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FILTRONA

The Invisible Enablers

ANNUAL REPORT 2011

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

Protection & Finishing Products

Review of Operations
on page 18

Porous Technologies

Review of Operations
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Coated & Security Products

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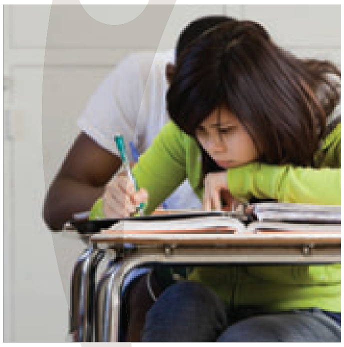
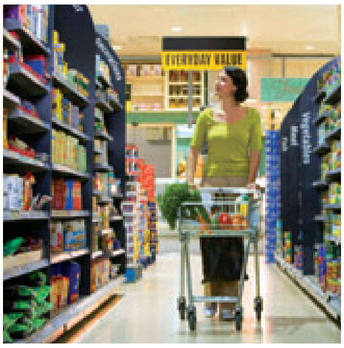
on page 26

Filter Products

Review of Operations
on page 30





Providing essential products for a range of end-markets including the retail, construction and industrial sectors

Developing innovative solutions for essential everyday items, ranging from healthcare products to office and school consumables

Providing essential and innovative solutions for security products and thousands of supermarket items

Providing key components, packaging solutions and analytical laboratory services to the tobacco industry, a global market with growth in Asia and emerging countries

For more information visit **www.filtrona.com**

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Directors' Report: Business Review

Directors' Report: Corporate Governance

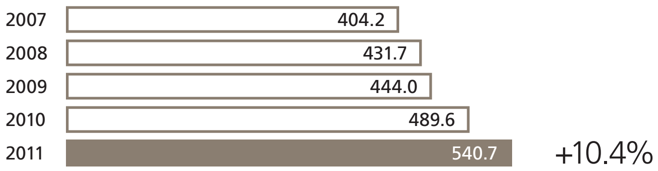
Financial Statements

Key Highlights of 2011*

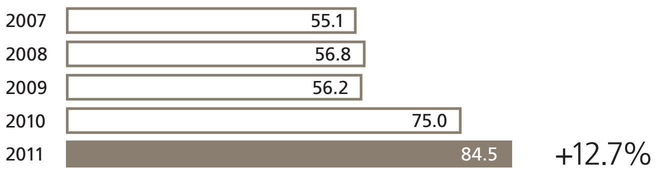
- Revenue up 11% at constant FX (+8% like-for-like[1]), with growth across all divisions
- Adjusted[2] operating profit up 14%, with margin expansion of 40bps to 15.6%
- Adjusted[2] EPS ahead 21% to 25.1p
- Adjusted[2] operating cash flow up 24% to £93m; net working capital improvement to 13.1% of revenue, down 110bps
- Net debt of £145m, increased predominantly due to £89m acquisition spend on Reid Supply and Richco, Inc.
- Full year dividend +17% to 10.5p per share
- Successful organisational changes implemented to underpin Vision 2015 objectives

* Figures presented in the Key Highlights are in respect of continuing operations and are shown at constant exchange rates
[1] Excluding the impact of acquisitions and disposals
[2] Excluding intangible amortisation and exceptional operating items, less tax relief thereon

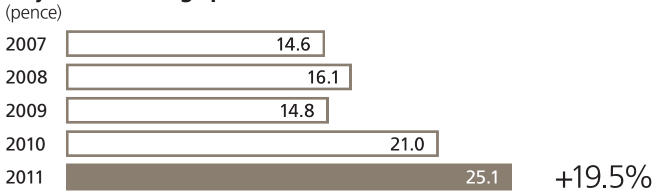
Revenue†
(£m)



Operating profit†
(£m)



Adjusted earnings per share†
(pence)



† On a continuing operations basis, adjusted to exclude the impact of intangible amortisation and exceptional items, less tax relief thereon

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

Filtrona at a Glance

Every day we produce and distribute millions of small but essential components manufactured from plastic, fibre and foam. Our international network extends to 27 countries

Our four operating divisions are:

Protection & Finishing Products

A global market leading supplier of protection and finishing products, manufacturing and distributing plastic injection moulded, vinyl dip moulded, and metal items as well as pressure sensitive tapes. The division has 60 operating units in 21 countries serving a very broad industrial 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.

2011 highlights

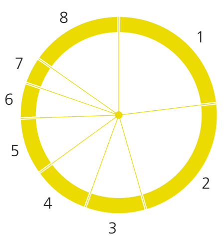
- Broad-based result across businesses, benefiting from range developments and continued improvements in marketing effectiveness
- Growth supported by the move to larger distribution warehousing operations
- Launch of Duraco catalogue in China and Stera Tape products in the US
- Successful acquisition of Reid Supply and Richco, Inc.

£163.0m
Revenue
+26.3%

£37.8m
Operating profit[1]
+31.3%

Revenue by end-market (%)

1.	**23.2**	Oil and gas
2.	**22.4**	Fabrication machinery
3.	**10.0**	Automotive
4.	**9.6**	Point of purchase
5.	**9.3**	Distributors
6.	**5.9**	Electrical / Electronics
7.	**4.5**	Hydraulics / Pneumatics
8.	**15.1**	Other



Porous Technologies

A global market leading developer and manufacturer of custom fluid handling components, engineered from a portfolio of technologies that includes bonded fibre, polyurethane foam, and porous plastic. Representing leading innovations used in healthcare, consumer and industrial applications, its enabling components are found in a wide range of products from medical diagnostics tests to advanced wound care pads, inkjet printer cartridges, writing instruments and air fresheners. Customers in 56 countries are served from four manufacturing facilities with research and development centres supporting the division globally.

2011 highlights

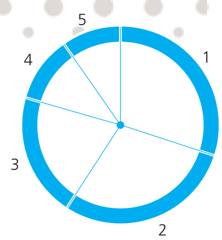
- Excellent growth in printer systems, supported by healthcare
- New technologies introduced, with the commercial expansion of products using porous plastics ahead of expectations
- Capacity investments to support future growth, including Far East markets
- Completion and market launch of innovative new wound care foam technologies

£77.9m
Revenue
+4.3%

£18.4m
Operating profit[1]
+4.0%

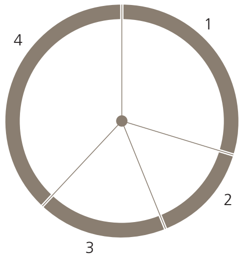
Revenue by end-market (%)

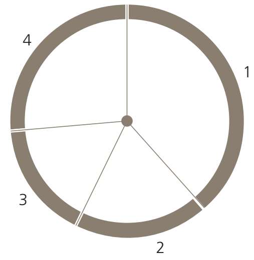
1.	**30.2**	Writing instruments
2.	**29.2**	Printer systems
3.	**20.1**	Healthcare
4.	**10.9**	Household products
5.	**9.6**	Other



Contribution to Group

Operating divisions	2011[2] Revenue (%)	2011[1,2] Operating profit (%)
Protection & Finishing Products	1. 30.1	1. 39.3
Porous Technologies	2. 13.2	2. 19.1
Coated & Security Products	3. 18.2	3. 16.0
Filter Products	4. 38.5	4. 25.6





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 the consumer packaging, identity and valuable documents markets. Customers in over 100 countries are served from facilities operating in six countries. The division also includes plastic profile extrusion activities in The Netherlands.

2011 highlights

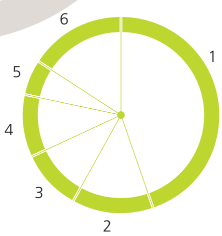
- Broad-based growth from tear tape, labels and the Payne authentication system
- Queen's Award for Enterprise in the Innovation category gained for the successful development and commercialisation of proprietary authentication technology
- New go-to-market focus on Packaging Solutions and Authentication & Identity Solutions
- Next generation Blue Badge contract secured in the UK

£98.2m
Revenue
+6.9%

£15.4m
Operating profit[1]
+4.8%

Revenue by end-market (%)

1.	**44.9**	Tobacco
2.	**13.2**	Consumer goods
3.	**10.2**	Point of purchase
4.	**10.1**	Document & identity solutions
5.	**6.0**	Transit packaging
6.	**15.6**	Other



Filter Products

The only global independent cigarette filter supplier. The nine 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, packaging solutions to the roll your own sector and analytical laboratory services for ingredient measurement for the industry.

2011 highlights

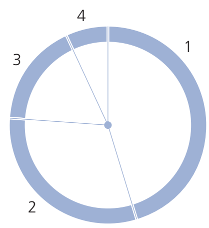
- Revenue growth supported by increased successful product launches, development initiatives and service offerings versus 2010
- Relocation of divisional head office to Singapore and move to new custom-built facility in Thailand, to serve growing Asian markets
- Investment in Greensboro site, expanding both capacity and operational capability
- Division re-focused on three go-to-market business units

£208.0m
Revenue
+3.6%

£24.5m
Operating profit[1]
+3.4%

Sales volume by type (%)

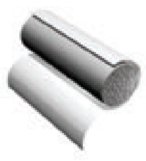
1.	**45.5**	Monoacetate
2.	**30.8**	Carbon
3.	**17.0**	Other special
4.	**6.7**	Flavour



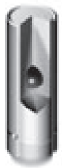
[1] Before intangible amortisation and exceptional operating items
[2] Adjusted to reflect the impact of eliminations and central costs

We Are Here ...

Our products may not be noticeable – or even instantly recognisable – but wherever you are, our business is all around you



Filter tips
More than 1 in every 20 filter tips sold around the world are manufactured by Filtrona



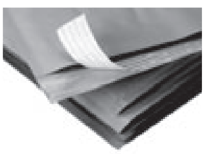
Capsules
Capsules are the fastest growing filter innovation and around 1 in 10 of all menthol cigarettes have a capsule filter

700 times
Shelf ready packaging
Payne produces enough tear tape in a year to go around the world 700 times

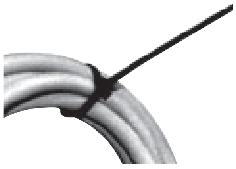
Metal hardware
A stylish push-lock offering a good level of security saves time in a busy retail environment

50 years
Fibre reservoirs
reflect over 50 years of innovation and represent the standard in the writing industry

Duraco finger lift
tapes are the trusted tape to seal shipping envelopes and hold contents secure around the world



And Also Here

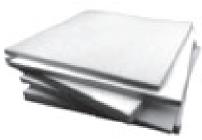


73m
Cable ties
A versatile fastener, used in all industries, with over 73m sold in 2011

700kg
Castor wheels
Moss Express has over 12 styles and offers wheels with a weight capacity up to 700kg

100m
Pharmaceutical products
Labels from Payne help identify 100 million pharmaceutical products

265
ID solutions
Payne Security provides ID solutions to over 265 healthcare providers



Polyurethane foam technology
Used in advanced wound care dressings due to its high absorbency rate

What We Do

Filtrona operates at a Company and a divisional level. The Company is responsible for managing the overall portfolio of business activities, to create sustainable long-term value for shareholders

OUR BUSINESS MODEL

Clear portfolio management

We have a clear model for managing our portfolio of business activities

- Establishing the strategic framework and culture for the Company as a whole
- Ensuring divisional strategies are aligned to Company strategy
- Setting the risk appetite and risk management framework
- Participating in and agreeing the annual divisional plans
- Setting appropriate and stretching divisional performance targets, supported by effective remuneration programmes
- Reviewing and challenging divisional performance
- Approving and allocating capital for disciplined investment in the business
- Reviewing the Company's structure and considering opportunities to create value through portfolio management
- Overseeing and supporting the implementation of acquisitions, to ensure delivery against ongoing plans
- Establishing the governance controls and ensuring appropriate processes and policies are in place
- Fulfilling the requirements of a UK listed company

Shared divisional priorities

Leverage our scale

We have a well-invested and flexible international sourcing, supply chain and production infrastructure. This allows us to offer businesses across the Company the opportunity to use our existing infrastructure and management to exploit new opportunities efficiently and cost effectively. Our international distribution network ensures the delivery of cost competitive and high quality products in response to customers' requirements. High levels of service and broad geographic reach are an important competitive differentiator.

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Principal manufacturing facilities

Operate efficiently

We have a comprehensive international 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, we are 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.

Gross margin (at constant exchange)
(%)

	%
2008	32.2
2009	32.2
2010	34.9
2011	35.7

Protection & Finishing Products

Porous Technologies

Coated & Security Products

Filter Products

Each of the four operating divisions is responsible for managing their respective business activities to meet the needs of their customers and to create value for the Company.

Delivering value

Develop long-term customer relationships

We develop and maintain 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 help to drive continuous improvement across the Company. Our manufacturing and distribution expertise adds value in response to customer demands, and our innovative capabilities drive the joint development of new products and services with key strategic partners.

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Sales and distribution operations to serve our international customer base

Invest in new product innovation

The continued successful launch and commercialisation of new products and services is a key driver for our future growth. 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 our competitive positions. Robust quality systems to internationally accredited standards assist the fulfilment of customers' demands.

5

We have five research and development facilities

Build on our leading international market positions

We have secured leading international positions in many of our served markets in each of our four operating divisions. With our investment in international infrastructure, technology, innovation and people, the strength of our businesses within their respective markets enables us to deliver balanced, profitable growth.

Benefit from our experienced management team

We have a highly experienced and well-regarded management team. The detailed insight into customer needs and market trends allows us proactively to respond to changing priorities and to drive performance. Technical expertise is reflected in production and supply chain efficiencies and product innovation.

12yrs

We have an average 12 years of service at senior management level

Chief Executive's Review

COLIN DAY
Chief Executive

Vision 2015
Delivering balanced, profitable growth from the manufacture of millions of plastic, fibre and foam components

Following my appointment as Chief Executive of Filtrona on 1 April 2011, I undertook a detailed review of the entire Company and its operations over the following months. What I found was a business that was essentially in good shape and doing many good things, with an international footprint, leading market positions and a loyal, experienced workforce: in essence, a business that was solid, steady and stable. This was a position on which I believed we could build. As a result, at the time of our half year results in August, we set out a more ambitious strategy for the Company for the next three financial years. It looks to build on the positive features and values which I inherited, while rekindling an appetite for growth behind key objectives and targets, and creating a more unified culture across the organisation. We have called this strategy Vision 2015.

Creating a virtuous circle financial model

From a financial perspective, Vision 2015 calls for balanced, profitable organic growth: a top-down model with an emphasis on strong performance across the board, rather than placing undue reliance on one particular metric to drive the Company's results.

Filtrona is a high volume manufacturer, supplier and distributor of essential components, producing millions of units every day. As such we have looked to re-position the business to focus on revenue growth, with volume as the key driver. And we are already delivering against this objective, with like-for-like revenue ahead 8% in 2011 of which volume growth represented 6%. This revenue growth has come from both a product and a geographic perspective. In terms of products, we are broadening our offering to reach new end-markets and have stepped up our innovations to our customers: for example, in 2011 our Coated & Security Products division introduced a new opening solution in the US food market, while Porous Technologies launched a new range of hydrophilic polyurethane foams for advanced wound care applications. And in terms of geography, we have continued to increase our penetration in existing markets, while there was further investment with a particular focus on faster-growing economies. Growth in the Protection & Finishing Products division was supported by the move to larger distribution warehousing operations in Brazil and Poland, and we opened a new site in Albany, US. And in Filter Products we relocated the divisional head office to Singapore from the UK to be closer to its main markets.

Combined with rigorous control of our cost base, we are looking to this volume-driven revenue growth to fuel gross margin expansion. This will provide us with the capability to re-invest in sales, marketing & innovation to drive future revenue growth, as well as delivering continued improvement in profitability. With an equally keen eye on the Company's financing and fiscal positions, we intend that our earnings growth is supported on all fronts.

Focusing on cash flow

A key measure of the success of Vision 2015 will be our ability to translate profitability into cash, and the strategy targets conversion in excess of 100%. While we look to the underlying profitability of the Company to be the key driver of cash generation, the objective is to supplement that with further improvements in our net working capital position.

Our strong cash generation continues to enable us to invest in the business. In 2011, we completed a number of successful projects including: the expansion of taggant manufacturing at our Coated & Security Products site at Banbury, UK; the move to a new custom-built facility in Bangkok, Thailand for our Filthai Filter Products operation; ongoing construction of a new facility for MSI in Houston, US which is on track for completion by the second quarter of 2012; and further capacity expansion at the St. Charles, US foam site for medical wound care products. We have similarly taken the opportunity to invest in upgrading or adding equipment and machinery, to ensure that our manufacturing productivity and efficiency supports our future growth objectives. At the same time, we have looked to streamline the business where appropriate, including the divestment of the FractureCode track and trace business from Coated & Security Products and the relocation of filter manufacturing from Monterrey, Mexico to our expanded facility at Greensboro, US. Over and above these capital investments, we are committed to returning cash to our shareholders through a progressive dividend policy.

Our vision

To be the leading global supplier of speciality plastic, fibre and foam components

Our objective

To create sustainable long-term value for our shareholders

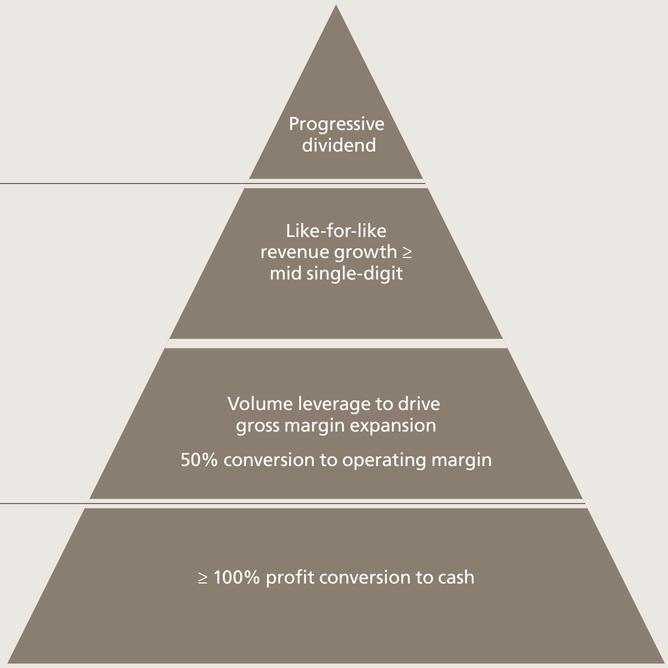
Our strategy and operational priorities

To deliver balanced, profitable growth in both our existing and future opportunity markets and technologies

Prioritise volume growth to drive higher revenue and gross margin expansion

Re-invest in the business for future growth

Focus on strong translation of profit into cash



Our responsibilities

Manage our activities to reflect the high expectations of all our stakeholders

Establish safe people and operational procedures, and minimise our impact on the environment

Attract and develop motivated and highly-skilled employees

Conduct our business to the highest ethical standards

Further information on our Corporate Responsibility can be found on page 38. Further information on our Key Performance Indicators can be found on page 16.

"Vision 2015 sets out a more ambitious three-year strategy, building on Filtrona's positive features and values while rekindling an appetite for growth and creating a more unified culture. 2011 shows we are already on our way"

Chief Executive's Review continued

A measured approach to acquisition opportunities

Vision 2015 seeks to complement balanced, organic growth with value-adding acquisitions across the Company and in 2011 we announced two transactions, both in our Protection & Finishing Products division. In September, we completed the acquisition of Reid Supply Company for up to US$32m, a leading distributor of standard industrial components, including hardware, handles, clamps and fasteners to a wide range of markets and customers. And then in late December, we completed the acquisition of Richco, Inc. for US$110m, a leading international designer, manufacturer and distributor of engineered plastic and elastomeric solutions for fastening and cable management applications in diverse and growing end-markets. In order to support our growth strategy we successfully refinanced our bank facilities during the year, and put in place competitively-priced £330m sterling and euro-denominated five-year revolving credit facilities.

Subsequent to the year end, we announced the acquisition of 100% of the share capital of Securit World Ltd for a cash consideration of £6m. UK-based Securit distributes desktop personal identification card systems, and will be reported under our Coated & Security Products division.

We seek to balance our measured approach to acquisition opportunities with a continued strong return on average invested capital.

Developing the right organisational structure

Key to delivering long-term value to our shareholders is the continued development, skills and commitment of Filtrona employees across the world. It is also essential that we have the appropriate leadership across the Company to drive our Vision 2015 strategic objectives. With that in mind, we established the Group Management Committee ("GMC") to replace the previous Executive and Group Operating Committees, to promote a more streamlined and co-ordinated decision-making process. In addition, in order to strengthen the organisational structure, we created three new GMC roles: the positions of Corporate Development Director, Corporate Affairs Director and Group Commercial Director. We also established a Group Leadership Team ("GLT"), being the Company's most senior executives and drawn from our four business divisions and the corporate head office, as well as comprising members of the GMC.

During the year, we also re-aligned and simplified the organisational structure within each of our four divisions, to focus and improve our go-to-market strategy, to optimise operational benefits and potential synergies from the integration of certain processes, and to improve accountability.

We are committed to ensuring Filtrona is viewed as an employer of choice, in order to ensure the attraction and retention of suitably motivated, experienced and skilled personnel. As an international organisation, it is important that we attract an appropriate level of local talent, and to support both our recruitment efforts and the career development of our employees, we are establishing a divisional human resources infrastructure including investing in a dedicated IT system.

Taken together, these two developments are aimed at better identifying talent and employment opportunities within the Company, facilitating mobility both geographically and between divisions, and improving succession planning at all levels. In 2011, we also expanded the Filtrona Graduate Development Programme and the Group Management Development Programme from Anglo-American schemes, to include participants from our other international sites. It is anticipated that these programmes will be broadened further in 2012.

Our overriding commitment remains the health, safety and welfare of our employees and all those who visit our operations. And notwithstanding the progress we have made in previous years, we continued to see further improvement in 2011: the total accident trend declined and we saw a reduction in lost-time accidents in all four divisions. Indeed, against more stringent requirements in 2011 versus 2010, seven of our sites received a Gold ranking in the Filtrona Health & Safety Awards, with a further nine achieving Silver status; had the criteria remained unchanged year-on-year, some 50 per cent of our facilities would have been received Gold awards.

Our responsibilities

At the heart of our Vision 2015 strategy is a commitment to the highest standards of corporate governance and responsibility, to ensure that the way in which we manage our activities reflects the expectations of all the Company's stakeholders. As a member of both the FTSE4Good Index and the Carbon Trust, we recognise that our interaction with the environment and local communities is a critical component of the international reputation of Filtrona's businesses and the quality of the Company's respective brands, as well as a cornerstone of developing a responsible, progressive and winning culture.

All our principal manufacturing facilities hold the ISO 14001 environmental accreditation and, with the exception of recently-acquired sites (which, per Filtrona policy, have a period of 24 months to reach the required standard), they have also achieved the Occupational Health & Safety Management Systems OHSAS 18001. In respect of the latter, our Jarrow site attained the standard in 2011 as targeted, while the BP Labels (rebranded as Payne Cardiff) and Stera Tape sites acquired in 2010 are both making progress towards its achievement. The Company also applies a standardised process to review its distribution sites and to award certificates of Compliance, Merit or Excellence. During the year, 14 sites were assessed, all of which achieved an Excellent rating.

During the year, Filtrona was ranked equal first by the UK's Environment Agency in the first Carbon Reduction Commitment Performance League Table. This league table is based on early actions that participating companies have taken to demonstrate their commitment to energy efficiency within their organisations, and is a direct result of the early action we began in 2010 under the auspices of our Health, Safety & Environment Council, including achieving the Carbon Trust Standard at all of our principal UK manufacturing sites.

Over and above the Company's carbon emissions, we have made further progress on reducing the environmental impact of our business in other aspects, with our water use and the amount of waste sent to landfill showing reductions versus 2010 levels.

This year the Group environmental award was given to Payne India, whose submission demonstrated a commitment to energy and carbon reduction which, at the same time, strongly supported the local community. And I was likewise very pleased to present the 2011 Chief Executive's Special Award to the Porous Technologies' Richmond, US site for its development of a recycle extruder. The extruder converts manufacturing waste into usable material for writing instrument reservoirs, and allows the production of an eco cartridge made from 100% recycled materials.

In summary

2011 was a strong year for Filtrona, and one in which we have already started to make good progress towards our Vision 2015 objectives. And I would like to thank all our employees for their continued commitment and diligent efforts to deliver these results during a period of leadership change.

Our international footprint, combined with the diversity of our products and end-markets, provides Filtrona with a degree of defensiveness in what remains an uncertain economic backdrop. So, consistent with the more ambitious initiatives which underpin our Vision 2015 strategy, we are well positioned to deliver further balanced, profitable growth in 2012, and anticipate that each of our four operating divisions will contribute to the overall performance of the Company.

As a result, we are aiming to continue to make progress towards our Vision 2015 objectives of at least mid single-digit like-for-like revenue growth and double-digit adjusted earnings per share growth at constant exchange rates.

Colin Day
Chief Executive
22 February 2012

Moving forward

OUR OBJECTIVES	PROGRESS IN 2011	PRIORITIES IN 2012
Identify key new product opportunities	• Conversion of intellectual property and manufacturing know-how into commercial success across divisions • Range developments and continued improvement in marketing effectiveness	• Successfully exploit innovative and manufacturing capabilities in new technologies, products and services across the Company
Focus on faster growing markets / economies	• Relocation of Filter Products' head office to Singapore • New filters factory opened in Thailand • Transfer of pregnancy test wick production capacity and equipment to China • Duraco catalogue launched in China • Growth in Protection & Finishing Products supported by warehouse expansion in Brazil, Poland and China	• Further expansion of international distribution, sales and marketing expertise, to exploit growth opportunities
Identify value-creating, complementary M&A opportunities	• Acquisition of Reid Supply and Richco, Inc. in Protection & Finishing Products	• Successful integration of 2011 acquisitions • Identify further opportunities across our four divisions
Invest in improving operational excellence and execution	• Capacity expansion, and investment in upgrading or adding machinery and equipment • Re-aligned the organisational structure of each of our divisions, to improve the go-to-market strategy	• Further investment to support revenue growth opportunities • Drive revenue growth from our more streamlined divisional strategic business units
Strengthen organisational structure and talent base	• Established Group Management Committee and Group Leadership Team • Created three new senior management roles to support Vision 2015 strategy • Broadened the geographical reach of the Management and Graduate Development Programmes • Established a divisional Human Resources infrastructure	• Continue to grow and develop talent across all divisions • Increase cross-divisional moves to enhance mobility • Attract appropriate level of local talent for a global business • Widen the geographic reach of the Management and Graduate Development Programmes

Financial Review

"We delivered against our objective of balanced, profitable growth, complemented by value-adding acquisitions"

STEVE CRUMMETT
Group Finance Director

Basis of preparation

The financial information is prepared in accordance with IFRSs as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board, and with the accounting policies set out on page 73.

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

For the principal exchange rates for Filtrona for the year ended 31 December 2011 ("FY 2011"), see the table opposite. Re-translating at FY 2011 average exchange rates reduces the prior year revenue and adjusted operating profit by £2.9m and £0.8m respectively.

Like-for-like basis
The term "like-for-like" describes the performance of the business on a comparable basis, adjusting for the impact of acquisitions, disposals and foreign exchange. The FY 2011 results include the results of BP Labels (acquired on 26 February 2010), Stera Tape (acquired on 22 November 2010), Reid Supply Company (acquired on 6 September 2011), Richco, Inc. (acquired on 21 December 2011) and FractureCode (divested on 28 July 2011).

Adjusted basis
The term "adjusted" excludes the impact of intangible amortisation and exceptional operating items, less any associated tax relief. In FY 2011, intangible amortisation was £3.7m (2010: £3.0m), and there was an exceptional pre-tax charge of £8.2m (2010: £nil) mainly relating to integration costs and fees arising from the acquisitions of Reid Supply Company and Richco, Inc., and other net costs arising from further reconfiguration of the Company.

Trading performance
Full year revenue was 10.4% ahead of the prior year (+11.1% at constant exchange rates) at £540.7m, with like-for-like growth of 8.0%. The gross margin rose 80bps (at both constant and actual exchange) to 35.7%, benefiting from successful pricing programmes to mitigate input cost increases, ongoing operational improvement initiatives and a positive product mix.

On an adjusted basis, operating profit was ahead 12.7% (+13.9% at constant exchange rates) at £84.5m, equating to a 30bps uplift in the margin to 15.6% (+40bps at constant exchange rates). Operating profit as reported was £72.6m, 0.8% higher than last year (+2.0% at constant exchange rates).

Net finance expense
Net finance expense was £8.3m, a £2.1m decrease versus FY 2010.

The net interest charge on net debt decreased to £8.6m (2010: £9.1m), primarily as a result of lower average debt levels during the year. The amortisation of bank fees decreased to £0.8m (2010: £2.5m), the IAS 19 (Revised) pension finance credit of £1.2m was higher (2010: £0.6m), while other interest expense was £0.1m (2010: income of £0.6m).

Tax
The effective tax rate on profit before exceptional items and tax was 30.4% (2010: 31.0%).

Net income
Adjusted net income was up 18.8% (+20.4% at constant exchange rates) to £53.0m. On a reported basis, net income of £42.4m decreased 0.2% (increased 1.2% at constant exchange rates).

Earnings per share
On an adjusted basis, earnings per share from continuing operations increased 19.5% (+21.3% at constant exchange rates) to 25.1p. Basic earnings per share from continuing operations, as reported, was 20.0p, level with last year (+1.5% at constant exchange rates).

Free cash flow reconciliation
(£m)

Adjusted operating profit	**84.5**
Non-cash items	27.1
Working capital	7.9
Net capital expenditure	(26.8)
Adjusted operating cash flow	**92.7**
Tax paid	(21.6)
Net interest paid	(9.1)
Pension obligations	(8.3)
Free cash flow	**53.7**

	Average		Closing	
	FY 2011	FY 2010	FY 2011	FY 2010
US$:£	**1.60**	1.55	**1.55**	1.57
€:£	**1.15**	1.17	**1.20**	1.17

Fully diluted adjusted earnings per share of 24.3p was up 18.0% (+19.7% ahead at constant exchange rates).

Dividends

The Board of Directors recommends a final dividend of 7.2p per share (2010: 6.0p), an increase of 20.0%. This takes the FY 2011 dividend to 10.5p per share (+16.7% versus FY 2010).

Net working capital

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

Net working capital of £71.1m was marginally higher than the 31 December 2010 level of £70.0m. The net working capital / revenue ratio was 13.1% (2010: 14.2% at constant exchange).

Cash flow

Operating cash flow increased 23.8% to £92.7m (2010: £74.9m). This included an inflow of working capital for the year of £7.9m (2010: outflow of £5.1m) and gross capital expenditure of £27.0m (2010: £20.1m), with net capital expenditure at £26.8m (2010: £18.8m). Net capital expenditure equated to 129% (2010: 92%) of the depreciation charge for the year of £20.7m (2010: £20.4m).

Net interest paid was £9.1m (2010: £8.0m) and tax payments increased by £5.3m to £21.6m (2010: £16.3m). The outflow in respect of pension obligations decreased to £8.3m (2010: £10.1m). Free cash flow of £53.7m (2010: £40.5m) was up 32.6%.

Net debt

Net debt at the end of the period was £144.9m, an increase of £54.1m from 1 January 2011. This reflected free cash flow of £53.7m, offset by dividends totalling £19.1m, net acquisitions of £86.6m and foreign exchange and other inflows.

The Company's financial ratios remain strong. The ratio of net debt to EBITDA as at 31 December 2011 was 1.4x (31 December 2010: 0.9x) and interest cover was 9.3x (31 December 2010: 7.1x).

Balance sheet

At the end of 2011, the Company had shareholders' funds of £207.0m (2010: £187.8m), an increase of 10.2%. Net debt was £144.9m (2010: £90.8m) and total capital employed in the business was £358.3m (2010: £288.2m).

This finances non-current assets of £362.5m (2010: £267.7m), of which £168.1m (2010: £156.1m) is tangible fixed assets, the remainder being intangible assets, deferred tax assets and other receivables. The Company has net working capital of £71.1m (2010: £70.0m), current provisions of £12.8m (2010: £2.9m) and long-term liabilities other than borrowings of £41.3m (2010: £33.3m). The return on average invested capital (including intangibles) was 23.6% (2010: 21.6%), driven by higher profits in the year.

Pensions

As at 31 December 2011, the Company's IAS 19 (Revised) gross pension liability was £24.0m (2010: £17.6m) with a net liability of £16.6m (2010: £12.4m) after accounting for a deferred tax asset of £7.4m (2010: £5.2m). The deficit has been calculated after updating the asset values and certain assumptions as at 31 December 2011.

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 Group Assurance 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 exchange risk

The majority of Filtrona's net assets are in currencies other than sterling. The Company's normal policy is to limit the transaction exposure and the resulting impact on shareholders' funds by borrowing in those currencies in which the Company has significant net assets. As at 31 December 2011, Filtrona's US dollar-denominated assets were approximately 59% hedged by its US dollar-denominated borrowings, while its euro-denominated assets were approximately 92% 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
22 February 2012

Key Performance Indicators

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

Key performance indicators

WHAT WE MEASURE	WHY WE MEASURE IT	HOW DID WE DO?
Revenue growth % growth in like-for-like revenue[1]	Measures the ability of the Company to grow sales by operating in selected markets and offering differentiated, cost-competitive products and services	+8% **Revenue growth** 2011: 8% (2010: 8%)
Gross margin Gross profit as a % of revenue	Measures the resources available for re-investment or profit growth	+80bps **Gross margin increase** 2011: 35.7% (2010: 34.9%)
Operating margin[2] Operating profit[2] as a % of revenue	Measures the profitability of the Company	+40bps **Operating margin increase** 2011: 15.6% (2010: 15.2%)
Earnings per share[2,3] % change in earnings per share[2,3]	Measures the benefits generated for shareholders from the Company's overall performance	+21% **Adjusted earnings per share** 2011: 25.1p (2010: 21.0p)

Measuring up against our strategy

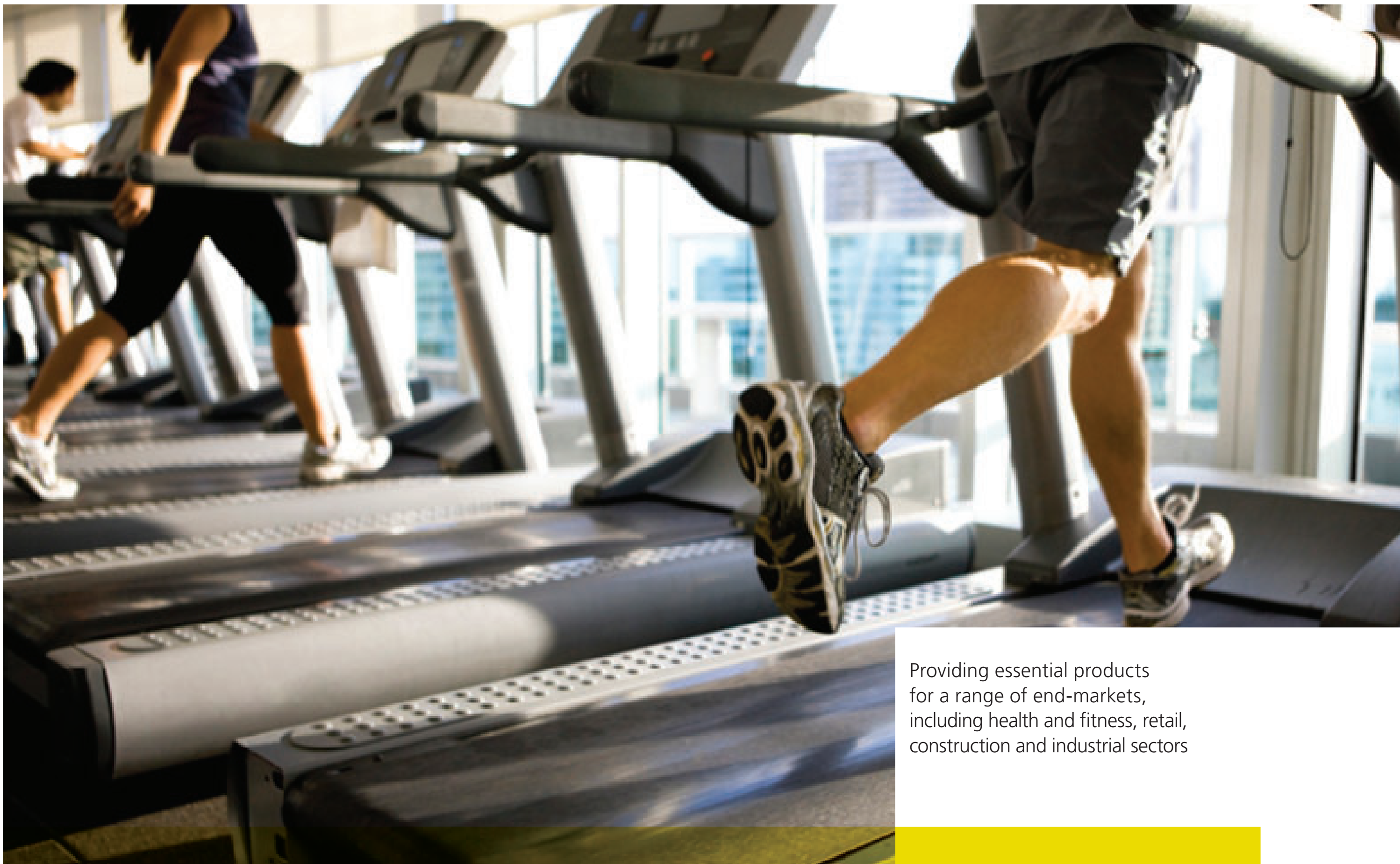
As well as being used to measure the performance at Group level, a number of these indicators are also used as principal elements in assessing the short-term and long-term performance of the operating businesses.

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 each of the businesses are detailed in the respective Review of Operations.

WHAT WE MEASURE	WHY WE MEASURE IT	HOW DID WE DO?
Net working capital ratio Defined as inventories plus trade & other receivables less trade & other payables, adjusted to exclude deferred consideration receivable / payable and interest accruals / capital payables, and other normalising items, as a % of revenue	Measures the ability of the Company to finance its expansion and release cash from working capital	13.1% **Net working capital ratio** 2011: 13.1% (2010: 14.2%)[4]
Cash conversion[2] Operating cash flow as a % of operating profit[2]	Measures how the Company converts its profit into cash	110% **Cash conversion** 2011: 110% (2010: 100%)
Dividend per share % change in dividend per share	Measures the amount of cash per share which the Company returns to shareholders	+17% **Dividend per share increase** 2011: 10.5p (2010: 9.0p)
Total shareholder return Total increase in value based on the increase in share price and the dividend paid to shareholders	Measures the Company's ability to generate long-term value	+61% **Total shareholder return** 2011: 61.1% (2010: 33.1%)

[1] At constant exchange rates excluding acquisitions and disposals
[2] At constant exchange rates and adjusted to exclude the impact of intangible amortisation and exceptional operating items
[3] Continuing operations
[4] At constant exchange rates

Review of Operations

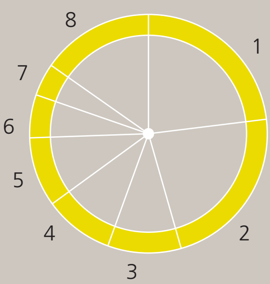


Providing essential products for a range of end-markets, including health and fitness, retail, construction and industrial sectors

Protection & Finishing Products

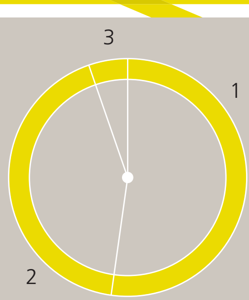
Revenue by end-market (%)

1.	**23.2**	Oil and gas
2.	**22.4**	Fabrication machinery
3.	**10.0**	Automotive
4.	**9.6**	Point of purchase
5.	**9.3**	Distributors
6.	**5.9**	Electrical / Electronics
7.	**4.5**	Hydraulics / Pneumatics
8.	**15.1**	Other



Revenue by destination (%)

1.	**52.3**	North America
2.	**42.6**	Europe
3.	**5.1**	Rest of World



2012 key initiatives

- Successful integration of Reid and Richco
- Completion of new MSI facility and commencement of manufacturing
- Further roll out of new sites and continued expansion in Asian markets
- Continued strengthening of the e-commerce offering

	ISO 9000	ISO 14001	OHSAS 18001
Moss Kidlington	•	•	•
Alliance Erie	•	•	•
Duraco Chicago	•	•	•
MSI Houston	•	•	•
MSI Mexico	•	•	•
Stera Tape Bridlington*	–	–	–
Richco, Inc.*	–	–	–

* 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

ROB PURCELL

Managing Director, Protection & Finishing Products

+26.3%

Revenue growth

Who we are and what we do

The division is a global market leading supplier of protection and finishing products, manufacturing and distributing plastic injection moulded vinyl, dip moulded, and metal items, as well as pressure sensitive tapes.

Our seven divisional businesses serve a very broad base of over 120,000 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.

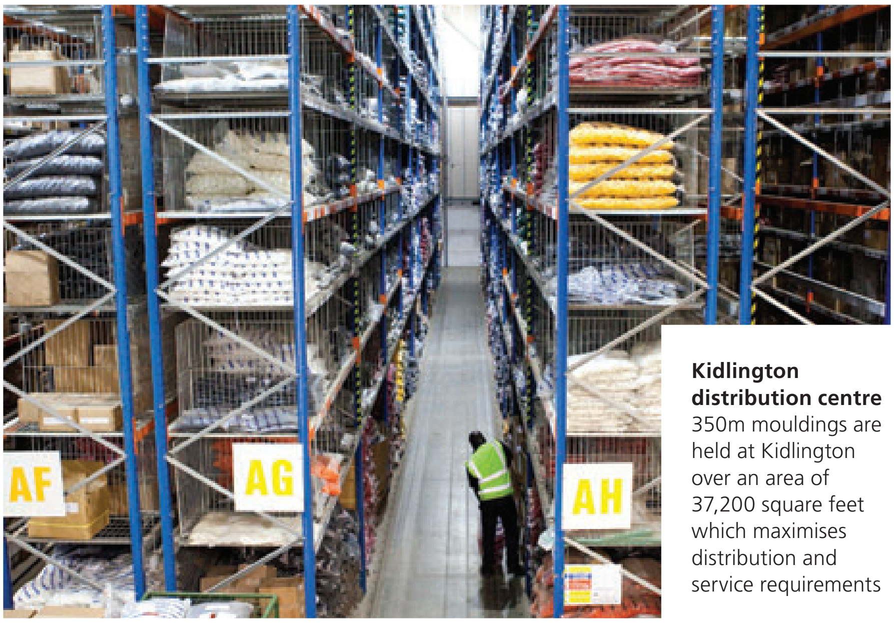
Collectively, we serve our customers from 11 principal manufacturing facilities and 49 sales and distribution operations in a total of 21 countries.

How we do it

Our objective is to leverage our extensive product range and geographic distribution capability, using our efficient sourcing and manufacturing operations and sophisticated IT platform, to respond to the demands of our diverse international customer base. Our tool library and production experience, along with our inventory logistics structure, is a unique asset. We have strong business to business marketing expertise – electronic, web based and physical – and support this with a number of comprehensive product catalogues available in many languages and online.

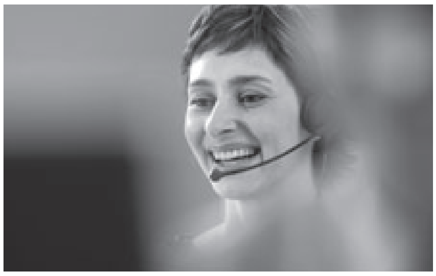
We target organic growth opportunities through increasing the range and availability of our products, and by network expansion into new international territories and growing density within existing territories. Driving an increased number of transactions from a growing customer and product base, while focusing on the further reduction of transaction costs, is a key objective for our continued success. The division continues to seek out acquisition opportunities, which can move us into complementary product categories or further our distribution capability.

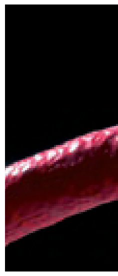
Review of Operations
Protection & Finishing Products continued



Kidlington distribution centre
350m mouldings are held at Kidlington over an area of 37,200 square feet which maximises distribution and service requirements

500 million
State of the art warehouses stock over 500 million parts guaranteed for next day delivery





How we performed in 2011

Revenue increased 27.5% (at constant exchange) to £163.0m, with like-for-like growth of 16.4% driven by range development, new customer wins and continued improvement in marketing effectiveness. The results were boosted by the inclusion of a full year contribution from Stera Tape, as well as four months from Reid Supply.

The component distribution businesses of Moss, Skiffy and Alliance each delivered record levels of revenue, and broad-based growth across geographies and key end-market sectors. The move to larger distribution warehousing operations in Brazil and Poland supported the performance and presence in these growing markets, while revenue from Moss China more than doubled during the year. Alliance Express Albany was opened in the second half of 2011, and the Duraco operations established in China and Los Angeles both performed well. The integration of Stera Tape proceeded in line with expectations, and the launch of Stera Tape products in the US has been completed.

Following a strong performance in 2010, MSI delivered another record result in 2011. During the year, we also progressed with the construction of a new 130,000 sq. ft. factory at MSI in Houston, US, to increase our capacity and to build on our excellent positioning in the oil country tubular goods market. Construction of this facility remains on track to be operational by the second quarter of 2012.

Continued focus on efficient marketing investment and activity, particularly the increasing use of electronic marketing media, delivered strong lead indicators versus the prior year: marketing responses were up 12.4%, and the number of live accounts at the end of 2011 increased to over 120,000, partially boosted by the acquisition of Reid and Richco. Revenue from higher margin proprietary products increased to 74% (on a comparable basis, excluding Reid) from 71%. To support the future growth of the division, the focus on driving the e-commerce strategy was successfully reinforced during the year.

During the year, we merged our Moss, Skiffy and Alliance businesses – together with the newly acquired Reid and Richco – into a single component distribution segment. Alongside MSI in oil and gas, and Duraco in tapes, this organisational structure allows an even greater focus on our key end-markets.

Adjusted operating profit grew 32.6% (at constant exchange) to £37.8m, for a 90bps uplift in the margin. This improvement reflected both operational leverage from the strong revenue growth, as well as operating and process efficiencies and a continued positive mix effect from moving the business further into higher margin standard parts, partially offset by the dilutive impact of Reid and Stera Tape.

In 2011, we made two exciting strategic acquisitions: Reid Supply for up to US$32m, and Richco, Inc. for US$110m. Reid's excellent management team is already rapidly integrating the business into the division, and while much remains to be done we are excited about the future business opportunities, with a new Reid catalogue launched in January 2012.

The acquisition of Richco brings significant benefit to the division, both in product terms and from a geographical perspective. Richco has an excellent range of proprietary products in diverse and growing end-markets, including consumer electronics, industrial and white goods / appliances. In addition, with over 60% of its revenue generated in Europe and nearly 15% in Asia, Richco provides an excellent opportunity to accelerate our development, particularly in Asia. Richco also takes the division into Italy for the first time, a traditional gap in our geographic footprint.

The acquisition of Reid was completed on 6 September, since when the trading performance and the integration of the business have both progressed in line with expectations. The acquisition of Richco was completed on 21 December: there was no impact from Richco on the trading result of the division in FY 2011.

700°C
Fire sleeving gives protection against harsh environments including service temperatures up to 700°C

What we measure

	Why we measure it	How we have done
New customer acquisition	Reflects the success of targeting organic growth opportunities	18.2% increase in live new customers (excluding acquired businesses) compared to 2010
Success of marketing activity	Indicates the potential revenue generating impact of marketing investment	12.4% increase in marketing responses from 2010
On Time in Full	Demonstrates the ability to meet delivery demands	3.0% improvement from 2010

Key financial highlights

Revenue (£m)

2008	114.6
2009	95.3
2010	129.1
2011	163.0

+26.3%

Operating profit[1] (£m)

2008	26.7
2009	15.9
2010	28.8
2011	37.8

+31.3%

Operating margin[1] (%)

2008	23.3
2009	16.7
2010	22.3
2011	23.2

+90bps

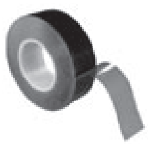
Revenue per employee (£k)

2008	127.7
2009	131.1
2010	161.3
2011	166.0

+2.9%

[1] Before intangible amortisation and exceptional operating items

2,800
Duraco offers a very broad range of adhesive products with > 2,800 available



Our responsibilities

Over and above compliance with environmental standards and a commitment to reducing our impact on the environment, all our divisional businesses are increasingly focused on the extent to which new environmentally-friendly products and processes present new opportunities to add value in response to customer demands, as well as potentially reducing costs. Indeed, notwithstanding our strong revenue growth in 2011, we made further significant environmental improvements during the year, with a double-digit percentage reduction in CO_2 emissions, energy use, general waste and water consumption.

Our focus is on the fundamental objective of securing the health and safety of all our employees. During the year, our MSI site in Houston, US again achieved Gold status in the Company's Health & Safety Awards with a further three sites receiving Silver accreditation, showing successful achievement in providing a safer and healthier workplace. In addition, the recently-acquired Stera Tape business delivered significant improvement in its health and safety metrics towards our divisional standards. In conjunction with our comprehensive policies in this area, the division has achieved key international accreditations across its facilities, which are detailed on page 19.

Review of Operations

Porous Technologies

Technologies for everyday life
From plug-in air fresheners to make-up applicators, office supplies to school products, our components are found in a range of consumer products

Who we are and what we do

The Porous Technologies division is a world leader in the development and production of customised liquid and vapour handling components, engineered from three material technologies: bonded fibre, polyurethane foam and porous plastic.

We manufacture components which serve as a critical part of a variety of end-products, including medical diagnostic devices, wound care products, writing instruments, printer cartridges, air fresheners and cosmetic applicators.

We serve customers in over 56 countries from four manufacturing facilities in three countries, each of which houses its own product development and commercial teams. Supporting the division globally are two R&D facilities in the US, with regional teams supporting product development in other geographies.

How we do it

Our objective is to leverage our technical expertise in collaboration with our customers, to provide them with innovative, high quality, reliable, quick-to-market solutions to their respective fluid handling challenges. The division's R&D teams focus on each of our three material technologies, and constantly develop new intellectual property regarding materials, processes and applications, with a view to providing new and existing customers with unique solutions. Our orientation towards R&D further enables us to offer prototypes and modifications, to ensure components fit perfectly to our customers' application.

We seek to use our global footprint to provide our customers with shorter lead times and supply security. As our multiple locations utilise identical proprietary processes and independent supply chains, we are able to provide a reliable source of back-up supply capability around the world. In addition, our global outlook allows us to respond to the differing needs of our customers in differing geographies and cultures.

FILTRONA POROUS TECHNOLOGIES

RUSS ROGERS
President,
Porous Technologies

2012 key initiatives

- Open new commercial site in Singapore, and capture additional business in Asian markets
- Further commercial expansion of products using porous plastics
- Full global commercialisation of HRM inkjet printer cartridge

+4.3%

Revenue growth

Porous materials
Using a range of materials to develop liquid-handling components for air fresheners, and other products requiring liquid evaporation

Quality is at the forefront of the division's efforts, given the critical role our products play in our customers' end products. Each of our production sites is ISO 9000:2008 certified, and our facility in St. Charles, US is also ISO 13485:2003 certified. Quality laboratories at each of our facilities provide consistent checks throughout the production process, to assure reliability and satisfaction to our customers.

How we performed in 2011

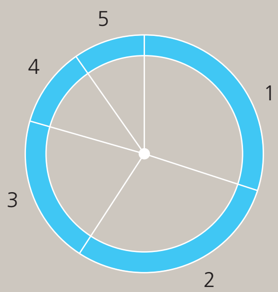
Revenue increased 5.6% (at constant exchange) to £77.9m and operating profit rose 5.7% (at constant exchange) to £18.4m, with the operating margin unchanged.

Revenue growth of 40% in printer systems (c.30% of divisional revenue) was driven by next generation platform launches by global original equipment manufacturer accounts. Healthcare (c.20% of divisional revenue) was up 3%, with an underlying improvement of 8% being partially offset by the strong prior year comparative relating to the H1N1 'flu epidemic.

The writing instruments business (c.30% of divisional revenue) was down 8% as result of lower consumption of branded products. Household products and personal care (together c.10% of divisional revenue) declined by 3% compared to prior year, largely due to inventory de-stocking by a key customer.

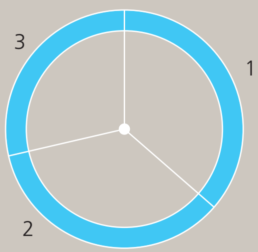
Revenue by end-market (%)

1.	**30.2**	Writing instruments
2.	**29.2**	Printer systems
3.	**20.1**	Healthcare
4.	**10.9**	Household products
5.	**9.6**	Other



Revenue by destination (%)

1.	**36.4**	Europe
2.	**35.2**	North America
3.	**28.4**	Rest of World

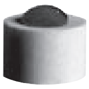


	ISO 9000	ISO 14001	OHSAS 18001
Porous Technologies Richmond	•	•	•
Porous Technologies Ningbo	•	•	•
Porous Technologies Reinbek	•	•	•
Porous Technologies St Charles	•	•	•

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
Porous Technologies continued

High performance
Depth filters create high performing pipette tip filters with low contamination and uniform air flow



Research & Development
Dedicated R&D equipment and a quality control lab enable the delivery of reliable solutions that are critical to end products

The remaining c.10% of divisional revenue comprises a number of other markets, plus the supply of a sophisticated filter product, manufactured at the Porous Technologies Reinbek, Germany facility and sold internally to the Filter Products division. Excluding revenue from this line of business, revenue from the core technologies, products and markets of the Porous Technologies division was up 7%.

Higher raw materials costs were successfully offset through waste reduction, efficiency projects and process / automation conversions.

In 2011, the division continued its successful track record of converting its intellectual property and manufacturing know-how into commercial success. We introduced a range of next generation printer system products with improved designs and performance. We also commercialised next generation technology for both anti-flood hCG wicks, and for trocar surgical equipment which is used in keyhole procedures and where our product is a component of the device used to improve camera optics. Additionally, we developed and commercialised new wick technologies for liquid-based insecticide repellent devices and synthetic bamboo air freshener devices both of which are established markets, but where our replacement technology provides a number of customer benefits. In the former, our polymer-based product replaces typical clay wicks, being not only resilient to high temperatures but also providing superior performance versus competing technologies. And in the latter, our product provides more consistent evaporation when compared to bamboo, while at the same time being able to be manufactured in a variety of shapes and colours to accommodate customers' specifications. And towards the end of the year, we introduced a new range of hydrophilic polyurethane foams for advanced wound care, including ultra-soft, highly absorbent Medisponge® SuperSoft foams and ultra-durable, fibre-reinforced Medisponge® composite foams.

The commercial expansion of products using porous plastics is ahead of expectations. Similar in nature to our other technologies, porous plastic components are engineered from a variety of raw materials, each with differing properties (such as pore size, density, chemical resistance, rigidity and hydrophobicity). This technology allows us to increase our reach in the fluid handling space, accelerating our entry into new markets and further expansion in existing markets.

A number of operational initiatives were successfully completed during the year, including initiating a new commercial site in Singapore and the transfer of production capacity and equipment for pregnancy test wicks to China. Our new office in Singapore will act as the regional headquarters for the growth businesses in the Asia Pacific region, providing dedicated local support to the growing needs of our Asian customer base, and allowing a more timely and tailored reponse to their technical and development requirements. There was also further capacity expansion at the St. Charles foam site for medical wound care products, at Reinbek to enable European manufacture of printer systems products for the global customer base, and at Richmond for porous plastics.

Our responsibilities

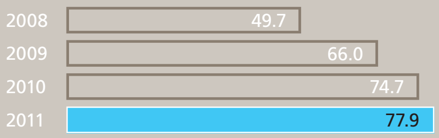
We are focused on the delivery of the highest standards of safety, quality and performance across all our international operations. Our global initiatives continue to keep our employees focused on driving to zero lost time accidents and zero environmental accidents. As evidence of this commitment, the division's largest facility at Richmond now has a track record of over three years without a lost time accident.

What we measure

	Why we measure it	How we have done
Innovation – percentage of sales derived from new products	Demonstrates the success of new products and technology	9.4% of revenue generated from products launched in the last three years
Sustained IP development	Continued development of intellectual property to support future growth and strong development project pipeline	25 Currently 25 (2010: 24) patents in force for the US, with 21 (2010: 24) applications pending
Customer complaints	Drives performance of quality systems and service delivery	16.7% 55 complaints being a 16.7% improvement versus 2010
Man hours per machine hour	Indicative of shop floor productivity	2.23 (2010: 2.21) man hours per machine hour

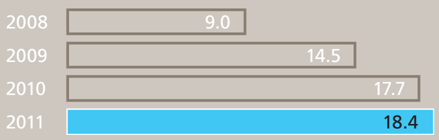
Key financial highlights

Revenue
(£m)



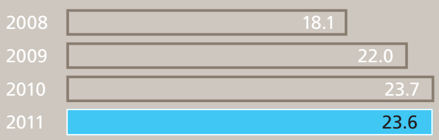
+4.3%

Operating profit[1]
(£m)



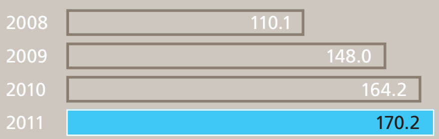
+4.0%

Operating margin[1]
(%)



(10bps)

Revenue per employee
(£k)



+3.7%

[1] Before intangible amortisation and exceptional operating items

Wicking materials
Designed from bonded fibres use capillary science to move liquids

In addition, this site was also awarded a Gold Achievement Award from the American Heart Association for our focus on employee Health & Wellness.

During the year, we made further progress in reducing our environmental impact: general waste was down by a double-digit percentage, while our energy use and CO_2 emissions rose by less than our revenue growth.

We were very proud to receive the Chief Executive's Special Award for the development of a recycle extruder which converts manufacturing waste into usable material for instrument reservoirs by our Richmond, US site. Over the last two years, this project has delivered a 12% saving on waste, as well as an estimated US$100,000 reduction in raw material and landfill costs and the associated effect on CO_2 emissions. We were similarly very pleased to receive Gold status in the Filtrona Health & Safety Awards for our Richmond and St. Charles sites, with Silver being awarded to the Reinbek facility.

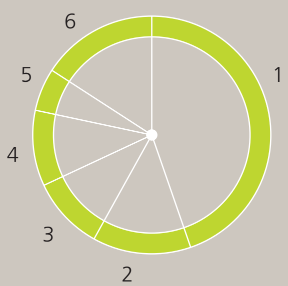
Review of Operations

Packaging solutions
Labels and tapes from Payne provide on-shelf impact for brands

Coated & Security Products

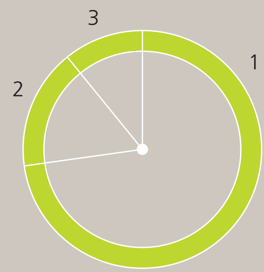
Revenue by end-market (%)

1.	**44.9**	Tobacco
2.	**13.2**	Consumer goods
3.	**10.2**	Point of purchase
4.	**10.1**	Document & identity solutions
5.	**6.0**	Transit packaging
6.	**15.6**	Other

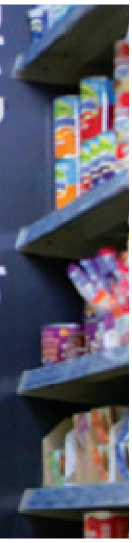


Revenue by destination (%)

1.	**72.8**	Europe
2.	**16.5**	Rest of World
3.	**10.7**	North America



20,000
ID cards
Over 20,000 personalised ID cards can be printed each hour by Payne Security



2012 key initiatives

- Continued expansion of tear tape and label-based packaging solutions
- Further investment in authentication technologies and manufacturing capability
- Successful delivery of Blue Badge scheme in the UK, and pursuit of further identity solutions contracts on an international basis
- Integration of recently-acquired Securit

	ISO 9000	ISO 14001	OHSAS 18001	BRC/IOP Global Standard for Packaging Materials	SA 8000
Payne Nottingham	•	•	•	•	
Payne Banbury	•	•	•		
Payne Cardiff	•	•			
Payne Richmond	•	•	•		
Payne São 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
SA 8000 is the international standard for human rights principles

TONY EDWARDS
Managing Director,
Coated & Security Products

+6.9%

Revenue growth

Who we are and what we do

Our Coated & Security Products division comprises the following activities.

Payne is the leading global manufacturer and supplier of pressure sensitive tear tape, and a growing provider of labels, closures and seals, to the consumer packaging market.

Payne Security is a leading supplier to the identity and valuable document and consumer packaging markets, providing a range of authentication technologies, printed film and card-based solutions.

Payne and Payne Security together serve customers in over 100 markets from seven manufacturing facilities in five countries. They are supported by an in-house design studio, a research & development facility and multi-million pound print capabilities.

Enitor comprises plastic profile extrusion activities, and is based in The Netherlands.

How we do it

Our objective is to use our business development philosophy and resource to identify innovation opportunities and translate these into novel, workable solutions for new and existing customers. We seek to leverage our well-invested, developing international footprint to provide market-leading quality and service on a global basis, underpinned by our motivated and well-trained employees.

Payne manufactures a range of tapes, labels, closures and seals which offer functional benefits to the principal packaging for consumer products, such as easy opening or resealability. Our products are also the ideal medium to carry sophisticated branding and communication messages, in the form of printed images, text or data. Additionally, we look to add value to our customers' packaging through providing brand protection technology from Payne Security.

Payne Security provides security technologies and innovations to governments and brand owners worldwide, to enable them to identify valuable documents and products in the fight against counterfeiting. Our offering comprises overt, covert and forensic technologies, including inks, lacquers, laminates, labels, tear tapes and thread. These products have a wide application including: national identity documents (such as passports, identity cards and visas); card-

Review of Operations
Coated & Security Products continued

300m

Over 300 million unique codes can be printed on Payne Supastrip VDP tape

QR codes enable consumers to access more information on brands through their mobile devices

based solutions to Government agencies (to provide data protection or to prove identity or entitlement to services); banknotes and bonds; and branded consumer goods.

How we performed in 2011

Revenue increased 6.5% (at constant exchange) to £98.2m. Adjusting for the contribution from the BP Labels business acquired in February 2010 and the divestment of FractureCode in July 2011, like-for-like growth was 5.5%. Adjusted operating profit increased 5.5% (at constant exchange) to £15.4m.

Tear tape revenue increased 8%, behind the continued success of sales of tapes for consumer messaging, promotions and competitions across a range of categories including tobacco, confectionery and savoury snacks. In particular, we delivered a strong performance from wide-width message tapes and a new opening solution in the US food market. Growth in Labels (+23%) came particularly in tobacco, and included the incremental impact of the BP Labels business (now known as Payne Cardiff). Further progress was made in building the pipeline of 2012 prospects for new packaging solutions based on our tape and label manufacturing and application capability.

Revenue from the Payne authentication system was ahead 29% and, in our centenary year, the business gained the Queen's Award for Enterprise in the Innovation category for the successful development and commercialisation of this proprietary technology. This new security technology delivers a robust and cost-effective solution to governments and industry for protecting against fraudulent and counterfeit activity, by differentiating between genuine and fake products or documents. The system integrates an invisible chemical marker, usually incorporated into inks and lacquers used to print product packaging, security documents and fiscal stamps, which can only be identified using a uniquely-programmable reader device.

Enitor delivered an improved result, boosted by successful new business development, with revenue growth and operating margin expansion.

During the year we re-focused our go-to-market efforts on packaging solutions and authentication and identity solutions, so as to leverage our capabilities better and provide our customers with even greater value-added propositions.

A continued focus on efficiency improvements, including waste reduction from product and process redesign in tear tape, helped to mitigate the margin impact of the loss of the UK Passport contract.

Driven by investment in machinery and capability for volume badge production, we succeeded in securing the opportunity to provide the next generation Blue Badge in the UK. As part of the new scheme, a secure card is printed and mailed to registered disabled users, to evidence their entitlement to free parking. In addition, further investments were made at the Banbury site during 2011, expanding the authentication technologies' manufacturing capability.

Following the year end, we announced the acquisition of 100% of the share capital of Securit World Ltd ("Securit") for a cash consideration of £6m. Securit distributes desktop personal identification card systems, providing printers, software and associated accessories across a wide range of growing end-markets, including trade distribution, education, government, health and general industry. The acquisition of UK-based Securit adds to the existing capabilities of our Payne Security personal identification products business and provides new opportunities in adjacent attractive growth sectors, such as access control and membership.

Further to a strategic review of the division's track and trace activities, the FractureCode business was divested.

Our responsibilities

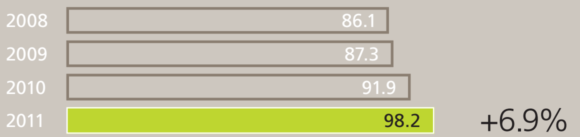
As a business we believe in careful stewardship of the environment in which we operate and embody this philosophy in our business strategy. During the year, we continued to develop sustained, long-term environmental programmes effecting CO_2 emission reduction, waste reduction, waste recycling, ecological impact and ongoing energy efficiency

What we measure

	Why we measure it	How we have done
Innovation – percentage of packaging sales derived from recently developed products	Demonstrates the success of new products and technologies	29% of revenue generated from products launched in the last three years
Innovation – development of new tooling in extrusion	Shows the amount of new tooling being introduced to expand production capabilities	89 new tools introduced compared to 81 in 2010
On Time in Full – security	Drives performance of quality security systems and service delivery	98.9% compares to 98.7% for 2010
On Time in Full – document authentication	Drives performance of quality security systems and service delivery	99.9% compares to 99.6% for 2010
Customer satisfaction – customer complaints	Drives performance of quality systems and service delivery	6% a 6% improvement in complaints from 2010

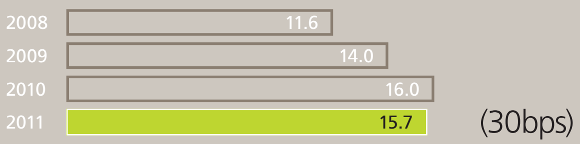
Key financial highlights

Revenue
(£m)

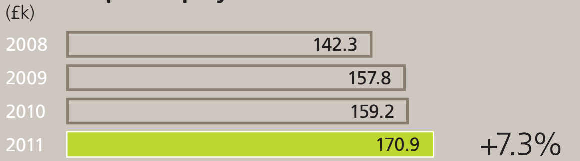


Operating profit[1]
(£m)

Operating margin[1]
(%)



Revenue per employee
(£k)



[1] Before intangible amortisation and exceptional operating items

100th year

In its centenary year Payne Security received the Queen's Award for Enterprise for its covert product authentication system

improvements. And we continued to make further progress against these objectives in 2011, with a particularly pleasing reduction in CO_2 emissions, energy use and water consumption.

In 2011, Payne Cardiff secured ISO 14001 accreditation and is on schedule to achieve OHSAS 18001 in 2012. Details of the international accreditations held across the division are shown on page 27.

We were very proud to receive the Group Environmental Award for Payne India, whose submission demonstrated a commitment to energy and carbon reduction with support for the local community. We were equally pleased to receive Gold status in the Filtrona Health & Safety Awards for our Richmond, US and India facilities, with a further two Silver awards being presented to our sites in Indonesia and Banbury, UK.

We seek to monitor employee satisfaction by ensuring a high degree of management engagement with employees at all our locations. To this end, our three UK sites were awarded the Gold Standard for Investor in People towards the end of the year.

Review of Operations

Filter Products

Growing demand
Asia is one of the fastest growing regions accounting for 54% of divisional volume in the year

Who we are and what we do

Our Filter Products division is the world-leading independent provider of filter solutions to the tobacco industry, and comprises the following business activities.

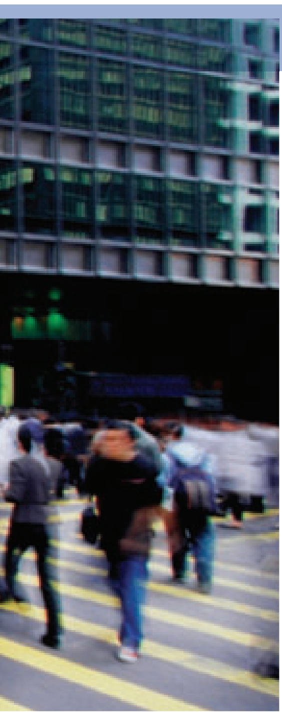
Our Filters business is the only global independent supplier of filters. Not only do we offer standard filters, but as the leading provider of special filters, we offer innovative solutions that meet the consumer-driven demands of the tobacco industry against a backdrop of ongoing legislative changes.

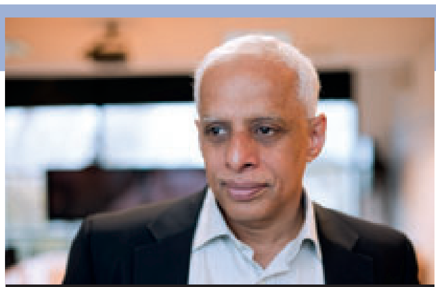
We also increasingly provide adjacent services to the tobacco industry. Our Scientific Services facility is one of the few independent accredited laboratories for the testing of cigarettes and filters, serving both independent and multinational customers. Additionally, we offer a full bespoke service for the design, packing and packaging of filters for roll your own (“RYO”) brands, providing an efficient and cost-effective solution to delivering retail-ready product to the market.

The Filter Products division supplies over 700 product specifications to over 300 customers, including all the multinational tobacco companies. We have nine manufacturing facilities in nine countries, supported by a UK-based research facility and three regional development centres.

How we do it

Our objective is to develop value-creating partnerships with our customers. We seek to leverage our long-standing experience, expertise and insight to provide innovative solutions to brand differentiation and identity, as well as excellence in both manufacturing and service. Our recognised ability to provide new, value-added products and services is key to the division’s future growth, as market dynamics in the tobacco industry continue to evolve.





PT SREEKUMAR
Managing Director,
Filter Products

+3.6%

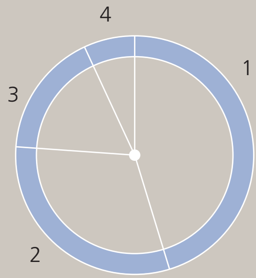
Revenue growth

2012 key initiatives

- Further market and geographical penetration, to extend reach
- Continued growth with independent customers
- Increased new product development, supported by technical services personnel
- Benefit from ongoing trend to more specialised filters, while continuing to offer attractive low cost propositions
- Introduce new talent management framework

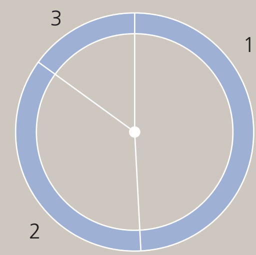
Sales volume by type (%)

1.	45.5	Monoacetate
2.	30.8	Carbon
3.	17.0	Other special
4.	6.7	Flavour



Revenue by destination (%)

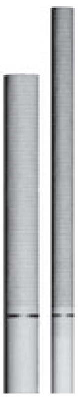
1.	49.2	Rest of World
2.	35.9	Europe
3.	14.9	North America



Research in filters is carried out at the Filtrona Technology Centre in the UK, supported by three regional development centres. Together, they work closely with customers, to understand their specific needs and to deliver solutions at a pace appropriate to local market conditions. Our offering is further enhanced by our ability to complement customers' own strengths and assets in a variety of tolling, or outsourced management, relationship arrangements, as well as our growing adjacent services activities.

We continuously upgrade our technology and footprint, to ensure we exceed our customers' expectations and remain at the forefront of market trends. Our flexible global manufacturing capability allows us to respond rapidly to market changes and customer demand for surge volumes, while a consistent focus on high standards of quality, cost control and production efficiency act as further sources of competitive advantage.

Slim & Super Slims
One of the fastest growing segments in the world – growing over 10 times faster than the overall market



	ISO 9000	ISO 14001	OHSAS 18001	Integrated Management System	SA 8000	IQRS
Jarrow	•	•	•			7
Filters Tech. Centre	•	•	•			
Italy	•	•	•	•		7
Jordan	•	•	•	•	•	
Hungary	•	•	•	•		5
Greensboro	•	•	•	•		7
Thailand	•	•	•	•	•	5
Indonesia	•	•	•	•	•	6
India	•	•	•	•	•	7
Paraguay	•	•	•	•		

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
SA 8000 is the international standard for human rights principles
IQRS is a global quality system which drives towards business excellence through a comprehensive audit system

Review of Operations
Filter Products continued

7,000m²
New custom-built facility in Thailand

20%

Ultra low is the fastest growing tar segment in the world and over 20% of the filters are produced by Filtrona

How we performed in 2011

Revenue increased 4.2% (at constant exchange) to £208.0m and operating profit was up 3.8% (at constant exchange) to £24.5m, with the operating margin unchanged at 11.8%. Underlying volumes increased 2% versus the prior year, with growth coming particularly in Asia and Europe, and with both the multinational and independent customers.

Revenue growth was supported by an increased number of successful new product launches, development initiatives and wider service offerings versus 2010. In filters, a number of premium variants were introduced including flavour capsules and super slim combinations, as well as three new RYO products. There was also a strong increase in the level of sample and joint development activities and intellectual property commercialisation, with a positive contribution from all three development sites. Overall, the division performed well, increasing its customers and the number of laboratory accreditations during the year, as well as further extending packaging services for the RYO market. This improvement was supported by the re-focusing of the division during the year behind three go-to-market units: filters, innovation and scientific services.

Higher raw material and other input costs were successfully mitigated by continued productivity improvements, quality enhancement, and cost reduction initiatives implemented in 2010.

In order to be better-positioned to service the growing Asian market and to take advantage of new business opportunities, the Filter Products' head office was relocated to Singapore. In addition, our Filthai operation in Thailand moved to a new custom-built facility in Bangkok. These larger premises, which allow for increased production and future expansion, have been designed for optimum machine layout and material storage. In 2011, Asia accounted for 54% of volumes (FY 2010: 52%).

Following a strategic review, and in order to continue to improve our service to our North American customers, we expanded our Greensboro, US factory. This investment programme was completed in three months, and Greensboro now offers high speed machines for complex filter products as well as a development and innovation centre. The expansion at Greensboro will also allow us to respond more rapidly to regulatory changes in the US tobacco industry. As a result of this expansion in North America, the facility in Monterrey, Mexico was closed.

In addition, we delivered positive operational improvements at our site in Hungary in line with expectations, as well as realising the targeted benefits from a general restructuring of our European activities.

During the year, there was a fire at the Paraguay facility, but no disruption in the supply to customers was incurred. This seamless supply capability reflects the benefits of our contingency planning and the alternative sources with which we are able to provide our customers as a result of our flexible manufacturing footprint.

Our responsibilities

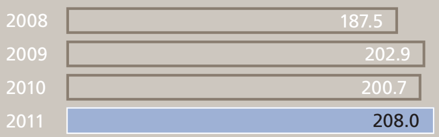
We are committed to the environment and its sustainability and, in seeking to secure operational efficiencies and cost reductions, the division focuses on the optimisation of energy usage and the development of new sustainable solutions.

What we measure

	Why we measure it	How we have done
Conversion costs as percentage of sales	Continued focus delivers financial performance	28.5% an improvement from 30.5% in 2010
On Time in Full	Demonstrates the ability to meet delivery demands	96% the same rate as 2010
Quality complaints per billion rods	Drives performance of quality systems and service delivery	3.7 complaints per billion rods, a decrease from 3.8 in 2010
Waste	Drives productivity and the efficient use of material	3.0% an improvement from 3.3% in 2010

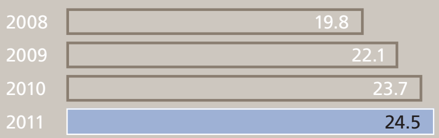
Key financial highlights

Revenue
(£m)



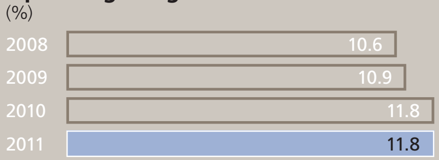
+3.6%

Operating profit[1]
(£m)



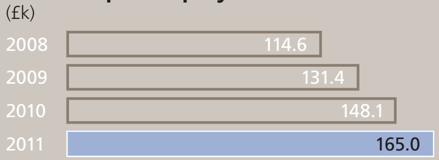
+3.4%

Operating margin[1]
(%)



+0bps

Revenue per employee
(£k)



+11.4%

[1] Before intangible amortisation and exceptional operating items

1st
Patented Cavitec™ filter technology used in the world's first super slim size cavity product

Having introduced a division-wide system and been able to demonstrate improvement and accreditation in energy, in 2011 we delivered against our three objectives of (i) continuing to reduce our energy consumption, with usage down across all sites; (ii) reduction of landfill, with a strong decrease across virtually all forms of waste; and (iii) reduction in air miles impact, which declined by a mid-teens percentage.

Across the division, health and safety performance has shown further improvements, with a 56% reduction in lost time accidents and a 38% decrease in man days lost. As a result, we were very pleased to receive Gold status again for the ITC Filtrona India and Jordan facilities in the Filtrona Health & Safety awards, with a further three Silver accreditations being given to the division. Combined with our comprehensive programmes in this area, Filter Products has achieved key international accreditations across its facilities, which are detailed on page 31. Four of our sites now hold Level 7 accreditation by IQRS, an internationally recognised standard for business excellence.

Management of Principal Risks

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

Risk indicators

No change in 2011

Reduced risk in 2011

Increased risk in 2011

Vision 2015

The management of risk underpins the Company's Vision 2015 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. As such, risks are continuously monitored, associated action plans are reviewed, appropriate contingencies are provisioned and information is reported through established management control procedures.

The Company seeks to continuously improve its risk management processes and developed new systems during 2011 which serve to enhance the Company's response to the risks inherent in its international business activities. Further details on the systems can be found on page 50.

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

Filtrona's short- and long-term performance can be impacted by many 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 other international businesses, including political instability in the countries in which it 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 opposite are the principal risks and uncertainties which the Board believes are specific to Filtrona, together with the associated risk management response. 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 at present but which could prove to be so in the future.

Risk indicator

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 which, either in the 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 to 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 comprehensive insurance

Competitive pressures

RISK

Filtrona faces pressure from direct competitors, as well as competition from alternative technologies. Some of the Company's competitors may derive competitive advantage from greater financial resources, economies of scale, additional purchasing power or a lower cost base, 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
- Intellectual property challenges
- Decline in revenue
- Decline in profitability
- Erosion of margins
- Deterioration in financial condition

MITIGATION

Filtrona seeks to mitigate the risk of competitive pressure by:

- Sustained investment in research and development to develop the quality and breadth of its product and service offering
- Exploiting its innovative and manufacturing capabilities in new technologies, products and services
- Developing long-term relationships with customers at a senior level
- Protecting its intellectual property rights
- Expanding its international distribution, sales and marketing expertise
- Investing in both organic and acquisition growth opportunities

Challenges of business development

RISK

Filtrona's development and growth has benefited from 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 successful in completing and integrating suitable acquisitions or developing and expanding 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:

- Lower growth rates
- Delay in the achievement of strategic objectives
- Increased costs
- Reduced profitability

MITIGATION

Filtrona addresses the challenges of international business development with:

- Experienced and skilled management
- Detailed due diligence and planning
- Project risk reviews
- External expert advice

Management of Principal Risks continued

Risk indicator

Customer concentration

RISK

In some of Filtrona's businesses, particularly filter products and tear tape, the customer base is relatively concentrated. In addition, trends in certain markets, particularly in 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 were 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

Raw material supply

RISK

The Company uses significant quantities of plastic resins. These may be subject to price fluctuations arising 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 supply shortages or rapid increases in the price of resin or other raw materials, including energy costs, 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:

- Disruption to supply
- Increased costs
- Profit decline
- Reduced revenue

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 of Filtrona's future success is the ability to develop new and innovative products and services. In addition to seeking internationally applied patent and trademark rights, 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 risk of 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 and takes appropriate enforcement actions

Risk indicator

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 tobacco industry, such as changes in the consumption of filter products, self manufacture and increasingly restrictive regulations. 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 potential impact of its exposure to the tobacco industry, Filtrona:

- Invests in the research and development of innovative value-added products and services
- Targets growth opportunities outside the manufacture of filter products
- Focuses on low cost filter production
- Takes internal and external legal advice to manage litigation risk

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 assurance that these employees will remain with the Company. The success of the Company will reflect its ability to retain, attract and motivate highly qualified executives and other personnel equipped to deliver Filtrona's strategic objectives.

IMPACT

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

- Experience
- Expertise
- Commercial relationships

MITIGATION

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

- Reviews personal development and succession planning
- Sets appropriate Key Performance Indicators
- Conducts management development schemes and other training programmes
- Sets effective remuneration programmes
- Provides long-term share-based incentive plans

Compliance risk – laws and regulations

RISK

Risk related to regulatory and legislative changes involves the inability of the Company to comply with current, changing or new requirements. Many of Filtrona's current business activities are subject to increasing regulation and enforcement activity by relevant authorities. As the Company moves into new markets and territories in pursuit of its strategic priorities, Filtrona is exposed to new and additional compliance risk.

IMPACT

Failure by the Company or its employees or others acting on its behalf to abide by the laws and regulations could result in:

- Administrative, civil or criminal liability
- Significant fines and penalties
- Suspension or debarment of the Company from trading
- Reputational damage
- Loss of commercial relationships

MITIGATION

In order to manage compliance risk, Filtrona:

- Establishes a clear compliance culture from the top down
- Conducts risk assessments and ongoing compliance reviews
- Implements policies and procedures
- Provides behavioural guidance and training to all employees
- Monitors compliance through verification procedures

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

PRIORITIES / GOALS	HOW DO WE MANAGE IT?	HOW DID WE DO?	HOW WILL WE DO IT?
Reduce the impact of carbon emissions and secure continuous improvement in environmental performance	• Set carbon emission targets at each operational location • Reduce carbon emissions, prevent pollution and improve manufacturing efficiency • Implement initiatives to reduce waste and increase recycling • Explore the use of energy-saving technology in manufacturing • Extend the span and quality of data collection • Develop new techniques with suppliers and customers for environmentally-friendly products • Gain ISO 14001 accreditation	• Substantially improved the majority of global sites in accordance with Carbon Trust principles • Complied with UK Carbon Reduction Commitment initiatives • Ranked equal first in the CRC Performance League Table • Reduced carbon emissions by 11.4% • Retained accreditation to ISO 14001 standard at all manufacturing sites • Achieved ISO 14001 Recycling / biodegradeable processes at Payne Cardiff business	• Continue with global carbon reduction initiatives • Offset emissions when possible • Continue environmental improvement to ensure retention of accreditations • Secure accreditation for newly acquired sites within two year period • Investigate accreditation to global ISO 50001, a new voluntary energy standard
Secure continuous improvement in health and safety	• Secure OHSAS 18001 accreditation at principal manufacturing sites • Establish Group standards for improvements and results • Encourage employee initiatives to reinforce Company training	• Intoduced additional behavioural training • Introduced corporate health & safety training for all employees • Retained OHSAS 18001 for established sites • Achieved OHSAS 18001 for newly acquired sites within two years	• Identify other training needs • Continue to demonstrate year-on-year improvement in the lost work day rate
Ensure the highest standards of business integrity and conduct	• Promote Filtrona Values • Establish clear policies and guidance • Secure employee awareness and engagement • Establish Right to Speak policy	• Continued communication of policies • Implemented new compliance systems • Trained employees in Code of Business Ethics • Rolled out new Right to Speak policy and reporting procedures	• Respond to new risks and requirements • Provide further learning • Drive employee responsibility • Seek increased assurance • Investigate complaints

Filtrona recognises the significance and importance of being a responsible corporate citizen in the workplace, marketplace, environment and community. The Company's international operations fulfil their 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.

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.

The Values can be found on the Company's website www.filtrona.com.

Workplace

Health and safety

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

The Company has designed procedures and developed a culture which aims for continuous improvement with the sharing of best practice in all areas of health and safety, in addition to strict compliance with applicable laws and regulations. The degree of autonomy afforded to local management allows them to set the agenda best suited to the requirements of individual businesses, but subject always to the proper implementation of the core health and safety policies and principles which Filtrona has adopted.

Ongoing initiatives are designed to monitor, assess and drive performance. Investigations are carried out into all circumstances that may have resulted in injury or near miss incidents. Continued reporting of near miss incidents and "non work" related injuries has enhanced the Company's ability to learn from potentially hazardous conditions and prevent their reoccurrence or escalation into more serious incidents.

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. During the year a complete suite of training videos was introduced via the intranet reporting system which covers all aspects of health and safety in the workplace. These training videos, which are becoming part of employee induction programmes and annual training, will be updated for revised and new legislation as it comes into force.

Filtrona has an established 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 identify risks, and for 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 and Safety Management Systems OHSAS 18001 for all of its principal manufacturing sites. The recently acquired sites are given a period of two years to reach the required standard in accordance with Filtrona policy.

As part of their integration all businesses which join the Filtrona Group have to ensure that they achieve the Company's health and safety reporting requirements within a suitable timescale.

Businesses undertake extensive training programmes which are particularly focused on the key, or most frequent, risks in their operations. Training in risk assessment and root-cause analysis features strongly in the Company's health and safety management.

Details of the Company's health and safety performance for 2011 and subsequent progress throughout 2012 can be viewed on page 41 and on the Company's website www.filtrona.com.

The Company has implemented the Filtrona Group Safety Awards which reward manufacturing sites with Gold, Silver or Bronze status on the basis of their annual performance assessed against increasingly stringent criteria set by the FHSEC. The criteria governing these awards are based upon: achieving a high Filtrona audit score; OHSAS standard accreditation; regular health and safety meetings; availability of suitably trained employees on site; completion of all critical risk assessments and achieving accident reduction targets.

	2011	2010	2009
Gold awards	**7 (14)**	15	7
Silver awards	**9 (7)**	5	11
Bronze awards	**5 (2)**	2	1

The figures in brackets represent the awards which would have been made if the 2010 criteria had been applied

The Filtrona Chief Executive's Special Award for health, safety and environment 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 and environmental standards
- Involves the majority of employees
- Utilises novel or interactive media or methods

In 2011, the award was won by the Porous Technologies division due to the strong impact of the ECO Reservoir recycling project. The development of a recycle extruder allows the conversion of manufacturing waste into usable material for writing instrument reservoirs. This new product offering has reduced the Richmond plant's waste to landfill. This achievement reflects the long-term commitment of the management team and employees to environmental excellence.

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.

Corporate Responsibility continued

The Company regularly reviews its organisational structure to ensure that the business has the necessary personnel to deliver its strategic priorities.

Filtrona understands the importance of having the right people with the right skills now and in the future, to deliver the exceptional service and expertise which is the bedrock of the Company's long-term relationships with its customers. To deliver that service and expertise, Filtrona is continually improving its comprehensive talent pool, from graduates to senior management. Since its formation Filtrona has run a very successful graduate training programme which has historically recruited from Europe and the Americas. During 2011 this scheme was introduced to candidates in Asia and it will be further expanded in 2012.

Key strategic aspects of recruitment, training and development are overseen or co-ordinated at a Group level to ensure consistency of approach, to identify strategic threats and opportunities and to open up a wider range of opportunities for employees.

Filtrona encourages its employees to develop and manage their own careers. It facilitates this by providing relevant job training and, where appropriate, aims to fill vacancies with existing staff where employees are suitably qualified and experienced.

Filtrona is committed to improving employee engagement and learning more about the needs of its workforce. 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. The Company actively 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 international 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.

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 those of non-disabled employees.

Throughout its global activities Filtrona supports human rights as set down by the United Nations Declaration and its applicable International Labour Organisation conventions. Operations based in India, Indonesia, Jordan and Thailand are also accredited to SA 8000 which details fundamental principles of human rights.

Marketplace

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

Filtrona's Code of Business Ethics policy is applicable to all its businesses around the world. The policy details the standards expected by Filtrona in the conduct of its business and its relationships with third parties, including free and fair competition, and 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 in 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 ISO 14001 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 is listed in the FTSE4Good Index which is designed to measure the performance of companies striving to meet globally recognised corporate responsibility standards, and facilitates investment in those companies where corporate responsibility issues are an influencing factor in an investor's decision-making process.

Filtrona supports the activities of the Carbon Trust and participated in the 9th annual Carbon Disclosure Project ("CDP") environmental impact survey in 2011. It is the Company's intention to participate in the CDP survey during 2012.

During the year the FTSE CDP Carbon Strategy 350 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 biased version of the FTSE 350 Index with the constituent companies weighted according to their carbon exposure relative to their sector peers. In the 2010 Series, Filtrona was ranked number 30.

The UK Carbon Reduction Commitment ("CRC") legislation became effective during 2010, and Filtrona achieved the Carbon Trust Standard at all its UK manufacturing sites during 2011. This standard ensures commitment to improved carbon footprint and enhanced reputation. The CRC is designed to drive energy efficiency and carbon reduction by giving organisations a financial incentive through emissions trading. Filtrona continues to apply 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.

The first CRC Performance League Table (PLT) was published during 2011 by the UK's Environment Agency and ranked Filtrona equal first. The 2010-11 PLT is based on early actions that participants have taken to show that they are committed to energy efficiency within their organisations. Participants get credit for early action where they:

- Have a proportion of their CRC emissions certified under one of the seven carbon management schemes which the Environment Agency has accredited
- Have a proportion of their CRC electricity and gas supplies measured through voluntarily installed automatic meter reading devices, dynamic un-metered supply and daily read gas meters in year one

Filtrona's position as joint first is a direct result of the early action undertaken under the auspices of the Group FHSEC.

Given the diversity of Filtrona's international 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.

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

	2011	2010	% change
Carbon emissions[1]	**117**	132	↓11.4%
General waste[2]	**2,361 (2,187)**[2]	2,293	↑3% ↓(4.6%)[2]
Recycled factory waste & cardboard[3]	**2,007**	1,905	↑5.4%
Water[4]	**221m³**	250m³	↓11.6%

1 tonnes of CO_2 per £million of Group revenue
2 these figures show the effect of the Payne Cardiff acquisition which contributed an extra 174 tonnes of general waste
3 tonnes of recycled production waste
4 per £million of Company revenue

Filtrona is committed to ensuring 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.

Due to the scale of Filtrona's international 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.

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 further.

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 Company sites. Filtrona is committed to respecting the environment and seeking practical ways to lessen the impact of its business activities. The Group Environmental Award has been designed to give additional 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 more of the following criteria:

- Reduction 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

In 2011 the Group Environmental Award was won by Payne India in recognition of the wide-ranging and community linked Environmental Improvement Programme conducted over a number of years.

Community

Filtrona's commitment to being a responsible corporate citizen extends 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 in 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. Filtrona's support is driven at a local rather than a corporate level. The approach is to support and enhance employee efforts in their communities through the application of the Company's resources. In pursuit of its aims within the community, Filtrona has developed targeted programmes for local communities, often involving commercial sponsorship and significant employee engagement through direct involvement or secondment.

Accident trend average (incidents)

Lost time accident trend (incidents)

Group Management Committee

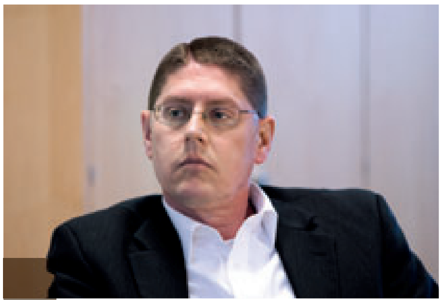

01


02


03


04


05


06

01
Colin Day
Chief Executive
Colin's biographical details can be found on page 44.

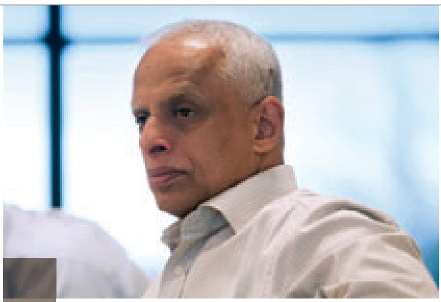
02
Steve Crummett
Group Finance Director
Steve's biographical details can be found on page 45.

03
Alan Tidy
Group Human Resources Director
Alan Tidy joined Filtrona in 2005 as Group Human Resources Director from Wagon plc, where he was group Human Resources Director. Alan is Chairman of Filtrona's UK Pension Trustee Board and the Filtrona Group Health, Safety & Environment Council. Alan is a Chartered Member of the Institute of Personnel and Development.

04
Rob Purcell
Managing Director, Protection & Finishing Products
Rob Purcell joined Filtrona in 1996 as Managing Director of the Moss plastic parts business from Low and Bonar, where he had been Managing Director of its technical textiles business. Rob was appointed to his current role in 2003, and was a Trustee of the Filtrona Senior Pension Scheme for a number of years.

05
Tony Edwards
Managing Director, Coated & Security Products
Tony Edwards joined Filtrona in 1996 as Finance Director of the Payne business upon its acquisition from Norcros plc. Before being appointed to his current role in 2002, Tony was Finance Director of the Filtrona business division within Bunzl plc. Tony is a Chartered Accountant, having qualified with Price Waterhouse.

06
Russ Rogers
President, Porous Technologies
Russ Rogers joined Filtrona in 1997 as Director of Manufacturing on the acquisition of American Filtrona Corporation. Before being appointed to his current role in 2003, Russ performed increasingly senior roles in engineering, logistics, purchasing and manufacturing in the Porous Technologies division.


07

08

09

10

11

07
PT Sreekumar
Managing Director, Filter Products
PT Sreekumar joined Filtrona in 1995, being initially responsible for the Company's joint venture in India. Before being appointed to his current role in 2005, Sreekumar was Regional Director for Asia Pacific, responsible for the business in Asia and the Middle East. Prior to joining Filtrona, Sreekumar worked for the Indian tobacco company Godfrey Philips.

08
Matthew Gregory
Corporate Development Director
Matthew Gregory joined Filtrona in 2003 as Finance Director of the Moss plastic parts business. Before being appointed to his current role in 2010, Matthew was Finance Director of the Protection & Finishing Products division. Prior to joining Filtrona, Matthew worked for the Rank Group plc in a number of senior finance roles. Matthew is a Chartered Accountant, having qualified with Ernst & Young.

09
Joanna Speed
Corporate Affairs Director
Joanna Speed joined Filtrona in 2011 as Corporate Affairs Director, having previously held the position of Investor Relations Director at Reckitt Benckiser Group plc and Scottish & Newcastle plc. Prior to this, Joanna was an equity analyst and worked in investment banking for a number of international banks. Joanna is a Chartered Accountant, having qualified with Arthur Andersen.

10
Jon Green
Company Secretary & General Counsel
Jon Green joined Filtrona in 2005, and was appointed Company Secretary & General Counsel in July 2005. Prior to joining Filtrona, Jon worked as an in-house lawyer for a number of large international businesses, including Hays plc and Unilever plc. Jon is a qualified solicitor.

11
Malcolm Waugh
Group Commercial Director
Malcolm Waugh joined Filtrona in 2007 as Managing Director of Payne Tear Tape, and was appointed to his current role in January 2012. Prior to joining Filtrona, Malcolm was Commercial Director at Tetra Pak UK and Ireland, holding a variety of business development and commercial positions during his 18 year career there.

Board of Directors

Jeff Harris
Non-Executive Chairman
Appointed to the Board: May 2005

Skills and experience
Chairman of Filtrona since its formation in 2005, Jeff has played a key role in ensuring continuity upon demerger and in the subsequent development of the Company. Jeff is a Chartered Accountant, having spent over 25 years working in public companies, and brings a wealth of financial and strategic experience to Filtrona.

Other appointments
Non-Executive Chairman of Cookson Group plc and Non-Executive Director of WH Smith PLC

Past appointments
Chief Executive and Chairman of Alliance UniChem plc, Non-Executive Chairman of Bunzl plc, Non-Executive Director of Associated British Foods plc

Committee membership
Chairman of the Nomination Committee

Paul Drechsler
Senior Independent Non-Executive Director
Appointed to the Board: May 2005

Skills and experience
Paul is currently Chairman and Chief Executive of Wates Group Limited, a private family-owned construction services company. Having served on the Board of Filtrona since its formation in 2005, Paul has played a key role in the development of the Company, particularly regarding its remuneration policy. Paul brings extensive international business experience to his role, having spent 24 years at ICI PLC in a variety of senior positions.

Other appointments
Member of the Trinity College Dublin Business School Advisory Board, Chairman of the CBI Energy Policy Committee and member of the CBI Chairman's Committee, member of Business in the Community and Chairman of its Education Leadership Team

Past appointments
Executive Director of ICI plc, Chairman of the ICI Group pension fund

Committee membership
Chairman of the Remuneration Committee, member of the Audit and Nomination Committees

Colin Day
Chief Executive
Appointed to the Board: April 2011

Skills and experience
Prior to joining Filtrona, Colin was Chief Financial Officer at Reckitt Benckiser Group plc for over ten years. In addition to leading the finance function Colin was instrumental in both mergers and acquisitions activity and the development of group strategy. Prior to joining Reckitt Benckiser, Colin held a range of senior finance and operational positions at a variety of companies.

Other appointments
Non-Executive Director of WPP Group plc and AMEC plc

Past appointments
Chief Financial Officer of Aegis Group plc. Non-Executive Director of EasyJet plc, Imperial Tobacco Group plc and Cadbury plc

Steve Crummett
Group Finance Director
Appointed to the Board: March 2008

Skills and experience
Steve joined Filtrona in May 2007 as Director of Corporate Development. Prior to this, he was Group Director of Mergers and Acquisitions at Exel plc, and has worked in a number of other senior finance roles. Steve is a Chartered Accountant, having qualified with Arthur Andersen.

Terry Twigger
Non-Executive Director
Appointed to the Board: June 2009

Skills and experience
Terry is currently Chief Executive of Meggitt PLC, a designer and manufacturer of high technology products and systems for the international aerospace, defence and energy markets. Terry has considerable acquisition experience and has also held a number of senior finance roles, including having previously been Finance Director at Meggitt.

Past appointments
Lucas Aerospace

Committee membership
Chairman of the Audit Committee, member of the Remuneration and Nomination Committees

Lars Emilson
Non-Executive Director
Appointed to the Board: May 2007

Skills and experience
Lars has considerable experience of manufacturing companies, having spent the majority of his career in the packaging industry. Prior to his retirement in 2007, Lars was Chief Executive of Rexam PLC from 2004.

Past appointments
Non-Executive Chairman, Charter International plc

Other appointments
Director of East Capital Explorer AB

Committee membership
Member of the Audit, Remuneration and Nomination Committees

Chairman's Letter

JEFF HARRIS
Chairman

2011 Board key activities

- Focused on the development of the Vision 2015 strategy
- Approved the acquisition of Reid Supply
- Approved the acquisition of Richco, Inc.
- Approved new five-year revolving credit banking facilities
- Reviewed senior management succession planning
- Approved a new Group Risk Policy
- Endorsed the establishment of the Group Management Committee
- Documented the responsibilities of the Chairman, Chief Executive and Senior Independent Non-Executive Director

On behalf of the Board I am pleased to present the Corporate Governance Report for 2011

Review of 2011

With the appointment of Colin Day as Chief Executive in April 2011, there has been a clear acceleration in the pace of change within Filtrona as the Company focuses on the delivery of the growth objectives outlined in the Vision 2015 strategy initiated by Colin. The Board has continued to devote time to its usual responsibilities such as the monitoring of financial and operational performance and approving the plan and targets for the year ahead. However, a significant amount of the Board's discussions during 2011 centred on the development of the Vision 2015 strategy, which was introduced to shareholders with the half year results in August 2011. In addition, the Board reviewed other key initiatives, such as the acquisitions of Reid Supply and Richco, Inc. and the development of and investment in growth opportunities across new markets and in new geographies.

Corporate governance development

Good governance, based on an effective Board, supports the delivery of sustainable long-term value for Filtrona shareholders. This includes proper internal controls and processes, a comprehensive understanding of risk and opportunity, a rigorous approach to performance management and strict commitment to transparency and integrity.

I am satisfied that the Board is well balanced in its mix of skills, experience and knowledge, to manage the Company and lead it through to the Vision 2015 objectives. However, we shall pay close attention to the Lord Davies' Report which encourages Board diversity and we shall look to work towards those objectives as Board rotation occurs.

The Board has taken steps to facilitate the better use of its time, avoiding the default to lengthy formal presentations which restrict the opportunity for challenge and discussion, while Board papers are kept increasingly concise and clearly focused on key points. There is an increased onus on Board members to be well prepared and ready to contribute positively and challenge constructively, during the increased opportunities for strategic debate.

In response to the new UK Corporate Governance Code during the year there was a formal documented clarification of the division of responsibilities for the key Board positions of Chairman, Chief Executive and Senior Independent Non-Executive Director and these can be found on the Company website www.filtrona.com.

Board evaluation

Given the Chief Executive transition during the first half of the year, it was decided to proceed with an internal Board review during 2011 as opposed to the external exercise originally intended. The review consisted of the Directors responding to questionnaires relating to the performance of the Board as a whole and its various Committees. The positive feedback from the questionnaires was the subject of detailed discussion both within the formality of the Boardroom and in separate informal meetings. An external review will be conducted during 2012 as we seek to further enhance the effectiveness of the Filtrona Board performance.

Talent, succession planning and diversity

While the Nomination Committee primarily focuses on Board succession, the Board's role includes reviewing the quality of the executive management and the processes for finding and developing future talent. Filtrona has an experienced management team, but securing sustained future growth of the Company will be dependent in part on the creation of a mobile international talent base. It is the responsibility of the Chief Executive to ensure the best senior executives are appointed to support him in the management of the Company, but the oversight of the management succession plans is an important part of the Board's remit.

2012 Board objectives

Strategy – Drive further progress towards Vision 2015

Financial performance – Meet 2012 financial targets and deliver sustainable growth in shareholder value

Succession – Develop an international, mobile talent base

Risk – Operate within clearly defined risk parameters

Compliance – Ensure high standards of governance and compliance

BOARD DIRECTORS' ATTENDANCE

Members	Board	Audit	Remuneration	Nomination
Jeff Harris[2]	8 (8)			3 (3)
Colin Day[1]	6 (6)			
Steve Crummett	8 (8)			
Paul Drechsler[2]	8 (8)	4 (4)	4 (4)	3 (3)
Lars Emilson[2]	8 (8)	4 (4)	4 (4)	3 (3)
Terry Twigger[2]	8 (8)	4 (4)	4 (4)	3 (3)
Mark Harper[3]	2 (2)			

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

1 Appointed to the Board on 1 April 2011

2 Non-Executive Director

3 Resigned from the Board on 14 April 2011

In seeking to further develop the roles and responsibilities of senior executives within the Company, during the year the Board approved the Chief Executive's initiative to adopt a new executive management structure which took effect from 1 January 2012. The Executive Committee and the Group Operating Committee have been superseded by the Group Management Committee which has agreed levels of authority delegated to it by the Board. In addition, the Company has developed the Group Leadership Team which comprises the most senior managers from across the Group who are collectively charged with driving the achievement of Vision 2015.

An effective relationship between the Board and members of the Group Leadership Team is important in assisting the Board in managing risk and formulating strategy, and such engagement also serves to improve succession planning and the oversight of human resource issues. The Board evaluation reiterated the benefits of ensuring the visibility of the Board and the communication of its work throughout the Company as well as improving the development of management. As a result, further site visits by the Board including opportunities to engage directly with the next generation of internal talent are planned for 2012 and beyond.

Supporting the motivation, attraction and retention of the key talent base, the Remuneration Committee has continued to balance the interests of shareholders with the adoption of appropriate incentives designed to drive the sustained creation of value. The Remuneration Committee has focused on the appropriate management of remuneration policy risk and the alignment of management and shareholder interests with the development of proposals based on an increased commitment to individual shareholdings by members of the Group Leadership Team and the adoption of increasingly stretching performance conditions.

Assurance

The implementation of the Bribery Act in the UK provided further focus on all areas of compliance across the Group, with policy and guidance materials being supported by training programmes and externally facilitated reviews. Whilst the Board receives regular briefings on key legal and regulatory developments, the Board evaluation identified that the increasing levels of compliance risk impacting any international business such as Filtrona necessitate the Board having a clear understanding of the potential issues impacting the Company. Accordingly, it is intended that during 2012 Board agendas will include further detailed presentations from specialist external advisers.

The work of the Audit Committee has continued to focus on the integrity of financial reporting and the oversight of risk management and internal controls across the Group. During the year the Company continued to develop a new Assurance function, covering internal audit, risk management and compliance activities, and it is anticipated that the benefits of the new structure will emerge strongly during 2012.

As the Board seeks to drive opportunities for the long-term growth of Filtrona, including the development of innovative new products for introduction into new markets in new geographies, the requirements for sound risk management, including a well-defined risk appetite, and the clarity of risk reporting take on ever-increasing importance. The strength of the Company's corporate values, its reputation and its ability to deliver the Vision 2015 strategy and provide sustainable value in the longer term, all depend in part on the effectiveness of Filtrona's corporate governance and the Board is committed to achieving the highest standards.

Jeff Harris
Chairman
22 February 2012

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 global businesses

Filtrona confirms that throughout the year ended 31 December 2011 the Company has complied with the UK Corporate Governance Code published by the Financial Reporting Council in June 2010 (the "Code").

A copy of the Code can be viewed on the Financial Reporting Council's website www.frc.org.uk.

The Company applies the Code's principles of openness, integrity and accountability through its own behaviour, corporate governance best practice and by adopting, as appropriate and proportionate for a company of the size and nature of Filtrona, recommendations of relevant professional bodies.

The Company's governance structure, based on the leadership principles of the Code, were reviewed and clarified during the year. The Board is collectively responsible for the long-term success of the Company and its role is to provide entrepreneurial leadership of the Company within a framework of prudent and effective controls which enables risk to be assessed and managed in the pursuit of the Company's strategic objectives.

Board composition and independence

During 2011, the Filtrona Board continued to comprise a Non-Executive Chairman, two Executive Directors and three Non-Executive Directors. 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, the Company's Vision 2015 strategy. 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 Filtrona and the material issues likely to arise for the Company.

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. Details are available on the Company website www.filtrona.com. 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 Senior Independent Non-Executive Director 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 the Group Finance Director or where such contact is inappropriate.

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

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

The Company's Articles of Association require that all new Directors seek re-election to the Board at the following AGM. In addition, the Board has agreed that, in compliance with the Code, all Directors will be putting themselves forward for re-election on an annual basis. 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, continues to be effective and that their ongoing commitment to the role is undiminished.

The responsibilities of the Audit, Nomination and Remuneration Committees are defined within the Committees' Terms of Reference, copies of which are available at www.filtrona.com.

The conduct of Board matters

In managing the affairs of the Company, the Board has adopted a schedule of reserved matters which are required to be reviewed by it including:

- Strategy and resources
- Annual plan
- 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 2011, the Board was closely engaged in the detailed monitoring of performance and the actions necessary to maintain the profitability of the Company. It also remained focused on the longer-term strategic objectives which it has defined and the appropriate management of particular risks impacting the Group.

Governance framework

THE BOARD

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 global businesses.

In fulfilling its role the Board:

- Sets the Company's strategic aims
- Determines the nature and extent of acceptable risks in achieving its strategic objectives
- Oversees the establishment of formal and transparent arrangements for the application of corporate reporting, risk management and internal control requirements and principles
- Ensures the necessary financial and human resources are in place for the Company to meet its objectives
- Sets the Company's values and standards
- Reviews the performance of the Company's executive management
- Presents a balanced and understandable assessment of the Company's position and prospects to its shareholders

THE AUDIT COMMITTEE

Supports the Board in establishing formal and transparent arrangements for considering how it should apply the required financial reporting, internal control principles and risk management processes and the audit of the financial statements of the Company.

THE NOMINATION COMMITTEE

Responsible for selecting and recommending candidates for appointment as Executive and Non-Executive Directors of the Company, taking into account the balance, structure and composition of the Board and the future challenges and opportunities facing the Company.

THE REMUNERATION COMMITTEE

Responsible for making recommendations to the Board on remuneration policy and aligning senior executives' remuneration with the interests of the shareholders and other stakeholders, particularly in the design of the performance-related elements of remuneration packages.

THE GROUP MANAGEMENT COMMITTEE

The Group Management Committee provides general executive management of the Company within agreed delegated authority limits determined by the Board.

- Develops and implements strategy, financial and operational plans and targets and allocates resources
- Monitors and delivers financial and operating performance
- Maintains an effective internal control framework and is responsible for compliance
- Implements an effective management structure and develops effective succession plans
- Is responsible for effective internal and external reporting and communication

THE GROUP LEADERSHIP TEAM

Comprises the most senior managers from across the Group who are collectively charged with driving the achievement of Filtrona's Vision 2015 strategy. It has a key role in reinforcing the behaviours that contribute to a robust governance culture across the Group.

Corporate Governance Report continued

Board and Committees

Members	Board
Jeff Harris[2]	8 (8)
Colin Day[1]	6 (6)
Steve Crummett	8 (8)
Paul Drechsler[2]	8 (8)
Lars Emilson[2]	8 (8)
Terry Twigger[2]	8 (8)
Mark Harper[3]	2 (2)

Figures in brackets denote the maximum number of meetings that could have been attended
1 Appointed to the Board on 1 April 2011
2 Non-Executive Director
3 Resigned from the Board on 14 April 2011

During the year there were eight scheduled Board meetings, one of which was held at the Coated & Security Products facility in Nottingham, UK. In addition to the scheduled formal meetings, the Board met on a number of other occasions as required and in particular, reviewed in detail, the further development and delivery of the Group strategy in conjunction with outside advisors. 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. Plans to hold a Board meeting overseas were revised due to the changing components of the Board agenda at that time. Plans are in place for a Board meeting to be held overseas during 2012.

The Chairman, in conjunction with the Company Secretary & General Counsel, sets the programme for the Board during the year. The Board considers reports from the Chief Executive and the Group Finance Director covering operational, financial performance 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.

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.

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

During the year the structure of the executive management framework was reviewed and the Board approved the replacement of the Executive Committee and the Group Operating Committee with the Group Management Committee (the "GMC"). The roles and responsibilities of the Executive Committee and the Group Operating Committee have been combined and expanded with the endorsement of the Board.

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

Engagement with management

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 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 senior executive management 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.

Applying Filtrona's Corporate Responsibility principles

The Chief Executive is the Director with primary responsibility for the implementation and integration of Filtrona's Corporate Responsibility principles across the Company. The Group Human Resources Director, supported by the Company Secretary & General Counsel, is responsible for co-ordinating the operation of the detailed policies on human resources, health and safety, ethics and the environment which support Filtrona's commitment to its Corporate Responsibility principles. Further details of those policies can be viewed via the Corporate Responsibility page on the Company's website at www.filtrona.com.

Internal controls

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.

During the year the Audit Committee completed a review of the effectiveness of the Group's system of risk management and internal control processes in conjunction with external advisors. Following that review a number of improvements are being implemented.

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 Audit Committee meets regularly and reviews the effectiveness of the internal control environment of the Group
- The Audit Committee is supported by the Internal Audit function which was relaunched as the new Group Assurance function in January 2012
- Risk management reports are presented which detail an analysis of the key risks at a Group level, summarise developments potentially impacting the Group from a risk, governance or compliance perspective and propose actions for the Company in response to such developments
- The Board has the opportunity to review the internal control environment at local sites when Board meetings are held away from the Company's head office
- Every month each division submits detailed operating and financial reports covering all aspects of performance. These are reviewed within the Group's central finance function and summary reports are communicated to the GMC and the Board
- Certificates are required from the businesses to confirm compliance with the Group's policies and procedures
- Self-certification is required from all businesses and divisions at both the half year and year end to confirm compliance with Group financial policies and procedures

The external auditor is 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.

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 Group. Filtrona's internal controls are designed to ensure significant risks, investment decisions and management issues are identified, considered and escalated as necessary at the earliest opportunity. Divisional Managing Directors and Presidents are responsible for ensuring the communication of and compliance with Filtrona's internal controls across their respective divisions.

The Board considers that there is considerable comfort in the fact that the Group's cash flow from operating activities represented in excess of 100% of adjusted operating profit in 2011, reflecting what it believes to be a robust control environment.

Control of significant risks

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

A Group Risk policy, which was reviewed during the year to take into consideration the changes to the Group operational structure and the revised Group strategy, supports the Board in fulfilling those responsibilities and serves to reinforce the risk review processes embedded within the businesses.

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 2011 and up to the date of approval of the Annual Report for 2011.

Details of the processes the Company has put in place to manage risk can be found on page 34 of this Report.

Conflict of interests

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

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.

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

An internal Board review was held during 2011. The review consisted of the Directors responding to questionnaires relating to the performance of the Board as a whole and its various Committees. The positive feedback from the questionnaires was the subject of detailed discussion both within the formality of the Boardroom and in separate informal meetings. An external review will be conducted during 2012 as the Company seeks to further enhance the effectiveness of the Filtrona Board performance.

The performance of individual Directors was also the subject of discussion led by the Chairman.

Corporate Governance Report continued

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, the Group Finance Director and the Corporate Affairs Director have primary responsibility for investor relations. Presentations for analysts and institutional shareholders were held during the year and meetings were also held with key institutional investors to discuss strategy, financial performance and investment activities. Slide presentations are made immediately available after the full year and half year results and are also available on the Company's website to view and download.

All shareholders have the opportunity to meet any of the Directors of the Company should they so wish. Feedback from meetings with shareholders is provided to the Board so they are aware of any issues or concerns. Additionally, the Board uses the AGM as an occasion to communicate with all shareholders, including private investors, who are provided with the opportunity to question the Directors.

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

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

Financial reporting

The Directors have acknowledged, in the Statement of Directors' Responsibilities set out on page 67, 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 its 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.

Directors' and Officers' insurance

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

THE AUDIT COMMITTEE

Committee Chairman: Terry Twigger

Membership and attendance

Paul Drechsler	4 (4)
Lars Emilson	4 (4)
Terry Twigger	4 (4)

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

Other attendees
The external auditor, Chairman of the Company, Chief Executive, Group Finance Director and Group Head of Audit attended meetings. During the year, the Audit Committee met the external auditor and the Group Head of Audit without the Company management being present.

Experience
All the Committee's members are independent Non-Executive Directors with financial and / or related business experience gained in senior positions in other large diverse organisations.

Terry Twigger has been the Chairman of the Audit Committee since 2009 and the Board is satisfied that Terry has recent and relevant financial experience, further details of which can be found on page 45.

2011 key activities
- 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
- Carried out a full review of internal management on the perceived effectiveness of the external auditor
- 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 processes 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 remains satisfied that the auditor provides effective independent challenge to management
- Reviewed and approved proposals for the engagement of the external auditor for non-audit services
- Completed a formal review of the Company's internal audit and risk management systems and implementation of a new Controls and Assurance framework
- Reviewed the Company's international corporate tax strategy
- Reviewed the investment strategy for the Group pension schemes
- Oversaw compliance activities
- Approved the recruitment of the new Head of Group Assurance

The Audit Committee supports the Board in establishing formal and transparent arrangements for considering how it should apply the required financial reporting, internal control principles and risk management processes and the audit of the financial statements of the Company.

The Audit Committee reports to the full Board on a regular basis but no less frequently than at every Board meeting following a Committee meeting. There is an annual cycle of items that are to be considered by the Audit Committee. The timetable of these items is scheduled in accordance with the requirements of the annual audit cycle. The responsibilities of the Audit Committee are defined in its terms of reference, which are reviewed annually, copies of which are available at www.filtrona.com.

Engagement of the external auditor

The Audit Committee considers annually the engagement of the external auditor to supply non-audit services. The importance of maintaining the objectivity and independence of the external auditor, by minimising its involvement in projects of a non-audit nature, is of concern to the Audit Committee. It is, however, also acknowledged that, due to its detailed understanding of the Company's business, it may sometimes be necessary to involve the external auditor in non-audit related work, principally comprising further assurance services relating to due diligence and other duties carried out in respect of acquisitions, disposals and tax services.

The Audit Committee reviews the performance of the external auditor on an annual basis. There are no contractual obligations restricting the Company's choice of auditor and no auditor liability agreement has been entered into by the Company. The external auditor is required to rotate the audit partner responsible for the Group audit every five years. The current lead audit partner has been in place for one year.

In addition to the annual review of the service provided by the external auditor, the Company considers formally at least every three years whether the audit might be provided more efficiently or effectively by an alternative audit firm. However, the Company may put the audit out to tender at any time.

THE NOMINATION COMMITTEE

Committee Chairman: Jeff Harris

Membership and attendance

Jeff Harris	3 (3)
Paul Drechsler	3 (3)
Lars Emilson	3 (3)
Terry Twigger	3 (3)

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

Other attendees

The Chief Executive and Group Human Resources Director attend by invitation as appropriate.

2011 key activities

- Reviewed the succession planning for the Board and senior executives
- Reviewed in detail the key issues arising out of the Lord Davies' Report having regard in particular to the composition of the Company's Board and the benefits of diversity
- Reviewed the Group Conflict of Interests policy and register and was satisfied that there were no material issues of conflict

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.

While the Nomination Committee and the Board as a whole supports the spirit of the recommendations set out in the Lord Davies' Report "Women on Boards" in securing the right combination of skills, experience and expertise on the Board to effectively lead the sustainable growth and success of the Company for the benefit of all stakeholders, the fundamental objective must be to ensure that the best people are appointed to do the best job for Filtrona. Appointing people on merit without any form of discrimination is a key component of Filtrona policies across all its international operations at all levels.

In recognising the benefits of diversity in conjunction with the development of any robust succession planning the Nomination Committee has concluded that any future engagement of executive search agents in relation to potential appointments to the Board should include a specific instruction to ensure that the widest possible field of female candidates is identified for consideration. A copy of the Company's statement on Diversity is available on the website www.filtrona.com.

Report of the Remuneration Committee

This Report to shareholders for the year ended 31 December 2011 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 UK Corporate Governance Code published by the Financial Reporting Council ("the Code"). KPMG Audit Plc have audited the contents of the Report to the extent required by the Regulations.

THE REMUNERATION COMMITTEE

Committee Chairman: Paul Drechsler

Membership and attendance

Paul Drechsler	4 (4)
Lars Emilson	4 (4)
Terry Twigger	4 (4)

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

Other attendees
The Chairman, Chief Executive and Group Human Resources Director attended by invitation except when their own remuneration was discussed.

2011 key activities
- Approved the 2010 cash bonus payments
- Reviewed and approved a Save As You Earn share option scheme invitation for 2011
- Approved the bonus rules and targets for 2011 including the personal objectives for the Executive Committee
- Approved the LTIP B awards made in February and August 2011
- Carried out a review of the existing Group incentive arrangements and considered the revised Group strategy plans
- Developed changes to the remuneration arrangements
- Approved the remuneration for Colin Day as the new Chief Executive
- Approved the retirement terms for Mark Harper

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.

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

Key objectives
- Align senior executives' remuneration with the interests of 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

Main responsibilities
- 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

Advice

During the year, Filtrona's Group Human Resources Director 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:

- 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

Punter Southall provided investment consulting services to the Trustees of the UK pension schemes and Aon Hewitt provided 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 Group Management Committee are reviewed by the Remuneration Committee and recommendations are made to the Board.

The Remuneration Committee also takes note of the remuneration policy as detailed by the Chief Executive in respect of other levels of management in the Company and makes such recommendations to the Chief Executive as the Remuneration Committee deems appropriate. The Remuneration Committee has regard to the proposed remuneration policy for other management and employees across the Group, when determining recommendations on remuneration for the Executive Directors and other senior executives.

The Remuneration Committee reviewed the risks surrounding the Company's existing remuneration policies and the proposed new incentive arrangements in seeking to ensure that an appropriate balance was maintained in aligning the interests of the Company's senior executives and shareholders.

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 his 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 for Executive Directors is delivered in the form of Filtrona shares which will vest after a three year period. These requirements closely tie the long-term value of executive remuneration to the long-term interests of shareholders.

As set out on page 10 to 13, Filtrona's Vision 2015 strategy seeks to create sustainable shareholder value through the delivery of balanced, profitable growth in its existing and future opportunity markets and technologies. The strategy also calls for strong conversion of profit into cash. 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.

The Remuneration Committee believes that the remuneration packages for senior executives including the Executive Directors for 2012 should consist of:

- Basic salary – Internal and external parity in basic salary positioning is an important contributor to a motivational remuneration package. The Remuneration Committee takes into account a range of factors, including individual and corporate performance, and pay and employment conditions elsewhere across the Group when undertaking base salary reviews
- Annual bonus plan (delivered through a mixture of cash and shares) – Bonus structures are effective if they help drive the achievement of targets, while 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 – Performance shares granted under the LTIP encourage a longer-term focus on both Earnings per Share ("EPS") and relative Total Shareholder Return ("TSR"). These metrics measure how the Company is performing for 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.

The Remuneration Committee has been consulting with leading shareholders and their representative bodies on changes to packages for senior management (including the Chief Executive and the Group Finance Director) for 2012. The Remuneration Committee has considered

Report of the Remuneration Committee continued

at length the development of the strategy to deliver future growth for Filtrona and the timing of any changes to the existing executive reward structure. The Remuneration Committee felt that it was right to wait until the strategy, that Colin Day initiated following his arrival at the company in April 2011, had started to bear fruit before bringing the proposals to shareholders for consideration.

The fundamental principles the Remuneration Committee has followed in redesigning reward structures for senior management are:

- To reflect the Company's Vision 2015 strategy (as set out in the Company's results presentations for 2011)
- To ensure that annual bonus metrics and targets provide executives reward for delivering the business objectives of:
  - Above industry average revenue growth
  - Continued margin improvement
  - Strong cash flow generation and disciplined use of capital
- Delivery of performance annually, across a broad foundation of business fundamentals which should lead to growth in EPS, a key metric for shareholders
- Focus rewards so they deliver if the Company delivers EPS growth in line with stretching targets
- Create more stretching financial targets for incentives that reflect a step change in business performance
- Reward executives well if they deliver outstanding performance and create significant sustainable shareholder value
- Provide no additional reward for the same financial performance
- Change the culture of Filtrona by requiring executives to hold significant shareholdings in the Company
- Reward executives for organic growth, and adjust targets for M&A activity
- Adopt clawback provisions to safeguard shareholders' interests

The Remuneration Committee has met on several occasions to consider all the feedback from shareholders and settled on proposals ("the Proposals") which maintain a straightforward structure, utilising existing plans and performance measures rather than introducing new ones. The changes create increased share ownership with more stretching targets linked with higher potential incentive reward in order to secure greater alignment with shareholder interests.

These changes maintain the structure and focus of pay set out above.

The specific changes are:

- Salary increases – Intended to be no higher than the rate applying to other executives and the workforce in general, unless there has been a significant increase in the size of the Company or role of the individual. The increase applying from 1 January 2012 is 2.5% for both Executive Directors
- Annual bonus plan – The maximum bonus entitlement will be increased by 25% of salary for each Executive Director, taking Colin Day to 150% of salary and Steve Crummett to 125% of salary
  - The bonus should reward executives for above industry average revenue growth, continued margin improvement and strong cash flow generation and disciplined use of cash. To achieve this, tougher more balanced measures and targets will be introduced with 80% based on a matrix of revenue and profit targets (such that strong performance on both measures will be needed). The remaining 20% will be based equally on cash targets and personal goals. This portfolio of measures and targets means that it will be significantly harder for high levels of bonus to be paid to executives than in the past, since all of the targets spread across different measures will need to be met at the same time for a full bonus to be earned
  - The targets set will be disclosed retrospectively alongside the performance achieved and levels of payout. Half of the annual bonus will continue to be payable in cash and the other half will be payable in Filtrona shares deferred for three years, in accordance with the existing arrangements
  - Clawback provisions will apply to enable the recovery of any bonus payments made on the basis of any material misstatement of performance
- Long-term Incentive Plan – Increasing the capacity under the existing LTIP rules from 200% of salary to 300% of salary in performance shares annually, retaining the current 50:50 EPS-TSR split of performance conditions. This will require approval at the forthcoming AGM
  - Increasing the EPS performance hurdles for performance shares to be granted in 2012. EPS growth targets will be 13% to 20% pa, an increase from current targets of RPI +3% to +8% pa (for senior management). In future years it is the Committee's intention to set a performance range of 8% to 15% pa for organic EPS growth. Therefore targets will be adjusted to take account of any future acquisitions or share buy-backs Filtrona makes
  - EPS will be measured on a fully-diluted constant currency basis
  - The Remuneration Committee believes that the continued use of RPI as part of the EPS targets is now much less relevant for Filtrona with its international spread of businesses and executives, and proposes to simplify target setting and the comprehension of the scheme by dropping it at the same time as these increased targets are adopted
  - The existing TSR targets of median to upper quartile performance relative to the FTSE 250 Index will continue to apply
  - The table below shows the impact of the increased grant potential and higher EPS targets
  - It is the Remuneration Committee's intention that in 2012 Colin Day's and Steve Crummett's grants will be 300% and 200% of salary respectively. Subject to business and individual performance, these award levels would be expected to apply in future years
- Significantly higher share ownership requirements. See page 57 for further details

Impact of the increased grant potential and higher EPS targets

2012 awards		EPS vesting (% of salary)		TSR vesting (% of salary)		Total (% of salary)	
EPS growth pa (assuming RPI = 3% pa)	TSR relative to FTSE 250 (assumption)	Current limit	Proposed	Current limit	Proposed	Current limit	Proposed
6%	< median	25%	0%	0%	0%	25%	0%
11%	< median	100%	0%	0%	0%	100%	0%
13%	< median	100%	37.5%	25%	37.5%	125%	75%
20%	upper quartile	100%	150%	100%	150%	200%	300%

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, if changes are made to remuneration packages for 2012, then the guideline limit will be increased from 100% to 300% of basic salary for the Chief Executive and to 200% for the Group Finance Director. Shares held in unvested LTIPs are not taken into account in assessing compliance with this guideline.

The current requirement is 100% of salary to be built up over five years.

As at 31 December 2011 Colin Day held shares to the value of 175% of basic salary and Steve Crummett held shares to the value of more than 200% of basic salary.

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

Details of the Directors' shareholdings can be found on page 63.

Summary of components of Executive Directors' remuneration for 2012

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

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

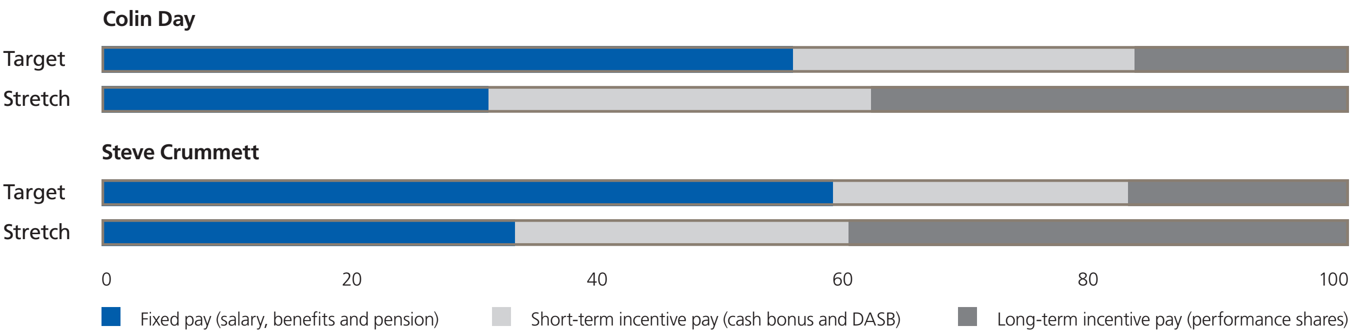
Summary of Executive Directors' remuneration in 2012

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*	To incentivise the delivery of Group performance-related objectives.	Annual	One half of the total annual bonus is paid in cash. 80% of the bonus opportunity is calculated by reference to a matrix of revenue and margin improvement / profit targets, 10% on working capital management and 10% by reference to personal objectives.
Deferred Annual Share Bonus*	To aid retention and to align Directors' interests with those of the Company's shareholders. To incentivise the delivery of Group performance-related objectives.	Three years	Subject to shareholder approval at the AGM the aggregate value of shares made subject to any award granted under the Deferred Annual Share Bonus ("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.	Three years	Subject to shareholder approval at the AGM, performance share awards worth up to 300% 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.

* The maximum annual bonus in any one year will be capped at 125% of salary for Steve Crummett and at 150% of salary for Colin Day, normally comprising one half annual cash bonus and one half DASB award

Report of the Remuneration Committee continued

Total remuneration (%)



Components of Directors' remuneration for 2011

	Fees £000	Salary £000	Cash bonus £000	Benefits £000	Year ended 31 Dec 2011 Total £000	Fees £000	Salary £000	Cash bonus £000	Benefits £000	Year ended 31 Dec 2010 Total £000
Executive Directors										
Colin Day[1]	–	**413**	**258**	**117[2]**	**788**	–	–	–	–	–
Steve Crummett	–	**295**	**148**	**84[3]**	**527**	–	281	140	69[4]	490
Mark Harper[5]	–	**164**	**184**	**4**	**352**	–	515	515	17	1,047
Non-Executive Directors										
Jeff Harris	**169**	–	–	–	**169**	164	–	–	–	164
Paul Drechsler	**53**	–	–	–	**53**	51	–	–	–	51
Lars Emilson	**40**	–	–	–	**40**	38	–	–	–	38
Terry Twigger	**49**	–	–	–	**49**	47	–	–	–	47

1 Appointed to the Board 1 April 2011
2 Includes a supplementary payment of £103,125 to allow the securing of pension benefits
3 Includes a supplementary payment of £59,000 to allow the securing of pension benefits
4 Includes a supplementary payment of £56,100 to allow the securing of pension benefits
5 Resigned from the Board 14 April 2011

Components of Directors' remuneration for 2011

The emoluments of the Directors for the year ended 31 December 2011 were as set out above.

The Company paid pension contributions for Steve Crummett of £12,608 into a defined contribution pension plan in 2011 which forms part of the supplementary payment.

Colin Day has private pension arrangements outside of the Group to which the Company makes no contribution.

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 2011. While the Company does not have a fixed policy on annual pay awards it aims to pay fairly across all employees and, taking into account average pay awards across the Group, the Remuneration Committee awarded Colin Day and Steve Crummett increases of 2.5%.

	Colin Day	Steve Crummett
Annual salary effective from 1 January 2012[1]	£563,750	£302,375
Annual salary effective from 1 January 2011[1,2]	£550,000	£295,000

1 Excluding supplementary pension payment
2 Or date of appointment

Annual bonuses
Under the terms of the annual bonus arrangements for 2011, Colin Day was potentially entitled to a maximum bonus of up to 125% of basic salary, pro rata from the date of his appointment. Mark Harper and Steve Crummett were each potentially entitled to a maximum bonus of up to 100% of basic salary pro rata according to the period of employment. Bonus payments are normally 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. Mark Harper will have his total bonus for 2011 paid in cash, in accordance with the terms agreed by the Remuneration Committee in relation to his retirement from the Company in May 2011.

For the year ended 31 December 2011, the financial performance targets, accounting for 80% of the bonus opportunity, were approved by the Remuneration Committee. These were based upon Filtrona's adjusted operating profit and, with reference to continuing operations, adjusted earnings per share at constant exchange rates relative to the prior year. Company performance was required to reach a minimum threshold operating profit of £76.5m 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. These objectives were met.

For the year ended 31 December 2011, the Company exceeded the stretch performance of adjusted operating profit of £86.0m, at budgeted exchange rates. As a result, the Remuneration Committee approved a total bonus of 125% of basic salary for Colin Day, 100% of basic salary for Steve Crummett and 100% of basic salary for Mark Harper pro-rated for service in the year.

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.

From 2010 awards onwards, the Committee has retained 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.

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 is 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.

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 A – Share Options
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 greater) in any financial year, subject to performance conditions. Since 2008, Executive Directors and other nominated senior executives have not been eligible to receive awards under LTIP Part A and participation in LTIP Part A has been limited to other designated employees.

Long-Term Incentive Plan – Part B – Performance Shares
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 currently 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 between 2008 and 2011, 50% of the awards are subject to a TSR performance condition and 50% of the awards are subject to an adjusted EPS performance condition.

The TSR performance condition assesses Filtrona's TSR performance relative to the constituents of the FSTE 250 index (excluding investment trusts). Performance is measured over three years from the date of grant. 12.5% of the award vests for median performance, increasing on a straight-line basis to 50% vesting for upper quartile performance or above.

The adjusted EPS performance condition for these awards requires 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.

It is the Remuneration Committee's intention that awards granted in 2012 will be subject to the same two criteria and, subject to shareholder approval at the AGM, the maximum potential grant be increased to 300% of salary and significantly more demanding targets for EPS growth be set.

Report of the Remuneration Committee continued

Awards granted and outstanding during the year

Scheme	Date of grant	At 1 Jan 2011	Lapsed in year	Awarded in year	Transferred in year	At 31 Dec 2011	Share price at date of award	Earliest vesting date	Expiry date
Colin Day									
LTIP Part B	20 April 2011	–	–	259,842	–	259,842	317.50p	20 April 2014	19 April 2017
LTIP Part B	26 August 2011	–	–	80,929	–	80,929	339.80p	28 February 2015*	25 August 2017
Steve Crummett									
LTIP Part B	25 April 2008	146,179	–	–	146,179[1]	–	150.50p	25 April 2011	24 April 2014
LTIP Part B	29 August 2008	91,286	–	–	91,286[2]	–	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	29 February 2016
LTIP Part B	31 August 2010	59,202	–	–	–	59,202	236.90p	28 February 2014*	30 August 2016
LTIP Part B	28 February 2011	–	–	98,629	–	98,629	299.10p	28 February 2014	27 February 2017
LTIP Part B	26 August 2011	–	–	43,407	–	43,407	339.80p	28 February 2015*	25 August 2017
DASB	1 March 2010	14,705	–	–	–	14,705	187.00p	1 March 2013	1 March 2013
DASB	28 February 2011	–	–	46,890	–	46,890	299.10p	1 March 2014	1 March 2014
Mark Harper[4]									
LTIP Part B	25 April 2008	325,581	–	–	325,581[1]	–	150.50p	25 April 2011	24 April 2014
LTIP Part B	29 August 2008	121,991	3,388	–	118,603[2]	–	180.75p	29 August 2011	28 August 2014
LTIP Part B	5 March 2009	378,750	73,645	–	–	305,105	115.00p	5 March 2012	4 March 2015
LTIP Part B	28 September 2009	134,070	48,414	–	–	85,656	169.50p	28 February 2013*	27 September 2015
LTIP Part B	1 March 2010	275,454	145,378	–	–	130,076	187.00p	1 March 2013	29 February 2016
LTIP Part B	31 August 2010	108,716	108,716	–	–	–	236.90p	28 February 2014*	30 August 2016
DASB	1 March 2010	27,005	–	–	27,005[3]	–	187.00p		

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

1 Share price, of LTIP B April 2008 awards, on transfer to participant was £3.45. The net gain (after deduction of UK taxes) was £241,974 for Steve Crummett and £538,943 for Mark Harper

2 Share price, of LTIP B August 2008 award, on transfer to participant was £3.56. The net gain (after deduction of UK taxes) was £155,804 for Steve Crummett and £202,424 for Mark Harper

3 Share price, of DASB March 2010 award, on transfer to Mark Harper on the date of leaving was £3.50. The net gain (after the deduction of UK taxes) was £45,368

4 Mark Harper retired from the Company in May 2011. As disclosed in last year's Remuneration Report, any outstanding deferred shares granted under the DASB were transferred to him on departure from the Company. His outstanding share awards under LTIP B continue to vest on the normal vesting dates, subject to performance and time pro-rating

A total of 1,049,555 (2010: 1,342,142) 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 2011.

The middle market price of an ordinary share in the Company on 31 December 2011 was 380.4p. The middle market price of an ordinary share in the Company during the year ranged from 248.1p to 392.6p.

The awards granted in 2008 under LTIP Part B were subject to relative TSR performance and EPS targets, each measure accounting for 50% of the award. On TSR performance, at the end of the respective performance periods, Filtrona was ranked in the upper quartile of the comparator group for each award. The EPS performance targets related to performance over the period 2007 to 2010, and required EPS growth of RPI +8% pa for full vesting. The Company achieved growth in adjusted EPS of 44% over this period, exceeding the stretch target. Accordingly, both awards vested in full.

The awards granted in 2009 and 2010 under LTIP B are subject to performance conditions which are 50% dependent on relative TSR performance targets and 50% based on adjusted EPS performance targets. The table sets out the potential vesting for these awards based on Filtrona's TSR performance as at 31 December 2011. The actual level of vesting of these 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.

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 2011.

Mark Harper joined the SAYE in 2006 and Steve Crummett joined the SAYE in 2008, both contributed 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 SAYE are shown below.

Performance

Date of grant	Vesting date	TSR performance	Indicative vesting*
March 2009	March 2012	upper quartile	100%
September 2009	February 2013	upper quartile	100%
March 2010	March 2013	upper quartile	100%
August 2010	February 2014	upper quartile	100%
February 2011	February 2014	upper quartile	100%
April 2011	April 2014	upper quartile	100%
August 2011	February 2015	not yet measured	n/a

* Based on performance to date

Share options

Scheme	Date of grant	At 1 Jan 2011	Exercised in year	At 31 Dec 2011	Exercise price	Share price at date of exercise	Earliest vesting date	Expiry date
Steve Crummett								
LTIP A	31 August 2007	73,221	–	73,221	239.00p	n/a	31 August 2010	30 August 2017
SAYE	28 March 2008	6,324	6,324[1]	–	151.80p	350.00p	1 May 2011	31 October 2011
Mark Harper								
LTIP A	23 June 2005	156,903	156,903[2]	–	239.00p	305.10p	23 June 2008	22 June 2015
	8 September 2006	148,380	148,380[3,4]	–	254.75p	305.10p	8 September 2009	7 September 2016
	31 August 2007	190,376	190,376[5]	–	239.00p	295.00p	31 August 2010	30 August 2017
SAYE	29 March 2006	6,793	6,793	–	237.00p		1 May 2011	31 October 2011

1 Shares were transferred to the participant and have not been sold
2 Share price, of LTIP A June 2005 award, on exercise by the participant was £3.05. The net gain (after deduction of UK taxes) was £50,819
3 Share price, of LTIP A September 2006 award, on exercise by the participant of 136,604 options was £3.05. The net gain (after deduction of UK taxes) was £33,702
4 Share price, of LTIP A September 2006 award, on exercise by the participant of 11,776 options was £3.68. The net gain (no income tax was applicable) was £13,312
5 Share price, of LTIP A August 2007 award, on exercise by the participant was £2.95. The net gain (after deduction of UK taxes) was £52,696
6 The share save option matured in May 2011

Report of the Remuneration Committee continued

Performance graph

The graph below represents the comparative TSR performance of the Company against the FTSE 250 (excluding investment trusts) Index for the last five years. 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. Colin Day has a service contract dated 1 April 2011 and Steve Crummett has a service contract dated 19 March 2008, both with a notice period of 12 months from either party. The service contracts for the Executive Directors are available for inspection by members at each AGM and during normal business hours at the Company's registered office.

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

Outside appointments

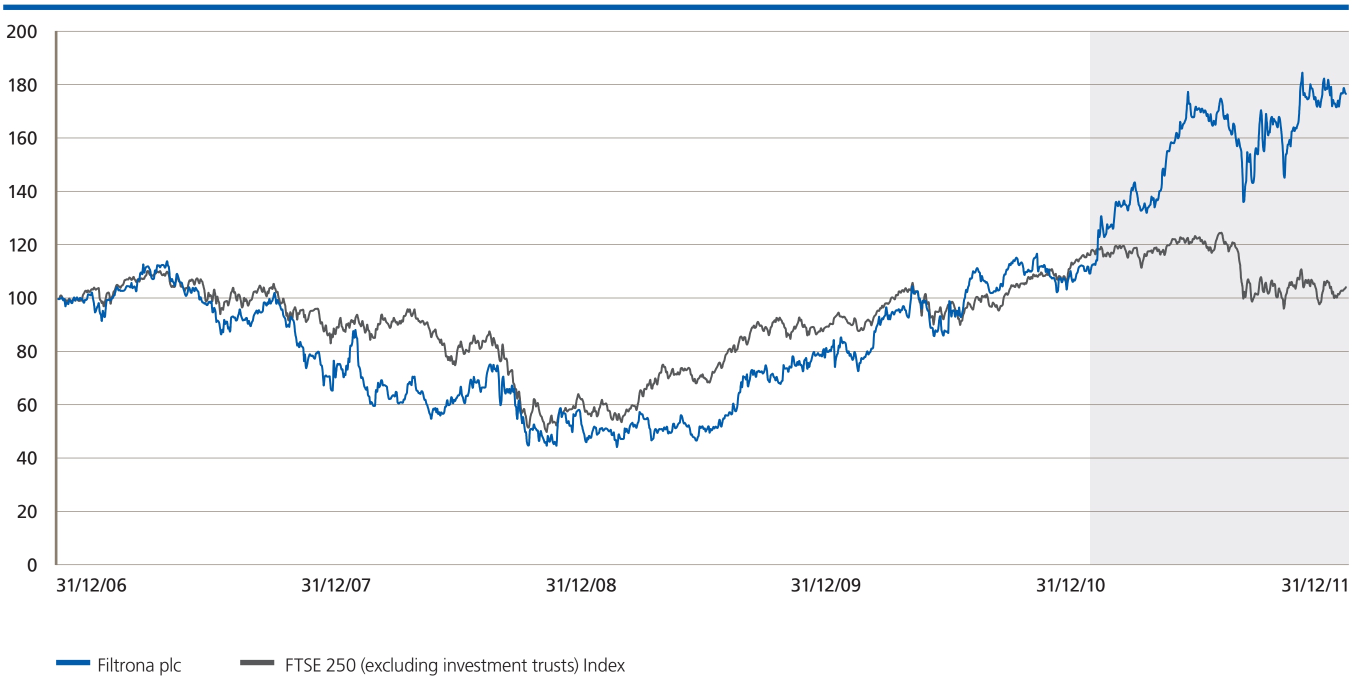
Filtrona recognises its senior executives can benefit from serving in a personal capacity as Non-Executive Directors of non-Filtrona Group companies. It is, at the same time, conscious of the corporate governance recommendations that Executive Directors should take account of the time commitment required 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, potential conflicts of interest and time commitments outside of Filtrona's responsibilities. Colin Day is a Non-Executive Director of AMEC plc and WPP Group plc and received fees in total of £136,000 since 1 April 2011.

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 2011. The fees will be subject to a further annual review in December 2012 in accordance with the policy for the remuneration of Non-Executive Directors adopted by the Board.

Performance graph



Source: Thomson Financial (Datastream)

Non-Executive Directors

	Chairman	Non-Executive Director	Supplementary fees: Senior Independent Non-Executive Director	Supplementary fees: Additional fee for chairing Committee
Annual fee effective from 1 January 2012	£173,000	£42,500	£5,000	£10,000
Annual fee effective from 1 January 2011	£168,500	£40,000	£4,386	£8,874

Pension table

	Gross increase in accrued pension £000	Increase in accrued pension net of inflation £000	Total accrued pension at 5 May 2011[1] £000	Value of net increase in accrual during the period £000	Value of accrued pension at 1 Jan 2011[2] £000	Value of accrued pension at 5 May 2011[3] £000
Mark Harper	6	1	288	4	6,336	8,179

1 The accrued pension reflects the deferred benefit that Mr Harper would have been entitled to as at 5 May 2011 upon his retirement assuming that he had become a deferred member at that date

2 The value of the accrued pension is calculated on the current transfer value basis and is based on the value of the deferred pension entitlement assuming that the service terminated on 1 January 2011. The current transfer value basis was updated in October 2010 and is not the actual cost of providing the pension. In line with legal advice received from the Trustees and instructions from the Company, the figures allow for the changes to CPI indexation applying for deferred revaluation

3 The transfer value is based on the value of Mr Harper's pension benefit as at 5 May 2011, based on the actual pension in payment together with the cash sum paid on retirement. No increases were applied between 31 December 2010 and 5 May 2011

Pension schemes

Colin Day receives a supplementary payment equal to 25% of annual salary to permit him to secure pension benefits and is separately provided with life insurance cover with a benefit of four times annual salary.

Steve Crummett receives a supplementary payment of 20% of his base salary to permit him to secure pension benefits. Steve is a member of the Filtrona Pension Plan – Defined Contribution section ("the DC plan") and he contributes 5% of his base salary, though for the period 1 January 2011 to 31 March 2011 his contributions were subject to the scheme specific cap. The Company matches Steve's contributions. The Company match is deducted from his supplementary payment. The DC plan provides a death benefit of four times annual salary.

Mark Harper is now a member of the Filtrona Pension Plan ("FPP") which merged with the Filtrona Senior Pension Scheme effective from April 2011. As indicated in the 2010 Annual Report Mark retired from the Company on 5 May 2011. The normal retirement age is 60 years and, in accordance with the rules of the Scheme Mark took early retirement from 5 May 2011 at the age of 55 years. The applicable discount factors were applied to the pension with no enhancements.

For the period from 1 January 2011 to 5 May 2011 Mark accrued a pension at the rate of 2% of final salary and contributed 9% of pensionable salary.

Directors' shareholdings

The interests of the Directors in office at 31 December 2011, and the date of this Report, in the issued ordinary share capital of the Company were as follows:

	At 31 Dec 2011	At 31 Dec 2010[1]
Jeff Harris	51,651	51,651
Colin Day	300,000[2]	127,605
Steve Crummett	137,600	53,956
Paul Drechsler	18,519	18,519
Lars Emilson	7,500	7,500
Terry Twigger	7,500	2,500

1 or date of appointment

2 47,395 shares held by family member

The Executive Directors are regarded as being interested in 2,011,206 (2010: 1,004,490) ordinary shares in Filtrona plc currently held by the Filtrona Employee Benefit Trust ("EBT") as they are, together with other Filtrona employees, potential beneficiaries of the EBT. These shares are held in order to satisfy employee entitlements relating to the Company's share plans.

As at 31 December 2011, potential and actual share issuance through employee related share plans totalled 6.25%, 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
22 February 2012

Other Statutory Information

The Directors present their Report prepared in accordance with the Companies Act 2006. This requires the Company to provide a fair review of the business of the Group during the financial year ended 31 December 2011, and the audited financial statements of the Company and its subsidiary undertakings for the year ended 31 December 2011

Principal activities

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

The principal activity of the Company is a holding company.

The Company's Registered Office is Avebury House, 201-249 Avebury Boulevard, Milton Keynes, MK9 1AU and Registered Number 5444653.

Results and dividends

The profit on ordinary activities after taxation of the Group for the year ended 31 December 2011 was £42.4m (2010: £42.5m).

As at 22 February 2012 the Company has paid the following dividend in respect of the year ended 31 December 2011:

	Per share	Total
	p	£m
Interim dividend paid 28 October 2011	3.3	6.8

The Directors recommend that a final dividend of 7.2p (2010: 6.0p) per share be paid, making a total dividend distribution for the year of 10.5p (2010: 9.0p).

The final dividend, subject to shareholder approval, will be paid on 30 April 2012 to shareholders on the register at 13 April 2012.

Directors

During the year ended 31 December 2011, the Board of Directors comprised:

Jeff Harris	Non-Executive Chairman	
Colin Day	Chief Executive	appointed 1 April 2011
Steve Crummett	Group Finance Director	
Paul Drechsler	Senior Independent Non-Executive Director	
Lars Emilson	Non-Executive Director	
Terry Twigger	Non-Executive Director	
Mark Harper	Chief Executive	resigned 14 April 2011

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 will retire at the AGM and being eligible offer themselves up for re-election.

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 Nomination Committee in December 2011 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 63.

Share capital

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

The rights and obligations attaching to the Company's ordinary shares, and the provisions governing the appointment and replacement of, as well as the powers of, the Company's Directors, are set out in the Company's Articles of Association, copies of which can be obtained from Companies House in the UK, by writing to the Company Secretary, or on the Company website www.filtrona.com.

There are no restrictions on the voting rights attaching to the Company's ordinary shares or on the transfer of securities in the Company, except, in the case of transfers of securities:

(a) That certain restrictions may from time to time be imposed by laws and regulations (for example, insider trading laws); and
(b) Whereby, pursuant to the Listing Rules of the Financial Services Authority, certain employees of the Company require 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 21 February 2012, the Company was advised of the following voting rights attaching to Filtrona shares in accordance with the Rule 5.1.2R of Disclosure and Transparency Rules of the Financial Services Authority.

	% of total voting rights
Black Rock	12.00
AXA Investment Managers SA	8.11
Oppenheimer Funds	7.00
Threadneedle / Ameriprise	5.35
TIAA-CREF Investment Managers / Teachers Advisors Inc	5.18
Cazenove Capital Management	4.99
J P Morgan Asset Management Holdings Inc	4.84
Invesco Limited	4.79
Allianz SE	4.74
Legal and General Group	3.93
Ignis Asset Management	3.92
Hermes Specialist UK Focus Fund	3.89
BT Pension Scheme Trustees Limited	3.66
Royal London Asset Management	3.11

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 2011.

Charitable and political contributions

In line with Group policy the Company made no political contributions (2010: £nil). Donations to UK charities amounted to £0.1m (2010: £0.1m), of which £nil were made by the Company (2010: £nil), with all contributions being made by its subsidiary companies.

Directors' indemnities

During the year and as at the date of this Report, indemnities are in force under which the Company has agreed to indemnify the Directors and the Company Secretary & General Counsel, in addition to other senior executives who are Directors of subsidiaries of the Company, to the extent permitted by law and the Company's Articles of Association, in respect of all losses arising out of or in connection with the execution of their powers, duties and responsibilities as a Director or officer of the Company or any of its subsidiaries, including the pension scheme trustee companies. The scope of the indemnities extends to include liabilities to third parties.

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 two five year multi-currency revolving credit facilities of £165.0m and €187.7m. Under the terms of these facilities, the banks can give notice to Filtrona to repay outstanding amounts and cancel the commitments where there is a change of control of the Company.

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, Milton Keynes, Buckinghamshire, MK9 2HQ on Tuesday 24 April 2012 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 the Annual General Meeting:

Revised performance award provisions for future Long-Term Incentive Plan ("LTIP") awards
The Directors are seeking approval from shareholders to enable the Company to amend the maximum performance award provisions of the rules of the Filtrona Long Term Incentive Plan (the "Plan").

The Remuneration Committee of the Company's Board of Directors (the "Committee") has undertaken a review of the existing executive reward structure at the Company, focused on the development of a remuneration policy strategy aligned with the future growth objectives of the Company.

Further to that review, the Remuneration Committee is recommending changes to certain aspects of the existing remuneration arrangements, including a change to the performance share award grant level available under the Plan.

The rules of the LTIP currently provide that participants may receive performance share awards over shares worth up to two times their basic salary in any financial year.

It is proposed that the rules of the LTIP be amended to increase the limit to three times basic salary. Resolution 12 seeks shareholders' approval for such a change to the rules of the LTIP.

Other Statutory Information continued

No other changes are proposed to the rules of the LTIP at this time, save that the Committee proposes to introduce provisions into the rules of the LTIP that will provide scope for the Committee to "claw-back" value delivered to executives under the LTIP in the event of financial misstatement or summary dismissal.

Authority to allot unissued shares
At the last AGM held in 2011, the Directors were granted authority to allot relevant securities up to a nominal amount of £17,241,428, 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 £17,407,715 representing approximately one-third of the Company's issued share capital, excluding treasury shares, at 21 February 2012 (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 £34,815,431 representing approximately two-thirds of the issued share capital, excluding treasury shares, at 21 February 2012 (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 23 June 2013) except in relation to share options.

Allotment of shares for cash
At the last AGM held in 2011, 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 31 December 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 23 June 2013. 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 2011, 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, 23 June 2013). In accordance with the requirements of the Listing Rules of the Financial Services Authority, the minimum price (exclusive of expenses) which may be paid for a share is its nominal value and the maximum price (exclusive of expenses) for shares which may be paid is the highest of: (i) an amount equal to 105 per cent of the average market value for a share for the five business days immediately preceding the date of the purchase; and (ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venues where the purchase is carried out.

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

During the financial year ending 31 December 2011 3,230,401 ordinary shares were transferred out of Treasury by the Company to satisfy share options under the Company's SAYE / Sharesave and executive share incentive plans.

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 re-appoint 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 74, and in note 15.

Post balance sheet events

On 17 February 2012, Filtrona acquired 100% of the share capital of Securit World Ltd ("Securit") for a cash consideration of £6m. Securit distributes desktop personal identification ("ID") card systems, providing printers, software and associated accessories. The acquisition of UK-based Securit will add to the existing capabilities of Filtrona's Payne Security personal ID products business.

Directors' statement as to disclosure of information to the Auditor

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

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

By order of the Board

Jon Green
Company Secretary & General Counsel
22 February 2012

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 the parent company financial statements in accordance with UK 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 IFRSs as adopted by the EU
- For the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

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, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- The Directors' Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face

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.

Colin Day
Chief Executive

Steve Crummett
Group Finance Director

Consolidated Income Statement

for the year ended 31 December 2011

	Note	2011 £m	2010 £m
Revenue	2	**540.7**	489.6
Operating profit before intangible amortisation and exceptional operating items		**84.5**	75.0
Intangible amortisation		**(3.7)**	(3.0)
Exceptional operating items	3	**(8.2)**	–
Operating profit	2	**72.6**	72.0
Finance income	4	**12.2**	12.0
Finance expense	4	**(20.5)**	(22.4)
Profit before tax		**64.3**	61.6
Income tax expense	5	**(21.9)**	(19.1)
Profit from continuing operations		**42.4**	42.5
Profit from discontinued operations	24	**1.9**	6.8
Profit for the year		**44.3**	49.3
Attributable to:			
Equity holders of Filtrona plc		**43.1**	47.7
Non-controlling interests		**1.2**	1.6
Profit for the year		**44.3**	49.3
Earnings per share attributable to equity holders of Filtrona plc:			
Basic	7	**20.9p**	23.3p
Diluted	7	**20.2p**	22.9p
Earnings per share from continuing operations attributable to equity holders of Filtrona plc:			
Basic	7	**20.0p**	20.0p
Diluted	7	**19.3p**	19.6p

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2011

	Note	2011 £m	2010 £m
Profit for the year		**44.3**	49.3
Other comprehensive income			
Actuarial losses on defined benefit pension schemes	18	**(15.6)**	(5.0)
Deferred tax credit on actuarial losses on defined benefit pension schemes		**4.8**	1.3
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		**0.4**	0.7
Effective portion of changes in fair value of cash flow hedges		**1.3**	(0.3)
Foreign exchange translation differences:			
Attributable to equity holders of Filtrona plc:			
Arising on translation of foreign operations		**(2.2)**	2.9
Arising on effective net investment hedges		**0.2**	2.7
Income tax charge on effective net investment hedges		**(0.1)**	(1.0)
Attributable to non-controlling interests		**(0.7)**	0.9
		(11.9)	2.2
Total comprehensive income		**32.4**	51.5
Attributable to:			
Equity holders of Filtrona plc		**31.9**	49.0
Non-controlling interests		**0.5**	2.5
Total comprehensive income		**32.4**	51.5

Consolidated Balance Sheet

at 31 December 2011

	Note	2011 £m	2010 £m
Assets			
Property, plant and equipment	8	**168.1**	156.1
Intangible assets	9	**185.5**	107.3
Deferred tax assets	16	**8.9**	1.4
Other receivables	1,11	**–**	2.9
Total non-current assets		**362.5**	267.7
Inventories	10	**66.4**	59.1
Income tax receivable		**7.0**	4.2
Trade and other receivables	1,11	**85.4**	73.1
Derivative assets	1,15	**1.2**	0.4
Cash and cash equivalents	1,12	**35.8**	40.0
Total current assets		**195.8**	176.8
Total assets		**558.3**	444.5
Equity			
Issued capital	19	**54.8**	54.8
Capital redemption reserve		**0.1**	0.1
Other reserve	20	**(132.8)**	(132.8)
Cash flow hedging reserve		**1.1**	(0.6)
Translation reserve		**15.5**	17.6
Retained earnings	20	**268.3**	248.7
Attributable to equity holders of Filtrona plc		**207.0**	187.8
Non-controlling interests		**6.4**	9.6
Total equity		**213.4**	197.4
Liabilities			
Interest bearing loans and borrowings	1,14	**177.3**	116.8
Derivative liabilities	1,15	**–**	0.5
Retirement benefit obligations	18	**24.0**	17.6
Income tax payable		**–**	4.5
Provisions	17	**2.2**	1.2
Deferred tax liabilities	16	**15.1**	9.5
Total non-current liabilities		**218.6**	150.1
Interest bearing loans and borrowings	1,14	**3.4**	14.0
Derivative liabilities	1,15	**0.5**	2.0
Income tax payable		**18.4**	14.5
Trade and other payables	1,13	**91.2**	63.6
Provisions	17	**12.8**	2.9
Total current liabilities		**126.3**	97.0
Total liabilities		**344.9**	247.1
Total equity and liabilities		**558.3**	444.5

The consolidated financial statements on pages 68 to 105 were approved by the Board of Directors on 22 February 2012 and were signed on its behalf by:

Colin Day
Chief Executive

Steve Crummett
Group Finance Director

Consolidated Statement of Changes in Equity

for the year ended 31 December 2011

2011

	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	Total equity £m
At 1 January 2011	**54.8**	**0.1**	**(132.8)**	**(0.6)**	**17.6**	**248.7**	**9.6**	**197.4**
Profit for the year						**43.1**	**1.2**	**44.3**
Other comprehensive income / (loss) for the year				**1.7**	**(2.1)**	**(10.8)**	**(0.7)**	**(11.9)**
Acquisition of non-controlling interests						**(0.4)**	**(0.7)**	**(1.1)**
Purchase of employee trust shares						**(8.2)**		**(8.2)**
Share options exercised						**7.1**		**7.1**
Share option expense						**3.0**		**3.0**
Tax relating to share-based incentives						**4.9**		**4.9**
Dividends paid						**(19.1)**	**(3.0)**	**(22.1)**
At 31 December 2011	**54.8**	**0.1**	**(132.8)**	**1.1**	**15.5**	**268.3**	**6.4**	**213.4**

2010

	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	Total equity £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
Purchase 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

Consolidated Statement of Cash Flows

for the year ended 31 December 2011

	Note	2011 £m	2010 £m
Operating activities			
Profit for the year from continuing operations		**42.4**	42.5
Adjustments for:			
Income tax expense		**21.9**	19.1
Net finance expense	4	**8.3**	10.4
Intangible amortisation	3,9	**3.7**	3.0
Exceptional operating items	3	**8.2**	–
Depreciation	3,8	**20.7**	20.4
Share option expense	18	**3.0**	2.8
Other movements		**3.4**	0.6
Increase in inventories		**(2.0)**	(5.5)
Increase in trade and other receivables		**(2.7)**	(3.9)
Increase in trade and other payables		**12.6**	4.3
Cash inflow / (outflow) in respect of exceptional operating items		**4.9**	(1.3)
Purchase of employee trust shares		**(8.2)**	(1.1)
Additional pension contributions		**(8.3)**	(10.1)
Other provisions utilised in the year		**–**	(0.5)
Cash inflow from operating activities		**107.9**	80.7
Income tax paid		**(21.6)**	(16.3)
Net cash inflow from operating activities		**86.3**	64.4
Investing activities			
Interest received		**0.2**	0.2
Acquisition of property, plant and equipment		**(27.0)**	(20.1)
Proceeds from sale of property, plant and equipment		**0.2**	1.3
Acquisition of businesses net of cash acquired	23	**(89.0)**	(12.0)
Proceeds from sale of businesses	24	**2.6**	10.9
Income tax paid on sale of businesses		**(0.2)**	(3.2)
Net cash outflow from investing activities		**(113.2)**	(22.9)
Financing activities			
Interest paid		**(9.3)**	(8.2)
Dividends paid to equity holders		**(19.1)**	(16.6)
Dividends paid to non-controlling interests		**(3.0)**	(0.3)
Acquisition of non-controlling interests	26	**(1.1)**	–
Repayment of short-term loans		**(14.4)**	–
Proceeds from short-term loans		**3.2**	0.2
Repayment of long-term loans		**(16.6)**	(117.2)
Proceeds from long-term loans		**76.8**	104.3
Proceeds from sale of employee trust shares		**7.1**	–
Net cash inflow / (outflow) from financing activities		**23.6**	(37.8)
Net (decrease) / increase in cash and cash equivalents	21	**(3.3)**	3.7
Net cash and cash equivalents at the beginning of the year		**40.0**	32.0
Net (decrease) / increase in cash and cash equivalents		**(3.3)**	3.7
Net effect of currency translation on cash and cash equivalents		**(0.9)**	4.3
Net cash and cash equivalents at the end of the year	1,12	**35.8**	40.0

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 106 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 with no significant impact on its consolidated results, financial position or disclosures:

Amendment to IAS 1: *Presentation of statement of changes in equity*
Amendment to IAS 24: *Disclosure requirements for government related entities and the definition of a related party*
Amendments to IFRIC 14: *Prepayments of a Minimum Funding Requirement*
Amendments contained in "Improvements to IFRSs" issued in May 2010

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

IFRS 9: *Financial instruments* (not yet endorsed by the EU) the primary impact of which is to remove the multiple classification and measurement models for financial assets required by IAS 39 and introduce a model that has only two classification categories: amortised cost and fair value.

IFRS 10: *Consolidated financial statements* (not yet endorsed by the EU) replaces the guidance of control and consolidation in IAS 27 and SIC 12: *Consolidation – special purpose entities.* The core principle that a consolidated entity presents a parent and its subsidiaries as if they were a single entity remains unchanged, as do the mechanics of consolidation.

IFRS 11: *Joint arrangements* (not yet endorsed by the EU) requires joint arrangements to be accounted for as a joint operation or as a joint venture depending on the rights and obligations of each party to the arrangement. Proportionate consolidation for joint ventures will be eliminated and equity accounting will be mandatory. It is anticipated that the application of the standard will result in an immaterial decrease in net sales, total assets and total liabilities of the Group but have no impact on the Group's net profit or net assets.

IFRS 12: *Disclosure of interests in other entities* (not yet endorsed by the EU) requires enhanced disclosures of the nature, risks and financial effects associated with the Group's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities.

IFRS 13: *Fair value measurement* (not yet endorsed by the EU) explains how to measure fair value and aims to enhance fair value disclosures. The standard does not change the measurement of fair value but codifies it in one place.

IFRS 10, IFRS 11, IFRS 12 and IFRS 13 are all effective 1 January 2013.

Amendments to IAS 19: *Employee benefits* (not yet endorsed by the EU) changes a number of disclosure requirements for post-employment arrangements and restricts the options currently available on how to account for defined benefit pension plans. The most significant change that will impact the Group is that the amendment requires the expected returns on pension plan assets, currently calculated based on management's estimate of expected returns to be replaced by a credit on the pension plan assets calculated at the liability discount rate. The Group expects this change will result in an increase in finance costs but will not impact the Group's net assets.

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.

Accounting Policies continued

a. Basis of preparation continued

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 information regarding the financial position of the Group, its cash flows, liquidity position, and borrowing facilities are described in the Financial Review on pages 14 to 15. 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. 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".

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"), interest bearing loans and borrowings and other financial liabilities (excluding derivatives) are held at amortised cost, unless they are included in a hedge accounting relationship. See note 15 for separate disclosure of hedge types.

Derivatives are measured initially at fair value. Subsequent recognition in the financial statements depends on the classification of the derivative as follows:

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

(ii) Cash flow hedges
Where a derivative is designated as a hedging instrument in a cash flow hedge the change in fair value is recognised in 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 fair value of the assets given in consideration and the fair value of identifiable assets, liabilities and contingent liabilities of the acquiree. For acquisitions made before 1 January 2004, goodwill is included on the basis of its deemed cost, which represents the amount previously recorded under UK GAAP.

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

(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 at fair value to the extent it is probable that the expected future economic benefits attributable to the asset will flow to the Group and that its cost can be measured reliably. Intangible assets principally relate to customer relationships which 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. Other intangible assets are tested if there is an indication of impairment.

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.

Accounting Policies continued

j. Inventories

Inventories are valued at the lower of cost (on a first in, first out basis) and net realisable value. For work-in-progress and finished goods, cost includes an appropriate proportion of labour cost and overheads.

k. Cash and cash equivalents

Cash and cash equivalents comprise cash balances and fixed term investments whose maturities are three months or less from the date of acquisition. Bank overdrafts repayable on demand form an integral part of Filtrona's cash management and are included as part of cash and cash equivalents in the statement of cash flows.

l. Loans and borrowings

Loans and borrowings are initially measured at cost (which is equal to fair value at inception) and are subsequently measured at amortised cost using the effective interest rate method. Any difference between the proceeds, net of transaction costs, and the settlement or redemption of borrowings is recognised in the income statement over the term of the borrowings.

m. Trade and other receivables

Trade and other receivables carrying value is estimated as the present value of future cash flows less impairment losses.

n. Trade and other payables

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

o. Catalogue costs

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

p. Income tax

Income tax in the income statement comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in equity.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the balance sheet date and any adjustment to tax payable in prior years.

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

A deferred tax asset is recognised only to the extent that it is probable that future taxable profit will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

q. Revenue

Revenue from the sale of goods is recognised in the income statement net of expected warranty claims when the significant risks and rewards of ownership have been transferred to the customer.

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 Management 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 exceptional operating costs below are separated from other costs by virtue of their size and incidence. They are shown as a separate line item within operating profit on the face of the income statement in order for the reader to obtain a proper understanding of the financial information and performance. These costs exclude amortisation of acquired intangible assets which are also presented separately in the income statement.

(i) Acquisition fees
In 2011, Filtrona incurred significant one-off costs in professional fees as a result of the acquisitions of the entire issued share capital of Richco, Inc. and the assets and business of Reid Supply Company.

(ii) Acquisition integration costs
These costs represent assets written off as part of the integration of the acquired businesses into the Group's Protection & Finishing Products division.

(iii) Other exceptional costs
This represents insurance proceeds received net of associated costs, the loss on disposal of the Group's shares in FractureCode Corporation ApS and reorganisation costs within certain of the Group's divisions.

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) are 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).

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. 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 takes account of historical experience and the profile of customers.

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.

	2011 £m	2010 £m
Not impaired or past due:		
New customers (less than one year)	**4.6**	5.0
Existing customers (more than one year) with no defaults in the past	**58.6**	44.8
Past due not impaired	**16.4**	15.5
Impaired	**3.6**	2.4
Gross trade and other receivables	**83.2**	67.7
Impairment	**(6.7)**	(2.4)
	76.5	65.3

Trade and other receivables carried at £85.4m (2010: £76.0m) include prepayments and accrued income of £6.1m (2010: £4.7m) which are not financial assets. Therefore, these amounts are excluded from the above analysis. Trade and other receivables also include deferred consideration of £2.8m (2010: £6.0m) 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 £4.6m (2010: £0.1m) have been recognised within net operating expense and £0.3m (2010: £1.5m) of the impairment provision has been utilised.

Notes

1. Risk management continued

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

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

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

							2011
	AAA £m	**AA £m**	**A £m**	**BBB £m**	**BB £m**	**Not rated £m**	**Total £m**
Deferred consideration	**–**	**–**	**2.8**	**–**	**–**	**–**	**2.8**
Derivative assets	**–**	**–**	**1.2**	**–**	**–**	**–**	**1.2**
Cash and cash equivalents	**2.2**	**11.1**	**19.8**	**1.1**	**0.1**	**1.5**	**35.8**
	2.2	**11.1**	**23.8**	**1.1**	**0.1**	**1.5**	**39.8**

							2010
	AAA £m	AA £m	A £m	BBB £m	BB £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

Filtrona's maximum credit risk exposure is £116.3m (2010: £111.7m) and no collateral is held against this amount (2010: £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 ("bps"), 100bps and 200bps in market interest rates. The amounts generated from the sensitivity analysis are estimates and actual results in the future may materially differ.

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 2011, Filtrona's euro-denominated assets were 92% hedged by its euro-denominated borrowings (2010: 47%), whilst its US dollar-denominated assets were approximately 59% (2010: 88%) hedged by the US dollar-denominated borrowings.

Transaction exposure hedging

The majority of Filtrona's transactions are carried out in the functional currencies of its operations and so transaction exposure is limited. However, where they do occur, Filtrona uses forward foreign currency contracts to hedge its exposure to movements in exchange rates on its highly probable forecast foreign currency sales and purchases over a period of up to 12 months.

Filtrona does not formally define the proportion of highly probable forecast sales and purchases to hedge, but agrees an appropriate percentage on an individual basis with each business by reference to the Group's risk management policies and prevailing market conditions. The Group documents currency derivatives used to hedge its forecast transactions as cash flow hedges. To the extent that cash flow hedges are effective, gains and losses are deferred in equity until the forecast transaction occurs, at which point the gains and losses are recycled either to the income statement or to the non-financial asset acquired.

The following table shows Filtrona's sensitivity to a 1%, 5% and 10% weakening or strengthening in sterling against all currencies. To calculate the impact on the income statement for the year all currencies' average rates have been increased or decreased by 1%, 5% or 10%. The translational effect on equity is limited as most US dollar and euro 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.

						2011
	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)	**6.3**	**3.0**	**0.6**	**(0.6)**	**(2.7)**	**(5.1)**
Impact on equity – gain / (loss)	**20.5**	**9.7**	**1.9**	**(1.8)**	**(8.8)**	**(16.8)**

						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)

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 50bps, 100bps and 200bps decrease or increase in sterling, US dollar and euro interest rates. To calculate the impact on the income statement for the year the interest rates on all external floating rate interest bearing loans and borrowings have been increased or decreased by 50bps, 100bps or 200bps and the resulting increase or decrease in the net interest charge has been adjusted for the effect of Filtrona's interest rate derivatives. The effect on equity includes the above impact on the income statement and the impact of a 50bps, 100bps or 200bps decrease or increase in interest rates on the market values of Filtrona's interest rate derivatives.

						2011
	Decrease in interest rates			Increase in interest rates		
	200bps £m	100bps £m	50bps £m	50bps £m	100bps £m	200bps £m
Impact on the income statement – gain / (loss)	**1.6**	**0.8**	**0.4**	**(0.4)**	**(0.8)**	**(1.6)**
Impact on equity – gain / (loss)	**1.6**	**0.8**	**0.4**	**(0.4)**	**(0.8)**	**(1.6)**

						2010
	Decrease in interest rates			Increase in interest rates		
	200bps £m	100bps £m	50bps £m	50bps £m	100bps £m	200bps £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)

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

Notes

1. Risk management continued

(iii) Liquidity risk

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

On 16 August 2011 Filtrona signed an agreement with a syndicate of relationship banks to provide new banking facilities until August 2016. This facility replaced its existing facilities which would have expired in April 2012. Fees of £3.1m 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.

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 and syndicated five-year revolving credit facilities of £165.6m and €187.7m from its bankers. The two series of Loan Notes of US$80m have maturities of seven and ten years and the revolving credit facilities mature in August 2016. At 31 December 2011 the available bank and non-bank facilities totalled £425.2m (2010: £223.4m) of which £181.1m (2010: £131.8m) 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:

	2011 £m	2010 £m
Expiring after one but within two years	–	91.6
Expiring after two years	244.1	–
	244.1	91.6

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.

2011	**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	**78.6**	**78.6**	**90.1**	**5.1**	**1.9**	**83.1**	**–**
Loan Notes	**117.6**	**102.1**	**144.4**	**5.8**	**5.8**	**17.5**	**115.3**
Derivative liabilities	**0.5**	**0.5**	**0.5**	**0.5**	**–**	**–**	**–**
Trade and other payables	**56.2**	**56.2**	**56.2**	**56.2**	**–**	**–**	**–**
	252.9	**237.4**	**291.2**	**67.6**	**7.7**	**100.6**	**115.3**

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

Total trade and other payables carried at £91.2m (2010: £63.6m) include accruals and deferred income of £35.0m (2010: £26.5m) which are not financial liabilities and are therefore excluded from the above analysis.

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

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.

	2011				2010			
	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	**–**	**79.3**	**–**	**79.3**	–	71.3	–	71.3
Derivative assets	**1.2**	**–**	**–**	**1.2**	0.4	–	–	0.4
Cash and cash equivalents	**–**	**35.8**	**–**	**35.8**	–	40.0	–	40.0
Interest bearing loans and borrowings	**–**	**–**	**(180.7)**	**(180.7)**	–	–	(130.8)	(130.8)
Derivative liabilities	**(0.5)**	**–**	**–**	**(0.5)**	(2.5)	–	–	(2.5)
Trade and other payables	**–**	**–**	**(56.2)**	**(56.2)**	–	–	(37.1)	(37.1)
	0.7	**115.1**	**(236.9)**	**(121.1)**	(2.1)	111.3	(167.9)	(58.7)

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 £102.1m (2010: £100.6m). The Group estimates that the total fair value of the Loan Notes is £117.6m (2010: £108.1m).

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 one 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 and exceptional operating items. Net debt is adjusted to exclude prepaid facility fees. During 2011, Filtrona's strategy, which was unchanged from 2010, 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	2011 £m	2010 £m
Net debt excluding prepaid facility fees	21	**148.7**	92.3
Operating profit before intangible amortisation and exceptional operating items		**84.5**	75.0
Plus depreciation and other amounts written off property, plant and equipment	3	**20.7**	21.9
Plus share option expense	18	**3.0**	2.8
EBITDA		**108.2**	99.7
Net debt to EBITDA ratio		**1.37**	0.93

Notes

2. Segment analysis

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

Protection & Finishing Products is a global market leading supplier of protection and finishing products, manufacturing and distributing plastic injection-moulded, vinyl dip-moulded, and metal items as well as pressure sensitive tapes. The division has 60 operating units in 21 countries serving a very broad industrial 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 is a global market leading developer and manufacturer of custom fluid handling components, engineered from a portfolio of technologies that includes bonded fibre, polyurethane foam, and porous plastic. Representing leading innovations used in healthcare, consumer and industrial applications its enabling components are found in a wide range of products from medical diagnostics tests to advanced wound care pads, inkjet printer cartridges, writing instruments and air fresheners. Customers in 56 countries are served from four manufacturing facilities with research and development centres supporting the division globally.

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 the consumer packaging, identity and valuable documents markets. Customers in over 100 countries are served from facilities operating in six countries. The division also includes plastic profile extrusion activities in The Netherlands.

Filter Products is the only global independent cigarette filter supplier. The nine 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, packaging solutions to the roll your own sector and analytical laboratory services for ingredient measurement for the industry.

									2011
	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	163.0	71.5	98.2	208.0	–	–	540.7	–	540.7
Intersegment revenue	–	6.4	–	–	(6.4)	–	–	–	–
Total revenue	**163.0**	**77.9**	**98.2**	**208.0**	**(6.4)**	**–**	**540.7**	**–**	**540.7**
Operating profit / (loss) before intangible amortisation and exceptional operating items	37.8	18.4	15.4	24.5	–	(11.6)	84.5	–	84.5
Intangible amortisation	(2.7)	(0.8)	(0.2)	–	–	–	(3.7)	–	(3.7)
Exceptional operating items	(6.3)	(1.2)	(1.9)	1.2	–	–	(8.2)	–	(8.2)
Operating profit / (loss)	**28.8**	**16.4**	**13.3**	**25.7**	**–**	**(11.6)**	**72.6**	**–**	**72.6**
Segment assets	118.0	50.0	53.3	95.3	–	3.5	320.1	–	320.1
Intangible assets	149.5	18.5	17.5	–	–	–	185.5	–	185.5
Unallocated items						52.7	52.7		52.7
Total assets	**267.5**	**68.5**	**70.8**	**95.3**	**–**	**56.2**	**558.3**	**–**	**558.3**
Segment liabilities	41.9	9.1	9.9	32.9	–	10.0	103.8	2.4	106.2
Unallocated items						238.7	238.7		238.7
Total liabilities	**41.9**	**9.1**	**9.9**	**32.9**	**–**	**248.7**	**342.5**	**2.4**	**344.9**
Other segment items									
Capital expenditure	12.5	2.3	2.8	9.1	–	0.3	27.0	–	27.0
Impairment to property, plant and equipment	1.7	–	–	4.1	–	–	5.8	–	5.8
Depreciation	5.8	2.9	4.6	7.3	–	0.1	20.7	–	20.7
Average number of employees	1,020	458	575	1,261	–	28	3,342	–	3,342

[1] Central Services includes Group finance, tax, treasury, legal, Group assurance, human resources, information technology, corporate development, corporate affairs and other services provided centrally to support the operating segments

Continuing operations' net finance expense of £8.3m (2010: £10.4m) and income tax expense of £21.9m (2010: £19.1m) 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.

No customer accounted for more than 10% of revenue in either 2011 or 2010. Revenue in the UK is £48.6m (2010: £44.7m) with revenue in the US of £137.2m (2010: £113.7m) being the Group's other significant geographical market. Non-current assets in the UK total £56.0m (2010: £58.9m) with other significant locations being the US and The Netherlands with non-current assets of £186.7m and £34.7m (2010: £92.6m and £37.0m) respectively.

Included within revenue is the net change in the fair value of forward exchange cash flow hedges transferred to the income statement of £0.4m (2010: £nil).

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, Group assurance, human resources, information technology, corporate development and other services provided centrally to support the operating segments

3. Net operating expense

	2011 £m	2010 £m
Changes in inventories of finished goods and work-in-progress	**2.0**	(3.3)
Raw materials and consumables	**224.1**	209.4
Personnel expense (note 6)	**120.9**	113.0
Depreciation and other amounts written off property, plant and equipment	**20.7**	21.9
Amortisation and other amounts written off intangible assets	**3.7**	3.0
Exceptional operating items	**8.2**	–
Hire of plant and machinery – rentals payable under operating leases	**0.5**	0.5
Other operating expenses	**88.0**	73.1
Net operating expense	**468.1**	417.6

Income of £nil (2010: £nil) was recognised in operating expense during the year in respect of ineffective cash flow hedges. Filtrona's hedges of net investments were entirely effective in 2011 and 2010, as defined by IAS 39, and therefore no hedge ineffectiveness has been recognised in net operating expense in 2011 (2010: £nil).

Notes

3. Net operating expense continued

Exceptional operating items

	2011 £m
Acquisition fees[1]	**2.8**
Integration costs[2]	**2.4**
Other[3]	**3.0**
Net operating expense	**8.2**

[1] Transaction costs incurred during the year in respect of the acquisition of Richco, Inc. and Reid Supply
[2] Integration costs in respect of Richco, Inc. and Reid Supply incurred in the period
[3] Includes profit arising on insurance proceeds received net of associated costs of £4.6m, the loss on disposal of the Group's shares in FractureCode Corporation ApS of £1.9m and reorganisation costs within certain of the Group's segments

Auditor's remuneration

	2011 £m	2010 £m
Audit of these financial statements	**0.3**	0.2
Audit of financial statements of subsidiaries pursuant to legislation	**0.5**	0.6
Total audit fees	**0.8**	0.8
Other services pursuant to such legislation[1,5]	**0.1**	0.1
Other services relating to tax[2]	**0.3**	0.3
Services relating to corporate finance transactions[3]	**–**	–
Total non-audit fees[4]	**0.4**	0.4
Total fees	**1.2**	1.2

[1] Fees for other services pursuant to such legislation related principally to the review of the half year financial statements
[2] Other services relating to tax are fees paid for tax compliance services and tax advice
[3] 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
[4] £0.1m (2010: £0.1m) of the total non-audit fees were charged in the UK
[5] Fees of £22,182 (2010: £22,182) were paid in relation to the audit of the Filtrona pension schemes

4. Net finance expense

	2011 £m	2010 £m
Finance income		
Bank deposits	**0.1**	0.1
Other finance income	**0.1**	0.6
Expected return on pension scheme assets (note 18)	**12.0**	11.3
	12.2	12.0
Finance expense		
Interest on loans and overdrafts	**(8.7)**	(9.2)
Amortisation of bank facility fees	**(0.8)**	(2.5)
Other finance expense	**(0.2)**	–
Interest on pension scheme liabilities (note 18)	**(10.8)**	(10.7)
	(20.5)	(22.4)
Net finance expense	**(8.3)**	(10.4)

5. Income tax expense

	2011 £m	2010 £m
Amounts charged / (credited) in the consolidated income statement		
Current tax	**24.7**	20.4
Prior years' tax	**(2.2)**	(3.0)
Double tax relief	**(0.3)**	(0.5)
Deferred tax (note 16)	**(0.3)**	2.2
Income tax expense	**21.9**	19.1
Amounts recognised in the consolidated statement of comprehensive income		
Deferred tax credit on actuarial movements on defined benefit pension schemes	**(4.8)**	(1.3)
Income tax charge on effective net investment hedges	**0.1**	1.0
Income tax credit	**(4.7)**	(0.3)

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.

	2011 £m	2010 £m
Profit before income tax	**64.3**	61.6
Tax at weighted average (2011: 30.0%; 2010: 30.4%)	**19.3**	18.7
Effects of:		
Other permanent disallowables	**1.1**	0.9
Overseas state and local tax	**1.6**	1.3
Unrelieved tax losses	**1.3**	0.7
Prior year adjustments	**(2.2)**	(3.0)
Other items	**0.8**	0.5
Income tax expense	**21.9**	19.1

Income tax expense in the UK is £2.7m (2010: £2.6m). The UK corporate tax rate reduced from 28% to 26% on 1 April 2011 and a further reduction in the rate to 25% with effect from 1 April 2012 has been enacted. The UK Government has announced its intention to further reduce the rate to 23% by 2014.

6. Personnel expense

	2011 £m	2010 £m
Wages and salaries	**101.7**	95.7
Social security expense	**12.1**	10.9
Pension expense (note 18)	**4.1**	3.6
Share option expense (note 18)	**3.0**	2.8
	120.9	113.0

The Report of the Remuneration Committee on pages 54 to 63 sets out information on Directors' remuneration.

Notes

6. Personnel expense continued

Key management remuneration

	2011 £m	2010 £m
Salary	**2.3**	2.0
Bonus	**1.0**	1.0
Benefits	**1.0**	0.5
	4.3	3.5

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

7. Earnings per share

	2011 £m	2010 £m
Continuing operations		
Earnings attributable to equity holders of Filtrona plc	**41.2**	40.9
Adjustments		
Intangible amortisation	**3.7**	3.0
Exceptional operating items	**8.2**	–
	11.9	3.0
Tax relief on adjustments	**(1.3)**	(0.9)
Adjusted earnings	**51.8**	43.0
Discontinued operations		
Earnings attributable to equity holders of Filtrona plc	**1.9**	6.8
Basic weighted average ordinary shares in issue (m)	**206.3**	204.9
Dilutive effect of employee share option plans (m)	**7.0**	4.2
Diluted weighted average ordinary shares (m)	**213.3**	209.1
Continuing operations		
Basic earnings per share	**20.0p**	20.0p
Adjustment	**5.1p**	1.0p
Adjusted earnings per share	**25.1p**	21.0p
Diluted basic earnings per share	**19.3p**	19.6p
Diluted adjusted earnings per share	**24.3p**	20.6p
Discontinued operations		
Basic earnings per share	**0.9p**	3.3p
Diluted basic earnings per share	**0.9p**	3.3p

As noted on page 16 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

2011	Land and buildings £m	Plant and machinery £m	Fixtures, fittings and equipment £m	Total £m
Cost				
Beginning of year	**72.4**	**270.3**	**43.7**	**386.4**
Acquisitions	**2.5**	**4.0**	**1.2**	**7.7**
Additions	**9.1**	**19.5**	**4.1**	**32.7**
Disposals	**(1.4)**	**(27.0)**	**(6.4)**	**(34.8)**
Currency translation	**0.2**	**(4.1)**	**(0.4)**	**(4.3)**
End of year	**82.8**	**262.7**	**42.2**	**387.7**
Depreciation				
Beginning of year	**19.8**	**177.2**	**33.3**	**230.3**
Expense in year	**2.1**	**15.4**	**3.2**	**20.7**
Disposals	**(1.0)**	**(26.8)**	**(6.3)**	**(34.1)**
Impairments	**3.0**	**1.9**	**0.9**	**5.8**
Reclassification	**–**	**1.3**	**(1.3)**	**–**
Currency translation	**(0.1)**	**(2.7)**	**(0.3)**	**(3.1)**
End of year	**23.8**	**166.3**	**29.5**	**219.6**
Net book value at end of year	**59.0**	**96.4**	**12.7**	**168.1**

2010	Land and buildings £m	Plant and machinery £m	Fixtures, fittings and equipment £m	Total £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
Net book value at beginning of year	49.0	95.4	9.5	153.9

The impairments during 2011 and 2010 related to plant and machinery and land and buildings that have been assessed as non-recoverable through ongoing use in the Group and are expected to have no value on disposal. The impairment charge of £5.8m made during 2011 has been recognised within exceptional operating items, and relates to the integration of aquisitions and reorganisation within certain of the Group's segments.

Included within land and buildings and plant and machinery are assets in the course of construction of £11.2m (2010: £3.5m) which were not depreciated during the year.

Notes

9. Intangible assets

	2011 £m	2010 £m
Goodwill		
Beginning of year	**58.9**	53.0
Acquisitions (note 23)	**27.4**	5.8
Currency translation	**0.1**	0.1
End of year	**86.4**	58.9
Customer relationships		
Cost		
Beginning of year	**54.8**	49.2
Acquisitions (note 23)	**48.8**	5.9
Currency translation	**0.4**	(0.3)
End of year	**104.0**	54.8
Amortisation		
Beginning of year	**11.7**	9.3
Expense in year	**2.9**	2.4
Currency translation	**(0.1)**	–
End of year	**14.5**	11.7
Net book value at end of year	**89.5**	43.1
Net book value at beginning of year	**43.1**	39.9
Other		
Cost		
Beginning of year	**6.6**	5.9
Acquisitions (note 23)	**4.9**	0.5
Currency translation	**0.2**	0.2
End of year	**11.7**	6.6
Amortisation		
Beginning of year	**1.3**	0.7
Expense in year	**0.8**	0.6
Currency translation	**–**	–
End of year	**2.1**	1.3
Net book value at end of year	**9.6**	5.3
Net book value at beginning of year	**5.3**	5.2
Total net book value of intangible assets at end of year	**185.5**	107.3

Other intangible assets principally comprise trade names acquired with Richco, Inc. and Reid Supply and 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 17.9 years and 15.2 years (2010: 21.8 years and 11.7 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:

Operating segment	Goodwill 2011 £m	2010 £m
Protection & Finishing Products	**59.6**	31.8
Porous Technologies	**11.1**	11.0
Coated & Security Products	**15.7**	16.1
	86.4	58.9

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

Business	Operating segment	Customer relationships and other intangible assets 2011 £m	2010 £m
Moss and Skiffy	Protection & Finishing Products	**17.9**	19.3
Richco	Protection & Finishing Products	**43.0**	–
Reid Supply	Protection & Finishing Products	**11.4**	–
Duraco and Steratape	Protection & Finishing Products	**17.6**	18.9
Lendell	Porous Technologies	**7.4**	8.2
Multiple businesses	Multiple segments	**1.8**	2.0
		99.1	48.4

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% (2010: 8.5%) adjusted for the risk applicable to each operating segment. The pre-tax discount rates used ranged from 11.6% to 13.8% (2010: 11.6% to 13.8%)

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 eight percentage points or increasing pre-tax discount rates by up to 100 bps. 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 exceed their value in use.

10. Inventories

	2011 £m	2010 £m
Raw materials and consumables	**26.2**	23.9
Work-in-progress	**3.8**	2.8
Finished goods and goods held for resale	**36.4**	32.4
	66.4	59.1

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

Notes

11. Trade and other receivables

	2011 £m	2010 £m
Non-current assets		
Other receivables	–	2.9
Current assets		
Trade receivables	**71.1**	58.6
Other receivables	**8.2**	9.8
Prepayments and accrued income	**6.1**	4.7
	85.4	73.1
Total trade and other receivables	**85.4**	76.0

Other receivables include an amount of deferred consideration of £2.8m (2010: £6.0m) due from the Itavema Group for the purchase of the Globalpack business.

12. Cash and cash equivalents

	2011 £m	2010 £m
Bank balances	**34.3**	38.7
Short-term investments	**1.5**	1.3
Cash and cash equivalents in the statement of cash flows	**35.8**	40.0

13. Trade and other payables

	2011 £m	2010 £m
Trade payables	**47.1**	30.7
Other tax and social security contributions	**3.3**	2.9
Other payables	**5.8**	3.5
Accruals and deferred income	**35.0**	26.5
	91.2	63.6

14. Interest bearing loans and borrowings

	2011 £m	2010 £m
Non-current liabilities		
Unsecured bank loans	**75.2**	16.2
Private Placement Loan Notes	**102.1**	100.6
	177.3	116.8
Current liabilities		
Unsecured bank loans	**3.4**	14.0

At 31 December 2011, the Group had £17.0m and €73.0m of unsecured bank loans drawn in sterling and euros at floating rates of interest set by reference to LIBOR for three months. Filtrona's two $80m Loan Notes pay interest at 5.37% and 5.91% per annum respectively.

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.

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

	2011		2010	
	Carrying value £m	Nominal value £m	Carrying value £m	Nominal value £m
Sterling	**15.9**	**17.2**	0.3	0.3
US dollar	**105.3**	**106.5**	100.6	101.9
Euro	**59.5**	**60.8**	29.7	29.9
Other	**–**	**–**	0.2	0.2
	180.7	**184.5**	130.8	132.3

The difference between the total nominal and carrying value of loans and borrowings relates to the amortised value of directly attributable transaction costs of £3.8m (2010: £1.5m).

15. Derivatives

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

	Assets		Liabilities	
	Fair values £m	Contractual or notional amounts £m	Fair values £m	Contractual or notional amounts £m
At 31 December 2011				
Fair value derivatives				
Forward foreign exchange contracts	0.2	4.7	(0.5)	2.7
Cash flow hedges				
Forward foreign exchange contracts	1.0	23.7	–	1.5
	1.2	**28.4**	**(0.5)**	**4.2**

	Assets		Liabilities	
	Fair values £m	Contractual or notional amounts £m	Fair values £m	Contractual or notional amounts £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

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. All of the hedged transactions are expected to occur over the next 15 months and all derivative instruments mature within the next 15 months.

Notes

15. Derivatives continued

During 2011 Filtrona had US dollar and euro denominated borrowings which it designated as hedges of its net investments in subsidiary undertakings. The exchange losses of £1.4m on the US dollar borrowings and the gains of £1.7m on the euro borrowings were recognised in reserves at 31 December 2011.

During 2010, Filtrona had US dollar and euro denominated borrowings which it designated as hedges of its net investments in subsidiary undertakings. The exchange gain 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.

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

16. Deferred tax

Deferred tax assets and liabilities are attributable to the following:

			2011
	Assets £m	**Liabilities £m**	**Net £m**
Property, plant and equipment	**(1.8)**	**13.4**	**11.6**
Intangible assets	**–**	**18.6**	**18.6**
Employee benefits	**(12.6)**	**–**	**(12.6)**
Other	**(11.7)**	**0.3**	**(11.4)**
Tax (assets) / liabilities	**(26.1)**	**32.3**	**6.2**
Set off of tax	**17.2**	**(17.2)**	**–**
Net tax (assets) / liabilities	**(8.9)**	**15.1**	**6.2**

			2010
	Assets £m	Liabilities £m	Net £m
Property, plant and equipment	(1.6)	12.2	10.6
Intangible assets	–	10.1	10.1
Employee benefits	(5.8)	–	(5.8)
Other	(6.8)	–	(6.8)
Tax (assets) / liabilities	(14.2)	22.3	8.1
Set off of tax	12.8	(12.8)	–
Net tax (assets) / liabilities	(1.4)	9.5	8.1

Movements in temporary differences in the year:

	2011 £m	2010 £m
Beginning of year	**8.1**	6.4
(Credit) / charge to the income statement in respect of current year (note 5)	**(0.3)**	2.2
Charge / (credit) to the income statement in respect of prior years	**0.6**	(1.3)
Credit to reserves on movements on defined benefit pension schemes	**(4.8)**	(1.3)
Credit to reserves on share-based incentives	**(3.5)**	–
Acquisitions (note 23)	**6.2**	2.2
Currency translation	**(0.1)**	(0.1)
End of year	**6.2**	8.1

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 £0.3m (2010: £0.9m) in respect of temporary differences have not been recognised where their realisation is not considered probable. These assets include capital losses of £0.3m (2010: £0.3m) and other temporary differences of £nil (2010: £0.6m). No deferred tax assets have been recognised in respect of unutilised tax losses of £19.4m (2010: £32.0m).

17. Provisions

	Discontinued £m	Reorganisation £m	Other £m	Total £m
				2011
Movements				
Beginning of year	**2.6**	**–**	**1.5**	**4.1**
Provisions made during the year	**–**	**2.9**	**3.3**	**6.2**
Provisions released during the year	**–**	**–**	**(0.1)**	**(0.1)**
Acquisitions (note 23)	**–**	**–**	**5.0**	**5.0**
Released against discontinued operations	**(0.1)**	**–**	**–**	**(0.1)**
Currency translation	**(0.1)**	**–**	**–**	**(0.1)**
End of year	**2.4**	**2.9**	**9.7**	**15.0**
Non-current	**–**	**0.1**	**2.1**	**2.2**
Current	**2.4**	**2.8**	**7.6**	**12.8**
	2.4	**2.9**	**9.7**	**15.0**

	Discontinued £m	Reorganisation £m	Other £m	Total £m
				2010
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

Discontinued provisions relate to warranties made on the disposal of Globalpack. Reorganisiation provisions are held against future redundancy costs (2010: onerous property costs). Other provisions relate primarily to vacant properties and employees' compensation claims. Non-current provisions are generally long-term in nature with the timing of utilisation uncertain.

18. Employee benefits

Post-retirement benefits
Trustees administer the schemes and the assets are held independently from Filtrona.

Pension costs of the defined benefit schemes are assessed in accordance with the advice of independent professionally qualified actuaries. Full triennial actuarial valuations were carried out on the principal European defined benefit schemes as at 5 April 2009 and annual actuarial valuations are performed on the principal US defined benefit schemes. The assets and liabilities of the defined benefit schemes have been updated to the balance sheet date from the most recent actuarial valuations taking account of the investment returns achieved by the schemes and the level of contributions.

Contributions to all schemes are determined in line with actuarial advice, local conditions and practices. Defined benefit contributions in 2012 are expected to be £10.0m, which consists of payments to fund future service accruals and contributions to amortise the deficit in respect of past service.

Notes

18. Employee benefits continued

The amounts included in the consolidated financial statements are as follows:

	2011 £m	2010 £m
Amounts expensed against operating profit		
Defined contribution schemes	**2.2**	1.8
Defined benefit schemes	**1.9**	1.8
Total operating expense	**4.1**	3.6
Amounts included as finance (income) / expense		
Expected return on scheme assets (note 4)	**(12.0)**	(11.3)
Interest on scheme liabilities (note 4)	**10.8**	10.7
Net financial income	**(1.2)**	(0.6)
Amounts recognised in the consolidated statement of comprehensive income		
Actual return less expected return on scheme assets	**(3.5)**	5.7
Impact of changes in assumptions relating to the present value of scheme liabilities	**(12.1)**	(10.7)
Actuarial loss	**(15.6)**	(5.0)

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

	2011		2010	
	Europe	US	Europe	US
Increase in salaries (pre-2010)[1]	**3.50%**	**3.00%**	4.20%	3.00%
Increase in salaries (post-2010)[1]	**3.00%**	**3.00%**	3.00%	3.00%
Increase in pensions (pre-2010)[1]	**3.20%**	**n/a**[2]	3.60%	n/a[2]
Increase in pensions (post-2010)[1]	**2.00%**	**n/a**[2]	2.95%	n/a[2]
Discount rate	**4.70%**	**4.60%**	5.40%	5.30%
Inflation rate	**2.50%**	**n/a**[2]	3.60%	n/a[2]
Expected return on scheme assets	**5.00%**	**7.10%**	6.20%	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:

	2011		2010	
	Europe	US	Europe	US
Male retiring today at age 65	**20.8**	**19.1**	20.8	18.5
Female retiring today at age 65	**23.5**	**21.0**	23.5	20.7
Male retiring in 20 years at age 65	**22.8**	**19.1**	22.8	18.5
Female retiring in 20 years at age 65	**25.5**	**21.0**	25.5	20.7

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:

2011	Long-term rate of return	Europe £m	Long-term rate of return	US £m	Total £m
Equities	6.50%	74.2	8.00%	19.7	**93.9**
Bonds	4.40%	35.9	3.10%	19.2	**55.1**
Gilts	2.50%	44.4		–	**44.4**
Other	2.50%	4.7	2.50%	0.7	**5.4**
Fair value of scheme assets		159.2		39.6	**198.8**
Present value of scheme liabilities		(164.7)		(58.1)	**(222.8)**
Retirement benefit obligations		**(5.5)**		**(18.5)**	**(24.0)**

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)

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

18. Employee benefits continued

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

	2011			2010		
	Scheme assets £m	Scheme liabilities £m	Total £m	Scheme assets £m	Scheme liabilities £m	Total £m
Beginning of year	187.2	(204.8)	(17.6)	158.7	(181.3)	(22.6)
Service cost	–	(1.9)	(1.9)	–	(1.8)	(1.8)
Employer contributions	10.2	–	10.2	11.9	–	11.9
Employee contributions	0.5	(0.5)	–	0.6	(0.6)	–
Actuarial (losses) / gains	(3.5)	(12.1)	(15.6)	5.7	(10.7)	(5.0)
Finance income / (expense)	12.0	(10.8)	1.2	11.3	(10.7)	0.6
Benefits paid	(7.4)	7.4	–	(8.6)	8.6	–
Currency translation and other	(0.2)	(0.1)	(0.3)	7.6	(8.3)	(0.7)
End of year	198.8	(222.8)	(24.0)	187.2	(204.8)	(17.6)

	2011		2010	
	% of scheme assets / liabilities	£m	% of scheme assets / liabilities	£m
Experience gains and losses				
Difference between actual and expected return on scheme assets	(1.9)	(3.5)	3.6	5.7
Net actuarial losses recognised in the statement of comprehensive income	7.6	(15.6)	2.8	(5.0)

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 2011.

	Scheme liabilities			Annual service cost		
	Europe £m	US £m	Total £m	Europe £m	US £m	Total £m
0.5% decrease in the discount rate	13.4	3.9	17.3	0.3	0.1	0.4
1.0% increase in the rate of inflation	11.9	n/a	11.9	–	–	–
1 year increase in life expectancy	2.9	1.3	4.2	–	–	–
0.5% increase in the discount rate	(11.7)	(3.5)	(15.2)	(0.1)	(0.1)	(0.2)
1.0% decrease in the rate of inflation	(9.5)	n/a	(9.5)	–	–	–

Historical information

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Scheme assets	**198.8**	187.2	158.7	131.6	143.5
Scheme liabilities	**(222.8)**	(204.8)	(181.3)	(169.0)	(165.8)
Retirement benefit obligations	**(24.0)**	(17.6)	(22.6)	(37.4)	(22.3)
Actual return less expected return on scheme assets	**(3.5)**	5.7	18.9	(36.9)	(0.3)
Impact of changes in assumptions relating to the present value of scheme liabilities	**(12.1)**	(10.7)	(12.5)	18.8	7.2

Share-based incentives

Filtrona operates share-based incentive plans for its Executive Directors and employees. The total expense in respect of these plans during the year was £3.0m (2010: £2.8m). Details of these plans are set out below.

Share options outstanding

2011

	At 1 Jan 2011	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 2011**	**Weighted average exercise price**	**Exercisable at 31 Dec 2011**	**Weighted average exercise price**
LTIP Part A	9,976,674	216.9p	1,213,096	339.8p	(213,248)	215.4p	(2,716,818)	234.2p	**8,259,704**	**229.3p**	**3,513,694**	**155.5p**
LTIP Part B	4,376,443	–	852,509	–	(379,541)	–	(1,302,050)	–	**3,547,361**	**–**	**112,624**	**–**
DASB	246,442	–	197,046	–	–	–	(89,525)	–	**353,963**	**–**	**–**	**–**
SAYE 3 year plan	795,886	151.4p	374,035	239.3p	(42,674)	197.4p	(411,879)	151.8p	**715,368**	**194.4p**	**–**	**–**
SAYE 5 year plan	447,748	157.6p	134,708	239.3p	(9,588)	151.4p	(35,625)	222.6p	**537,243**	**173.8p**	**–**	**–**
	15,843,193		**2,771,394**		**(645,051)**		**(4,555,897)**		**13,413,639**		**3,626,318**	

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	

Notes

18. Employee benefits continued

Fair value model inputs for share options outstanding

					2011
	LTIP Part A	**LTIP Part B**	**DASB**	**SAYE 3 year plan**	**SAYE 5 year plan**
Weighted average fair value at grant	58.8p	146.6p	213.3p	87.2p	67.0p
Weighted average share price at grant	229.2p	195.4p	237.5p	257.1p	222.0p
Weighted average exercise price	229.2p	–	–	194.4p	173.8p
Weighted average volatility	33.6%	38.8%	39.9%	40.0%	29.0%
Weighted average dividend yield	3.69%	4.71%	3.94%	3.31%	3.93%
Weighted risk free rate	2.81%	1.84%	1.87%	2.00%	3.81%
Expected employee retention rates	88.0%	98.6%	99.7%	75.0%	74.6%
Expected term	3.39 years	3.09 years	3.00 years	3.00 years	5.00 years
Valuation model	Binomial	Monte Carlo	Binomial	Binomial	Binomial

					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%	43.1%	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

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

					2011 and 2010
	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 54 to 63.

All options are settled with equity.

19. Share capital

	2011 £m	2010 £m
Issued and fully paid ordinary shares of 25p (2010: 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 2011 the Company held 10,434,203 (2010: 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 £30.3m (2010: £35.2m).

Employee trust shares are ordinary shares of the Company held in an employee benefit trust. The purpose of this trust is to hold shares in the Company for subsequent transfer to Executive Directors and employees relating to deferred share awards and options granted under the Company's share-based incentive plans. Full details are set out in the Report of the Remuneration Committee on pages 54 to 63. The assets, liabilities and expenditure of the trust have been incorporated in these financial statements. At 31 December 2011 the trust held 2,011,206 (2010: 1,004,490) shares, upon which dividends have been waived, with an aggregate nominal value of £0.5m (2010: £0.3m) and market value of £7.7m (2010: £2.4m).

The Company holds 10,434,203 ordinary shares with a nominal value of £2.6m in Treasury. This represents 4.8% 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 2011 £m	Cash flow £m	Exchange movements £m	Non-cash movements £m	**31 Dec 2011 £m**
Cash at bank and in hand	31.7	–	(0.7)	–	**31.0**
Short-term bank deposits and investments	8.3	(3.3)	(0.2)	–	**4.8**
Cash and cash equivalents in the statement of cash flows	40.0	(3.3)	(0.9)	–	**35.8**
Debt due within one year	(14.0)	11.2	(0.4)	(0.2)	**(3.4)**
Debt due after one year	(116.8)	(60.2)	0.3	(0.6)	**(177.3)**
Net debt	(90.8)	(52.3)	(1.0)	(0.8)	**(144.9)**

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

	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.

22. Commitments

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

	2011 £m	2010 £m
Payable within one year	**3.9**	2.9
Payable between one and five years	**9.1**	6.8
Payable after five years	**5.6**	5.3
	18.6	15.0

The commitments shown above include commitments for an onerous lease which has already been provided for. At 31 December 2011 provisions include an amount of £0.6m (2010: £0.6m) in respect of this lease.

Notes

23. Acquisitions

On 6 September 2011, Filtrona acquired the assets and business of Reid Supply Company ("Reid Supply"). Reid Supply, based in Michigan, US, is a leading distributor of standard industrial components, including hardware, handles, clamps and fasteners, to a vast range of markets and customers via a catalogue. The business is highly complementary to Filtrona's Protection & Finishing Products division.

Reid Supply contributed £7.7m to revenue and £0.5m to operating profit before intangible amortisation in the period from acquisition to 31 December 2011. Related acquisition expenses of £0.7m were recognised in the income statement in exceptional operating items.

On 21 December 2011, Filtrona acquired the entire issued share capital of Richco, Inc. ("Richco") from family and employee shareholders of the acquired company. Richco, based in Illinois, US, is a leading international designer, manufacturer and distributor of engineered plastic and elastomeric solutions for fastening and cable management applications in diverse and growing end markets and will be reported within Filtrona's Protection & Finishing Products division.

Richco has been incorporated into Filtrona's results based upon its balance sheet as at 21 December 2011 and accordingly contributed £nil to revenue and an operating profit of £nil in the period from acquisition to 31 December 2011. Related acquisition expenses of £2.1m were recognised in the income statement in exceptional operating items.

On acquisition the assets and liabilities of both businesses 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.

A summary of the acquisition of Reid Supply is detailed below.

	Book value at acquisition £m	Revaluation £m	Fair value of assets acquired £m
Deferred tax	–	0.2	0.2
Property, plant and equipment	0.7	(0.2)	0.5
Inventories	3.9	(0.1)	3.8
Receivables	2.9	(0.1)	2.8
Cash and cash equivalents	(0.1)	–	(0.1)
Provisions	–	(0.1)	(0.1)
Payables	(1.4)	(0.2)	(1.6)
	6.0	(0.5)	5.5
Customer relationships			9.4
Other intangible assets			1.8
Goodwill			2.7
Consideration			19.4
Satisfied by:			
Initial cash consideration			18.2
Deferred contingent consideration			1.2
Cash consideration			18.2
Cash and cash equivalents acquired			0.1
Net cash outflow in respect of the acquisitions			**18.3**

Property, plant and equipment, inventories, receivables, provisions and payables were all reassessed to their fair value.

The adjustment to deferred tax is the tax effect of the fair value adjustments above.

Deferred contingent consideration of £1.2m is payable by the Group if Reid Supply exceeds a target revenue during the 12 months to 31 December 2012.

The book value of trade recievables aquired is stated net of impairment losses of £0.1m.

Included in the £2.7m 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 expected that most of the goodwill and other intangible assets acquired will be allowable for tax deduction in future years.

It is estimated that if the acquisition of Reid Supply had been completed on 1 January 2011 the contribution to 2011 Group revenue would have been £24.1m and to Group operating profit before intangible amortisation would have been £2.2m.

A summary of the acquisition of Richco is detailed below.

	Book value at acquisition £m	Revaluation £m	Fair value of assets acquired £m
Property, plant and equipment	8.7	(1.5)	7.2
Inventories	4.4	(0.6)	3.8
Receivables	9.6	(0.2)	9.4
Cash and cash equivalents	7.5	–	7.5
Deferred tax	0.2	(6.6)	(6.4)
Provisions	(0.5)	(4.4)	(4.9)
Income tax payable	(0.2)	–	(0.2)
Payables	(4.9)	–	(4.9)
	24.8	(13.3)	11.5
Customer relationships			39.4
Other intangible assets			3.1
Goodwill			24.2
Consideration			78.2
Satisfied by:			
Cash consideration			78.2

Cash consideration	78.2
Cash and cash equivalents acquired	(7.5)
Net cash outflow in respect of the acquisitions	**70.7**

The adjustment to deferred tax is the tax effect of recognising customer relationships and other intangibles and the tax effect of the fair value adjustments below.

Property, plant and equipment, inventories, receivables, provisions and payables were all reassessed to their fair value.

The book value of trade receivables acquired is stated net of impairment losses of £0.3m.

Included in the £24.2m of goodwill recognised above is the value of the unique revenue and cost synergies including entry into new geographic and end markets where previously Protection & Finishing Products was not present and an assembled workforce. Due to its nature this asset cannot be individually identified or measured. It is expected that approximately 35% of the goodwill and other acquired intangible assets will be allowable for tax deductions in future years.

It is estimated that if the acquisition of Richco had been completed on 1 January 2011 the contribution to 2011 Group revenue would have been £47.2m and to Group operating profit before intangible amortisation would have been £6.3m.

During 2011, Filtrona reassessed the fair value adjustments made in respect of Steratape, which was acquired in 2010, and increased certain accruals by £0.5m. Goodwill was increased accordingly.

The revenue and gross profit margin targets set in 2010 in respect of the acquisition of BP Labels were not met and as a result £0.3m was released to the income statement during the year.

Notes

23. Acquisitions continued

In 2010, Filtrona acquired BP Labels and Stera Tape. Net cash outflow in respect of these acquisitions was £12.0m.

A summary of the acquisitions of BP Labels and Stera Tape 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 effect of recognising customer relationships and other intangibles.

Payables and inventories were reassessed to their fair value.

Deferred contingent consideration of £0.3m was payable by the Group if BP Labels exceeded 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.

24. Disposals and discontinued operations

In July 2011, Filtrona disposed of its shares in FractureCode Corporation ApS ("FractureCode") to ITO Technologies ApS for consideration of £0.3m payable in two instalments in January and July 2012. The disposal resulted in a loss after tax of £1.9m and has been treated as an exceptional operating item. Cash disposed and disposal expenses were in total £0.1m.

In September 2011, Filtrona received £2.7m (2010: £2.7m) from the Itavema Group which represented a further instalment due in relation to the deferred consideration for the disposal on 29 June 2007 of Globalpack, its Brazilian consumer packaging business. During 2011, Filtrona released tax warranty provisions of £1.9m in respect of Globalpack and this 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 of its North American Plastic Profile and Sheet business on 27 March 2009. The consideration was reduced by associated expenses of £0.5m. The settlement resulted in a profit after tax of £6.8m which was recognised as discontinued operations in the income statement.

25. Dividends

	Per share 2011 p	Per share 2010 p	Total 2011 £m	Total 2010 £m
2010 interim: paid 29 October 2010		3.0		6.2
2010 final: paid 28 April 2011		6.0		12.3
2011 interim: paid 28 October 2011	**3.3**		**6.8**	
2011 proposed final: payable 30 April 2012	**7.2**		**14.9**	
	10.5	9.0	**21.7**	18.5

26. Transactions with related parties

Other than the disposal of FractureCode, the acquisition of further shares in Filthai (see below) and the compensation of key management disclosed in note 6, Filtrona has not entered into any material transactions with related parties. Furthermore, throughout 2011 and 2010, no Director had a personal interest in any significant transaction of Filtrona.

On 18 January 2011, Filtrona acquired 9.9% of the share capital of Filthai Company Limited ("Filthai") from non-controlling interests. Following the purchase of the share capital, Filtrona has increased its interest in the Filthai Company Limited to 70.9% of the issued share capital. The cash consideration was £1.1m which was recorded directly to equity as acquisition of non-controlling interests.

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. Post balance sheet events

On 17 February 2012, Filtrona acquired 100% of the share capital of Securit World Ltd ("Securit") for a cash consideration of £6.0m. Securit distributes desktop personal identification ("ID") card systems, providing printers, software and associated accessories. The acquisition of UK-based Securit will add to the existing capabilities of Filtrona's Payne Security personal ID products business.

29. 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 and exceptional operating items which are considered not relevant to measuring the performance of the business. 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:

	2011 £m	2010 £m
Operating profit	**72.6**	72.0
Intangible amortisation	**3.7**	3.0
Exceptional operating items	**8.2**	–
Adjusted operating profit	**84.5**	75.0
Depreciation and other amounts written off property, plant and equipment	**20.7**	21.9
Share option expense	**3.0**	2.8
Other non-cash items	**3.4**	(0.9)
Working capital movements	**7.9**	(5.1)
Net capital expenditure	**(26.8)**	(18.8)
Operating cash inflow	**92.7**	74.9

Filtrona plc Company Balance Sheet

at 31 December 2011

	Note	2011 £m	2010 £m
Fixed assets			
Investment in subsidiary undertaking	2,10	**287.5**	284.5
Current assets			
Debtors	3	**21.2**	39.7
Cash at bank and in hand		**–**	0.6
		21.2	40.3
Current liabilities			
Creditors: amounts falling due within one year	4	**(1.0)**	(1.0)
Net current assets		**20.2**	39.3
Non-current liabilities			
Creditors: amounts falling due after more than one year	5	**(102.1)**	(100.6)
Net assets		**205.6**	223.2
Capital and reserves			
Issued capital	7	**54.8**	54.8
Capital redemption reserve	8	**0.1**	0.1
Profit and loss account	8	**150.7**	168.3
Shareholders' funds: equity interests		**205.6**	223.2

The Company financial statements on pages 106 to 110 were approved by the Board of Directors on 22 February 2012 and were signed on its behalf by:

Colin Day
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 £5,000 (2010: £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 86.

The Directors' remuneration, which was paid by Filtrona International Ltd is disclosed in the Report of the Remuneration Committee on pages 54 to 63.

2. Investments held as fixed assets

	Investment in subsidiary undertaking	
	2011 £m	2010 £m
At beginning of year	**284.5**	281.7
Additions	**3.0**	2.8
At end of year	**287.5**	284.5

3. Debtors

	2011 £m	2010 £m
Corporate taxes	**0.1**	–
Amounts due from subsidiary undertakings	**21.1**	39.7
	21.2	39.7

4. Creditors: amounts falling due within one year

	2011 £m	2010 £m
Accruals and deferred income	**1.0**	1.0

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

	2011 £m	2010 £m
Loan Notes	**102.1**	100.6

6. Maturity of financial liabilities

	Non bank loans	
	2011 £m	2010 £m
Debt can be analysed as falling due:		
More than five years	**102.1**	100.6

7. Share capital

	2011 £m	2010 £m
Issued and fully paid ordinary shares of 25p (2010: 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 2011 the Company held 10,434,203 (2010: 13,664,604) of its own shares in Treasury.

8. Movements on reserves

		Profit and loss account	
	Capital redemption reserve £m	Retained earnings £m	Own shares £m
1 January 2011	**0.1**	**201.3**	**(33.0)**
Loss for the year ended 31 December 2011		**(0.4)**	
Acquisition of employee benefit trust shares			**(8.2)**
Shares issued to satisfy employee share option exercises		**(10.9)**	**10.9**
Share options exercised		**7.1**	
Share-based payments		**3.0**	
Dividends paid		**(19.1)**	
31 December 2011	**0.1**	**181.0**	**(30.3)**

		Profit and loss account	
	Capital redemption reserve £m	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)

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 loss attributable to equity holders included in the accounts of the Company is £0.4m (2010: £26.8m profit).

Included in retained earnings are accumulated share-based payments of £13.4m (2010: £10.4m) which are not distributable. Full details of these share-based payments are set out in the Report of the Remuneration Committee on pages 54 to 63 and also on pages 99 to 100.

Notes

9. Dividends

	Per share		Total	
	2011 p	2010 p	**2011 £m**	2010 £m
2010 interim: paid 29 October 2010		3.0		6.2
2010 final: paid 28 April 2011		6.0		12.3
2011 interim: paid 28 October 2011	**3.3**		**6.8**	
2011 proposed final: payable 30 April 2012	**7.2**		**14.9**	
	10.5	9.0	**21.7**	18.5

10. Principal subsidiary undertakings

	Country of incorporation
Filtrona International GmbH	Germany
PT Filtrona Indonesia	Indonesia
Filtrona BV	The Netherlands
Filtrona (Singapore) Pte Ltd	Singapore
Filtrona Finance Ltd	UK
Filtrona International Ltd	UK
FIL International Ltd	UK
Moss Plastic Parts Ltd	UK
Filtrona C&SP Holding Company Ltd	UK
Filtrona Industrial Corporation	US
Filtrona Porous Technologies Corp	US
FIL Holdings Corp	US
Filtrona US Holdings Inc	US
Richco, 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 2011, 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 67, 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/private.cfm.

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 2011 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 Directors' Remuneration Report 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 48 to 53 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 74, in relation to going concern;
- The part of the Corporate Governance Statement on page 48 relating to the Company's compliance with the nine provisions of the UK 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
22 February 2012

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

Advisors and Investor Information

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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 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 Tuesday 24 April 2012 at 12 noon.

Financial calendar 2012

Annual General Meeting	24 April 2012
1st Interim Management Statement	24 April 2012
Final dividend	30 April 2012
Half Year Report	1 August 2012

Thank you for your interest in Filtrona

Keep in touch at www.filtrona.com

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