial instruments are measured initially at fair value. The subsequent measurement depends on the classification of the financial instrument. Interest bearing loans and borrowings and other financial liabilities (excluding derivatives) are held at amortised cost.

(i) Financial instruments which hedge net investment in foreign operations of the parent undertaking

The Company holds financial instruments which hedge the net investments in the foreign operations of its subsidiary undertakings. Since the Company does not hold the underlying investments, gains and losses on these instruments are recognised in the profit and loss account.

Notes

1. Net operating charges

The auditor was paid £5,500 (2009: £5,500) 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 88.

The Directors' remuneration, which was paid by Filtrona International Ltd is disclosed in the Report of the Remuneration Committee on pages 51 to 61.

2. Investments held as fixed assets

	Investment in subsidiary undertaking	
	2010 £m	2009 £m
At beginning of year	281.7	279.2
Additions	2.8	2.5
At end of year	284.5	281.7

3. Debtors

	2010 £m	2009 £m
Corporate taxes	–	0.3
Amounts due from subsidiary undertakings	39.7	–

4. Creditors: amounts falling due within one year

	2010 £m	2009 £m
Amounts owed to subsidiary undertakings	–	70.7
Accruals and deferred income	1.0	–

5. Creditors: amounts falling due after more than one year

	2010 £m	2009 £m
Loan Notes	100.6	–

6. Maturity of financial liabilities

	Non bank loans
	2010 £m
Debt can be analysed as falling due:	
More than five years	100.6

At 31 December 2009 the Company held no financial liabilities.

7. Share capital

	2010 £m	2009 £m
Issued and fully paid ordinary shares of 25p (2009: 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 2010 the Company held 13,664,604 (2009: 13,664,604) of its own shares in treasury.

Notes continued

8. Movements on reserves

	Capital redemption reserve £m	Profit and loss account	
		Retained earnings £m	Own shares £m
1 January 2010	0.1	190.9	(34.5)
Profit for the year ended 31 December 2010		26.8	
Acquisition of employee benefit trust shares			(1.1)
Shares issued to satisfy employee share option exercises		(2.6)	2.6
Share-based payments		2.8	
Dividends paid		(16.6)	
31 December 2010	0.1	201.3	(33.0)

	Capital redemption reserve £m	Profit and loss account	
		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)

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 £26.8m (2009: £5.4m).

Included in retained earnings are accumulated share-based payments of £10.4m (2009: £7.6m) which are not distributable. Full details of these share-based payments are set out in the Report of the Remuneration Committee on pages 51 to 61.

9. Dividends

	Per share		Total	
	2010 p	2009 p	2010 £m	2009 £m
2009 interim: paid 30 October 2009		2.70		5.5
2009 final: paid 30 April 2010		5.08		10.4
2010 interim: paid 29 October 2010	3.00		6.2	
2010 proposed final: payable 28 April 2011	6.00		12.3	
	9.00	7.78	18.5	15.9

10. Principal subsidiary undertakings

	Country of incorporation
Filtrona International GmbH	Germany
PT Filtrona Indonesia	Indonesia
Filtrona BV	The Netherlands
Filtrona Filter Products International Ltd	UK
Filtrona Finance Ltd	UK
Filtrona International Ltd	UK
FIL International Ltd	UK
Filtrona Filter Products Ltd	UK
Moss Plastic Parts Ltd	UK
Filtrona C&SP Holding Company 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 2010, comprising 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 50, 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, and express an opinion on, 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 2010 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; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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;
- 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 Directors' Remuneration Report 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 49, in relation to going concern;
- the part of the Corporate Governance Statement on page 62 relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Mike Barradell (Senior Statutory Auditor)

For and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants
24 February 2011

KPMG Audit Plc
15 Canada Square, Canary Wharf
London, E14 5GL
United Kingdom

Advisors and Investor Information

Secretary and Registered Office

Jon Green
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Company Number 05444653
www.filtrona.com

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10 Aldermanbury, London EC2V 7RF

Bank of America Merrill Lynch
2 King Edward Street, London EC1A 1HQ

Solicitors

Slaughter and May
One Bunhill Row, London EC1Y 8YY

Auditor

KPMG Audit Plc
15 Canada Square, Canary Wharf, London E14 5GL

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 and Interim Reports, 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, Central Milton Keynes, Buckinghamshire MK9 2HQ on Thursday 14 April 2011 at 12 noon.

Financial calendar 2011

Annual General Meeting	14 April 2011
1st Interim Management Statement	14 April 2011
Final dividend	28 April 2011
Half Year Report	August 2011



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