Filtrona
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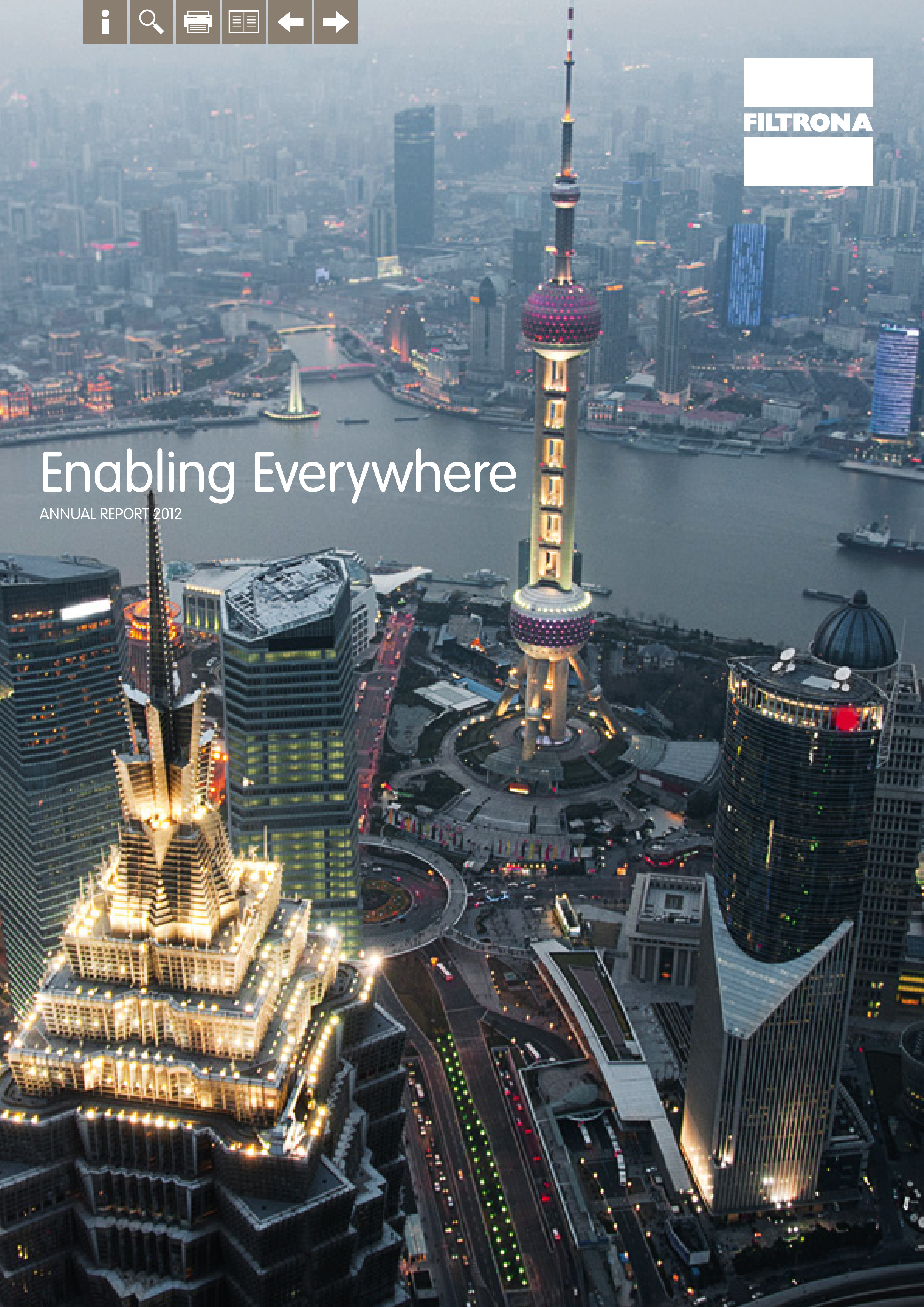

FILTRONA

Enabling Everywhere

ANNUAL REPORT 2012

Filtrona is a leading international supplier of speciality plastic, fibre and foam products

Protection & Finishing Products

Providing essential products for a range of end-markets including the oil and gas, industrial and electrical sectors

Review of Operations
on page 22

Porous Technologies

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

Review of Operations
on page 26

Coated & Security Products

Providing essential and innovative solutions for security and point of purchase products, as well as thousands of supermarket items

Review of Operations
on page 30

Filter Products

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

Review of Operations
on page 34

Other

Supplying technical and innovative plastic extrusions to the industrial, construction, point of purchase and furniture sectors

Note
With effect from 1 January 2013, Filtrona has implemented a new organisational structure for its Protection & Finishing Products division. Going forward, the Component Distribution businesses, together with MSI Pipe Protection Technologies, will be reported together as the renamed "Component & Protection Solutions division". The Speciality Tapes activities of Duraco will henceforth form part of the Coated & Security Products division. Comparatives for the new organisational structure can be found in note 30.

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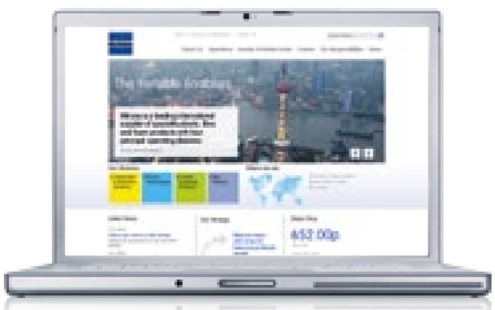
Directors' Report: Business Review

Directors' Report: Corporate Governance

Financial Statements



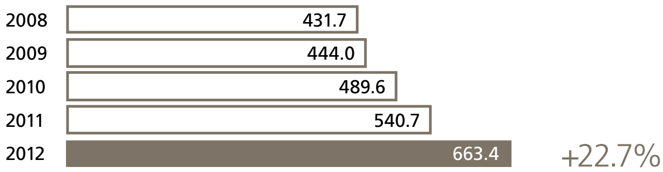
For more information visit
www.filtrona.com

Key Highlights of 2012*

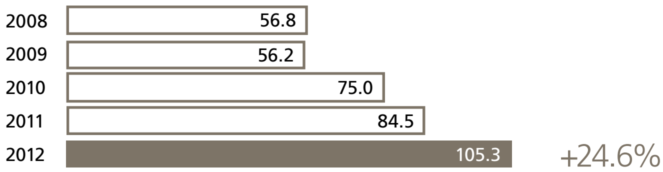
- Revenue up 26% (+11% like-for-like)[1], with growth in all principal divisions
- Adjusted[2] operating profit up 28%, with margin expansion of 30bps to 15.9%
- Adjusted[2] EPS ahead 30% to 31.7p
- Net working capital improvement to 11.8% of revenue, down 110bps
- Net debt of £164m, with strong cash flow generation being offset by higher dividend payments and acquisition spend
- Full year dividend +19% to 12.5p per share
- Continued strong progress towards 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

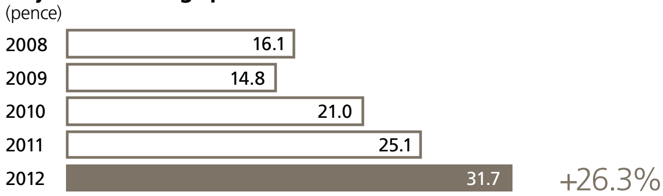
Revenue†
(£m)



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 of 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 28 countries

Our four principal operating divisions:

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 62 operating units in 23 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.

2012 highlights

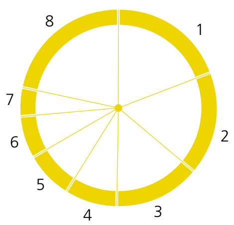
- Broad-based growth across business activities
- Successful integration of Reid and Richco acquisitions
- New market entries and further site roll-outs
- Completion of new MSI facility and launch of industry-compliant range of thread protectors
- Reorganisation of divisional businesses to better capture growth opportunities
- Continued strengthening of e-commerce platform

£237.7m
Revenue
+45.8%

£53.1m
Operating profit[1]
+40.5%

Revenue by end-market (%)

1.	Oil and gas	**19.3**
2.	Fabrication machinery	**17.0**
3.	Distributors	**14.2**
4.	Automotive	**8.5**
5.	Point of purchase	**7.9**
6.	Electrical / Electronics	**6.9**
7.	Hydraulics / Pneumatics	**4.6**
8.	Other	**21.6**



Porous Technologies

A global market leading developer and manufacturer of custom fluid handling components, engineered from a portfolio of technologies including bonded and non-woven 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, clean room wipes and air fresheners. Customers in over 56 countries are served from six manufacturing facilities, with research and development centres supporting the division globally.

2012 highlights

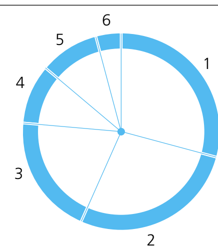
- Strong growth in healthcare, supported by product innovation
- Acquisition of an adjacent technology in non-woven fibre
- Broadening of writing instruments product range into nibs
- Further commercial expansion of products using porous plastics
- New corporate office opened in Singapore and entry into South Korea
- Reorganisation of commercial structure to enhance regional growth opportunities

£85.8m
Revenue
+10.1%

£20.7m
Operating profit[1]
+12.5%

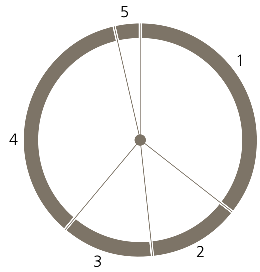
Revenue by end-market (%)

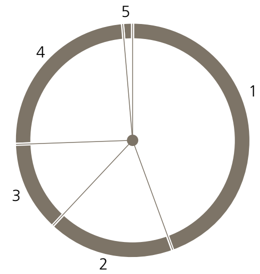
1.	Writing instruments	**29.3**
2.	Printer systems	**27.4**
3.	Healthcare	**19.9**
4.	Clean room	**9.7**
5.	Household products	**9.6**
6.	Other	**4.1**



Contribution to Group

Operating divisions	2012[2] Revenue (%)	2012[1,2] Operating profit (%)
1. Protection & Finishing Products	35.8	44.6
2. Porous Technologies	12.6	17.4
3. Coated & Security Products	12.9	12.5
4. Filter Products	35.2	24.2
5. Other	3.5	1.3





Other

Relates to the Enitor plastic profile extrusion business in The Netherlands.

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 five countries.

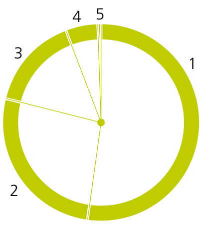
2012 highlights

- Further growth in tear tape and label-based packaging solutions, and authentication
- Continued recognition for innovation, winning an Asian Manufacturing Award 2012 and a UK IT Industry Award
- Additional investment in authentication technologies and manufacturing capability
- Successful delivery of Blue Badge scheme in the UK, and international contract wins for identity solutions
- Provision of secure accreditation solutions to the London 2012 Games
- Integration of Securit acquisition

£85.3m
Revenue
+17.5%

£14.9m
Operating profit[1]
+10.4%

Revenue by end-market (%)	
1. Tobacco	52.5
2. Document & identity solutions	26.4
3. Consumer goods	15.3
4. Transit packaging	5.4
5. Other	0.4



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.

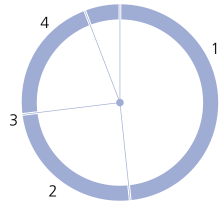
2012 highlights

- Excellent growth, supported by successful new products and additional service offerings
- Strong performance across customer base, including independents
- Increase in proprietary products launched and bespoke customer development activity
- Continued innovation to capture growth trend in special filters
- Significant investment in Scientific Services capability
- New talent management framework introduced

£233.6m
Revenue
+12.3%

£28.9m
Operating profit[1]
+18.0%

Sales volume by type (%)	
1. Monoacetate	48.5
2. Carbon	24.6
3. Other special	21.3
4. Flavour	5.6

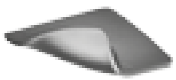


[1] Before intangible amortisation and exceptional operating items
[2] Adjusted to reflect the impact of eliminations and excluding central costs

We Are Here ...

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

Wound care
Our innovative medical grade wound care dressings are highly absorbent and ultra pure



Special filters
New filter technologies, such as the Corinthian, provide visual and performance differentiation

Extending our reach in Europe

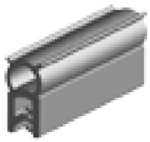
Growth in Europe in 2012 was boosted by new site openings in Austria, Switzerland and Slovakia, as well as significant capital investment in the UK. Our recent acquisitions of Richco and Securit have not only helped increase our penetration of existing markets but also secured entry into new markets, such as Italy and Sweden in Protection & Finishing Products

Cable management
Our combined range offers one of the widest choices in the market

Metro card
With over 30 years' experience in the transport sector, we have the solutions to deliver high quality secure cards

… And Here …

Gasketing
Increased range from six to over 60 profiles for electrical cabinet enclosures

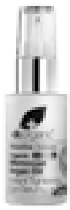


Supastrip VDP
Our Variable Data Print tear tape combines easy opening with the delivery of unique on-pack promotions

Extending our reach in North America

The opening of new distribution centres for the Alliance and Duraco businesses – together with the integration of Reid and Richco, and the acquisition of Lymtech in 2012 – has expanded our North American footprint. Our new multi-million dollar MSI facility in Houston also reinforces our commitment to this important region

Label solutions
"No-label" labels provide a sophisticated solution to consumer brands



Nibs
From acrylic and porous plastic nibs to ink reservoirs, we offer the broadest range of components to the writing instruments industry

Speciality tapes
Four times longer than the industry standard, Duraco Red tape is valued for its excellent bonding and clarity

… And Here

Security pass
Trusted by governments around the world, over 250 million national identity documents have been secured using our products

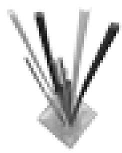
Tube inserts
Threaded, ribbed and notched tube inserts are available as squares and rectangles, or oval and round

Extending our reach in Asia and Rest of World

From São Paulo to Shanghai, we are continuing to expand our footprint in faster-growing economies. 2012 saw our divisions enter new countries including South Korea and Malaysia, and a more co-ordinated horizontal approach will allow us to leverage the Group's capabilities better in such key strategic markets as India and Brazil

Spiralguard®
Now offered in hi-vis for health and safety applications

Fibre wicks
Are found in liquid-based air freshener devices in the workplace, home and car



Kretek Aroma
Our new Super Slim filter meets growing demand in Indonesia

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.

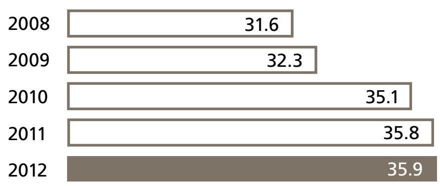
32

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) (%)



Protection & Finishing Products

Porous Technologies

Coated & Security Products

Filter Products

Other

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

Delivering value

Invest in new product innovation

The continued successful launch and commercialisation of new products and services is a key driver of 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.

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.

Build on our leading international market positions

We have secured leading international positions in many of our served markets in each of our four principal 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.

5

Research and development facilities

64

Sales and distribution operations to serve our international customer base

48%

Total shareholder return

Benefit from our experienced management team and talent base

We have a highly experienced and well-regarded management team and employee base. 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.

11yrs

Average 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

Last year, Filtrona unveiled a new, more ambitious strategy known as Vision 2015, building on the Company's positive features and attributes, but with a rekindled appetite for growth behind key objectives and targets and with a more unified culture across the organisation. I am very pleased that we have continued to make excellent progress towards our objectives in 2012.

Delivering balanced, profitable organic growth

In FY 2012, revenue increased 11% on a like-for-like basis, significantly ahead of our Vision 2015 objective of at least mid single-digit growth. As expected at the beginning of the year, each of our four principal operating divisions contributed to this result through a combination of geographic expansion, successful new product launches and range expansion, with a particularly noteworthy 17% like-for-like growth rate in Filter Products.

With adjusted operating profit growth of 28% (at constant exchange) – for a margin improvement of 30bps – rigorous control of our financing costs and a further 100bps improvement in our tax rate, adjusted earnings per share growth was 30% (at constant exchange) – again, well in excess of our Vision 2015 objective of at least double-digit.

Consistent with our business model, we re-invested in the Company to support future revenue growth opportunities. Yet, notwithstanding £43m capital expenditure across the divisions, our cash flow conversion was strong, at over 75% (87% on an underlying basis), and was supported by additional progress on our net working capital ratio. We also maintained our commitment to paying a progressive dividend to our shareholders, with an increase of 19% in FY 2012.

Filtrona's "3Ps"

Filtrona's key strategic objectives can be summarised as the "3Ps": Place; Products & Markets; and People. These apply equally to how we seek to deliver balanced, profitable organic growth and the way in which we identify value-creating, complementary acquisition opportunities.

Place

In order to take advantage of new revenue growth opportunities, we look to expand our geographic footprint through increasing both our penetration in existing markets and our presence in new or faster growing economies. And we made considerable progress in 2012 in this respect.

Continuing our successful roll-out programme, the Protection & Finishing Products division further strengthened its position in the US, with new site openings in New Jersey, Houston and Jacksonville during the year, and in Memphis shortly after the year end. In addition, we established a Moss facility in Xiamen, China and also entered the Austrian, Swiss and Slovakian markets for the first time; indeed the sales and warehousing capability which has been established in Slovakia will also act as a regional distribution hub for central and eastern Europe. In Porous Technologies, we opened a new corporate office in Singapore. This regional headquarters – which includes sales, marketing, business development and customer service capabilities – will allow us to provide our customers in Asia Pacific with an even better level of service and more co-ordinated support, reinforced by our state-of-the-art manufacturing facilities around the world.

Subsequent to the year end, we announced the strategic expansion of our presence in the key Indian market. To date, the Company's footprint in India has been limited to our successful filters joint venture with ITC and a tear tape slitting facility for our Coated & Security Products division. However, this new investment will see us move to a purpose-built facility in Bangalore, with the capacity to accommodate manufacturing, warehousing and the appropriate commercial infrastructure for three of our divisions.

Our Vision

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

Our objective

Create sustainable long-term value for our shareholders

Our strategy and operational priorities

Focus on strong translation of profit into cash

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

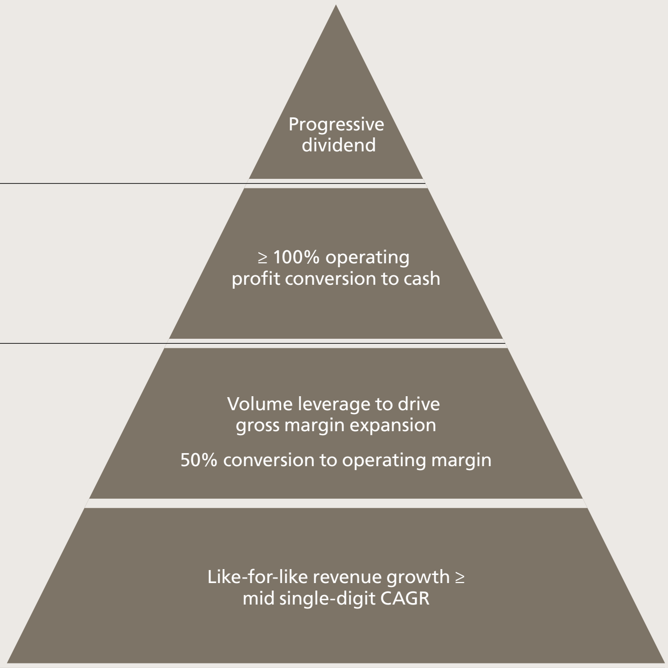
Our responsibilities

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 42. Further information on our Key Performance Indicators can be found on page 20.

"In our first full year of Vision 2015, we have continued to make excellent progress towards our strategic objectives. We have also made a number of further organisational changes, as well as significant investment, to support future growth opportunities."

Chief Executive's Review continued

Significantly, it will result in our Component Distribution, Speciality Tapes and Porous Technologies businesses establishing a presence in India for the first time. This more co-ordinated modus operandi across our operating divisions represents a step-change from the more ad hoc approach which was adopted prior to the introduction of our Vision 2015 strategy – particularly in terms of new market entry. Indeed, the more horizontal approach which we are now taking – particularly with regard to our expansion in the important Brazil / Russia / India / China ("BRIC") and other faster-growing opportunity markets – will allow us better to leverage the scale and capabilities of the overall Filtrona Group, and thereby facilitate the delivery of our strategic objectives.

Recent transactions have also supported the organic expansion of our footprint, from the acquisitions of Richco, Inc. ("Richco") at the end of 2011 and Jae Yong Co. Ltd ("Jae Yong") in April 2012, to the acquisition of Ulinco Components AB ("Ulinco Components") in Component Distribution and the formation of a joint venture in the United Arab Emirates ("UAE") for our Filter Products division both announced subsequent to the year end. With over 70% of revenue generated outside the US, Richco has added a number of new geographies to our Protection & Finishing Products division, including Malaysia and Japan – as well as significantly enhanced our manufacturing capability in China – while South Korea-based Jae Yong has further expanded the presence of our Porous Technologies division in the Asia Pacific region. The acquisition of Ulinco extends our Component Distribution capabilities in the Nordic region, and our joint venture in the UAE with BBM Bommidala Group – one of India's leading producers of tobacco products and by-products – both strengthens our presence in the growing Middle Eastern market and underscores our commitment to being a trusted partner to our tobacco customers on a global basis.

In some cases, these are not only new markets for our respective operating divisions, but also for the overall Company, thereby providing a potential bridgehead for further co-ordinated expansion in the future.

Products and markets

2012 saw a number of initiatives, successfully delivering against our objective of identifying key new product opportunities to help drive our revenue growth, and being supported by the capital investment we continue to make in the business.

In Protection & Finishing Products, the Component Distribution businesses further expanded their ranges, with the introduction of some 2,500 new products. We also made good progress in terms of leveraging cross-selling opportunities – with new Richco catalogues in Asia and Europe now featuring Moss products as well. And, benefiting from a new facility, large tonnage presses and newly developed multi-cavity mould bases, MSI introduced its MaxX range of thread protectors – an innovative product line which is compliant with recently implemented standards in the oil and gas industry in the US.

Our Coated & Security Products division developed a number of new packaging, identity and authentication solutions, benefiting from the previous investment in state-of-the-art equipment and technologies which we have made. Indeed, one of the highlights of the year was supplying accreditation solutions to the London 2012 Games in the UK. Accordingly, we were very pleased that our innovation continued to gain recognition in 2012, with the division winning an Asian Manufacturing Award 2012 in the Innovation Packaging Solution category for our Supastrip Variable Data Print tape and, together with Northgate Public Services and the Department of Transport, a UK IT Industry Award for the Blue Badge Improvement Service. We also added to our existing capabilities in personal identification products business with the acquisition of Securit World Ltd ("Securit"), which provides us with new opportunities in attractive growth segments, such as access control and membership.

Location: India

A co-ordinated approach to the Indian market will allow us better to leverage our Group-wide skills and scale

In Filter Products, our three innovation centres in Jarrow, UK, Greensboro, US and Surabaya, Indonesia actively supported key customers in their respective launches, with a 20% increase in our level of joint customer development activity as well as the introduction of six new proprietary products during the year. In addition, our investment of over £1m in our Scientific Services laboratory in Jarrow not only allows us to provide customers with a complete service of analytical and commercial testing, expert guidance and innovative product solutions, but also to make new testing methods available in order to meet evolving regulatory requirements.

Over and above its continued successful commercialisation of innovative new products – including negative pressure advanced wound care and further products using porous plastics – our Porous Technologies division added two exciting new capabilities through acquisition during the year. The Jae Yong transaction has introduced nibs and other critical components to the division's existing portfolio of ink-management reservoirs for the writing instruments industry, so that we can now offer the broadest range of solutions to our customers. And the acquisition of Lymtech Scientific, a manufacturer and distributor of porous wiping materials, has extended our manufacturing technology into the complementary area of non-woven fibre. As a result, we now have access to the attractive growth and higher value market for clean room wipes, which are used in the controlled environments increasingly required in industries such as life sciences and electronics.

People

Filtrona's Vision 2015 strategy is not just about financial performance – it is also about people. Indeed, at all levels, our employees are a vital resource in the Company's pursuit of operational excellence and the provision of quality products and service to our customers. Indeed, as an international organisation, it is important that we attract an appropriate level of local talent and enhance mobility through increasing cross-divisional moves. In this respect, we made good progress during the year, not only in terms of developing our existing employees but also in adding to our talent base through our recent acquisitions.

During the year, we undertook the first Group-wide employee engagement survey in Filtrona's history, which was extremely important in terms of gaining the views of all our people so we can ensure that the Company

Moving forward

OUR OBJECTIVES	PROGRESS IN 2012	PRIORITIES IN 2013
Identify key new product opportunities	• Conversion of intellectual property and manufacturing know-how into commercial success across divisions • Continued range expansion and improvement in marketing effectiveness	• Further successful exploitation of innovative and manufacturing capabilities in new technologies, products and services across the Company
Focus on faster growing markets / economies	• Establishment of a Porous Technologies corporate office in Singapore • Further site roll-out in both existing and new markets, to improve penetration and extend reach in Protection & Finishing Products • Entry into opportunity markets via acquisition (eg, Malaysia, South Korea)	• Strategic expansion in India, and a more co-ordinated approach to other BRIC markets • Successful establishment of UAE joint venture in Filter Products • Further expansion of international distribution, sales and marketing expertise, to exploit growth opportunities
Identify value-creating, complementary M&A opportunities	• Acquisition of Securit in Coated & Security Products • Acquisition of Jae Yong and Lymtech Scientific in Porous Technologies • Successful integration of Reid and Richco transactions	• Successful integration of 2012 acquisitions • Identify further opportunities across our four principal operating divisions
Invest in improving operational excellence and execution	• Further investment in upgrading / adding machinery and equipment, and capacity expansion • Re-alignment of commercial teams, to focus more on regional support • Focus on go-to-market by product category	• Continued investment to support revenue growth opportunities • Drive revenue growth from a more focused go to market effort by end-market • Greater horizontality across the Group, to better leverage scale and skills
Strengthen organisational structure and talent base	• Appointed Group Operations Director • Successfully filled a number of key divisional roles, to support Vision 2015 strategy • Undertook the first ever Group-wide employee engagement survey • Appointed dedicated Human Resources directors in Protection & Finishing Products and Filter Products • Extended the geographical reach of the Management and Graduate Development Programmes	• Continue to grow and develop talent across divisions • Increase cross-divisional moves to enhance mobility • Attract appropriate level of local talent for a global business • Continue to widen the geographic reach of the Management and Graduate Development Programmes

Chief Executive's Review continued

is a great place to work. It is also key to developing a more unified culture across the organisation. Translated into 19 languages and distributed to more than 4,000 employees worldwide, the survey saw an excellent 75% response rate with a strong turnout in each of our operating divisions and at head office. While there are naturally areas for improvement, where action plans have been agreed and are being implemented, the Board and the Group Management Committee ("GMC") were very pleased with the overall positive findings – not least that 82% of respondents are proud to be part of the Filtrona Group.

In 2012, we filled a number of key Group and divisional roles. At Board level, Matthew Gregory was appointed Filtrona's new Group Finance Director from his previous role as Corporate Development Director, after Steve Crummett stepped down following six successful years at the Company.

We also created a new role of Group Operations Director, and have welcomed Alan Richards to the position. Alan brings extensive operations experience and will have oversight of our global manufacturing and distribution footprint, to ensure effective use of resources and the achievements of the benefits of scale. And before the year end, we announced the appointment of Matt Taylor, Managing Director – Component Distribution to the GMC. Matt joined Filtrona in 1987, and in his 25 year career has held a variety of increasingly senior roles in those businesses. Leaving Filtrona were Robert Purcell, Managing Director – Protection & Finishing Products division and, shortly after the year end, Tony Edwards, Managing Director – Coated & Security Products division: both of them tendered their resignations to pursue other opportunities outside the Company.

2012 was also another successful year for both the Filtrona Management Development and Graduate Development Programmes. The two-year graduate programme has provided a talent pipeline for a number of years, and in October a record 21 people joined from across the Company. The programme has recently expanded into new geographies including Asia, and graduates from Brazil, India and Reinbek, Germany were recruited for the first time this year, expanding the international scope. The 2012 intake will join the nine graduates recruited in 2011, and will have the opportunity to develop their management skills through bespoke training which takes place around Filtrona's sites, giving graduates exposure to the Company.

Supporting our recruitment and talent development initiatives has been the roll-out of a more rigorous appraisal and succession planning process and the establishment of a divisional HR structure, with the appointment of dedicated Human Resources directors in each of Protection & Finishing Products and Filter Products adding to the existing divisional resources in Porous Technologies and Coated & Security Products.

Our overriding commitment remains the health, safety and welfare of our employees and all those who visit our operations. And notwithstanding the very good standards we have already reached, and a significant increase in our headcount, we made further progress in our health and safety performance in 2012. Indeed, ten of our sites received a Gold ranking in the Filtrona Health & Safety Awards, up from seven in 2011, with a further five achieving Silver status.

Location: Sweden

Our acquisitions of Ulinco and Richco extend our capabilities in the sizeable Nordic region

Investing in operational excellence and strengthening the organisational structure

During the year, we made a number of organisational changes so as to strengthen the Group structure and to enhance our operational excellence further.

At the time of our Half Year 2012 results, we announced that Enitor – our Netherlands-based plastic extrusions business – would be reported separately for external purposes as "Other", as opposed to being reported under the Coated & Security Products division. Indeed, given the different nature and drivers of Enitor's business, it had already been operationally managed separately at Group level since the beginning of the year, so as to allow a greater degree of focus on growth opportunities. And while Enitor's end-markets proved challenging in 2012, nonetheless its standing as a recognised leader in the design, manufacture and supply of technical and innovative custom extrusions – supported by reliability and service – has resulted in a number of exciting new contracts, in particular a first-time win with the international home products retailer, IKEA. Heading into 2013, Enitor aims to extend its sales into previously untapped end-markets such as water treatment, as well as new geographies such as North America. It is also focused on continuing to push the boundaries of extrusion techniques to stay at the forefront of technology, including exploring newer materials which enhance the environmental credentials of customers' products.

In December, we announced a change to the organisational structure of our Protection & Finishing Products businesses. Effective from 1 January 2013, the Component Distribution businesses are now managed under a common structure within three geographic regions, while MSI Pipe Protection Technologies will seek to leverage its more than 30 years' experience and leading position in the Oil Country Tubular Goods market into new end-markets. These two business areas will be reported together as the renamed "Component & Protection Solutions division". At the same time, the Speciality Tapes business of Duraco will now form part of the Coated & Security Products division. As identifying key new product and end-market opportunities is a core objective of Filtrona's Vision 2015 strategy to deliver balanced, profitable growth, we are confident that this new structure will allow the Company better to exploit previously untapped cross-selling and end-market potential.

Having re-aligned each of our principal operating divisions to more focused business units in 2011, we made further improvements to our commercial structure in 2012, facilitated by the appointment of our Group Commercial Director in January. Indeed, as with the expansion of our geographic footprint, there is similarly significant scope for the Company to go to market in a more unified and co-ordinated way, so as to leverage better Filtrona's overall capabilities, skills and customer relationships. As a result, we introduced regional commercial structures during the year with teams clustered by geography, which will allow us to provide our customers with an even better level of service and more co-ordinated support on a regional basis. We also made progress with regard to developing commercial processes for increased efficiency and effectiveness, including the development of common Customer Relationship Management and market-leading e-commerce platforms, both of which will be rolled out in 2013.

While each of our divisions ostensibly produces very different products, we serve a number of common industries and customers: for example, our Filter Products and Coated & Security Products divisions are both trusted partners to the tobacco industry, while the pharmaceuticals sector is served by Porous Technologies for essential components and, increasingly, our Coated & Security Products division for labels. These are only a couple of examples from across the Company where, by adopting a more category-based, horizontal approach to our product portfolio as opposed to operating as individual divisions, we can better exploit existing – and importantly, new and innovative – product and cross-selling opportunities, so as to become an even more important and relevant partner to our customers. Accordingly, we have established nine principal product categories – from industrial to point of purchase – from which we are seeking to deliver the next stage of our revenue expansion, and around which we will be better able to manage our key customer accounts.

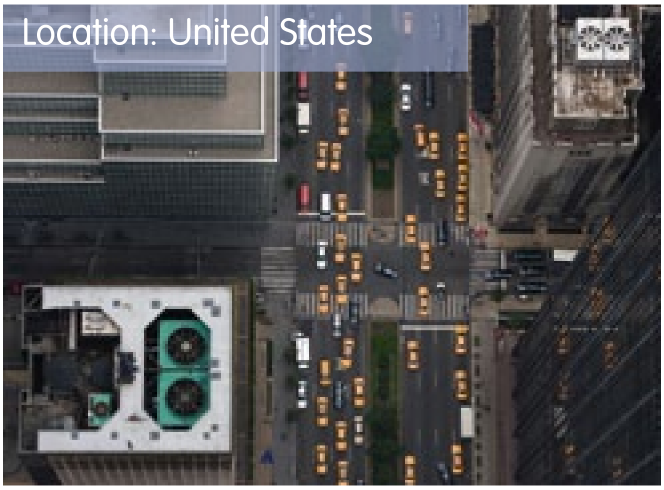
Our responsibilities

Filtrona is committed 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 and quality, of Filtrona's businesses 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, the Payne Cardiff site acquired in 2010 attained the standard in 2012 as anticipated. In addition, we were very pleased to gain additional accreditation in two of our divisions: Payne Security was awarded the coveted Intergraf CWA 15374:2005 certification as an accredited supplier to the secure printing industry for both private and government customers, while our Component Distribution facility at Kidlington, UK attained the recently introduced and internationally recognised ISO 50001 standard on energy management.

Attaining the ISO 50001 standard at all our manufacturing facilities by the end of 2014 is a Company-wide objective, and in recognition of the excellent work that our Kidlington site has done in being the first to do so, I was very pleased to award it the 2012 Chief Executive's Special Award.

During the year, Filtrona was placed in the top 10% of companies by the UK's Environment Agency in the 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 action which we initiated back in 2010 under the auspices of our Health, Safety & Environment Council.



The US remains an important market, with further growth opportunities through increased market penetration

We have also 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 2011 levels. This year, I was very pleased to give the Group Environmental Award to the Porous Technologies' Reinbek, Germany facility, for an innovative energy management system that has reduced and controlled energy consumption by 30kW per annum.

In summary

In 2012 – the first full year of Filtrona's Vision 2015 strategy – we continued to build on the promising start we made in 2011 and to make further progress towards our objectives. In delivering these 2012 results, I would like to acknowledge the efforts of all our employees and to thank them for their dedication and commitment as we continue to shape the Company – in particular, as we look to leverage our collective capabilities more effectively and to work together on a more horizontal, cross-divisional basis.

Outlook

In what remains an uncertain economic environment, Filtrona's international footprint, together with the diversity of its products and end-markets, provide the Company with a degree of defensiveness. Accordingly, we are well-positioned to deliver further balanced, profitable growth in 2013, and anticipate that each of our principal operating divisions will contribute to the overall Group result. As such, 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.

Colin Day
Chief Executive
21 February 2013

Financial Review

"With like-for-like revenue up 11%, continued margin expansion and strong free cash flow generation, 2012 was another strong year for Filtrona."

MATTHEW GREGORY
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 85.

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 2012 ("FY 2012"), see the table opposite. Re-translating at FY 2012 average exchange rates reduces the prior year revenue and adjusted operating profit by £14.1m and £2.1m 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 2012 results and the FY 2011 comparatives reflect the results of Reid Supply Company (acquired on 6 September 2011), Richco, Inc. (acquired on 21 December 2011), Securit World Ltd (acquired on 17 February 2012), Jae Yong Co. Ltd (acquired on 23 April 2012), John R. Lyman Company and Big Blue Properties LLC (together "Lymtech Scientific", acquired on 13 June 2012) 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 2012, intangible amortisation was £8.3m (2011: £3.7m), and there was an exceptional pre-tax charge of £10.6m (2011: £8.2m) mainly relating to integration costs and fees arising from the afore mentioned acquisitions.

Trading performance
Full year revenue was 22.7% ahead of the prior year (+26.0% at constant exchange rates) at £663.4m, with like-for-like growth of 11.1%. The gross margin rose 20bps (+10bps at constant exchange rates) to 35.9%. Ongoing volume leverage operational initiatives and successful pricing programmes to mitigate input cost increases were largely offset by the dilutive mix impact of the very strong revenue growth in the lower margin Filter Products division.

On an adjusted basis, operating profit was ahead 24.6% (+27.8% at constant exchange rates) at £105.3m, equating to a 30bps uplift in the margin to 15.9% (at both actual and constant exchange rates). Operating profit as reported was £86.4m, 19.0% higher than last year (+22.9% at constant exchange rates).

Net finance expense
Net finance expense was £9.5m, a £1.2m increase versus FY 2011. The net interest charge on net debt increased to £8.9m (2011: £8.6m), primarily as a result of additional debt taken on to finance acquisitions. The amortisation of bank facility fees increased to £1.3m (2011: £0.8m), the IAS 19 pension finance credit of £0.3m was lower (2011: £1.2m), while other interest income was £0.4m (2011: expense of £0.1m).

Tax
The effective tax rate on profit before exceptional items and tax was 29.4% (2011: 30.4%).

Net income
Adjusted net income was up 27.5% (+31.0% at constant exchange rates) to £67.6m. On a reported basis, net income of £53.5m increased 26.2% (31.1% at constant exchange rates). Fully diluted adjusted earnings per share of 30.7p was up 26.3% (30.1% ahead at constant exchange rates).

Free cash flow reconciliation (£m)

Adjusted operating profit	**105.3**
Non-cash items	25.0
Working capital	(7.8)
Net capital expenditure	(43.2)
Adjusted operating cash flow	**79.3**
Tax paid	(17.6)
Net interest paid	(8.9)
Pension contributions	(8.4)
Free cash flow	**44.4**

	Average		Closing	
	FY 2012	FY 2011	FY 2012	FY 2011
US$:£	**1.59**	1.60	**1.63**	1.55
€:£	**1.23**	1.15	**1.23**	1.20

Dividends
The Board of Directors recommends a final dividend of 8.6p per share (2011: 7.2p), an increase of 19.4%. This takes the FY 2012 dividend to 12.5p per share (+19.0% versus FY 2011).

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 £78.0m was higher than the 31 December 2011 level of £71.1m. The net working capital / revenue ratio was 11.8% (2011: 12.9% at constant exchange rates).

Cash flow
Operating cash flow decreased 14.5% to £79.3m (2011: £92.7m). This included an outflow of net working capital for the year of £7.8m (2011: inflow of £7.9m) and gross capital expenditure of £43.8m (2011: £27.0m), with net capital expenditure at £43.2m (2011: £26.8m). Net capital expenditure equated to 191% (2011: 129%) of the depreciation charge for the year of £22.6m (2011: £20.7m).

Net interest paid was £8.9m (2011: £9.1m) and tax payments decreased by £4.0m to £17.6m (2011: £21.6m). The outflow in respect of pension obligations was broadly unchanged at £8.4m (2011: £8.3m). Free cash flow of £44.4m (2011: £53.7m) declined by 17.3%.

Net debt
Net debt at the end of the period was £163.5m, an increase of £18.6m from 1 January 2012. This reflected free cash flow of £44.4m, offset by dividends totalling £23.2m, net acquisitions of £35.0m and foreign exchange and other items.

The Company's financial ratios remain strong. The ratio of net debt to EBITDA as at 31 December 2012 was 1.3x (31 December 2011: 1.4x) and interest cover was 11.1x (31 December 2011: 9.3x).

Balance sheet
At the end of 2012, the Company had shareholders' funds of £235.0m (2011: £207.0m), an increase of 13.5%. Net debt was £163.5m (2011: £144.9m) and total capital employed in the business was £403.8m (2011: £358.3m).

This finances non-current assets of £407.8m (2011: £362.5m), of which £180.3m (2011: £168.1m) is tangible fixed assets, the remainder being intangible assets, deferred tax assets and retirement benefit assets. The Company has net working capital of £78.0m (2011: £71.1m), current provisions of £17.5m (2011: £12.8m) and long-term liabilities other than borrowings of £46.5m (2011: £41.3m). The return on average invested capital (including intangibles) was 21.2% (2011: 23.6%), owing to acquisitions during the year.

Pensions
As at 31 December 2012, the Company's IAS 19 pension liability was £8.3m (2011: £24.0m) with a net liability of £4.5m (2011: £16.6m) after accounting for a deferred tax asset of £3.8m (2011: £7.4m). The deficit has been calculated after updating the asset values and certain assumptions as at 31 December 2012.

Treasury policy and controls
Filtrona has a centralised treasury department to control external borrowing and manage exchange 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 2012, Filtrona's US dollar-denominated assets were approximately 47% hedged by its US dollar-denominated borrowings, while its euro-denominated assets were approximately 90% 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.

Matthew Gregory
Group Finance Director
21 February 2013

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]

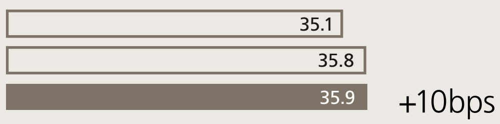
Measures the ability of the Company to grow sales by operating in selected markets and offering differentiated, cost-competitive products and services

Revenue growth (%)

Gross margin[2]
Gross profit as a % of revenue

Measures the resources available for re-investment or profit growth

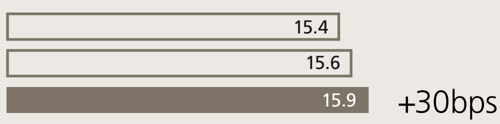
Gross margin (%)



Operating margin[3] £
Operating profit[3] as a % of revenue

Measures the profitability of the Company

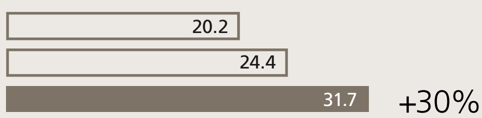
Operating margin (%)



Earnings per share[3,4] £
% change in earnings per share[3,4]

Measures the benefits generated for shareholders from the Company's overall performance

Adjusted earnings per share (pence)



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.

Link to Executive remuneration

Executive remuneration is linked to the priorities of the Company's Vision 2015 strategy, as presented on page 13.

£ Performance measures for the executive Long-Term Incentive Plan

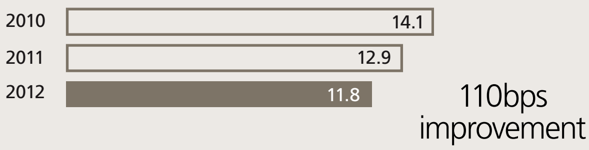
£ Performance measures for the executive annual bonus plan

WHAT WE MEASURE	WHY WE MEASURE IT	HOW DID WE DO?

Net working capital ratio[2]
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, as a % of revenue

Measures the ability of the Company to finance its expansion and release cash from working capital

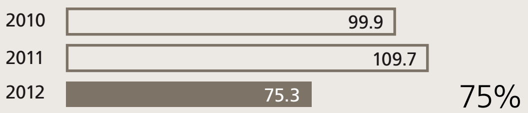
Net working capital ratio (%)



Cash conversion
Operating cash flow as a % of operating profit

Measures how the Company converts its profit into cash

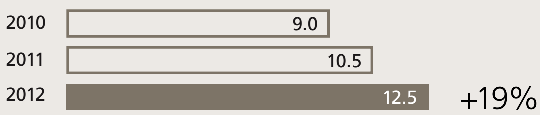
Cash conversion (%)



Dividend per share
% change in dividend per share

Measures the amount of cash per share which the Company returns to shareholders

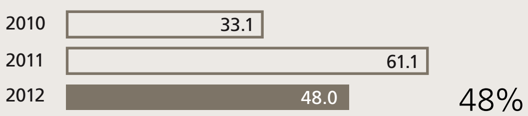
Dividend per share (pence)



Total shareholder return
Total annual 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

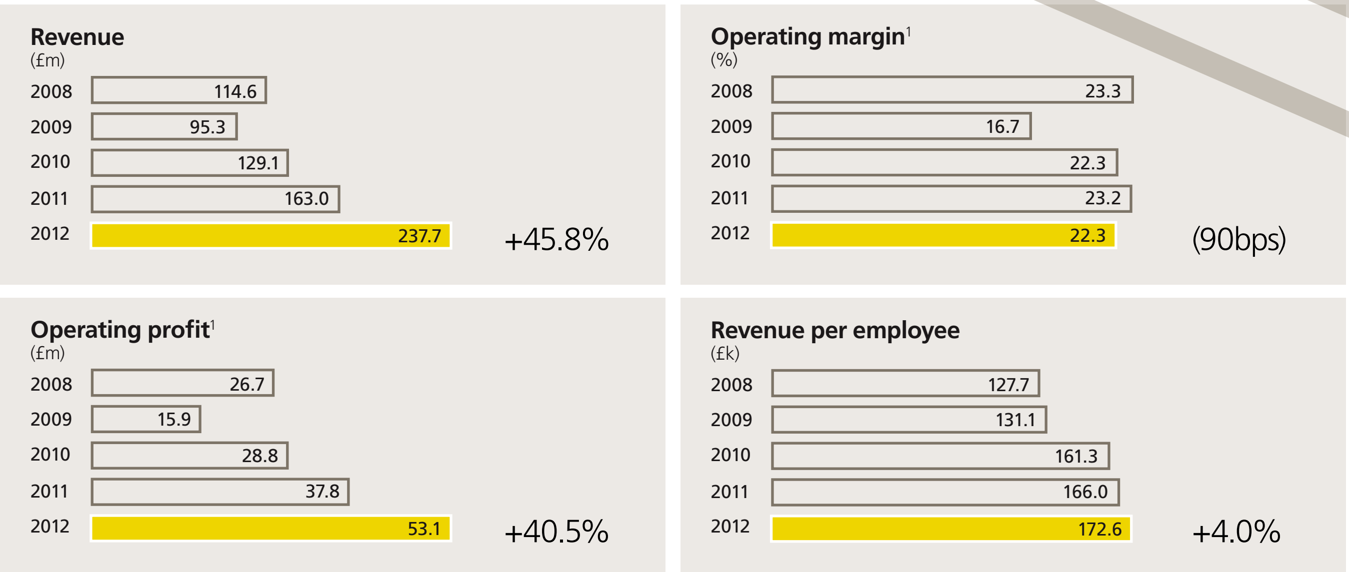
Total shareholder return (%)



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

Review of Operations
Protection & Finishing Products

Key financial highlights



+45.8%

Revenue growth

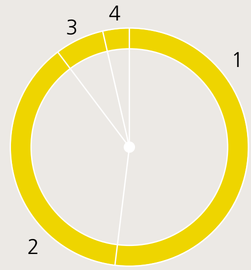
[1] Before intangible amortisation and exceptional operating items

What we measure

	Why we measure it	How we have done
New customer acquisition	Reflects the success of targeting organic growth opportunities	18.8% increase in live new customers compared to 2011
Success of marketing activity	Indicates the potential revenue generating impact of marketing investment	25.1% increase in marketing responses versus 2011
On time in full	Demonstrates the ability to meet delivery demands	1.1% improvement from 2011

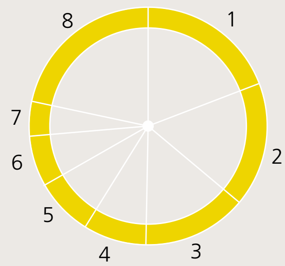
Revenue by destination (%)

1.	North America	52.0
2.	Europe	37.9
3.	Asia	6.5
4.	Rest of World	3.6



Revenue by end-market (%)

1.	Oil and gas	19.3
2.	Fabrication machinery	17.0
3.	Distributors	14.2
4.	Automotive	8.5
5.	Point of purchase	7.9
6.	Electrical / Electronics	6.9
7.	Hydraulics / Pneumatics	4.6
8.	Other	21.6



2013 key initiatives

- Further roll-out of new sites and continued expansion into new markets
- Launch of an integrated global Component Distribution catalogue
- Go-live of new Component Distribution e-commerce platform
- Leverage Pipe Protection Technologies' expertise and technology into new end-markets

Who we are and what we do

The division is a global market leader in the provision of a rapid supply of primarily plastic products for protection and finishing applications, and includes the following activities.

Component Distribution – comprising the Moss, Skiffy, Alliance, Reid and Richco operations – is a global market leading manufacturer and distributor of plastic injection moulded, vinyl dip moulded and metal items.

MSI Pipe Protection Technologies specialises in the manufacture of high performance, innovative products from commodity resins to engineering-grade thermoplastics and polymer alloys for use in a range of end-markets.

The Speciality Tapes business of Duraco is a leading manufacturer and distributor of adhesive coated products, including foam, magnetic, finger lift and acrylic high bond tapes, hook and loop and non-skid foam.

Collectively, these three business areas serve a very broad base of over 150,000 customers in industries such as hydraulics, pneumatics, oil and gas, electrical controls, construction, point of purchase and tubular metal products. We serve these customers from nine principal manufacturing facilities and 53 sales and distribution operations in a total of 23 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, are unique assets. 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 further reduction of transaction costs, is a key objective for our continued success. The division continues to seek acquisition opportunities, which can move us into complementary product categories or further our distribution capability.

Review of Operations
Protection & Finishing Products continued

Continued new site roll-out allows us to increase our penetration in existing markets as well as expand our geographic footprint into new territories

How we performed in 2012

Range expansion and new site roll-outs support balanced, profitable growth
Revenue increased 48.6% (at constant exchange) to £237.7m, with like-for-like growth of 9.6% driven by continued range expansion, new site roll-outs and improved marketing effectiveness. The results were boosted by the inclusion of a full year contribution from Richco, as well as an incremental eight months from Reid Supply.

Underlying growth in the Component Distribution businesses of Moss, Skiffy and Alliance was broad-based across geographies and key end-market sectors. During the year, we further expanded our range, with the addition of some 2,500 new products, mainly centred around hardware and fasteners. In addition, our successful roll-out programme continued, with the establishment of new sites for Moss in Xiamen, China and Alliance Express in Jacksonville, US, and we entered the Austrian, Swiss and Slovakian markets for the first time; in the case of the latter, the sales and warehousing capability which has been set up will also act as a regional distribution hub for Central and Eastern Europe.

The integration of Richco and Reid continued in line with expectations. Richco's US operations were successfully transferred to our main Alliance facility in Erie, with progress also being made on integrating sites in Continental Europe. In the UK, we consolidated Richco's manufacturing with our Moss site at Kidlington, and our additional investment will allow the further integration of Richco's warehousing during 2013 as well as supporting new range expansion in the future. We also leveraged cross-selling opportunities, with new Richco catalogues in Asia and Europe now featuring Moss products, as well as greater integration of Richco and Moss field sales teams.

The Speciality Tapes business of Duraco performed well, particularly supported by growth in the finger lift tape and hook and loop ranges. The Express sites in New Jersey and Houston, US opened during the year have made a very encouraging start, while the Stera Tape business was renamed as Duraco Europe, with cross-selling opportunities benefiting from the launch of the first catalogue in the region.

Notwithstanding a record year in 2011, MSI delivered further growth across all sites in 2012. To underpin the future growth potential of this business, a new office, manufacturing plant and warehouse were opened in Houston, in May. The 136,000 square-foot facility is double the size of the previous location and, along with investment in larger injection moulding machines and mould bases, has increased production rates. The additions support a new "best in market" product line, the MaxX range, which is compliant with the thread protector standard recently implemented by the American Petroleum Institute.

Boosted by the increasing use of electronic marketing media, our continued focus on efficient marketing investment and activity delivered strong lead indicators versus 2011: marketing responses were 25% ahead, and the number of live accounts at the end of December increased to a record level of 156,000, up 17% versus 2011. Revenue from higher margin proprietary products, as opposed to custom parts, increased to 72% from 70% in FY 2011, on a comparable basis (excluding recent acquisitions).

Adjusted operating profit grew 44.1% (at constant exchange) to £53.1m, equating to a 70bps reduction in the margin. Operating and process efficiencies, together with leverage from the strong revenue growth and a continued positive mix effect from moving the business further into higher margin standard parts were more than offset by the dilutive impact of Reid and Richco. However, as anticipated, our successful integration and delivery of synergy savings is progressively closing the margin differential between the acquired and the underlying businesses.

Complemented by value-adding M&A
Following the year end, we announced the acquisition of 100% of the share capital of Ulinco Components AB ("Ulinco Components") for an undisclosed cash consideration. Based in Sweden, Ulinco Components is a leading distributor of plastic protection and finishing products, hardware and specialist masking solutions in the Nordic region. The acquisition of Ulinco Components not only expands the product range and customer base of our Component Distribution businesses, but also reinforces and extends their geographic presence in Scandinavia.

MaxX thread protectors
Independently tested and certified, our innovative MaxX thread protectors meet the latest standards in the oil and gas industry

Market trends

We are a long way from saturation in any of our markets, even the markets we have been in for many years.

Given their very wide application, the global market for protection and finishing products is large, fragmented and ill-defined for both suppliers and customers; however, management estimates the value at in excess of £2bn pa.

Manufacturing GDP growth rate
With protection and finishing products being used in a very broad spectrum of industrial end-markets, those countries with a higher manufacturing GDP growth rate are particularly attractive.

Increased use of standard components
There is an increasing move to small, specialised flexible manufacturing businesses, which assemble their specialised parts and equipment from a range of standard components. This approach provides them with flexibility, the ability to move quickly and provide their own customers with the service they require.

Just-in-time delivery
As customers are required to deliver their own products "just-in-time", so their demand for critical components from their suppliers is increasingly on the same basis.

Increasing labour costs
Standardised manufacturing processes and components typically require less labour, thereby helping customers reduce their cost base.

Industry specification
As end-markets become more sophisticated and demanding, so the requirement for higher quality components increases. Over and above this more general trend, certain customers – notably those in the oil and gas industry – are increasingly facing regulatory guidelines in terms of the specification of the components they use.

Key new product opportunities
- Continued range expansion, to provide customers with the broadest selection of standard components
- Develop new sectors for existing customer base, such as hardware
- Globalise successful local products through established supply chain
- Enter new and adjacent product markets, such as point of purchase
- Launch products which are compliant with new industry specifications, such as the MaxX range of thread protectors

Improving operational excellence and execution
Towards the end of the year, we announced a new organisational structure for our Protection & Finishing Products businesses aimed at better exploiting previously untapped cross-selling and end-market potential. This structure took effect from 1 January 2013.

Going forward, Component Distribution will be managed under a common structure within three geographical regions; Europe, Middle East & Africa, Americas and Asia. The implementation of these regional structures is designed to facilitate further integration of the current operations and to drive a number of commercial and operational benefits, with the objective of promoting our full range of products as broadly as possible across our various channels to market.

Separately, with over 30 years' experience and its new state-of-the-art facility, there are opportunities for MSI Pipe Protection Technologies to leverage its expertise in developing and manufacturing innovative products into industries beyond oil and gas, where it is already the leader in the Oil Country Tubular Goods market.

For the full year 2013, Component Distribution and Pipe Protection Technologies will be reported together as the renamed "Component & Protection Solutions division", while the Speciality Tapes activities of Duraco will form part of the Coated & Security Products division. FY 2012 comparatives for this new organisational structure are provided in note 30.

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. Notwithstanding our very good revenue growth in 2012 and the integration of Reid and Richco, we continued to make further environmental improvements during the year, with a very pleasing 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 Veracruz, Mexico achieved Gold status in the Company's Health & Safety Awards with a further three sites receiving other accreditation, showing successful achievement in providing a safer and healthier workplace. In addition, the Duraco Europe business delivered further 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 47.

We were very proud to receive the Chief Executive's Special Award in recognition of our Kidlington, UK facility attaining the recently-introduced ISO 50001 standard. Further information on this achievement can be found on page 46.

We were also pleased by the level of participation of employees across our sites in the Filtrona Engagement Survey, in particular that 86% consider their part of the division to be good to work for and 91% enjoy the work they do, both of which results are above the average for the total universe of companies which undertake such surveys.

Review of Operations

Porous Technologies

Key financial highlights

Revenue
(£m)

2008	49.7
2009	66.0
2010	74.7
2011	77.9
2012	85.8

+10.1%

Operating margin[1]
(%)

2008	18.1
2009	22.0
2010	23.7
2011	23.6
2012	24.1

+50bps

Operating profit[1]
(£m)

2008	9.0
2009	14.5
2010	17.7
2011	18.4
2012	20.7

+12.5%

Revenue per employee
(£k)

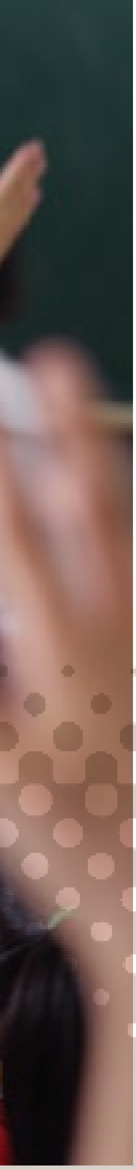
2008	110.1
2009	148.0
2010	164.2
2011	170.2
2012	155.6

(8.6%)

+10.1%

Revenue growth

[1] Before intangible amortisation and exceptional operating items

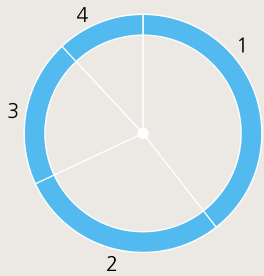


What we measure

	Why we measure it	How we have done
Innovation – percentage of sales derived from new products	Demonstrates the success of new products and technology	7.3% 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	27 Currently 27 (2011: 25) patents in force for the US, with 19 (2011: 21) applications pending
Customer complaints	Drives performance of quality systems and service delivery	5.4% 58 complaints being a 5.4% increase versus 2011
Man hours per machine hour	Indicative of shop floor productivity	2.28 (2011: 2.23) man hours per machine hour

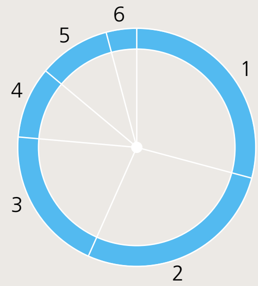
Revenue by destination (%)

1.	North America	39.7
2.	Asia	28.5
3.	Europe	19.9
4.	Rest of World	11.9



Revenue by end-market (%)

1.	Writing instruments	29.3
2.	Printer systems	27.4
3.	Healthcare	19.9
4.	Household products	9.7
5.	Clean Room	9.6
6.	Other	4.1



2013 key initiatives

- Extend writing instruments product portfolio further via nibs
- Globalise speciality wiping materials
- Develop core technology in speciality filtration
- Continue expansion of products using porous plastics
- Establish commercial presence in India

Who we are and what we do

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

Our range consists of 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, cosmetic applicators and speciality wiping products used for critical environments such as clean rooms and laboratories.

We serve customers in over 56 countries from six manufacturing facilities in four countries, with a regional commercial and new business development structure. Supporting the division globally are R&D facilities in the US, with regional teams facilitating 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' applications.

We seek to use our global footprint to provide our customers with shorter lead times and supply security. As our multiple locations utilise many 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 various needs of our customers in differing geographies and cultures.

Review of Operations
Porous Technologies continued

Location: South Korea

South Korean-based Jae Yong has further expanded our presence in the Asia Pacific region

Quality is at the forefront of the division's efforts, given the critical role many of our components play in our customers' end-products. Our production sites are ISO 9001:2008 compliant, and our facility in St. Charles, US is also ISO 13485:2003 certified. Quality laboratories at each of our facilities provide consistency checks throughout the production process, to assure reliability and satisfaction to our customers.

How we performed in 2012

Successful innovation supports balanced, profitable growth
Revenue increased 11.8% (at constant exchange) to £85.8m. Adjusting for the acquisition of Jae Yong in April and Lymtech Scientific in June, as well as the transfer of a portion of intercompany revenue to the Filter Products division, like-for-like growth was 5.6%.

Revenue growth of 9% in healthcare (c. 20% of divisional revenue) was boosted by further success in point of care diagnostics and infectious fluid collection and disposal systems using porous plastics. Printer systems (c. 30% of divisional revenue) was up 3%, supported by new product development and geographic expansion but partially impacted by the bankruptcy filing by a global OEM account early in the year.

Household products & personal care (together c. 10% of divisional revenue) increased 2%, supported by the expansion of sales to an existing customer in an additional geographic region. Writing instruments (c. 30% of divisional revenue) was ahead 2% on an underlying basis (ie, excluding the acquisition of Jae Yong), with continued success in capturing new business in developing markets partially offset by lower volumes in more established markets.

In 2012, the division continued its successful track record of converting its intellectual property and manufacturing know-how into commercial success. 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 and to expand further in existing markets.

During the year, in healthcare we developed a cannula filter designed to protect the user from contaminated fluids by preventing leakage, while our new negative pressure wound care therapy also incorporates porous plastic to prevent fluid waste from contaminating the pump systems, with our foam being used at the wound site to provide comfort and absorb exudate. Additionally, we launched writing instrument nibs in both porous plastic and polyester fibre, and we developed a new fibre wick technology for use in road-side breathalyser test kits.

Adjusted operating profit rose 12.9% (at constant exchange) to £20.7m, for a 20bps uplift in the operating margin. Continued initiatives to improve efficiency were partially offset by the cost of establishing a new corporate office in Singapore, further investment in porous plastics technology resources and the short-term dilutive impact of acquisitions.

Complemented by value-adding M&A
In 2012, we made two exciting strategic acquisitions: Jae Yong for an undisclosed sum, and Lymtech Scientific for a cash consideration of US$45.3m. Based in South Korea, Jae Yong is a globally recognised manufacturer of reservoirs, nibs and tubes for the writing instrument industry, and expands our offering in this segment from ink-management reservoirs to include other critical components. It also enhances our divisional presence in the growing Asia Pacific region. As such, we will be able to deliver an expanded portfolio of high-quality, innovative components and excellent service for writing instruments to customers around the world.

US-based Lymtech Scientific is a manufacturer and distributor of porous wiping materials used within the clean environments increasingly required by the medical, life science, electronic and industrial markets. This transaction not only extends our manufacturing technology into the complementary area of non-woven fibre, but also gives us access to the attractive growth and higher value clean room and controlled environment wipes market as well as adding a distribution selling channel. Additionally, through leveraging the global commercial and operational resources of the division, there is a

Specialist wiping materials
Porous wiping materials are used in the clean room environments increasingly required by a number of end-markets

real opportunity for us to expand the Lymtech Scientific business geographically into the sizeable Asian and European clean room wipes markets.

Improving operational excellence and execution
In March, we opened a new corporate office in Singapore, which will act as a commercial centre of excellence and regional headquarters for the growth businesses in Asia. This new location – which includes sales, marketing, business development and customer service capabilities – will allow us to provide our customers with an even better level of service and more co-ordinated on a regional basis, supported by our state-of-the-art manufacturing facilities around the world.

During the year, we also re-focused our commercial efforts on speciality foam, bonded fibre and porous plastics and non-woven products, so as to leverage our capabilities more effectively and provide our customers with even greater value-added propositions. To help drive our global footprint and expansion goals, we also undertook a thorough restructuring of our commercial team to create a single sales organisation grouped by region: Americas; Europe, Middle East and Africa; and Asia. These three regional teams, each headed by a Sales Director, successfully draw together the necessary skills and international experience which will allow us to support our collective technology platform more efficiently.

We also invested further in our porous plastics capabilities at our facilities in St. Charles and Richmond, US.

Market trends

Customers rely on us to continue to develop novel, next generation products that will drive their generation products.

Management estimates the global addressable market for our porous technologies products at around £1.2bn. The underlying growth rates and key trends facing the division vary depending on the end-market served and the respective fluid handling challenge being addressed.

Printing systems: performance improvements
Estimated market growth of 3% pa, with customers looking to enhance the performance of their products, such as through the use of increasingly complex inks.

Healthcare: enhanced fluid handling capabilities
Estimated market growth of 8-10% pa, driven by the migration from slower and more expensive laboratory-based testing to results being provided at the point-of-care.

Advanced wound care: changing customer / patient needs
Estimated market growth of 6% pa. A globally aging population is resulting in a change in the incidence of medical conditions requiring advanced wound care products, such as diabetes.

Household & personal care: emerging market growth
Estimated market growth of 3-4% pa, with consumers increasingly transitioning to more sophisticated household and personal care products.

Non-woven products: growing requirement for sensitive environments
Estimated market growth of 6-7% pa. Industries such as electronics increasingly operate in controlled environments, while others (eg hospitals) have a requirement for clean room conditions to combat infection and / or contamination risk.

Writing instruments: range expansion
Estimated market growth of 2% pa, with customers increasingly looking for a total solutions provider – from ink reservoirs to nibs.

Key new product opportunities
- Improved technologies to further enhance fluid handling capability
- Additional technology platforms, to take advantage of new end-market opportunities
- Further range expansion
- Investment in faster-growing product end-markets, such as medical
- Continued focus on customer partnerships

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 both lost time accidents and environmental accidents.

As a result, we were very pleased that our St. Charles, US site received Gold status for the third year running in the Filtrona Health & Safety Awards, with accreditation also going to our Ningbo, China, Richmond, US and Reinbek Germany facilities. We took steps to further reduce our environmental impact: our energy and water consumption both improved, and we made particularly strong progress in lowering our CO_2 emissions and general waste. Accordingly, we were very proud to receive the Group Environmental Award at our Reinbek facility for an energy management system that has reduced and controlled energy consumption by 30kW per annum.

We were similarly pleased with the response of our sites to the Group employee engagement survey, notably that 86% consider their part of the business is good to work for and 88% feel a strong sense of commitment – both well above average scores, when compared to the total universe of companies which undertake such surveys.

Review of Operations
Coated & Security Products

Key financial highlights

Revenue
(£m)

2008	65.1
2009	65.4
2010	67.4
2011	72.6
2012	85.3

+17.5%

Operating margin[1]
(%)

2008	13.1
2009	16.5
2010	19.0
2011	18.6
2012	17.5

(110bps)

Operating profit[1]
(£m)

2008	8.5
2009	10.8
2010	12.8
2011	13.5
2012	14.9

+10.4%

Revenue per employee
(£k)

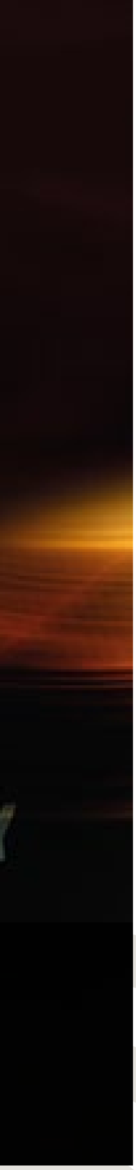
2008	179.8
2009	187.4
2010	184.0
2011	197.8
2012	203.3

+2.8%

+17.5%

Revenue growth

[1] Before intangible amortisation and exceptional operating items

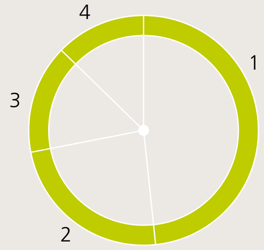


What we measure

	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	30.0% of revenue generated from products launched in the last three years
On time in full – packaging solutions	Drives performance of quality systems and service delivery	97.6% compares to 98.9% for 2011
On time in full – authentication and identity solutions	Drives performance of quality systems and service delivery	98.1% compares to 99.9% for 2011
Customer satisfaction – customer complaints	Drives performance of quality systems and service delivery	11.0% an 11.0% increase in complaints from 2011

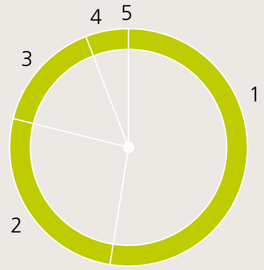
Revenue by destination (%)

1.	**Europe**	**48.6**
2.	**Rest of World**	**23.5**
3.	**Asia**	**15.2**
4.	**North America**	**12.7**



Revenue by end-market (%)

1.	**Tobacco**	**52.5**
2.	**Document & identity solutions**	**26.4**
3.	**Consumer goods**	**15.3**
4.	**Transit packaging**	**5.4**
5.	**Other**	**0.4**



2013 key initiatives

- Continue development of functional and creative packaging solutions
- Invest in printing, coating and conversion capability to support growth initiatives
- Build on investment in infrastructure and business development in 2012 to accelerate growth in authentication technology
- Acquire new customers for card and film solutions, based on innovation and added value
- Extend reach of Speciality Tapes in Europe

Who we are and what we do

Our Coated & Security Products division comprises the following activities.

Payne is a leading manufacturer of functional and creative packaging for consumer products and brands worldwide. Our solutions deliver customer focused benefits such as easy opening and pack resealability, combined with brand communication and product protection through integrated creative design.

Payne Security is a leading supplier to the identity and valuable document and the 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, an R&D facility and multi-million pound print capabilities.

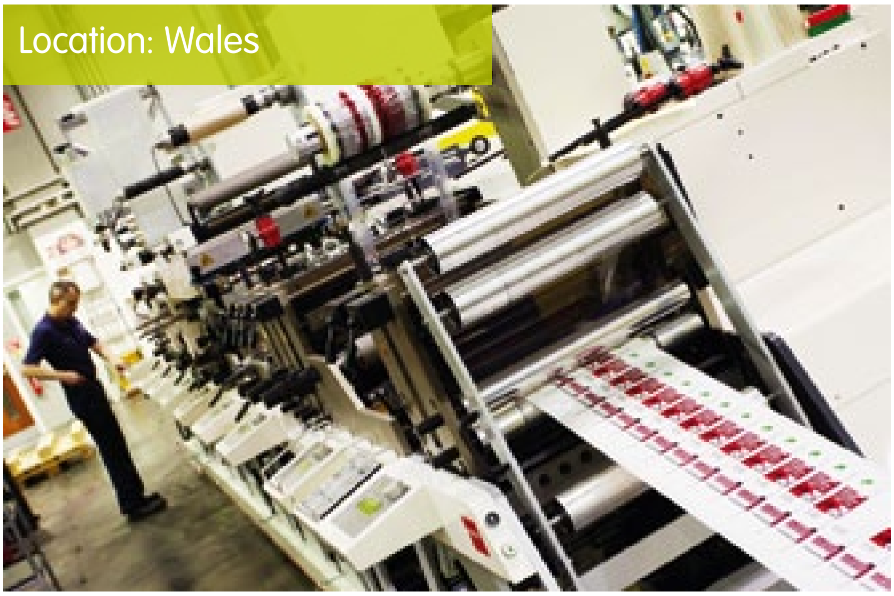
How we do it

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 packaged goods through providing easy opening and 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 solutions, such as tamper evidence or authentication technologies, from Payne Security.

Payne Security provides security technologies and innovations to governments and brand owners worldwide, to enable them to identify and secure 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 threads.

Review of Operations
Coated & Security Products continued



Investment in state-of-the-art label printing press at Payne Cardiff

These technologies and products have a wide application including branded goods and national identity documents (such as passports, identity cards and visas). Payne Security also offers a range of secure card solutions for national schemes (such as entitlement to free transport and parking) and for the provision of identity and entitlement within government agencies, such as universities and hospitals.

How we performed in 2012

Continued innovation and investment support balanced, profitable growth
Revenue increased 18.6% (at constant exchange) to £85.3m. Adjusting for the acquisition of Securit in February 2012 and the divestment of FractureCode in July 2011, like-for-like growth was 10.0%.

Revenue in tear tape was ahead 9%, and was boosted by winning further business in Asia with a major multinational tobacco customer, as well as successful new packaging and promotional innovations in the wrapped food sector. Growth in labels (of 14%) was driven by a strong result in the tobacco segment.

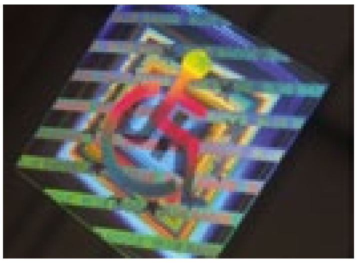
In authentication and identity solutions, underlying revenue growth (ie, excluding Securit and FractureCode) was 15%. During the year, we fulfilled more than one million packs for the roll-out of the next generation Blue Badge contract in the UK, which we were awarded at the end of 2011. In addition, we were very proud to supply accreditation solutions to the London 2012 Games.

Following on from the Queen's Award for Enterprise which we received in 2011, we were honoured with further recognition for our innovation in 2012. In particular, we were pleased to win an Asian Manufacturing Award 2012 in the Innovation Packaging Solution category for our Supastrip Variable Data Print ("VDP") tape. This tape combines the latest in digital print technology with gravure printing, to deliver over 500 million unique digitally printed codes together with a promotional message at the consumer's fingertips. It is suitable for use on many different flexible pack styles, and has been successfully used by a number of leading multinational consumer goods companies.

We were also proud to be part of the team – together with Northgate Public Services and the Department for Transport – which was given the accolade of IT Project Team of the Year in the Organisational Excellence category at the 2012 UK IT Industry Awards. The award was presented for successfully implementing the new national IT system for the Blue Badge Improvement Service, which is now deployed by all 206 local authorities throughout England, Scotland and Wales.

Adjusted operating profit increased 9.3% (at constant exchange) to £14.9m, equating to a 150bps decline in the margin: on a like-for-like basis the margin was unchanged. Our continued focus on efficiency improvements such as waste reduction, combined with other cost reduction initiatives, was more than offset by further investment in authentication technologies and the initial dilutive impact from the acquisition of Securit.

Undertaking value-creating M&A
During the year, we added to the existing capabilities of our Payne Security personal identification products business with the acquisition of Securit for a cash consideration of £6m. UK-based Securit distributes desktop personal identification card systems, providing printers, software and associated accessories, and provides us with new opportunities in attractive growth segments, such as access control and membership. The integration of Securit to date is in line with expectations, with further consolidation expected in 2013.



Over one million packs fulfilled for the next generation Blue Badge contract in the UK

Market trends

Packaging is the number one medium to communicate the brand.

Management estimates the value of the global market for pressure sensitive tear tapes, labels and security technologies at c. £3bn, with annual growth ranging from 0-9% depending on the end-markets served.

Increasing consumer communication
Packaging is increasingly used to communicate brand messages, and to engage with consumers via promotions or competitions.

Functionality and convenience of packaging
There is a growing demand for packaging which not only offers optimum product protection, but is also easy for consumers to access.

Brand and identity protection and verification
Brand owners and governmental bodies need to protect their brand assets and provide secure identification of goods and individuals.

Sustainability and waste reduction
There is a growing need for resealable packaging to reduce waste, as consumers purchase larger pack sizes to increase value for money.

Provision of total solutions
Customers are increasingly seeking a partner which can deliver a complete offering – from design to delivery of the product.

Key new product opportunities
- Investment in technology, to develop novel, value-added packaging and authentication solutions
- Functional packaging benefits, such as opening, closing and tamper evidence
- Eco-friendly packaging solutions, such as closing and resealing
- Creative and secure design solutions, to provide enhanced communication and authentication opportunities
- Complete card production and fulfilment offering, to provide an "end-to-end" solution

Improving operational excellence and execution
To support future growth opportunities for the division, we completed a number of successful operational initiatives during the year. At Payne Cardiff, we installed a state-of-the-art labels printing press which will allow us to deliver an even wider portfolio of high impact packaging solutions to our customers. And we made further investment in authentication technologies and manufacturing capability of our Banbury, UK site.

Going forward, we are pleased that the Speciality Tapes activities of Duraco will also form part of the Coated & Security Products division. Bringing these two businesses together will allow for synergies in development, manufacturing and distribution, as well as a stronger go to market proposition from a wider portfolio. FY 2012 comparatives for this new organisational structure are provided in note 30.

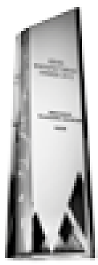
Our responsibilities

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 affecting CO_2 emission reduction, water consumption reduction, waste recycling, ecological impact and ongoing energy efficiency improvements. And we continued to make further progress towards these objectives, in particular delivering a further mid-teens reduction on our water consumption.

In 2012, the Payne Cardiff facility secured OHSAS 18001 accreditation, as scheduled. In addition, we were very pleased that Payne Security was awarded the coveted Intergraf CWA 15374:2005 certification as an accredited supplier to the secure printing industry for both private and government customers, measured against a stringent set of criteria. Details of the international accreditations held across the division are shown on page 47. We were similarly pleased that four of our seven facilities achieved Gold status in the Filtrona Health & Safety awards, up from two in 2011.

We continuously seek to monitor employee satisfaction by ensuring a high degree of management engagement with employees at all our locations. We were, therefore, very encouraged by the high response rate from across the division to the Group employee engagement survey, in particular that 92% of employees consider the division as good to work for and that 91% have a strong sense of commitment to the business – both of which results are considerably above the average of the total universe of companies which undertake such surveys.

An Asian Manufacturing Award 2012 presented for our innovative VDP tape



Review of Operations

Filter Products

Key financial highlights

Revenue
(£m)

2008	187.5
2009	202.9
2010	200.7
2011	208.0
2012	233.6

+12.3%

Operating margin[1]
(%)

2008	10.6
2009	10.9
2010	11.8
2011	11.8
2012	12.4

+60bps

Operating profit[1]
(£m)

2008	19.8
2009	22.1
2010	23.7
2011	24.5
2012	28.9

+18.0%

Revenue per employee
(£k)

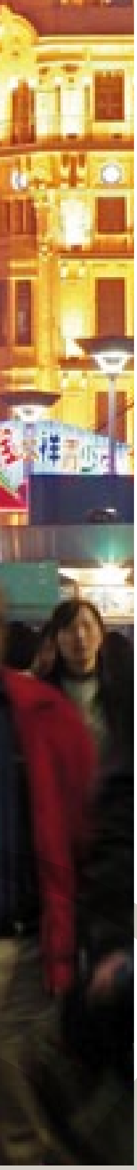
2008	114.6
2009	131.4
2010	148.1
2011	165.0
2012	184.9

+12.1%

+12.3%

Revenue growth

[1] Before intangible amortisation and exceptional operating items

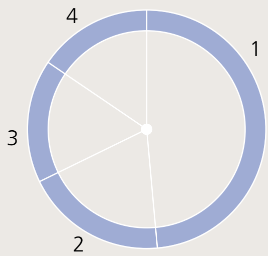


What we measure

	Why we measure it	How we have done
Conversion costs as percentage of revenue	Continued focus delivers financial performance	26.9% an improvement from 28.5% in 2011
On time in full	Demonstrates the ability to meet delivery demands	97.4% an improvement from 96% in 2011
Quality complaints per billion rods	Drives performance of quality systems and service delivery	3.0 complaints per billion rods, a decrease from 3.7 in 2011
Waste	Drives productivity and the efficient use of material	3.2% a reduction from 3.0% in 2011

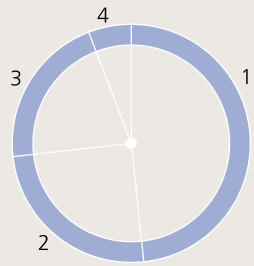
Revenue by destination (%)

1. Asia	**48.8**
2. Europe	**19.1**
3. Rest of World	**16.7**
4. North America	**15.4**



Sales volume by type (%)

1. Monoacetate	**48.5**
2. Carbon	**24.6**
3. Other special	**21.3**
4. Flavour	**5.6**



2013 key initiatives

- Increase innovation in special filters and grow the pipeline of proprietary projects, to meet customer needs for products with greater marketing appeal
- Expand capacity to satisfy growing demand for innovative filters in Eastern Europe and Asia
- Establish Scientific Services as a full solution provider to the tobacco industry
- Continue to benefit from ongoing trend to more specialised filters, while still offering attractive low cost propositions

Who we are and what we do

The 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 supplier 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 located in the UK was one of the first independent externally accredited laboratories for the testing of cigarettes and filters, and has over 20 years' experience of providing analytical services to both independent and multinational customers. Additionally, we offer a full bespoke range 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.

Research in filters is carried out at the Filters 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 and legislative requirements. Our offering is further enhanced by our ability to complement our 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

Review of Operations
Filter Products continued

Our internationally accredited Scientific Services laboratory offers commercial and analytical testing, guidance and product solutions

high standards of quality, cost control and production efficiency act as further sources of competitive advantage.

How we performed in 2012

Innovation and joint development activity support balanced, profitable growth
Revenue increased 16.9% (at constant exchange) to £233.6m. Underlying volumes were ahead of the prior year, with significant value growth driven by the increase in special filters in all geographic regions. In FY 2012, Asia accounted for 56% of volumes (FY 2011: 54%).

Over and above continued success for our previous innovations such as flavoured capsules, 2012 also saw the successful launch of six proprietary new products into the market. These included the Autograph filter – the latest addition to our Icon range, and offering customers high impact visual differentiation possibilities for their brands – as well as a Super Slim version of our clove-flavoured Kretek Aroma filter to meet the growing demand from the Indonesian market. We also built on our offering to the RYO segment, with the introduction of a Micro Slim filter in a Pop-a-Tip™ format and a new packaging concept in the Push-and-Slide box, to allow consumers easy access to their RYO filter tips. At the same time, we continued to work closely with our customers to develop bespoke solutions tailored to their specific needs, with such joint activity up over 20% during the year. We support our future innovation capabilities through ongoing intellectual property development, and eleven patent and trademark applications were filed in 2012.

Adjusted operating profit rose 23.3% (at constant exchange) to £28.9m, with the margin up 70bps. Higher raw material and other input costs were successfully mitigated by continued cost control, as well as quality enhancement initiatives and productivity improvements.

Undertaking value-adding M&A
Subsequent to the year end, we announced the formation of a joint venture in the UAE with BBM – one of India's leading producers of tobacco products and by-products, as well as a leading cigarette exporter from India – to manufacture filter products. The joint venture in which Filtrona will be a majority shareholder will entail the construction of a new 29,000 sq. ft. facility, and is expected to be fully operational during Q3 2013. The formation of this joint venture agreement with BBM strengthens our presence in the growing Middle Eastern market – which is witnessing a growing trend in the more specialised Super Slim, charcoal and flavoured filters – and underscores our commitment to being a trusted partner to our tobacco customers on a global basis.

Improving operational excellence and execution
During the year, we significantly expanded our Scientific Services ("FSS") laboratory in Jarrow, UK, with investment in new state-of-the-art machinery and equipment, and a doubling in the number of technical staff. As a result, FSS has increased its capabilities and can now provide customers with a complete service of analytical and commercial testing, expert guidance and innovative product solutions. The laboratory is also in the process of making a number of new testing methods available in order to meet the updated US Food and Drug Administration requirements.

In addition, we continued with our investment in equipment across our key operational sites, including taking delivery of new flexible, high speed combiners. This investment will contribute to continued improvements in quality, efficiency and responsiveness to our customers. At the same time we have successfully increased the utilisation of existing production assets, thanks to a number of internal initiatives aimed at improved flexibility. Taken together, these operational improvements have resulted in a five billion rod increase in the available annual capacity of the division.

In response to the need to meet increased demand from new business opportunities, investment in capacity at a number of sites is required. The additional demand will result in future incremental revenue, although it is not expected to have a material impact on the FY 2013 results.

Micro Slim RYO
Slim gets even slimmer, in the growing roll your own segment

Market trends

There is an increasing role for filter innovation in addressing wider trends in the tobacco industry.

The global tobacco market is valued at c. US$700bn, with broadly flat cigarette retail volume growth.

Regulation
The tobacco industry is heavily regulated around the world on health grounds, with significant restrictions on the way in which products can be marketed to consumers. Legislation continues to evolve, such as the current debate on "plain packaging".

Illicit trade
Counterfeiting of tobacco products is a significant and increasing challenge for the industry, undermining brand value, presenting a risk to consumers from low quality goods and reducing tax revenues. The illicit trade accounts for approximately 10% of duty-paid cigarette volumes and is estimated to be growing at c. 4% pa – well ahead of the overall industry.

Consumer engagement
As per capita income rises – particularly in eastern markets – so lifestyles change and new segments are created, with different consumer expectations and aspirations from the products which they purchase. As such, there is an increasing demand for new products to reflect these changes.

Consumer need
Consumers are increasingly concerned with environmental matters, such as sustainability and pollution, and the impact of products which they purchase. Such needs are often unspoken but create challenges for the industry to supply products which address such considerations.

Cost and price
As the price of cigarettes has continued to increase, growth opportunities have been created for other industry segments including RYO and Other Tobacco Products, such as, chewing tobacco.

Key new product opportunities
- Lifestyle solutions (eg, Slims / Super Slims, low / ultra low tar, "eco" ranges)
- Brand-specific requirements, such as recessed filters
- Enhanced user experience, such as capsules flavoured thread and activated carbon
- Full bespoke service for RYO brands
- Provision of scientific services

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.

Having introduced a division-wide system and been able to demonstrate improvement and accreditation in energy, in 2012 we again delivered a very strong reduction in both waste and CO_2 emissions, while our energy use rose by less than our revenue growth.

We were proud to receive Gold status in the Filtrona Health & Safety Awards for the fifth consecutive year at our ITC Filtrona India facility and for the third year running in Jordan, with a further two sites also gaining this accolade. Combined with our comprehensive programmes in this area, the division has achieved key international accreditations across its facilities, which are detailed on page 47. Four of our sites hold Level 7 accreditation by IQRS, an internationally recognised standard for business excellence.

Employee development is a key commitment of the division, and a new talent management framework was introduced during the year. Over and above our well established management development and graduate recruitment programmes, the framework is aimed at enhancing training, driving career progression and ensuring robust succession planning. As a result, we were pleased with the very high response rate of our employees to the Group engagement survey, with 91% considering their part of the business is good to work for and 90% having a strong sense of commitment – both results significantly higher than the norm for the total universe of companies which undertake such surveys.

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 2012

Reduced risk in 2012

Increased risk in 2012

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 2012 which serve to enhance the Company's response to the risks inherent in its international business activities.

Filtrona recognises that the ability to monitor, assess and respond to business risks may provide a competitive advantage. Reporting within the Group 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 organisations, including political instability in the countries in which the Company operates and sources raw materials, the impact of natural disasters and changes in general economic conditions, including currency and interest rate fluctuations, tax regimes and raw material costs.

Detailed below are the principal risks and uncertainties which the Board believes are specific to Filtrona having regard to its strategic objectives, together with the Company risk management response thereto. The details provided are not exhaustive and do not purport to be a complete explanation of all potentially relevant issues. There may be other risks and uncertainties which are unknown to the Board or which may not be deemed by the Board to be material at present but which could prove to be so.

Risk indicator

Disruption to infrastructure

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 whether short- or long-term could adversely affect the Company's ability to meet the demands of its customers. Some of the assets maintained by the Company, such as tooling and IT systems, are critical to the manufacture and delivery of particular products.

IMPACT

A material disruption to operational facilities or the loss of critical assets may negatively affect the Company's:

- Production capability and asset base
- Supply chain management
- Customer relationships
- Reputation
- Revenue
- Profit
- Financial condition

MITIGATION

Filtrona seeks to manage the risk of potential disruption of the supply of its customers by:

- Operating within a flexible global infrastructure
- Installing fire and other risk prevention systems
- Implementing disaster recovery and business continuity plans
- Assessing operational risks
- Maintaining comprehensive insurance

Competitive pressures

RISK

Filtrona faces pressures from direct competitors as well as competition from alternative technologies. Some of the Company's competitors may derive competitive advantage from 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
- Erosion of margins
- Intellectual property challenges
- Decline in revenue
- Decline in profitability
- 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

Failure to drive 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 packaging solutions, 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 and loyalty with customers at all levels through key account management techniques
- Seeks new markets and growth opportunities to expand the customer base

Key raw material supply

RISK

Some of Filtrona's businesses are dependent on the availability of specialist raw materials or components which are incorporated into the Company's products. Key raw materials may be subject to price fluctuations from supply shortage. If rapid increases occur in the price of such 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
- Use consignment stock

Intellectual property development and protection

RISK

A key component to Filtrona's future success is the ability to develop new and innovative products and services. In addition to seeking 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 exposure to the erosion of its intellectual property portfolio, Filtrona:

- Invests in R&D
- Secures formal registrations of patent and trademark rights
- Adopts appropriate confidentiality and licensing practices
- Monitors potential infringements 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 packaging solutions to manufacturers in the tobacco industry. Future performance may be affected by trends 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 the 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
- Seeks to add value with a range of low cost and innovative packaging solutions

Talent management

RISK

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

- Experience
- Expertise
- Commercial relationships
- Market insight
- Product innovation

MITIGATION

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

- 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
- Uses a talent management system
- Has increased the number of graduates on its development programme

Compliance risk – laws and regulations

RISK

Risk related to regulatory and legislative changes involves the possible 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	• Improved the majority of global sites in accordance with Carbon Trust principles • Complied with UK Carbon Reduction Commitment initiatives • Placed in the top 10% of companies in the annual CRC Performance League table • Reduced carbon emissions by 9% • Achieved ISO 14001 recycling / biodegradeable processes at Duraco Europe, Bridlington • Achieved ISO 50001 at Moss, Kidlington	• Continue 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 • Pursue accreditation to global ISO 50001, for all manufacturing facilities by 2015 • "War on Waste" – roll-out of initiative to reduce waste across the Group
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	• Continued behavioural training • Maintained corporate health and safety training for all employees • Retained OHSAS 18001 for all principle manufacturing sites • Achieved OHSAS 18001 for Payne Cardiff as scheduled.	• 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 • Continue to promote Right to Speak policy	• Continued communication of core policies • Implemented new compliance systems • Trained employees in Code of Business Ethics • Revised the Code of Business Ethics policy and retrained employees accordingly	• 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 are fundamental to the Company's adoption of the highest standards of business ethics and integrity that underpin its relationships with both internal and external stakeholders. Filtrona's culture is one of openness, integrity and accountability. Employees are encouraged to act fairly in their dealings with fellow colleagues, customers, suppliers and business partners.

The Filtrona 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. Filtrona has an excellent health and safety record, and a culture of safety is deeply embedded within the Group. The Board provides health and safety leadership and the Chief Executive has primary responsibility for setting the principal 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.

Accident trend average (incidents)

Lost time accident trend (incidents)

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 how successful the Company is in managing the safety of its workplaces at individual site level.

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 Health, Safety & Environment ("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. With effect from 1 January 2013, the new Group Operations Director will work alongside the Chief Executive in being responsible for Group health and safety matters. The FHSEC will be amalgamated into the quarterly operations meetings which are planned for 2013.

The Company manages occupational health by identifying key risk activities, undertaking health assessments and, where appropriate, implementing health surveillance programmes. The Company has achieved the Occupational Health & Safety Management Systems OHSAS 18001 for all its principal manufacturing sites except Bridlington, UK, which is currently being progressed and expected to reach the standard during the year. 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 2012 and subsequent progress throughout 2013 can be viewed on the Company's website www.filtrona.com.

Corporate Responsibility continued

The Company has implemented 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 is 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.

	2012	2011	2010
Gold awards	**10**	7	15
Silver awards	**5**	9	5
Bronze awards	**7**	5	2

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 environment standards
- Involves the majority of employees
- Utilises novel or interactive media or methods

In 2012, the award was won by the Moss Plastic Parts ("Moss") business based at Kidlington, for being the first facility in the Group to be accredited to the ISO 50001 standard. This important standard will establish a more systematic and sustainable approach to managing energy. Conformance to the standard provides evidence that the facility has implemented sustainable energy management systems, completed a baseline assessment of its energy use, and is committed to continual improvement in energy performance.

ISO 50001 is designed for widespread use by all types of organisations. If widely adopted, it is anticipated that it could influence up to 60% of the world's energy use across many economic sectors, and that it will become increasingly prevalent globally. The value of certification may be driven by potential utility incentive programmes requiring ISO 50001 certification and market forces within supply chains.

The standard entails a series of processes that enable the business to develop an energy management plan, and within this to identify areas at greatest risk, gain understanding of energy risk exposure and address significant aspects of energy performance.

With ever increasing energy costs and environmental legislation, it is prudent to invest in an effective energy management system for today. ISO 50001 does not include prescriptive energy performance targets, rather it provides a framework through which Moss can set and pursue its own goals for improving energy performance without compromising the competitiveness of the business.

Employees

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

The 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 our long-term relationships with our customers. To deliver that service and expertise, Filtrona is continually improving its comprehensive talent pool, from graduates to senior management. Filtrona runs a very successful graduate training programme which, historically, recruited from Europe and North Americas. 2011 saw the introduction of graduates from Asia, and during 2012 this was further expanded to include candidates from South America.

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 our 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. During the year Filtrona undertook its first Group-wide employee engagement survey, with 75% of the employees responding.

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 as to 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 people. In the event of employees becoming disabled, every effort is made to ensure that the training, career development and promotion opportunities available to disabled persons are as far as possible identical to those of other 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 of 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 is applicable to all its businesses around the world. The policy details the standards expected by Filtrona in the conduct of its business and its relationships with third parties, including free and fair competition, the prohibition of bribery and political donations, and provides general guidance on honest and fair dealings with suppliers, customers and local and national authorities.

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

Environment

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

- Implementing and maintaining formal environmental systems accredited to 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 to facilitate 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 10th annual Carbon Disclosure Project ("CDP") environmental impact survey. It is the Company's intention to participate in the CDP survey during 2013.

The UK Carbon Reduction Commitment ("CRC") legislation became effective during 2010. This standard ensures commitment to an 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 CRC to its global operations and will be well placed to address future anticipated legislative changes in its operating regions.

The recently published CRC Performance League Table ("PLT") ranked Filtrona in the top 10% of companies. The 2012-13 PLT is based on actions that participants have taken to show that they are committed to energy efficiency within their organisations. Participants get credit 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

Given the diversity of Filtrona's international operations, local management drives 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 its 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 / biodegradable versions of products.

	2012	2011	% change
Carbon emissions[1]	**120**	118	↑1.69
General waste[2]	**2,080**	2,436	↓14.61
Recycled factory waste & cardboard[3]	**1,031**	957	↑7.73
Water[4]	**185m^3**	221m^3	↓16.29

[1] tonnes of CO_2 per £million of Group revenue
[2] tonnes of waste to landfill
[3] tonnes of 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 novel materials, to reduce its environmental impact and improve profitability further.

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

Corporate Responsibility continued

The FHSEC provides an opportunity to share best environmental practices and waste minimisation initiatives across all the Company's 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 presented 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
- Re-cycling 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 2012 the Group Environmental Award was awarded to Porous Technologies, Reinbek, Germany for an Energy Management System that has reduced and controlled energy consumption by 30kW per annum.

Community

Filtrona's commitment to being a responsible corporate citizen extends to 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, with support 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.

Ethics

Filtrona's culture is one of openness, integrity and accountability. Employees are required to act fairly in their dealings with fellow colleagues, suppliers, customers and business partners. All employees undertake training on the Company's Code of Business Ethics which is updated annually. In addition all employees are required to review and confirm their acceptance of critical Group policies, with the majority of employees being required to review and accept all of the Group policies. Filtrona operates a confidential whistleblowing policy called "Right to Speak", with an external call centre which enables all Group employees to raise any concerns.

Filtrona adopts a zero tolerance approach to bribery and corruption which extends to all business dealings and transactions in which the Company is involved. This includes prohibiting political donations, offering or receiving inappropriate gifts and making facilitation payments.

ISO 50001 Energy Management System – Moss Plastic Parts, Kidlington, UK

Certification
The Moss facility at Kidlington, UK successfully gained ISOQAR certification to the ISO 50001 energy management system in November 2012. Energy is recognised as a critical component of the business operations at Moss, and ISO 50001 is fully compatible with other management systems certifications already held.

Energy savings
Some of the projects to date include installing:

- Energy efficient lights
- Power optimisers on moulding machines
- Insulation of barrel heaters
- Ambient temperature controllers
- Heating – central control programmer
- Air leak detection equipment
- Speed doors
- Energy awareness campaigns
- Energy reduction pledge

The Energy Management System has provided a framework to make a positive contribution towards reducing the depletion of energy resources and mitigating the effects of energy use. Certification to the standard provides evidence that Moss has implemented sustainable energy management systems, completed a baseline assessment of its energy use and is actively seeking continual improvement in energy performance. It is a clear statement to the site's customers, stakeholders and employees that the business is committed to reducing its environmental impact to meet expectations and obligations now and in the future.

Key benefits of ISO 50001

- Affect behavioural change to reduce energy consumption
- Build energy management into business practices
- Optimise energy-consuming assets
- Improve operations and capital cost decisions
- Improve the ability to benchmark, measure and report energy improvements
- Help prioritise new energy-efficient technologies
- Structure approach to identifying, measuring and managing energy consumption
- Facilitate integration with other ISO management standards

Divisional quality and performance ratings

Protection & Finishing Products

	ISO 9000	ISO 14001	OHSAS 18001
Moss Kidlington	•	•	•
Alliance Erie	•	•	•
Duraco Chicago	•	•	•
Duraco Europe†	–	•	–
MSI Houston	•	•	•
MSI Veracruz	•	•	•
Richco Spain	•	•	•
Richco Xiamen†	–	•	•

Porous Technologies

	ISO 9000	ISO 14001	OHSAS 18001
Porous Technologies Richmond	•	•	•
Porous Technologies Ningbo	•	•	•
Porous Technologies Reinbek	•	•	•
Porous Technologies St Charles	•	•	•
Porous Technologies Korea	•	•	•
Lymtech Scientific†	–	–	–

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

Coated & Security Products

	ISO 9000	ISO 14001	OHSAS 18001	BRC/IOP	SA 8000
Payne Nottingham	•	•	•	•	–
Payne Banbury	•	•	•	–	–
Payne Cardiff	•	•	•	–	–
Payne Richmond	•	•	•	–	–
Payne São Paulo	•	•	•	–	–
Payne Bangalore	•	•	•	•	–
Payne Surabaya	•	•	•	–	•

Filter Products

	ISO 9000	ISO 14001	OHSAS 18001	Integrated Management System	SA 8000	IQRS
UK*	•	•	•	–	–	**7**
Italy	•	•	•	•	–	**7**
Jordan	•	•	•	•	•	
Hungary	•	•	•	•	–	**5**
US	•	•	•	•	–	**7**
Thailand	•	•	•	•	•	**5**
Indonesia	•	•	•	•	•	**6**
India	•	•	•	•	•	**7**
Paraguay	•	•	•	•	–	–

* Includes Jarrow and Filters Technology Centre

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 and safety 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
BRC/IOP is the global standard for packaging and packaging materials
Integrated management system

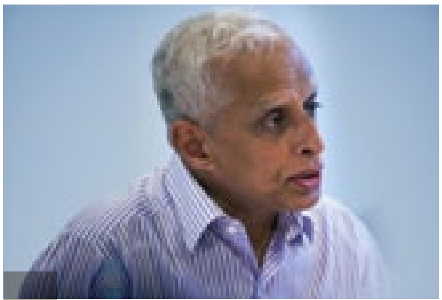
Group Management Committee


01


02


03


04


05


06

01
Colin Day
Chief Executive
Colin's biographical details can be found on page 50.

02
Matthew Gregory
Group Finance Director
Matthew's biographical details can be found on page 51.

03
Alan Tidy
Group Human Resources Director
Alan Tidy joined Filtrona in 2005 as Group Human Resources Director. Alan was previously HR Director at Wagon plc, prior to which he held divisional HR roles at Caradon plc and Rio Tinto plc. Alan is Chairman of the Filtrona UK Pension Trustee Board and a Chartered Member of the Institute of Personnel and Development.

04
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.

05
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.

06
Matt Taylor
Managing Director, Component Distribution
Matt Taylor joined Filtrona in 1987, and became a Regional Sales Manager for the Moss Plastic Parts business the following year. Before being appointed to his current role in 2010, Matt held a variety of increasingly senior roles in sales and marketing in Component Distribution.

07

08

09

10

07

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.

08

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.

09

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.

10

Alan Richards

Group Operations Director

Alan Richards joined Filtrona as Group Operations Director in 2012. Prior to joining Filtrona, Alan was Senior Director – Manufacturing Excellence at the Mars Group, and has held a number of increasingly senior operational roles in the pharmaceutical, cosmetic and mining industries. Since 1 January 2013 Alan is responsible for the Group's Health, Safety & Environment.

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.

Past appointments
Chief Executive and Chairman of Alliance UniChem plc, Non-Executive Chairman of Bunzl plc, Non-Executive Director of Associated British Foods plc, Non-Executive Chairman of Cookson Group plc and Non-Executive Director of WH Smith 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, Board member of CBI, member of Board of Business in the Community and Chairman of the 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 there 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

Matthew Gregory
Group Finance Director
Appointed to the Board: September 2012

Skills and experience
Matthew joined Filtrona in 2003 as Finance Director of the Moss Plastic Parts business and became Finance Director of the Protection & Finishing Products division in 2006. Before being appointed to his current role in 2012, Matthew was Corporate Development Director where he played a key role in the development of the Company's strategy and in building its mergers and acquisitions capability. Prior to joining Filtrona, Matthew worked for the Rank Group plc in a number of senior finance positions. Matthew is a Chartered Accountant, having qualified with Ernst & Young.

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 merger and acquisition experience and has also held a number of senior finance roles, including having previously been Finance Director at Meggitt. Terry will be retiring as Chief Executive of Meggitt PLC on 1 May 2013.

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.

Lars resigned from the Board on 5 February 2013 with immediate effect.

Other appointments
Director of East Capital Explorer AB

Past appointments
Non-Executive Chairman, Charter International plc

Committee membership
Member of the Audit, Remuneration and Nomination Committees

Chairman's Letter

"As the Company has continued its strong growth and its expansion into new end-markets and geographies, so your Board has successfully responded to the increasing demands of the governance agenda."

JEFF HARRIS
Chairman

Dear Shareholder

2012 saw Filtrona continue to make very good progress in the delivery of Vision 2015 and its strategic objectives. Organic growth and acquisition activity have together established a strong base for the Group to further develop its operations on a global basis with entry into both new end-markets and geographies.

Risk appetite

The Board continues to focus on strategy and, with the executive management team, sets the targets for the Group. The executive management team is empowered to deliver against those targets, through appropriate levels of delegated authority and support. Much of the Board's time has been spent on setting the risk appetite for the Group, and monitoring the risks within our businesses, while giving the executive management team freedom to deliver long-term growth in shareholder value.

Board responsibilities

The rigorous monitoring of financial and operational performance has remained fundamental to the fulfilment of the Board's responsibilities during the year. The pace of successful change within the Group remains founded on strong governance based on transparency and integrity driven by an effective Board, with appropriate internal controls and a comprehensive understanding of risk.

Code compliance

I am pleased to confirm that the Group complied throughout the year with the UK Corporate Governance Code 2010. The required regulatory and governance assurances are provided throughout this report. The Board has received regular updates on the variety of legislative and governance related developments which occurred during the year and which are yet to be finalised, and I am committed to ensuring that the highest standards of governance and compliance are maintained across the Group.

Audit Committee

The work of the Audit Committee has continued to focus on the integrity of financial reporting and the oversight of the risk management process and internal controls across the Group. The benefits of the good progress made by the Group Assurance function during its first full year of operation are being seen, and the continued development of its work will be important to ensure the Company's expansion does not prejudice the strength of its controls and processes.

Remuneration Committee

The task of the Remuneration Committee was particularly challenging in 2012 in seeking to fairly reward executives for some very strong results, and setting remuneration at levels which will attract new key executives to the Group, while being sensitive to the restraint expected in the current economic environment. The importance of the drive to retain, attract and motivate the team required to deliver the strategic objectives of Vision 2015 and beyond, necessitates the Remuneration Committee to ensure that the Company's remuneration practices and incentives are appropriate while maintaining a clear alignment with the interests of shareholders. Indeed, the increased levels of share ownership required of the Group Leadership Team illustrates the commitment to ensuring that alignment.

2012 objectives	Progress	2013 priorities
Strategy – drive further progress towards Vision 2015	• Review and benchmarking against Vision 2015 objectives • Delivery of three acquisitions • Approval of investment opportunities to drive future growth	• **Deliver further progress towards strategic objectives of Vision 2015 and beyond**
Financial performance – meet 2012 financial targets and deliver sustainable growth in shareholder value	• Continued improvement in revenue • Margin uplift • Increased profitability • Progressive dividend	• **Continued delivery of balanced profitable growth** • **Improved year-on-year dividend**
Succession planning – develop an international, mobile talent base	• Review of talent base • Development and extension of talent management programmes • Detailed assessment of succession plans	• **Maintain focus on international talent management**
Risk – operate within clearly defined parameters	• Defined risk appetite to drive enhanced risk management practices	• **Secure value from improved management of risk**
Compliance – ensure high standards of governance and compliance	• Consideration of new requirements • Development of compliance programmes • External review to assess Board performance	• **Ensure tone from the top drives highest standards of behaviours**

Core values and behaviours

I strongly believe that good governance is founded on the core values and behaviours established by the Board and communicated down through the Group. The Group has a strong culture of high standards of business ethics based on clear principles. The Board's participation in the Company's compliance training programmes, and its commitment to the development of new policies and practices in response to the increasing level of regulation impacting on its global operations, serves to ensure that the "tone from the top" is clearly understood and reinforced.

As the Company continues to grow in size and complexity, one of the greatest challenges facing the Board is to ensure that we have in place the right people, culture and processes to exploit fully the opportunities for further balanced growth and to effectively manage the risks to which the Company is exposed.

Board evaluation

It is essential that the Company has a fully engaged and committed Board with an appropriate mix of skills, experience and knowledge, which is capable of engaging in positive and constructive debate to meet such challenges. In order to assess how the Board is performing, during the year an external facilitator, Lintstock, was engaged to carry out a full evaluation of the Board and its Committees. The process consisted of a questionnaire, and with one-to-one structured interviews with each Director and members of the GMC. The Board discussed the conclusions and recommendations of the report.

The Lintstock report concluded that the Board continued to fulfil its responsibilities effectively, although there are certain areas where further improvements in Board processes could be made.

In particular, there was an evaluation of Board meeting timing and agendas to focus sufficient time on the critical issues, and greater and better interaction between the Board and management teams so that all understood their respective responsibilities and roles.

I will be working with my Board colleagues to address these issues over the forthcoming months, and the intention is to continue the work with Lintstock so that we can track the progress being made by the Board in responding to these initiatives.

Employee engagement

Independent of the Lintstock review, a Group-wide employee engagement survey was undertaken by Employee Feedback. A very high response rate from three quarters of our worldwide colleagues indicated strong levels of satisfaction with Filtrona as an employer and real support for Vision 2015, with 85% of respondents optimistic about the future of Filtrona. Detailed follow up of comments and recommendations on a site-by-site basis is being undertaken, and I am very grateful to all of my colleagues who participated in the survey.

I visited a number of Filtrona facilities during the year and intend continuing to tour a number of other sites during 2013. I am always impressed by the commitment and enthusiasm of my colleagues wherever I travel in the world. In particular, visits to Malaysia and Indonesia reminded me of the importance of Asia to the Group's future. The Board visited the Company's facility at Kidlington, UK in October following its approval of a substantial investment at the site, and it is anticipated that Board meetings will be held at least at two operational sites during 2013 to further enhance the Board's visibility and provide the opportunity for better communication with the local teams.

Chairman's Letter continued

BOARD DIRECTORS' ATTENDANCE

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

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

[1] Appointed to the Board on 7 September 2012

[2] Non-Executive Director

[3] Resigned from the Board on 7 September 2012

Succession and diversity

The Nomination Committee will continue its work, having proper regard to the benefits of diversity, to ensure that the Board composition continues to be appropriate for the Company as it makes further progress towards its strategic objectives. The Board's commitment remains to ensure that it employs the best people to do the best job for the benefit of the Group and its shareholders, in line with its diversity policy.

During the year there were a number of senior management changes as the Group seeks to secure a talent base capable of delivering its strategic objectives. Matthew Gregory's promotion to Group Finance Director in September 2012 reflects the quality available within the experienced management team and the benefits of continuity at a time of substantial change in our business. I would like to take this opportunity to thank Steve Crummett for his support and contribution in driving forward Filtrona at the inception of Vision 2015 as Group Finance Director, and to wish him well in his future career.

As previously announced, Lars Emilson tendered his resignation as a Non-Executive Director for reasons of ill-health on 5 February 2013. On behalf of the Board, I would like to thank Lars for his wise counsel and valued contribution to the development and success of the Company during the past six years and wish him a rapid return to full health.

While the Nomination Committee primarily devotes its attention to Board succession, the Board has increased its focus on reviewing the quality of executive management and the processes for finding and developing a diverse, mobile and international capability. Additional resources have been made available to pursue this objective, with the implementation of an improved global talent management system to identify and manage the talent pipeline. In 2012, I was encouraged by the record intake for the Filtrona Graduate Development Programme, which included participants from countries such as Indonesia for the first time.

Governance agenda

In summary, as the Company continues its strong growth, I think we have made excellent progress during the year in response to the increasing demands of the governance agenda, both internally and externally. However, just as the Group continually looks to new ways to improve its financial and operational performance, I and the rest of the Board will continue to be receptive to ways in which we can continue to develop our practices, to ensure our governance performance delivers additional value for the benefit of shareholders and reflects the highest standards.

Jeff Harris
Chairman
21 February 2013

Corporate 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 that 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 GROUP MANAGEMENT COMMITTEE

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

In fulfilling its role, the GMC:

- 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

The GLT 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

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

Is 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

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

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 2012 the Company has complied with the UK Corporate Governance Code published by the Financial Reporting Council in June 2010 (the "Code").

For the 2013 Annual Report, the Company will be applying the Code which was published in September 2012 and effective for accounting periods commencing thereafter.

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

For the 2012 Annual Report, 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, was reviewed during the year and the Board continues to believe that the structure remains appropriate. 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 2012, 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.

Following Steve Crummett's resignation from the Board in September 2012, Matthew Gregory was appointed an Executive Director and assumed responsibility as Group Finance Director.

Biographical details of all the current Directors are set out on pages 50 to 51.

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.

Roles

The Senior Independent ("SI") Non-Executive Director, Paul Drechsler, can be contacted via the Company's registered office. In that role he is available to shareholders to discuss and develop an understanding of their issues and any concerns which cannot be resolved by discussions with the Chairman, the Chief Executive or Group Finance Director or where such contact is inappropriate.

THE CHAIRMAN

- Drives the effective operation of the Board in conformity with corporate governance requirements
- Leads the Board and sets the agenda
- Supports the development of strategy
- Ensures effective communication between the Board, shareholders and other relevant stakeholders
- Promotes the relationship between the Board and management

THE CHIEF EXECUTIVE

- Leads and motivates the management team
- Is responsible to the Board for the performance of the business
- Drives the organisational structure
- Ensures the resourcing and development of management talent
- Develops proposals for the Board's consideration

For the year ended 31 December 2012 it was the opinion of the Board that Paul Drechsler, Lars Emilson and Terry Twigger were each considered to be independent of management. In assessing independence, the Board considers that the Chairman and Non-Executive Directors are independent of management and free from business and other relationships which could interfere with the exercise of independent judgement now and in the future. The Board believes that any shareholdings of the Chairman and Non-Executive Directors serve to align their interests with those of the shareholders.

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 of 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 election to the Board at the AGM following their appointment. In addition, the Board has agreed that, in compliance with the Code, all current Directors will put 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 reviewed annual, 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 and general operational matters are the responsibility of executive senior management and regular formal management reports are provided to the Board.

During 2012, the Board was closely engaged in the detailed monitoring of performance and the actions necessary to maintain the balanced, profitable growth of the Company in accordance with its Vision 2015 objectives. It also remained focused on the longer-term strategic objectives which it has defined, and the appropriate management of particular risks impacting the Group within the risk appetite parameters which were defined by the Board during the year.

Boards and Committees

During the year there were six scheduled Board meetings, one of which was held at the Protection & Finishing Products' Kidlington, UK facility. In addition to the scheduled formal meetings, the Board met on a number of other occasions as required and, in particular, reviewed in detail the further development and delivery of the Group strategy. The Chairman and Chief Executive maintain regular contact with the Directors, and the Chairman also holds periodic informal discussions with the Non-Executive Directors, without any of the Executive Directors being present, to review performance, discuss succession issues and to monitor corporate control mechanisms.

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.

Committees are a valuable part of the Company's corporate governance structure, and the Board looks to the Audit Committee in particular 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 Audit Committee meeting the Chairman of the Audit Committee reports on the matters which have been reviewed.

Corporate Governance Report continued

Other specific responsibilities are delegated to the Nomination and Remuneration Committees. These Committees report as appropriate to the Board.

Each of the Committees has terms of reference approved by the Board, copies of which are available on the Company's website or on request from the Company Secretary & General Counsel.

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.

The Board was supported during the year by the Group Management Committee (the "GMC"), which ensures 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 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. During 2012 the Group Human Resources Director, supported by the Company Secretary & General Counsel, was 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. Following the appointment of the Group Operations Director during the year, the Group Human Resources Director handed over responsibility for all HS&E matters with effect from 1 January 2013.

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 Director's interests, so that any potential concerns are addressed before any material concerns may arise. During the course of the year, there were no material conflicts of interest impacting on the conduct of the Board's activities.

Information and professional development

The Chairman, supported by the Company Secretary & General Counsel, takes responsibility for ensuring that the Directors receive accurate, timely and clear information.

On appointment an induction programme tailored to their individual needs is available to Directors, and is 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 the 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

The Board considers the evaluation of its performance and that of the Audit, Nomination and Remuneration Committees annually, with each Committee also evaluating its own performance. This year the Board engaged an external facilitator, Lintstock, for full Board and Committee evaluations.

The first stage of the review involved Lintstock engaging with the Chairman and the Company Secretary & General Counsel, to set the context for the evaluation and to tailor the heads of enquiry to the specific circumstances of the Filtrona Board. All Directors completed an online questionnaire addressing the performance of the Board, Committees and the Chairman, with an upward review of the Board by the Divisional Heads and the Group Human Resources Director also being conducted.

Interviews were conducted in two phases: first with management and the Executive Directors and second with the Non-Executive Directors and the Chairman. Two partners from Lintstock attended each interview, with the anonymity of all respondents being ensured throughout the process in order to promote the open and frank exchange of views.

Lintstock subsequently produced a report which addressed the following areas:

- The current composition of the Board and the necessity for changes to the profile of the Board to facilitate the delivery of the Company's strategic objectives in Vision 2015 and beyond
- The Board's knowledge and understanding of the opportunities, risks and challenges associated with Vision 2015, and the Board's understanding of the views of major investors and stakeholders
- The structure of Board meetings, and the quality of materials presented to the Board
- The balance between the operational and strategic oversight role of the Board and its views as to the strategic priorities of the Company
- The Board's risk appetite and views as to the key risks facing the Company
- Succession planning and the role of the Board in ensuring that there are appropriate human resources in place for the Company to meet its objectives
- The composition and performance of the Committees of the Board, and the performance of the Chairman
- The perception of the Board and the Company's strategy by the Divisional Heads and the Group Human Resources Director, as well as areas of focus required in order for the Board to add maximum value to the business

Lintstock is engaged to deliver a three-year Board development programme, with the review content for each subsequent evaluation being designed to build upon learning gained in the previous year to ensure that the recommendations agreed in the review are implemented and that year-on-year progress is measured.

Shareholder communications

The Board recognises the importance of effective communication and 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, 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 79, 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 126, a statement about their reporting responsibilities.

The Directors are also responsible for the publication of unaudited quarterly Interim Management Statements and Half Year Results as required by the Disclosure and Transparency Rules of the Financial Services Authority, providing an explanation of material events and transactions that have taken place during the relevant period and their impact on the financial position of the Company and the Group and a general description of the financial position and performance as well as the Company and the Group during the relevant period.

Corporate Governance Report continued

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 the Director is proven to have acted dishonestly or fraudulently.

Internal controls

In accordance with the Code, the Board acknowledges its overall responsibility to shareholders to ensure that an adequate system of risk management and internal control is in place. This is essential for reliable financial reporting and also for the effective management of the Group.

The effectiveness of the system has been delegated to the Audit Committee which 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 in 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 Group Assurance function which undertakes extensive internal audit responsibilities across the Group
- 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

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.

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 is in place which supports the Board in fulfilling these 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 2012, and up to the date of approval of the Annual Report for 2012. This process has been reviewed by the Audit Committee and will be reviewed routinely to ensure that the system of internal control and risk management remains fit for purpose.

During the year the Board undertook a detailed exercise to consider the Group's risk appetite in a number of key areas. This exercise was undertaken in addition to the evaluation, monitoring and mitigation of the key risks facing the Company, which is undertaken as part of the risk management processes and the disclosure of Principal Risks on pages 38 to 41 of this Report.

The Board exercise was conducted over several meetings during the year and was facilitated by the Group Head of Assurance and the Company Secretary & General Counsel, with support from an external adviser. The discussions centred on the risk requirements of the Company, strategic, financial, operational, talent and compliance objectives and took into account the views of the GMC who had separately assessed the relative risk appetite across the relevant factors.

The risk appetite established by the Board provides clarity on those areas where the Board wishes to take little or no risk, and those where the Board would be comfortable adopting a greater level of risk taking. It is intended that this assessment will be used to support the Board's ongoing decision making and underpin the risk management processes across the Company.

Risk appetite will change over time to reflect changes in the economic environment, strategy and the performance of the Company and it is the intention of the Board to review this at least on an annual basis in conjunction with its strategic and financial planning processes.

The Company has an established process for the development of risk practices. Further to the setting of the risk appetite by the Board there is a more formal method of defining acceptable levels of risk within the organisation. The risk process has evolved and is validated through the preparation of risk registers which are used to assess risk tolerances and the registers are reviewed and discussed at the GMC prior to being put forward to the Audit Committee on a semi-annual basis.

With the development of the Group Assurance function during 2012, further controls have been introduced to improve effectiveness, reduce costs and support business performance.

During 2013 a risk management technology platform is being introduced which will enhance the reporting tools currently being used and will enable the Company to improve risk management, develop risk strategies into risk mitigation, and eliminate any lack of coverage.

THE AUDIT COMMITTEE

Committee Chairman: Terry Twigger

Membership and attendance

Terry Twigger	Non-Executive Director	3 (3)
Paul Drechsler	SI Non-Executive Director	3 (3)
Lars Emilson	Non-Executive Director	2 (3)

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 Assurance attended meetings. During the year, the Audit Committee met the external auditor and the Group Head of Assurance without the Company management being present.

Governance

All the Committee members are independent Non-Executive Directors and have 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 51.

Audit Committee 2012 key activities

Financial statements and reports

- Examined the 31 December 2011 Annual Report and Accounts and the 30 June 2012 Half Year report. This involved reviewing, challenging and approving the going concern basis of preparation, the accounting policies and disclosures, the financial reporting issues and the assumptions and judgements of the Group finance management
- Reviewed the effectiveness of the Group's internal controls and disclosures made in the annual report and financial statements
- Reviewed and considered the Group's taxation provisions and planning activities

Risk management and internal audit

- Reviewed and considered reports from the Group Head of Assurance including any issues relating to internal controls and the status of actions taken in response to any identified concerns
- Assessed the areas of focus for internal audit and the adequacy of coverage, having regard to the potential risks impacting the Group
- 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 Company's response to cyber security and IT risks
- Oversaw compliance activities and monitored the impact of the business and regulatory environment
- Reviewed the adequacy of the Company's resources in relation to financial reporting, tax and treasury management requirements

External auditors and non-audit work

- Reviewed and agreed the scope of the audit work to be undertaken by the external auditor
- Agreed the terms of engagement and fees to be paid to the external auditor for its audit of the 31 December 2012 financial statements
- Received a report from the external auditor on its independence and objectivity including, quality control procedures
- Reviewed the qualifications, expertise, resources and independence of the external auditor and assessed its performance
- Reviewed proposals for the engagement of the external auditor for non-audit services

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.

The Audit Committee takes responsibility for reviewing the Group's internal controls through its engagement with the new Group Assurance function. The Group Head of Assurance is responsible for providing assurances as to the adequacy of internal controls function throughout the Group and attends each Committee meeting. At the start of the year the Committee agrees the annual internal audit plan, which is drawn up on a risk-based approach across a broad section of the Company's activities. Any significant findings from internal control audits undertaken during the year have been appropriately investigated and necessary action taken to address and rectify any weaknesses that have been identified. As a result of the processes and reporting in place the Audit Committee is satisfied that management is giving its full attention to any outstanding issues. A summary progress report is presented at each Audit Committee and a semi-annual risk report is submitted to correspond with the reporting of half and full year results.

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.

Engagement of the external auditor

KPMG has been the Company's auditor since the Company's public listing in 2005. KPMG provide the Committee with relevant reports, reviews, information and advice throughout the year as set out in the terms of their engagement. Their performance was formally assessed by the Committee in conjunction with the executive management team and the Committee is satisfied that they continue to be effective and provide an appropriate independent challenge of the Company's management. In making its assessment of the external auditor, the Committee had due regard to their expertise, resourcing and independence.

In accordance with UK regulations, the Company's auditor adheres to a rotation policy based on best practice and accounting standards, and the current lead audit partner has been in place for two years. There are no contractual obligations restricting the Company's choice of external auditor and no auditor liability agreement has been entered into by the Company.

In addition to the annual review of the service provided by the external auditors, the Audit Committee gives consideration from time to time to whether the audit might be provided more efficiently or effectively by an alternative audit firm, and the Company may put the audit out to tender at any time if the Committee deemed it appropriate.

The Audit Committee remains satisfied with the effectiveness of the external auditor and it does not consider it necessary to conduct a tender process this year. However, having regard to the new requirements of the Code on tendering the audit, the Audit Committee intends to give consideration during the year to any future process to ensure compliance with the Code and the appointment of the best service provider, to ensure that the Company continues to receive a high quality and effective audit.

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.

Non-audit services policy

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 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 has adopted a policy in relation to the engagement of the external auditor to supply non-audit services, with defined parameters and approval requirements in relation to any such appointments.

The majority of the non-audit work carried out by the external auditor during the year related to tax compliance services and acquisition activity in overseas jurisdictions, and the Committee believes that given their experience KPMG were the most appropriate suppliers of this work.

THE NOMINATION COMMITTEE

Committee Chairman: Jeff Harris

Membership and attendance

Jeff Harris	Non-Executive Chairman	3 (3)
Paul Drechsler	SI Non-Executive Director	3 (3)
Lars Emilson	Non-Executive Director	2 (3)
Terry Twigger	Non-Executive Director	3 (3)

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

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

The Nomination Committee meets as required, and during 2012 it met three times.

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.

Nomination Committee 2012 key activities

- Reviewed the succession planning for the Board and senior executives and in doing so considered diversity, experience, knowledge and skills
- Reviewed the composition and structure of the Company's Board and the Committees
- Reviewed the Group Conflict of Interests policy and register and was satisfied that there were no material issues of conflict
- Reviewed and made recommendations to the Board in respect to the Group Finance Director successor

During the year the Nomination Committee considered Matthew Gregory for appointment as the Group Finance Director, taking into consideration the requirements of the role, the skills and experience required and the benefits of Board diversity. Matthew's capabilities and suitability were independently assessed by an external resource, The Zygos Partnership, and benchmarked against potential external recruits. Having considered the independent assessment of Matthew, and having regard to his financial and senior management capabilities, experience of Filtrona, the benefits of continuity at a time of considerable change within the Company and potential to further enhance the performance of the Board and the Company, his appointment was recommended to the Board.

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 taking into consideration other factors such as market and international experience and diversity of thought and background. 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 gender 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 be identified for consideration. A search for a replacement for Lars Emilson has been initiated on these terms. A copy of the Company's statement on diversity is available on the website www.filtrona.com.

Remuneration Committee Chairman's Letter

"Our remuneration policy seeks to align the interests of shareholders and Executive Directors and secure the talent necessary for the successful delivery of Vision 2015."

Paul Drechsler
Remuneration Committee Chairman

Dear Shareholder

As Chairman of the Filtrona Remuneration Committee I am pleased to present the 2012 Remuneration Report for which we will seeking approval from the shareholders at the 2013 AGM.

The current remuneration policy is focused on aligning the interests of executives with shareholders and is structured to enable the Group to attract, motivate and retain the talent required to deliver Vision 2015. When considering the senior executive remuneration structure the Committee also takes into account the pay and conditions of all employees.

As detailed in the 2011 Annual Report and following approval at the 2012 AGM there were a number of changes implemented during the year to the remuneration structure of senior management. It is believed that these changes will create increased share ownership with more stretching targets linked with higher potential incentive reward, and secure greater alignment with shareholder interests. It is believed that these changes strengthen the remuneration policy.

The Committee believes there should continue to be a strong emphasis on long-term performance related pay and that it helps to discourage inappropriate risk taking which may be detrimental to the Company's shareholders.

The Committee is satisfied that this risk level is managed through (i) annual bonus plan (ii) significant compulsory share deferral in the annual bonus plan (iii) regular annual performance share awards (iv) application of share ownership guidelines; and (v) use of Total Shareholder Return as part of the performance conditions.

Filtrona has delivered another year of strong performance and growth against the majority of its KPIs. Given this progress towards the Vision 2015 strategy and objectives, coupled with strong individual performances, the Committee has determined the 2012 Executive bonuses should be 100% of the maximum.

The three year TSR and EPS performance conditions for the LTIP A and LTIP B awards made in September 2009 were achieved and so these awards vested in full.

The Committee's review of the salary of the Chief Executive determined that an increase of 6.4% should be applied from 1 January 2013. Colin Day has inspired a new growth agenda at Filtrona and as the Company develops and further expands its global reach, scale and complexity, the benefits of the changes he has driven are being seen by all stakeholders.

As a matter of course the Committee considers executive remuneration matters alongside risk management. We believe that the remuneration arrangements in place do not raise health and safety, environmental, social or ethical issues, nor do they inadvertently motivate irresponsible behaviours.

The Committee values feedback from shareholders and hopes to receive your support at the AGM.

Paul Drechsler
Remuneration Committee Chairman
21 February 2013

Report of the Remuneration Committee

This Report to shareholders for the year ended 31 December 2012 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 issued by the Financial Reporting Council ("the Code").

Consistent with proposals on Executive Directors' pay which are being finalised by the Department of Business, Innovation & Skills ("BIS"), this Report has been split into two sections; a Policy Report and an Implementation Report. The structure and content of this Report remains compliant with the Regulations. The parts of the Report which have been audited by KPMG Audit Plc have been highlighted as required by the Regulations.

THE REMUNERATION COMMITTEE

Committee Chairman: Paul Drechsler

Membership and attendance		
Paul Drechsler	SI Non-Executive Director	3 (3)
Lars Emilson	Non-Executive Director	2 (3)
Terry Twigger	Non-Executive Director	3 (3)

The Remuneration Committee is responsible for making recommendations to the Board on remuneration policy as applied to Filtrona's senior executives, including Executive Directors. Membership of the Remuneration Committee during the year consisted wholly of independent Non-Executive Directors.

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

The Company's Chairman, Chief Executive and Group Human Resources Director attended the Remuneration Committee meetings, except when their own remuneration was discussed.

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

Policy Report

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 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.

Report of the Remuneration Committee continued

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 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. These 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 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, as well as 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 structure which was implemented during 2012, and continues to apply to 2013 onwards, retains and increases the principles of increased share ownership and more stretching targets to link with higher potential incentive reward and TSR, in order to secure alignment with shareholder interests:

- Reflects the Company's Vision 2015 strategic objectives
- Ensures that annual bonus metrics and targets provide executive reward for delivering the business objectives of:
  - Above industry average revenue growth
  - Continued margin improvement
  - Strong cash flow generation and disciplined use of capital
- Rewards the delivery of performance annually, across a broad foundation of business fundamentals which should lead to growth in EPS, a key metric for shareholders
- Focuses rewards so they deliver if the Company delivers EPS growth in line with stretching targets
- Creates a more stretching financial target for incentives that reflect a step change in business performance
- Rewards executives well if they deliver outstanding performance and create significant sustainable shareholder value
- Provides no additional reward for the same financial performance
- Changes the culture of Filtrona by requiring executives to hold significant shareholdings in the Company
- Rewards executives for organic growth, and adjusts targets for M&A activity
- Maintains clawback provisions to safeguard shareholders' interests

Summary of components of Executive Directors' remuneration for 2013

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 Filtrona's strategic objective to secure long-term shareholder value.

Summary of components of Executive Directors' remuneration for 2013

There have been no changes to the components of the Executive Directors' remuneration for 2013, compared to the year ended 31 December 2012.

Purpose and link to strategy	Operation	Opportunity	Performance measures	Policy in 2013
Basic Salary				
To reflect the particular skills and experience of an individual and to provide a competitive basic 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 Remuneration Committee also takes into account pay and employment conditions elsewhere in the Company when considering increases to basic salary levels.	Salary increases for Executive Directors will not normally exceed those awarded to other group employees. If there is a significant increase in responsibility, change in scope of a role, or size of the business then basic salary may increase by more than this level. This is particularly relevant for new appointments, where they are moved towards the market median as their experience and performance in role develops.	None.	Salaries for Executive Directors have been increased by 6.4% and 7.7% for Colin Day and Matthew Gregory respectively.
Annual cash bonus				
To incentivise the delivery of Group performance-related objectives.	One half of the total annual bonus is paid in cash shortly after the annual results announcement.	Colin Day – 75% of salary (half of the 150% maximum total annual bonus). Matthew Gregory – 62.5% of salary (half of the 125% maximum total annual bonus).	80% of the bonus opportunity is calculated by reference to a matrix of revenue and operating profit growth, 10% on working capital management and 10% on personal objectives.	Colin Day – 75% of salary (half of the 150% maximum total annual bonus). Matthew Gregory – 62.5% of salary (half of the 125% maximum total annual bonus). Performance conditions measured 80% against revenue and operating profit growth, 10% on working capital management and 10% on 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.	One half of the total annual bonus is deferred into shares which will normally vest after three years, subject to continued service.	Colin Day – 75% of salary (half of the 150% maximum total annual bonus). Matthew Gregory – 62.5% of salary (half of the 125% maximum total annual bonus).	Bonus determined as above: no further performance conditions.	One half of the 2012 annual bonus will be deferred into shares, vesting in March 2016.
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.	Performance share awards with a three year vesting period.	Performance share awards worth up to: Colin Day – 300% of basic salary. Matthew Gregory – 200% of basic salary.	Vesting is 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 from grant, until potential vesting.	Awards, of up to 300% and 200% to be granted to Colin Day and Matthew Gregory respectively, will be subject to TSR (50% of awards) and EPS (50% of awards) measured over a fixed three year period from grant, until potential vesting.
Pension				
To provide cost-effective long-term benefits comparable with similar roles in similar companies.	A contribution to a defined contribution plan or paid as a cash supplement.	Colin Day – 25% of basic salary. Matthew Gregory – 20% of basic salary.	None.	Colin Day – a cash supplement of 25% of salary. Matthew Gregory – a cash supplement of 20% of salary.

Report of the Remuneration Committee continued

Purpose and link to strategy	Operation	Opportunity	Performance measures	Policy in 2013
Other benefits				
To provide cost-effective benefits comparable with similar roles in similar companies.	Other benefits comprise medical expenses, life insurance, and a car and fuel allowance.	Car, fuel and / or car allowance. Private medical insurance with family level cover. Life insurance cover of four times basic salary.	None.	As described.
Shareholding requirement				
To align the interests of Executive Directors and shareholders, encourage a focus on long-term performance and risk management.	For Executive Directors the guideline minimum requirement is 300% of salary for Colin Day and 200% of salary for Matthew Gregory. These shareholding requirements to be built up over five years from date of appointment.	Only shares beneficially owned are taken into account in assessing compliance with this guideline. Details of the Directors' shareholdings can be found on page 75.	None.	As described.

New appointments

- Basic Salary – to be set based on relevant market data, experience and skills of the individual, internal relativities and their current basic salary. Where new appointees have initial basic salaries set below market, any shortfall will be managed with phased increases over a period of two to three years subject to their development in the role.
- Bonus – the annual bonus described above will apply to a new appointee with the relevant maximum being pro-rated to reflect the proportion of employment over the year.
- Share incentives – in usual circumstances new appointees will be granted awards under the LTIP on the same terms as other Executive Directors. However, to potentially facilitate the recruitment through the buy-out of existing awards from their current employer, the Remuneration Committee will retain the discretion to use other incentive arrangement which, where possible, will be consistent with respect of the structure, vesting period, expected value and use of performance measures.

Service contracts and exit payments

- The policy for executive service contracts is that notice periods will normally not exceed 12 months. Colin Day has a service contract dated 1 April 2011 and Matthew Gregory has a service contract dated 7 September 2012, both with a notice period of 12 months from either party. The service contracts for the Executive Directors are available for inspection by shareholders 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, the termination of employment, and to any legal advice received. The Company has the right to make a payment in lieu of notice (such payment being made based on salary and at the Remuneration Committee's discretion the value of benefits), 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.

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. While the Company does not have a fixed policy on annual pay awards it aims to pay fairly across all employees taking into account local and national economic environments.

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 basic salary around the mid-market level of the relevant comparator companies to remain competitive.

A review of salary levels was undertaken in December 2012, and the Remuneration Committee awarded Colin Day an increase of 6.4%. While the Remuneration Committee is aware of and supports restraint in Executive Director remuneration increases, it is felt that the Company's growth and organisational development requires a revision to salary to reflect its current size and complexity of operations which have increased significantly during Colin Day's tenure. Since his arrival in April 2011, Colin has overseen:

- A significant increase in revenue, operating profit and net income
- The addition of over 1,000 new employees
- An increase in both the number and geographical spread of manufacturing and distribution locations
- Growth in market capitalisation of the Company in excess of 125% since his appointment in 2011 and around 50% since the start of 2012, with the Company now established in the top 200 listed companies in the UK

This substantial growth has been achieved through self-funded acquisitions and organic growth. Additionally, Colin has led a number of key initiatives which have strengthened the Group through the reorganisation of operations, and combined with a revised reporting and management structure this has increased the responsibilities of the Chief Executive. Other key initiatives driven by Colin include revised go-to-market strategies and increased interaction with the investor community.

For the reasons outlined above, the Remuneration Committee believes that the level of salary increase is warranted as it recognises the strong continued personal contribution made by Colin Day in the Company's excellent progress towards fulfilling the Vision 2015 strategy.

An increase of 7.7% was awarded to Matthew Gregory with effect from 1 January 2013 to reflect his strong performance as Group Finance Director since his appointment in September 2012. The Remuneration Committee's intention is to offer phased salary increases to a mid-market position as Matthew's experience in the role develops, subject to his continued strong performance. Even with this increase, Matthew Gregory's salary still remains below that of his predecessor.

	Colin Day	Matthew Gregory
Annual salary effective from 1 January 2013[1]	£600,000	£280,000
Annual salary effective from 1 January 2012[1]	£563,750	£260,000[2]

[1] Excluding supplementary pension payment
[2] Or date of appointment

Annual bonuses
Each year, the Remuneration Committee reviews the annual bonus to ensure the performance measures and targets remain appropriate and aligned to the Company's short-term strategy, whilst remaining within the appropriate risk profile.

Under the terms of the annual bonus arrangements for 2013, Colin Day is potentially entitled to a maximum bonus of up to 150% of basic salary. Matthew Gregory is potentially entitled to a maximum bonus of up to 125% of basic salary. Bonus payments are normally made one half in cash and one half in shares in the Company, the entitlement to such shares being deferred for three years, in accordance with the rules of the DASB.

For the year ended 31 December 2013, the financial performance targets, accounting for 80% of the bonus opportunity will be based upon a matrix of revenue and profit targets (such that strong performance on both measures will be needed).

The remaining 20% of the annual bonus will be based equally on the achievement of cash targets for working capital management and personal objectives which are set by the Board and endorsed by the Remuneration Committee.

For the year ended 31 December 2013, the personal objectives established for Colin Day and Matthew Gregory are designed to deliver further progress by the Company towards the strategic objectives associated with its Vision 2015 strategy together with the further development on a global basis of the organisational structure and internal controls of the Company.

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

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

Shares awarded under the DASB are held in trust until at least 1 March in the third calendar year after the year in which the award was made. Subject to confirmation from the Company, and continued employment within the Group, the shares are transferred to the participant at their request.

For 2010 awards onwards, the Remuneration 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. If an award vests to a greater extent than it should have done due to a material misstatement in the Company's financial statements or due to an error in assessing the applicable performance conditions then the Remuneration Committee can seek to recover the extra value received as a result of the error. The Remuneration Committee can also seek to recover such amount as it considers appropriate as a result of gross misconduct.

The Remuneration Committee has three years from the date on which the Award becomes exercisable to determine whether or not to apply clawback provisions.

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 greatest) 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. Since 2012 members of the Group Leadership Team are no longer eligible to receive awards under LTIP Part A. Participation in LTIP Part A is 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. Since 2012 members of the Group Leadership Team are eligible to receive awards under LTIP Part B. Previously awards were made only to Executive Directors and members of the Group Management Committee.

Participants may receive performance share awards over shares worth up to two times their basic salary (three times for the Chief Executive) 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.

Report of the Remuneration Committee continued

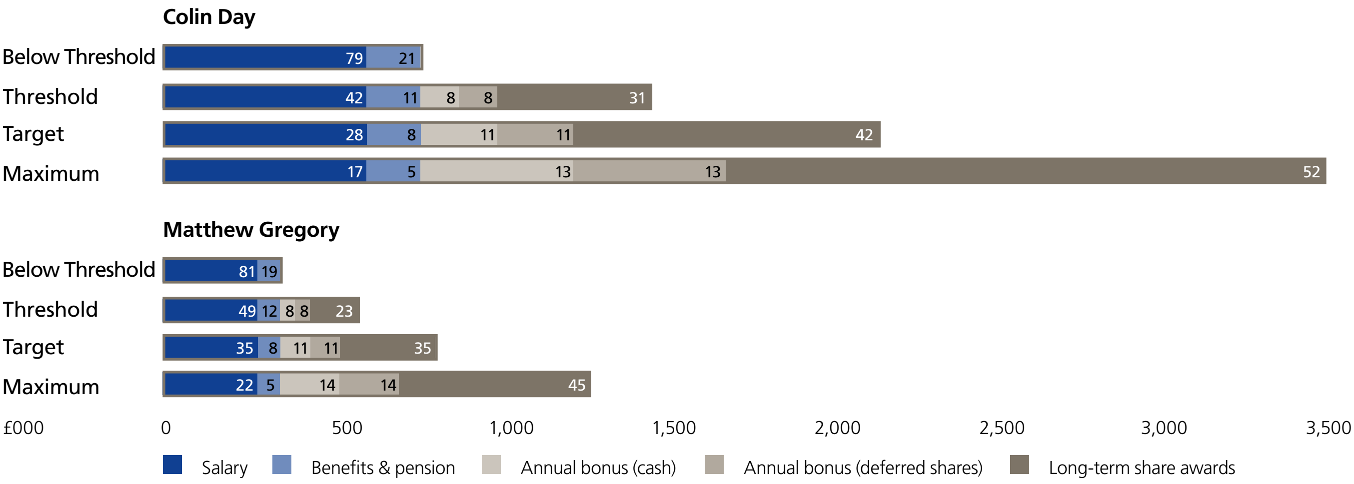
One half of the awards are subject to a TSR performance condition and one half of the awards will subject to an adjusted EPS performance condition. The Remuneration Committee reviews performance measures and targets on an annual basis and believes that both these conditions remain appropriate, offering a balance of internal financial metrics and external shareholder aligned measures.

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 be in excess of 8% 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 the adjusted EPS growth must be in excess of 15% 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. Targets will be adjusted to take account of acquisitions or share buy-backs the Company makes.

Remuneration mix
The graph below demonstrates the potential remuneration mix at below threshold, threshold, target and maximum for each of the Executive Directors.

Total remuneration (%)



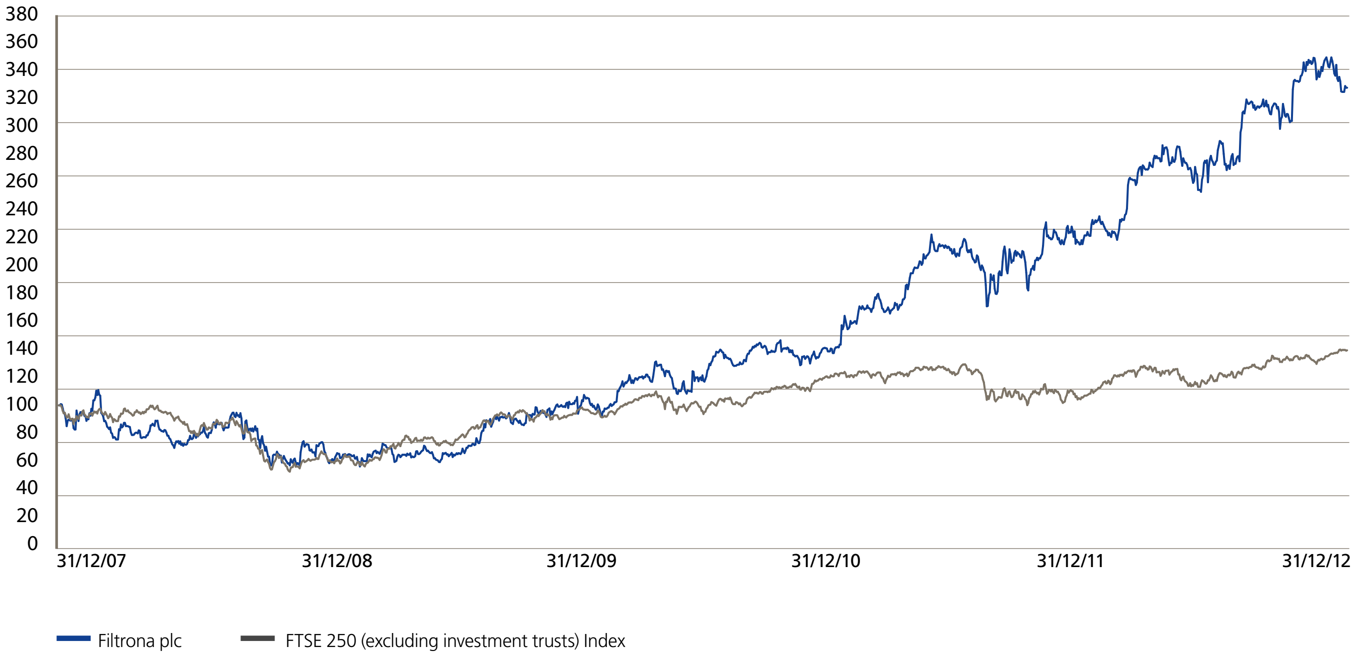
Assumptions
- Bonus maximum of 150% of salary for Colin Day and 125% of salary for Matthew Gregory
- Assumes an LTIP award of 300% of salary for Colin Day and 200% of salary for Matthew Gregory
- Threshold – 25% of annual bonus maximum paid and 25% of LTIP award vests
- Target – 50% of annual bonus maximum paid and 50% of LTIP award vests
- Maximum – 100% of annual bonus maximum paid and 100% of LTIP award vests
- No share price growth

Non-Executive Directors
The Non-Executive Directors do not have service contracts and do not participate in any Company pension, share or incentive schemes. 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. Following a benchmark review during 2012, and the need to be competitive, the annual review in December 2012 approved an increase of 6% payable to the Non-Executive Directors and 3% to the Chairman to reflect the increased size and scale of the Company's operations. The fees will be subject to a further annual review in December 2013 in accordance with the policy for the remuneration of Non-Executive Directors adopted by the Board.

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

Performance graph
The graph below represents the comparative TSR performance of the Company versus 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.



Source: Thomson Financial (Datastream)

Implementation Report

Remuneration Committee processes

The Remuneration Committee met three times during the year. Details of the attendance are shown in the Corporate Governance Statement on page 65.

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

The Remuneration Committee's key objectives are to:
- Align senior executives' remuneration with the interests of the shareholders and other stakeholders, particularly in the design of the performance-related elements of 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

Remuneration Committee 2012 key activities
- Approved the Remuneration Report for the 2011 Annual Report
- Reviewed and approved the new incentive scheme award proposals for the 2012 AGM
- Reviewed and approved a Save As You Earn share option scheme invitation for 2012
- Approved the 2012 cash bonus payments including the achievement of the 2011 personal objectives
- Approved the bonus rules and targets for 2012 including the personal objectives for the GMC
- Approved the LTIP B awards made in April 2012
- Approved the remuneration for Matthew Gregory as the new Group Finance Director
- Approved the exit terms for Steve Crummett
- Monitored the Group Leadership Team's shareholding requirements
- Reviewed the engagement of the external consultants
- Exercised discretion over Good Leaver terms for the Company's share incentive plans

Report of the Remuneration Committee continued

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 are a member of the Remuneration Consultants Group and have signed up to its Code of Conduct, 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. New Bridge Street provided no other services to the Company
- Mercers Human Resource Consulting who provided advice and information on pension matters

Punter Southall provide investment consulting services to the Trustees of the Company's UK pension scheme and Aon Hewitt provide actuarial advice to the Company for the US pension scheme.

The Remuneration Committee continually monitors the relationship with independent advisors. Since the year end the Company has appointed Aon Hewitt as its Group insurance broker. The Company is comfortable that no conflicts of interest exist.

Components of Directors' remuneration for 2012
The emoluments of the Directors for the year ended 31 December 2012 were as follows:

	Fees £000	Salary £000	Cash bonus £000	Benefits £000	Remuneration following loss of office £000	Year ended 31 Dec 2012 Total £000	Fees £000	Salary £000	Cash bonus £000	Benefits £000	Year ended 31 Dec 2011 Total £000
Executive Directors											
Colin Day	**–**	**564**	**423**	**160**[2]	**–**	**1,147**	–	413	258	117[5]	788
Matthew Gregory[1]	**–**	**80**	**50**	**20**[3]	**–**	**150**	–	–	–	–	–
Steve Crummett[7]	**–**	**207**	**259**	**64**[4]	**501**	**1,031**	–	295	148	84[6]	527
Non-Executive Directors											
Jeff Harris	**174**	**–**	**–**	**–**	**–**	**174**	169	–	–	–	169
Paul Drechsler	**58**	**–**	**–**	**–**	**–**	**58**	53	–	–	–	53
Lars Emilson	**43**	**–**	**–**	**–**	**–**	**43**	40	–	–	–	40
Terry Twigger	**53**	**–**	**–**	**–**	**–**	**53**	49	–	–	–	49

[1] Appointed 7 September 2012
[2] Includes a supplementary payment of £140,937 to allow the securing of pension benefits
[3] Includes a supplementary payment of £16,200 to allow the securing of pension benefits
[4] Includes a supplementary payment of £41,480 to allow the securing of pension benefits
[5] Includes a supplementary payment of £103,125 to allow the securing of pension benefits
[6] Includes a supplementary payment of £59,000 to allow the securing of pension benefits
[7] Resigned as a director on 7 September 2012, Steve remained employed by the Company until 31 December 2012. He received £94,977 in salary, £18,996 in benefits and £118,721 bonus for this period. Steve also received a payment of £268,528 as compensation for loss or office

In addition to the total emoluments reported above, the single total remuneration figure for each Executive Director is as follows:

Name of Director	Total emoluments for year ended 31 December 2012 £000	Deferred annual share bonus plan share awards vested £000	LTIP A and LTIP B shares £000	Total remuneration for year ended 31 December 2012 £000
Colin Day	1,147	–	–	1,147
Matthew Gregory	150	–	–	150
Steve Crummett	1,031	–[1]	1,172	2,203

[1] Deferred bonus shares issued to Steve Crummett in March 2009 were transferred to him in March 2010 following acceleration provisions previously reported

Annual Bonus
For the year ended 31 December 2012 the company had the following performance measures and targets.

The annual bonus was based upon a matrix of revenue growth and adjusted operating profit.

The minimum growth for base level entry for revenue is 16.0% and the stretch target is 23.0%. The minimum growth for base level entry for operating profit is 15.0% and the stretch target is 26.0%.

In addition 10% of the total bonus was subject to personal objectives and 10% of the total bonus was subject to working capital. The working capital element is based upon the working capital management as calculated at the year end, based upon the previous 12 months' revenue. The award will be calculated on a straight-line basis between an entry ratio and a target ratio.

Personal objectives were focused on the delivery of key milestones associated with the successful achievement of Vision 2015.

The Remuneration Committee reviewed performance against these objectives and determined that 100% of the possible maximum total bonus should be awarded to Colin Day, Matthew Gregory and Steve Crummett.

Total bonuses awarded in respect of performance for year ended 31 December 2012 were therefore:

Name of Director	Cash bonus £000	Deferred share bonus award £000	Total bonus £000
Colin Day	423	423	846
Matthew Gregory[1]	50	50	100
Steve Crummett[1]	259	–[2]	259

[1] Pro-rated for time served during the year
[2] In accordance with the terms agreed by the Remuneration Committee, Steve Crummett will have his total bonus for 2012 paid in cash

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

Scheme	Date of grant	At 1 Jan 2012[1]	Awarded in year	Lapsed in year	Transferred in year	At 31 Dec 2012	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	26 February 2015[¥]	25 August 2017
LTIP Part B	27 April 2012	–	359,840	–	–	359,840	400.70p	27 April 2015	26 April 2018
DASB	24 February 2012	–	57,688	–	–	57,688	446.90p	1 March 2015	1 March 2015
Matthew Gregory									
LTIP Part B	26 August 2011	16,553	–	–	–	16,553	339.80p	26 February 2015[¥]	25 August 2017
LTIP Part B	27 April 2012	–	67,021	–	–	67,021	400.70p	27 April 2015	26 April 2018
DASB	28 February 2011	10,143	–	–	–	10,143	299.10p	1 March 2014	1 March 2014
DASB	24 February 2012	–	13,425	–	–	13,425	446.90p	1 March 2015	1 March 2015
Steve Crummett									
LTIP Part B	5 March 2009	206,250	–	–	206,250[2]	–	115.00p	5 March 2012	4 March 2015
LTIP Part B	28 September 2009	73,008	–	–	–	73,008[3]	169.50p	21 February 2013	27 September 2015
LTIP Part B	1 March 2010	150,000	–	–	–	150,000[3]	187.00p	1 March 2013	28 February 2016
LTIP Part B	31 August 2010	59,202	–	13,156	–	46,046[3]	236.90p	28 February 2014[¥]	30 August 2016
LTIP Part B	28 February 2011	98,629	–	38,356	–	60,273[3]	299.10p	28 February 2014	27 February 2017
LTIP Part B	26 August 2011	43,407	–	24,145	–	19,262[3]	339.80p	26 February 2015[¥]	25 August 2017
LTIP Part B	27 April 2012	–	115,803	115,803	–	–	400.70p	27 April 2015	26 April 2018
DASB	1 March 2010	14,705	–	–	–	14,705[4]	187.00p	1 March 2013	1 March 2013
DASB	28 February 2011	46,890	–	–	–	46,890[4]	299.10p	1 March 2014	1 March 2014
DASB	24 February 2012	–	33,005	–	–	33,005[4]	446.90p	1 March 2015	1 March 2015

[¥] Subject to the announcement of the Company's financial results for the previous year
[1] Or date of appointment
[2] Share price of LTIP B for March 2009 award on transfer to participant was £4.645. The net gain (after deduction of UK taxes) was £459,855
[3] Steve Crummett resigned as a director of the Company on 7 September 2012. Steve remained an employee of the Company until 31 December 2012. Following Steve's resignation his LTIP B shares remain outstanding, subject to time pro rating. The share awards continue to vest on the normal vesting dates, subject to the attainment of the performance conditions
[4] Steve Crummett's outstanding deferred shares granted under the DASB were transferred to him on 2 January 2013 following the cessation of his employment. The share price on the date of transfer was £5.60

Report of the Remuneration Committee continued

A total of 1,406,221 (2011: 1,049,555) 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 2012.

The middle market price of an ordinary share in the Company on 31 December 2012 was 550p. The middle market price of an ordinary share in the Company during the year ranged from 375.5p to 586.5p.

The outstanding awards granted since 2009 under LTIP B are subject to a performance conditions which are 50% dependent on relative TSR performance targets and 50% dependent on adjusted EPS performance targets.

The table below sets out the potential vesting for these awards based on Filtrona's TSR performance as at 31 December 2012. 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 below.

Grant date	Vesting date	TSR performance	Indicative vesting[1]
March 2010	March 2013	upper quartile	100%
August 2010	February 2014	upper quartile	100%
April 2011	April 2014	upper quartile	100%
August 2011	February 2015	upper quartile	100%
April 2012	April 2015	upper quartile	n/a
October 2012	February 2016	not yet measured	n/a

[1] Based on performance measured up to 31 December 2012

Save As You Earn scheme
In addition to the LTIP the Company operates a Save As You Earn share option scheme ("SAYE").

Matthew Gregory joined the SAYE in 2008 contributing the statutory maximum monthly amount of £250. Colin Day and Steve Crummett joined the SAYE in 2012 contributing the statutory maximum monthly amount of £250.

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

Scheme	Date of grant	At 1 Jan 2012[1]	Granted in year	Lapsed in year	Exercised in year	At 31 Dec 2012	Exercise price	Share price at date of exercise	Earliest vesting date	Expiry date
Colin Day										
SAYE	1 May 2012	–	2,540		–	2,540	354.24p	–	1 May 2015	31 October 2015
Matthew Gregory										
LTIP A	23 June 2005	22,594	–		–	22,594	239.00p	–	23 June 2008	22 June 2015
	8 September 2006	24,729	–		11,776[2]	12,953	254.75p	524.83p	8 September 2009	7 September 2016
	31 August 2007	29,288	–		–	29,288	239.00p	–	31 August 2010	30 August 2017
	1 September 2008	49,792	–		–	49,792	180.75p	–	1 September 2011	31 August 2018
	28 September 2009	54,933	–		–	54,933	169.50p	–	21 February 2013†	27 September 2019
	31 August 2010	59,096	–		–	59,096	236.90p	–	28 February 2014†	30 August 2020
SAYE	1 May 2008	11,067	–		–	11,067	151.80p	–	1 May 2013	31 October 2013
Steve Crummett										
LTIP A	31 August 2007	73,221	–		73,221[3]	–	239.00p	531.70p	31 August 2010	30 August 2017
SAYE	1 May 2012	–	2,540	2,540	–	–	354.24p	–	1 May 2015	31 October 2015

[1] Or date of appointment
[2] After funding the cost of this HMRC approved option, 6,032 shares were retained
[3] Share price of £5.32 on exercise. The net gain (after reduction of uk taxes) was £121,977
† Subject to the announcement of the Company's financial results for the previous year

Non-Executive Directors

	Chairman	Non-Executive Director	Supplementary fee: Senior Independent Non-Executive Director	Supplementary fee: Additional fee for chairing a Committee
Annual fee effective from 1 January 2013	£178,000	£45,000	£5,300	£10,600
Annual fee effective from 1 January 2012	£173,000	£42,500	£5,000	£10,000

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 of £177,468 for the year ended 31 December 2012. Steve Crummett was appointed a non-executive director of Consort Medical plc during June 2012 and received fees of £10,548 in 2012.

Pension schemes

Colin Day receives a supplementary payment equal to 25% of his basic salary to permit him to secure pension benefits, and is separately provided with life assurance cover with a benefit of four times annual salary. Matthew Gregory received a supplementary payment of 20% of his basic salary to permit him to secure pension benefits. Matthew is a member of the Filtrona Pension Plan – Defined Contribution section ("the DC plan") and he contributes 5% of his basic salary up to the scheme specific cap which the Company matches. The Company match is deducted from his supplementary payment. The DC plan provides a death benefit of four times annual salary.

Steve Crummett received a supplementary payment of 20% of his basic salary to permit him to secure pension benefits. Steve was a member of the DC plan and contributed 5% of his base salary up to the scheme-specific cap which the Company matched. The Company match was deducted from his supplementary payment. The DC plan provided a death benefit of four times annual salary.

Resignation of Steve Crummett

Steve Crummett stepped down as Group Finance Director on 7 September 2012. As part of his severance package he received £94,977 in salary for his notice period served, £118,721 in his pro-rated annual bonus and £19,000 being the value of benefits received. Steve also received compensation for loss of office of £268,528. In addition he was treated as a Good Leaver under the rules of the LTIP B and his awards are permitted to vest, subject to the relevant performance conditions being achieved, on a pro-rated basis for the proportion of the performance period he was employed for.

Directors' shareholdings

The beneficial interests of the current Directors in office at 31 December 2012, and the date of this Report, in the issued ordinary share capital of the Company were as follows:

	Beneficially owned		% of salary held under shareholding guideline	LTIP B awards		LTIP A awards		DASB	SAYE	Total
	31 Dec 2011	31 Dec 2012		Unvested	Vested	Unvested	Vested	Unvested	Unvested	**31 Dec 2012**
Executive Directors										
Colin Day	252,605	254,543[2]	248%	700,611	–	–	–	57,688	2,540	**1,015,382**
Matthew Gregory	–[1]	6,032	13%	83,574	–	59,694	168,962	23,568	11,067	**352,897**
Non-Executive Directors										
Jeff Harris	51,651	51,651								**51,651**
Paul Drechsler	18,519	18,519								**18,519**
Lars Emilson	7,500	7,500								**7,500**
Terry Twigger	7,500	7,500								**7,500**

[1] Or date of appointment
[2] An additional 51,905 shares are also held by family members

The Executive Directors are regarded as being interested in 1,614,685 (2011: 2,011,206) 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 2012, potential and actual share issuance through employee related share plans totalled 5.0% which is well below UK institutional shareholder limits of 10% of the Company's issued share capital.

By order of the Board

Paul Drechsler
Remuneration Committee Chairman
21 February 2013

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 2012, and audited financial statements of the Company and its subsidiary undertakings for the year ended 31 December 2012

Principal activities

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

Results and dividends

The profit on ordinary activities after taxation of the Group for the year ended 31 December 2012 was £53.5m (2011: £42.4m).

As at 21 February 2013 the Company has paid the following dividend in respect of the year ended 31 December 2012:

	Per share	Total
	p	£m
Interim dividend paid 26 October 2012	3.9	8.2

The Directors recommend that a final dividend of 8.6p (2011: 7.2p) per share be paid, making a total dividend distribution for the year of 12.5p (2011: 10.5p).

The final dividend, subject to shareholder approval, will be paid on 30 April 2013 to shareholders on the register at 12 April 2013.

Directors

During the year ended 31 December 2012 and up to the date of this Report the Board of Directors comprised:

Jeff Harris	Non-Executive Chairman	
Colin Day	Chief Executive	
Matthew Gregory	Group Finance Director	appointed 7 Sept 2012
Paul Drechsler	Senior Independent Non-Executive Director	
Lars Emilson	Non-Executive Director	resigned 5 Feb 2013
Terry Twigger	Non-Executive Director	
Steve Crummett	Group Finance Director	resigned 7 Sept 2012

The Company has adopted the requirements of the UK Corporate Governance Code (June 2010) (formerly the UK Combined Code). The Company will be applying the Code as published in September 2012 for the year ended 31 December 2013.

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 is annually reviewed 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 75.

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 or by writing to the Company Secretary & General Counsel.

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 20 February 2013, the Company was advised of the following voting rights attaching to Filtrona shares in accordance with the Disclosure and Transparency Rules:

	% of total voting rights
Black Rock	18.02
AXA Investment Managers SA	8.11
Oppenheimer Funds	7.00
FMR LLC	5.05
Cazenove Capital Management	4.99
TIAA-CREF Investment Managers/Teachers Advisors Inc	4.96
J P Morgan Asset Management Holdings Inc	4.91
Invesco Limited	4.79
Allianz SE	4.79
Ignis Asset Management	3.92
BT Pension Scheme Trustees Limited	3.66

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 2012.

Charitable and political contributions

In line with Group policy the Company made no political contributions in 2012 (2011: £nil). Donations to UK charities amounted to £0.1m (2011: £0.1m), of which £nil were made by the Company (2011: £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.

Significant agreements

The Company has committed bank facilities consisting of two five-year multi-currency revolving credit facilities of £165.6m 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 Thursday 25 April 2013 at 12 noon.

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

Authority to allot unissued shares
At the last AGM held in 2012, the Directors were granted authority to allot relevant securities up to a nominal amount of £17,453,532, 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 £17,616,915 representing approximately one-third of the Company's issued share capital, excluding treasury shares, at 20 February 2013 (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 £35,233,830 representing approximately two-thirds of the issued share capital, excluding treasury shares, at 20 February 2013 (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 24 July 2014) except in relation to share options.

Allotment of shares for cash
At the last AGM held in 2012, the shareholders approved a special resolution to enable the Directors to allot shares for cash without first offering them to existing shareholders in proportion to their existing shareholdings. That approval expires at the end of the forthcoming AGM and Resolution 12 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 2012 (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 24 July 2014. 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 2012, the shareholders approved a special resolution to enable the Company to purchase its own shares. That approval expires at the end of the forthcoming AGM.

At this year's AGM, the Directors consider it expedient to seek shareholders' approval to enable the Company to purchase, in the market, up to 10% of its issued share capital (excluding any treasury shares) for cancellation, or to be held in Treasury, such power to apply until the end of next year's AGM (or if earlier, 24 July 2014). In accordance with the requirements of the Listing Rules of the Financial Services Authority, the minimum price (exclusive of expenses) which may be paid for a share is its nominal value and the maximum price (exclusive of expenses) for shares which may be paid is the highest of: (i) an amount equal to 105% of the average market value for a share for the five business days immediately preceding the date of the purchase; and (ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venues where the purchase is carried out.

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

During the financial year ending 31 December 2012 2,489,635 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 9 and 10 respectively in the Notice of AGM).

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 87, and in note 15.

Post balance sheet events

On 31 January 2013, Filtrona entered into an agreement to form a joint venture, in which Filtrona will be the majority shareholder, with BBM Bommidala ("BBM") in the United Arab Emirates to manufacture filters. BBM is an Indian-based producer of tobacco products and by-products and a leading cigarette exporter from India.

On 20 February 2013, Filtrona acquired 100% of the share capital of Ulinco Components AB ("Ulinco Components") from Ulinco Invest Aktiebolag. Ulinco Components is a distributor of plastic protection and finishing products, hardware and specialist masking solutions in the Nordic region of Europe, and will be reported under the Component & Protection Solutions division. The acquisition of Ulinco Components will expand the product range and customer base of the Component Distribution businesses and extend the division's geographic presence in Scandinavia.

Going concern statement

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 18 to 19. 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,and details of its financial instruments, 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 the with Financial Reporting Council's Going Concern and Liquidity Risk: "Guide for Directors of UK Companies 2009".

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; and
- Each Director has taken all steps that he ought to have taken as a Director to ascertain any relevant audit information and to ensure that the Company's auditor is aware of that information

By order of the Board

Jon Green
Company Secretary & General Counsel
21 February 2013

Statement of Directors' Responsibilities

In respect of the Annual Report and the Financial Statements

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

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

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- For the Group financial statements, state whether they have been prepared in accordance with 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; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

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

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

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

We confirm that to the best of our knowledge:

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

Colin Day
Chief Executive

Matthew Gregory
Group Finance Director

Consolidated Income Statement

for the year ended 31 December 2012

	Note	2012 £m	2011 £m
Revenue	2	**663.4**	540.7
Operating profit before intangible amortisation and exceptional operating items		**105.3**	84.5
Intangible amortisation		**(8.3)**	(3.7)
Exceptional operating items	3	**(10.6)**	(8.2)
Operating profit	2	**86.4**	72.6
Finance income	4	**10.8**	12.2
Finance expense	4	**(20.3)**	(20.5)
Profit before tax		**76.9**	64.3
Income tax expense	5	**(23.4)**	(21.9)
Profit from continuing operations		**53.5**	42.4
Profit from discontinued operations	24	**–**	1.9
Profit for the year		**53.5**	44.3
Attributable to:			
Equity holders of Filtrona plc		**52.2**	43.1
Non-controlling interests		**1.3**	1.2
Profit for the year		**53.5**	44.3
Earnings per share attributable to equity holders of Filtrona plc:			
Basic	7	**25.0p**	20.9p
Diluted	7	**24.2p**	20.2p
Earnings per share from continuing operations attributable to equity holders of Filtrona plc:			
Basic	7	**25.0p**	20.0p
Diluted	7	**24.2p**	19.3p

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2012

	Note	2012 £m	2011 £m
Profit for the year		**53.5**	44.3
Other comprehensive income			
Actuarial gains / (losses) on defined benefit pension schemes	18	**4.1**	(15.6)
Deferred tax (charge) / credit on actuarial gains / (losses) on defined benefit pension schemes		**(0.6)**	4.8
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		**(1.1)**	0.4
Effective portion of changes in fair value of cash flow hedges		**(0.1)**	1.3
Foreign exchange translation differences:			
Attributable to equity holders of Filtrona plc:			
Arising on translation of foreign operations		**(15.7)**	(2.2)
Arising on effective net investment hedges		**6.4**	0.2
Income tax charge on effective net investment hedges		**(1.6)**	(0.1)
Attributable to non-controlling interests		**(0.2)**	(0.7)
		(8.8)	(11.9)
Total comprehensive income		**44.7**	32.4
Attributable to:			
Equity holders of Filtrona plc		**43.6**	31.9
Non-controlling interests		**1.1**	0.5
Total comprehensive income		**44.7**	32.4

Consolidated Balance Sheet

at 31 December 2012

	Note	2012 £m	2011 £m
Assets			
Property, plant and equipment	8	**180.3**	168.1
Intangible assets	9	**206.3**	185.5
Deferred tax assets	16	**11.5**	8.9
Retirement benefit assets	18	**9.7**	–
Total non-current assets		**407.8**	362.5
Inventories	10	**76.7**	66.4
Income tax receivable		**2.2**	7.0
Trade and other receivables	1,11	**94.5**	85.4
Derivative assets	1,15	**0.3**	1.2
Cash and cash equivalents	1,12	**41.4**	35.8
Total current assets		**215.1**	195.8
Total assets		**622.9**	558.3
Equity			
Issued capital	19	**54.8**	54.8
Capital redemption reserve		**0.1**	0.1
Other reserve	20	**(132.8)**	(132.8)
Cash flow hedging reserve		**(0.1)**	1.1
Translation reserve		**4.6**	15.5
Retained earnings	20	**308.4**	268.3
Attributable to equity holders of Filtrona plc		**235.0**	207.0
Non-controlling interests		**5.3**	6.4
Total equity		**240.3**	213.4
Liabilities			
Interest bearing loans and borrowings	1,14	**204.9**	177.3
Retirement benefit obligations	18	**18.0**	24.0
Provisions	17	**2.8**	2.2
Deferred tax liabilities	16	**25.7**	15.1
Total non-current liabilities		**251.4**	218.6
Interest bearing loans and borrowings	1,14	**–**	3.4
Derivative liabilities	1,15	**0.2**	0.5
Income tax payable		**12.6**	18.4
Trade and other payables	1,13	**100.9**	91.2
Provisions	17	**17.5**	12.8
Total current liabilities		**131.2**	126.3
Total liabilities		**382.6**	344.9
Total equity and liabilities		**622.9**	558.3

The consolidated financial statements on pages 80 to 120 were approved by the Board of Directors on 21 February 2013 and were signed on its behalf by:

Colin Day
Chief Executive

Matthew Gregory
Group Finance Director

Consolidated Statement of Changes in Equity

for the year ended 31 December 2012

	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
								2012
At 1 January 2012	**54.8**	**0.1**	**(132.8)**	**1.1**	**15.5**	**268.3**	**6.4**	**213.4**
Total comprehensive income for the year				**(1.2)**	**(10.9)**	**55.7**	**1.1**	**44.7**
Acquisition of non-controlling interests						**(0.9)**	**(1.0)**	**(1.9)**
Purchase of employee trust shares						**(6.1)**		**(6.1)**
Share options exercised						**5.7**		**5.7**
Share option expense						**4.0**		**4.0**
Tax relating to share-based incentives						**4.9**		**4.9**
Dividends paid						**(23.2)**	**(1.2)**	**(24.4)**
At 31 December 2012	**54.8**	**0.1**	**(132.8)**	**(0.1)**	**4.6**	**308.4**	**5.3**	**240.3**

	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
								2011
At 1 January 2011	54.8	0.1	(132.8)	(0.6)	17.6	248.7	9.6	197.4
Total comprehensive income for the year				1.7	(2.1)	32.3	0.5	32.4
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

Consolidated Statement of Cash Flows

for the year ended 31 December 2012

	Note	2012 £m	2011 £m
Operating activities			
Profit for the year from continuing operations		**53.5**	42.4
Adjustments for:			
Income tax expense		**23.4**	21.9
Net finance expense	4	**9.5**	8.3
Intangible amortisation	3,9	**8.3**	3.7
Exceptional operating items	3	**10.6**	8.2
Depreciation	3,8	**22.6**	20.7
Share option expense	18	**4.0**	3.0
Other movements		**(1.6)**	3.4
Increase in inventories		**(9.2)**	(2.0)
Increase in trade and other receivables		**(10.4)**	(2.7)
Increase in trade and other payables		**11.8**	12.6
Cash (outflow) / inflow in respect of exceptional operating items		**(7.5)**	4.9
Purchase of employee trust shares		**(6.1)**	(8.2)
Additional pension contributions		**(8.4)**	(8.3)
Cash inflow from operating activities		**100.5**	107.9
Income tax paid		**(17.6)**	(21.6)
Net cash inflow from operating activities		**82.9**	86.3
Investing activities			
Interest received		**0.3**	0.2
Acquisition of property, plant and equipment		**(43.8)**	(27.0)
Proceeds from sale of property, plant and equipment		**0.6**	0.2
Acquisition of businesses net of cash acquired	23	**(36.0)**	(89.0)
Proceeds from sale of businesses	24	**3.1**	2.6
Income tax paid on sale of businesses		**(0.2)**	(0.2)
Net cash outflow from investing activities		**(76.0)**	(113.2)
Financing activities			
Interest paid		**(9.2)**	(9.3)
Dividends paid to equity holders		**(23.2)**	(19.1)
Dividends paid to non-controlling interests		**(1.2)**	(3.0)
Acquisition of non-controlling interests	26	**(1.9)**	(1.1)
Repayment of short-term loans		**(3.3)**	(14.4)
Proceeds from short-term loans		**–**	3.2
Repayment of long-term loans		**–**	(16.6)
Proceeds from long-term loans		**32.9**	76.8
Proceeds from sale of employee trust shares		**5.7**	7.1
Net cash (outflow) / inflow from financing activities		**(0.2)**	23.6
Net increase / (decrease) in cash and cash equivalents	21	**6.7**	(3.3)
Net cash and cash equivalents at the beginning of the year		**35.8**	40.0
Net increase / (decrease) in cash and cash equivalents		**6.7**	(3.3)
Net effect of currency translation on cash and cash equivalents		**(1.1)**	(0.9)
Net cash and cash equivalents at the end of the year	1,12	**41.4**	35.8

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 121 to 125.

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: *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:

IAS 12 (Amendment): *Income taxes* introduced a presumption, for deferred tax purposes, that recovery of the carrying amount of an investment property will normally be through sale.

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

IAS 1 (Amendment): *Presentation of financial statements* amends how components of other comprehensive income are presented. The amendments require the grouping of items of other comprehensive income into items that might be reclassified to the income statement in subsequent periods and items that will not be reclassified to the income statement in subsequent periods.

IFRS 7 (Amendment): *Financial instruments: Disclosures* amends disclosure requirements to require information about all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32.

IAS 32 (Amendment): *Financial instruments: Presentation* provides clarification on the application of offsetting rules.

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* 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* 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.

IAS 28 (Revised): *Associates and joint ventures* which is to include consequential amendments resulting from the introduction of IFRS 11.

IFRS 12: *Disclosure of interests in other entities* 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.

IAS 27 (Revised): *Separate financial statements* (not yet endorsed by the EU) makes revisions to the requirements for separate financial statements prepared by a parent or an investor in a joint venture or associate.

IFRS 13: *Fair value measurement* 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.

Accounting Policies continued

a. Basis of preparation continued

IAS 1 (Amendment), IFRS 13 and IFRS 7 (Amendment) are all effective 1 January 2013 and will be adopted by the Group in the accounting year beginning 1 January 2013.

IFRS 10, IFRS 11, IFRS 12, IAS 27 (Revised), IAS 28 (Revised) and IAS 32 (Amendment) are all effective 1 January 2014, subject to EU endorsement in the case of IAS 27 (Revised). The Group intends to adopt these standards in the accounting year beginning 1 January 2014, subject to EU endorsement.

IAS 19 (Amendment): *Employee benefits* 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 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. In future years, this change is expected to result in a decrease in finance income on pension scheme assets, recognised in the income statement, and an equal and opposite increase in the actual returns less expected returns on pension scheme assets credited to other comprehensive income. The Group does not expect this change to impact the Group's net assets. The amendment also removes the option to include an expense reserve in pension scheme liabilities. This change is expected to result in a one-off credit to other comprehensive income and a corresponding increase in net assets in 2013, to release the expense reserves previously recognised within pension scheme liabilities.

The amendment to IAS 19 is effective 1 January 2013 and will be adopted by the Group in the accounting year beginning 1 January 2013.

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.

Information regarding the financial position of the Group, its cash flows, liquidity position, and borrowing facilities are described in the Financial Review on pages 18 to 19. 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 detailed in note 21. The Directors have prepared plans and forecasts for a period of at least twelve months from the date of signing these financial statements. Based on these, and taking into consideration the risks detailed in note 1, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, and accordingly have adopted the going concern basis in preparing the consolidated financial statements. This disclosure has been prepared in accordance with the Financial Reporting Council's Going Concern and Liquidity Risk: "Guide for Directors of UK Companies 2009".

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 other comprehensive income, 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 other comprehensive income 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 other comprehensive income 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 other comprehensive income. 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.

Accounting Policies continued

h. Intangible assets continued

(ii) Research and development
Research costs are expensed to the income statement in the year in which they are incurred.

Development costs relating to new products are capitalised if the new product is technically and commercially feasible and a reliable estimate of the development costs can be made. 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 are valued using discounted cash flows based on historical customer attrition rates, and developed technology, which is 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 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.

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 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 and other 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 other comprehensive income or 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.

The majority of the Group's businesses sell goods on an ex-works basis, where the Group as seller makes its goods ready for collection at its premises on an agreed upon sales date and the buyer incurs all transportation and handling costs and bears the risks for bringing the goods to their chosen destination. The Group operates non ex-works terms with customers in some of its businesses, and in these businesses, revenue is recognised when the significant risks and rewards of ownership have been transferred to the customer. These terms include some consignment stock agreements, where revenue is recognised when the customer removes the goods from consignment stock.

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 (refer to Corporate Governance Report) 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.

Accounting Policies continued

u. Share-based payments continued

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 and relevant quoted share price information 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 items below are separated from other items 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 items exclude amortisation of acquired intangible assets which are also presented separately in the income statement.

(i) Acquisition fees
In 2012, Filtrona incurred significant one-off costs in professional fees as a result of the acquisitions of the entire issued share capital of Securit World Ltd, Jae Yong Co. Ltd, John R. Lyman Company and Big Blue Properties LLC. In 2011, Filtrona likewise 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 and restructuring costs
Costs relating to the integration and restructuring of acquired businesses into the Group.

(iii) Other exceptional items
In 2012, this represents a release of pension obligations in the Enitor business and costs arising from further reconfiguration of the Group. In 2011, other exceptional costs represented 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 interest bearing loans and borrowings, net of cash and cash equivalents.

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. The application of IAS 19 requires the exercise of judgement in relation to the assumptions used and for each assumption there is a range of possible outcomes (see note 18). 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. The Group performs a sensitivity analysis for the significant assumptions used in determining post-employment costs and liabilities, as detailed in note 18.

(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, along with the finite lived intangible assets and other assets of the Group's cash generating units. Tests for impairment are based on discounted cash flows and assumptions (including discount rates, timing and growth prospects) which are inherently subjective. The Group performs various sensitivity analyses in respect of the tests for impairment, as detailed in note 9.

The useful lives of the Group's finite lived intangible assets are reviewed following the tests for impairment annually.

(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 the Group 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. The Group performs appropriate sensitivity analysis in respect of taxation judgements that are materially sensitive as they arise.

(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. The Group performs appropriate sensitivity analysis in respect of provision judgements that are materially sensitive as they arise.

(v) Depreciation
Property, plant and equipment represents a significant proportion of the asset base of the Group. Therefore, the estimates and assumptions made to determine their carrying value and related depreciation are critical to the Group's financial position and performance.

The charge in respect of depreciation is derived after determining an estimate of an asset's expected useful life and the expected residual value at the end of its life. Decreasing an asset's expected life or its residual value would result in a higher depreciation charge in the income statement.

The useful lives of the Group's assets are determined by management at the time the asset is acquired and reviewed at least annually for appropriateness. The lives are based on historical experience with similar assets as well as anticipation of future events, which may impact their life, such as changes in technology. Historically, changes in useful lives and residual values have not resulted in material changes to the Group's depreciation charge.

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 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 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 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. Trade and other receivables are generally due from customers who are unlikely to seek credit ratings as part of their normal course of business.

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.

As at 31 December 2012, gross trade receivables were £85.4m (2011: £77.8m) of which £13.2m (2011: £13.3m) were past due but not impaired. The ageing analysis of trade receivables past due but not impaired is as follows:

	2012 £m	2011 £m
Up to 3 months	**13.2**	13.3

As at 31 December 2012, trade receivables of £4.9m (2011: £6.7m) were provided for as they were considered to be impaired. The ageing of the impaired receivables provided for is as follows:

	2012 £m	2011 £m
Up to 3 months	**3.6**	5.6
Over 3 months	**1.3**	1.1
	4.9	6.7

The movement in the provision for impaired receivables is as follows:

	2012 £m	2011 £m
Beginning of year	**6.7**	2.4
Impairment (gain) / loss recognised	**(1.3)**	4.6
Utilisation of impairment provision	**(0.5)**	(0.3)
End of year	**4.9**	6.7

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.

							2012
	AAA £m	**AA £m**	**A £m**	**BBB £m**	**BB £m**	**Not rated £m**	**Total £m**
Derivative assets	**–**	**–**	**0.3**	**–**	**–**	**–**	**0.3**
Cash and cash equivalents	**1.2**	**9.1**	**27.5**	**2.6**	**–**	**1.0**	**41.4**
	1.2	**9.1**	**27.8**	**2.6**	**–**	**1.0**	**41.7**

							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

Filtrona's maximum credit risk exposure is £131.9m (2011: £116.3m) and no collateral is held against this amount (2011: £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 2012, Filtrona's euro denominated assets were 90% hedged by its euro denominated borrowings (2011: 92%), whilst its US dollar denominated assets were approximately 47% (2011: 59%) 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.

Notes

1. Risk management continued

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

	Weakening in sterling			Strengthening in sterling		2012
	10% £m	**5% £m**	**1% £m**	**1% £m**	**5% £m**	**10% £m**
Impact on the income statement – gain / (loss)	**6.8**	**3.2**	**0.6**	**(0.6)**	**(2.9)**	**(5.6)**
Impact on equity – gain / (loss)	**24.6**	**11.6**	**2.2**	**(2.2)**	**(10.5)**	**(20.1)**

	Weakening in sterling			Strengthening in sterling		2011
	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)

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 fair values of Filtrona's interest rate derivatives.

	Decrease in interest rates			Increase in interest rates		2012
	200bps £m	**100bps £m**	**50bps £m**	**50bps £m**	**100bps £m**	**200bps £m**
Impact on the income statement – gain / (loss)	**2.2**	**1.1**	**0.5**	**(0.5)**	**(1.1)**	**(2.2)**
Impact on equity – gain / (loss)	**2.2**	**1.1**	**0.5**	**(0.5)**	**(1.1)**	**(2.2)**

	Decrease in interest rates			Increase in interest rates		2011
	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)

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

(iii) Liquidity risk

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

In 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 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 US Private Placement 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 2012 the available bank and non-bank facilities totalled £416.4m (2011: £425.2m) of which £207.4m (2011: £181.1m) was drawn down. In addition, uncommitted and overdraft facilities are maintained to provide short-term flexibility.

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

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

	2012 £m	2011 £m
Expiring after two years	**209.0**	244.1

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.

							2012
	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	**107.8**	**107.8**	**116.1**	**1.9**	**1.9**	**112.3**	**–**
Loan Notes	**111.7**	**97.1**	**131.8**	**5.5**	**5.5**	**64.4**	**56.4**
Derivative liabilities	**0.2**	**0.2**	**0.2**	**0.2**	**–**	**–**	**–**
Trade and other payables	**71.3**	**71.3**	**71.3**	**71.3**	**–**	**–**	**–**
	291.0	**276.4**	**319.4**	**78.9**	**7.4**	**176.7**	**56.4**

							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

Total trade and other payables carried at £100.9m (2011: £91.2m) include accruals and deferred income of £29.6m (2011: £35.0m) 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.

Notes

1. Risk management continued

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

	2012				2011			
	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	–	90.2	–	**90.2**	–	79.3	–	79.3
Derivative assets	0.3	–	–	**0.3**	1.2	–	–	1.2
Cash and cash equivalents	–	41.4	–	**41.4**	–	35.8	–	35.8
Interest bearing loans and borrowings	–	–	(204.9)	**(204.9)**	–	–	(180.7)	(180.7)
Derivative liabilities	(0.2)	–	–	**(0.2)**	(0.5)	–	–	(0.5)
Trade and other payables	–	–	(71.3)	**(71.3)**	–	–	(56.2)	(56.2)
	0.1	**131.6**	**(276.2)**	**(144.5)**	0.7	115.1	(236.9)	(121.1)

Total trade and other receivables carried at £94.5m (2011: £85.4m) include prepayments and accrued income of £4.3m (2011: £6.1m) which are not financial assets and are therefore excluded from the above analysis.

Fair values of forward foreign exchange contracts and cross currency swaps have been calculated at year end forward exchange rates compared to contracted 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 £97.1m (2011: £102.1m). The Group estimates that the total fair value of the Loan Notes is £111.7m (2011: £117.6m).

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. Unsecured bank loans, included within 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 two in the fair value hierarchy.

(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 2012, Filtrona's strategy, which was unchanged from 2011, 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	**2012 £m**	2011 £m
Net debt excluding prepaid facility fees		**166.0**	148.7
Operating profit before intangible amortisation and exceptional operating items		**105.3**	84.5
Plus depreciation and other amounts written off property, plant and equipment	3	**22.6**	20.7
Plus share option expense	18	**4.0**	3.0
EBITDA		**131.9**	108.2
Net debt-to-EBITDA ratio		**1.26**	1.37

2. Segment analysis

In accordance with IFRS 8, Filtrona has determined its operating segments based upon the information reported to the Group Management Committee (refer to Corporate Governance Report). 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 62 operating units in 23 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 including bonded and non-woven 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, clean room wipes and air fresheners. Customers in over 56 countries are served from six 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 five countries.

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.

Other represents Enitor BV which is a leading plastic profile extrusion business located in The Netherlands offering a complete design and production service. Since 1 January 2012, Enitor, which was previously disclosed within Coated & Security Products, has been separately managed and in accordance with IFRS 8 it is now presented in the segmental analysis as Other. The results for the year ended 31 December 2011 have been restated to reflect this change.

										2012
	Protection & Finishing Products £m	**Porous Technologies £m**	**Coated & Security Products £m**	**Filter Products £m**	**Other £m**	**Eliminations £m**	**Central Services[1] £m**	**Continuing operations £m**	**Discontinued operations £m**	**Total £m**
External revenue	237.7	83.4	85.3	233.6	23.4	–	–	663.4	–	663.4
Intersegment revenue	–	2.4	–	–	–	(2.4)	–	–	–	–
Total revenue	**237.7**	**85.8**	**85.3**	**233.6**	**23.4**	**(2.4)**	**–**	**663.4**	**–**	**663.4**
Operating profit / (loss) before intangible amortisation and exceptional operating items	53.1	20.7	14.9	28.9	1.6	–	(13.9)	105.3	–	105.3
Intangible amortisation	(6.1)	(1.6)	(0.6)	–	–	–	–	(8.3)	–	(8.3)
Exceptional operating items	(7.8)	(2.5)	(1.5)	–	1.6	–	(0.4)	(10.6)	–	(10.6)
Operating profit / (loss)	**39.2**	**16.6**	**12.8**	**28.9**	**3.2**	**–**	**(14.3)**	**86.4**	**–**	**86.4**
Segment assets	125.3	60.8	47.2	105.0	12.1	–	1.2	351.6	–	351.6
Intangible assets	135.5	47.0	17.2	–	6.6	–	–	206.3	–	206.3
Unallocated items							65.0	65.0		65.0
Total assets	**260.8**	**107.8**	**64.4**	**105.0**	**18.7**	**–**	**66.2**	**622.9**	**–**	**622.9**
Segment liabilities	40.9	11.8	10.8	43.1	1.7	–	10.6	118.9	2.3	121.2
Unallocated items							261.4	261.4		261.4
Total liabilities	**40.9**	**11.8**	**10.8**	**43.1**	**1.7**	**–**	**272.0**	**380.3**	**2.3**	**382.6**
Other segment items										
Capital expenditure	19.9	3.3	4.9	14.2	1.3	–	0.2	43.8	–	43.8
Depreciation	7.6	3.1	3.4	7.1	1.3	–	0.1	22.6	–	22.6
Average number of employees	1,603	546	418	1,263	207	–	38	4,075	–	4,075

[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

Notes

2. Segment analysis continued

Continuing operations' net finance expense of £9.5m (2011: £8.3m) and income tax expense of £23.4m (2011: £21.9m) cannot be meaningfully allocated by segment. The majority of unallocated assets relate to deferred tax assets, retirement benefit assets and cash and cash equivalents. The majority of unallocated liabilities relate to interest bearing loans and borrowings, retirement benefit obligations, deferred tax liabilities and income tax payable.

No customer accounted for more than 10% of revenue in either 2012 or 2011. Analysed by destination, revenue to Europe is £273.7m, revenue to North America is £203.8m and revenue to Asia is £140.8m (2011: revenue in the UK was £48.6m, with revenue in the US of £137.2m). Non-current assets in the UK total £76.7m (2011: £56.0m) with other significant locations being the US and The Netherlands with non-current assets of £203.1m and £32.2m (2011: £186.7m and £34.7m) respectively.

Included within revenue is the net gain arising from the change in the fair value of forward exchange cash flow hedges transferred to the income statement of £1.1m (2011: net loss of £0.4m).

2011

	Protection & Finishing Products £m	Porous Technologies £m	Coated & Security Products (Restated) £m	Filter Products £m	Other (Restated) £m	Eliminations £m	Central Services[1] £m	Continuing operations £m	Discontinued operations £m	Total £m
External revenue	163.0	71.5	72.6	208.0	25.6	–	–	540.7	–	540.7
Intersegment revenue	–	6.4	–	–	–	(6.4)	–	–	–	–
Total revenue	163.0	77.9	72.6	208.0	25.6	(6.4)	–	540.7	–	540.7
Operating profit / (loss) before intangible amortisation and exceptional operating items	37.8	18.4	13.5	24.5	1.9	–	(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	11.4	25.7	1.9	–	(11.6)	72.6	–	72.6
Segment assets	118.0	50.0	41.0	95.3	12.3	–	3.5	320.1	–	320.1
Intangible assets	149.5	18.5	10.7	–	6.8	–	–	185.5	–	185.5
Unallocated items							52.7	52.7		52.7
Total assets	267.5	68.5	51.7	95.3	19.1	–	56.2	558.3	–	558.3
Segment liabilities	41.9	9.1	7.7	32.9	2.2	–	10.0	103.8	2.4	106.2
Unallocated items							238.7	238.7		238.7
Total liabilities	41.9	9.1	7.7	32.9	2.2	–	248.7	342.5	2.4	344.9
Other segment items										
Capital expenditure	12.5	2.3	2.0	9.1	0.8	–	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	3.1	7.3	1.5	–	0.1	20.7	–	20.7
Average number of employees	1,020	458	367	1,261	208	–	28	3,342	–	3,342

[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

	2012 £m	2011 £m
Changes in inventories of finished goods and work-in-progress	**(4.0)**	2.0
Raw materials and consumables	**289.1**	224.1
Personnel expense (note 6)	**149.4**	120.9
Depreciation and other amounts written off property, plant and equipment	**22.6**	20.7
Amortisation and other amounts written off intangible assets	**8.3**	3.7
Exceptional operating items	**10.6**	8.2
Hire of plant and machinery – rentals payable under operating leases	**1.1**	0.5
Other operating expenses	**99.9**	88.0
Net operating expense	**577.0**	468.1

No income or expense (2011: £nil) was recognised in operating expense during the year in respect of ineffective cash flow hedges. Filtrona's hedges of net investments were also entirely effective in 2012 and 2011, as defined by IAS 39, and therefore no hedge ineffectiveness has been recognised in net operating expense in 2012 (2011: £nil).

Other operating expenses include manufacturing, selling, general and administrative overheads.

Exceptional operating items

	2012 £m	2011 £m
Acquisition fees[1]	**1.2**	2.8
Acquisition integration and restructuring costs[2]	**8.8**	2.4
Other[3]	**0.6**	3.0
Net operating expense	**10.6**	8.2

[1] Transaction costs incurred during the year in respect of the acquisitions of Securit, Jae Yong and Lymtech (2011: acquisitions of Reid Supply and Richco)

[2] Acquisition integration and restructuring costs incurred during the year in respect of Richco, Securit, Jae Yong and Lymtech (2011: Reid Supply and Richco)

[3] Other exceptional items incurred during the year, which comprise a release of pension obligations in Enitor (£1.7m) and costs arising from further reconfiguration of the Group (2011: a profit arising on insurance proceeds received net of associated costs (£4.6m), a loss on disposal of the Group's shares in FractureCode Corporation ApS (£1.9m) and reorganisation costs within certain of the Group's segments)

Auditor's remuneration

	Note	2012 £m	2011 £m
Audit of these financial statements		**0.3**	0.3
Audit of financial statements of subsidiaries pursuant to legislation		**0.5**	0.5
Total audit fees		**0.8**	0.8
Other services pursuant to such legislation	i,v	**0.1**	0.1
Other services relating to tax	ii	**0.3**	0.3
Services relating to corporate finance transactions	iii	**0.2**	–
Total non-audit fees	iv	**0.6**	0.4
Total fees		**1.4**	1.2

Notes

[i] Fees for other services pursuant to such legislation related principally to the review of the half year financial statements

[ii] Other services relating to tax are fees paid for tax compliance services of £0.2m (2011: £0.2m) and tax advice of £0.1m (2011: £0.1m)

[iii] The Company believes that, given their detailed knowledge of Filtrona's operations, its structure and accounting policies and the importance of carrying out detailed due diligence as part of the acquisition process, it is appropriate for certain audit-related work to be carried out by the Company's auditor rather than another firm of accountants. The Audit Committee, which consists of independent Non-Executive Directors, reviews and approves the level and nature of non-audit work which the auditor performs, including the fees paid for such work, thus ensuring that the auditor's objectivity and independence is not compromised

[iv] £0.2m (2011: £0.1m) of the total non-audit fees were charged in the UK

[v] Fees of £22,182 (2011: £22,182) were paid in relation to the audit of the Filtrona pension schemes

Notes

4. Net finance expense

	2012 £m	2011 £m
Finance income		
Bank deposits	**0.3**	0.1
Other finance income	**0.5**	0.1
Expected return on pension scheme assets (note 18)	**10.0**	12.0
	10.8	12.2
Finance expense		
Interest on loans and overdrafts	**(9.2)**	(8.7)
Amortisation of bank facility fees	**(1.3)**	(0.8)
Other finance expense	**(0.1)**	(0.2)
Interest on pension scheme liabilities (note 18)	**(9.7)**	(10.8)
	(20.3)	(20.5)
Net finance expense	**(9.5)**	(8.3)

5. Income tax expense

	2012 £m	2011 £m
Amounts charged / (credited) in the consolidated income statement		
Current tax	**20.0**	24.7
Prior years' tax	**(0.1)**	(2.2)
Double tax relief	**(0.2)**	(0.3)
Deferred tax (note 16)	**3.7**	(0.3)
Income tax expense	**23.4**	21.9
Amounts recognised in the consolidated statement of comprehensive income		
Deferred tax charge / (credit) on actuarial movements on defined benefit pension schemes	**0.6**	(4.8)
Income tax charge on effective net investment hedges	**1.6**	0.1
Income tax charge / (credit)	**2.2**	(4.7)

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.

	2012 £m	2011 £m
Profit before income tax	**76.9**	64.3
Tax at weighted average (2012: 25.3%; 2011: 30.0%)	**19.5**	19.3
Effects of:		
Other permanent disallowables	**1.3**	1.1
Overseas state and local tax	**0.6**	1.6
Unrelieved tax losses	**0.7**	1.3
Prior year adjustments	**(0.1)**	(2.2)
Other items	**1.4**	0.8
Income tax expense	**23.4**	21.9

The decrease in the weighted average applicable tax rate is caused by a change in the geographical balance of the Group's profits and by changes in corporate tax rates in these geographies.

Income tax expense in the UK is £3.1m (2011: £2.7m). The UK corporate tax rate reduced from 26% to 24% on 1 April 2012 and a further reduction in the rate to 23% with effect from 1 April 2013 has been enacted. The impact of these enacted changes on deferred tax is immaterial. The UK Government has announced its intention to further reduce the rate to 21% from 1 April 2014.

6. Personnel expense

	2012 £m	2011 £m
Wages and salaries	**127.3**	101.7
Social security expense	**14.2**	12.1
Pension expense (note 18)	**3.9**	4.1
Share option expense (note 18)	**4.0**	3.0
	149.4	120.9

The Report of the Remuneration Committee on pages 65 to 75 sets out information on Directors' remuneration.

Key management remuneration

	2012 £m	2011 £m
Short-term employee benefits	**4.5**	3.4
Post-employment benefits	**0.5**	0.4
Share-based payments	**2.5**	1.9
Termination benefits	**0.3**	–
	7.8	5.7

The presentation of key management remuneration has been amended to better reflect the requirements of IAS 24 and as a result of this exercise 2011 comparatives have been restated. 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

	2012 £m	2011 £m
Continuing operations		
Earnings attributable to equity holders of Filtrona plc	**52.2**	41.2
Adjustments		
Intangible amortisation	**8.3**	3.7
Exceptional operating items	**10.6**	8.2
	18.9	11.9
Tax relief on adjustments	**(4.8)**	(1.3)
Adjusted earnings	**66.3**	51.8
Discontinued operations		
Earnings attributable to equity holders of Filtrona plc	**–**	1.9
Basic weighted average ordinary shares in issue (m)	**209.0**	206.3
Dilutive effect of employee share option plans (m)	**7.1**	7.0
Diluted weighted average ordinary shares (m)	**216.1**	213.3
Continuing operations		
Basic earnings per share	**25.0p**	20.0p
Adjustment	**6.7p**	5.1p
Adjusted earnings per share	**31.7p**	25.1p
Diluted basic earnings per share	**24.2p**	19.3p
Diluted adjusted earnings per share	**30.7p**	24.3p
Discontinued operations		
Basic earnings per share	**–**	0.9p
Diluted basic earnings per share	**–**	0.9p

As noted on page 20 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.

Notes

8. Property, plant and equipment

	Land and buildings £m	Plant and machinery £m	Fixtures, fittings and equipment £m	Total £m
				2012
Cost				
Beginning of year	**82.8**	**262.7**	**42.2**	**387.7**
Acquisitions	1.1	0.6	–	**1.7**
Additions	6.9	27.6	5.6	**40.1**
Disposals	(0.7)	(2.0)	(0.8)	**(3.5)**
Currency translation	(2.9)	(6.8)	(2.9)	**(12.6)**
End of year	**87.2**	**282.1**	**44.1**	**413.4**
Depreciation				
Beginning of year	**23.8**	**166.3**	**29.5**	**219.6**
Expense in year	2.3	17.4	2.9	**22.6**
Disposals	(0.2)	(1.8)	(0.8)	**(2.8)**
Currency translation	(1.6)	(3.9)	(0.8)	**(6.3)**
End of year	**24.3**	**178.0**	**30.8**	**233.1**
Net book value at end of year	**62.9**	**104.1**	**13.3**	**180.3**

	Land and buildings £m	Plant and machinery £m	Fixtures, fittings and equipment £m	Total £m
				2011
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
Net book value at beginning of year	52.6	93.1	10.4	156.1

The impairment during 2011 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 in 2011 was recognised within exceptional operating items and related to the integration of acquisitions 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 £5.1m (2011: £11.2m) which were not depreciated during the year.

9. Intangible assets

	2012 £m	2011 £m
Goodwill		
Beginning of year	**86.4**	58.9
Acquisitions (note 23)	**13.2**	27.4
Currency translation	**(3.1)**	0.1
End of year	**96.5**	86.4
Customer relationships		
Cost		
Beginning of year	**104.0**	54.8
Acquisitions (note 23)	**21.8**	48.8
Currency translation	**(4.5)**	0.4
End of year	**121.3**	104.0
Amortisation		
Beginning of year	**14.5**	11.7
Expense in year	**7.1**	2.9
Currency translation	**(0.6)**	(0.1)
End of year	**21.0**	14.5
Net book value at end of year	**100.3**	89.5
Net book value at beginning of year	**89.5**	43.1
Other		
Cost		
Beginning of year	**11.7**	6.6
Acquisitions (note 23)	**1.7**	4.9
Currency translation	**(0.7)**	0.2
End of year	**12.7**	11.7
Amortisation		
Beginning of year	**2.1**	1.3
Expense in year	**1.2**	0.8
Currency translation	**(0.1)**	–
End of year	**3.2**	2.1
Net book value at end of year	**9.5**	9.6
Net book value at beginning of year	**9.6**	5.3
Total net book value of intangible assets at end of year	**206.3**	185.5

Other intangible assets principally comprise trade names acquired with Lendell and Reid Supply, and developed technology acquired with Lendell, Richco and Lymtech.

The weighted average useful economic life of customer relationships and other intangible assets at the end of the year was 17.2 years and 14.6 years (2011: 17.9 years and 15.2 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.

Notes

9. Intangible assets continued

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

	Goodwill	
Operating segment	2012 £m	2011 £m
Protection & Finishing Products	**55.4**	59.6
Porous Technologies	**23.1**	11.1
Coated & Security Products[1]	**11.4**	8.9
Other – Enitor[1]	**6.6**	6.8
	96.5	86.4

[1] 2011 is restated to reflect that since 1 January 2012, Enitor, which was previously disclosed within Coated & Security Products, has been separately managed and in accordance with IFRS 8 it is now presented in the segmental analysis as Other (note 2)

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

		Customer relationships and other intangible assets	
Business	Operating segment	2012 £m	2011 £m
Moss and Skiffy	Protection & Finishing Products	**16.6**	17.9
Richco	Protection & Finishing Products	**38.1**	43.0
Reid Supply	Protection & Finishing Products	**9.9**	11.4
Duraco and Stera Tape	Protection & Finishing Products	**15.5**	17.6
Lendell	Porous Technologies	**6.2**	7.4
Lymtech	Porous Technologies	**15.5**	–
Securit	Coated & Security Products	**3.8**	–
Multiple businesses	Multiple segments	**4.2**	1.8
		109.8	99.1

The tests are based on the following assumptions:

- Cash flows for the next two years are based upon the Group's annual Plan.
- Cash flows beyond the Plan period are based on year two's Plan 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 discount rate based upon Filtrona's estimated post-tax weighted average cost of capital of 8.5% (2011: 8.5%) adjusted for the risk applicable to each operating segment. The pre-tax discount rates used ranged from 11.3% to 16.2% (2011: 11.6% to 13.8%).

Any impairment identified as a result of the analysis is 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 value in use of goodwill and other intangible assets continued to exceed their carrying value.

10. Inventories

	2012 £m	2011 £m
Raw materials and consumables	**30.1**	26.2
Work-in-progress	**2.9**	3.8
Finished goods and goods held for resale	**43.7**	36.4
	76.7	66.4

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

11. Trade and other receivables

	2012 £m	2011 £m
Trade receivables	**80.5**	71.1
Other receivables	**9.7**	8.2
Prepayments and accrued income	**4.3**	6.1
	94.5	85.4

In 2011, other receivables include an amount of deferred consideration of £2.8m due from the Itavema Group in relation to the disposal of the Globalpack business. No deferred consideration was owed to the Group as at 31 December 2012.

12. Cash and cash equivalents

	2012 £m	2011 £m
Bank balances	**40.3**	34.3
Short-term investments	**1.1**	1.5
Cash and cash equivalents in the statement of cash flows	**41.4**	35.8

13. Trade and other payables

	2012 £m	2011 £m
Trade payables	**55.9**	47.1
Other tax and social security contributions	**4.6**	3.3
Other payables	**10.8**	5.8
Accruals and deferred income	**29.6**	35.0
	100.9	91.2

14. Interest bearing loans and borrowings

	2012 £m	2011 £m
Non-current liabilities		
Unsecured bank loans	**107.8**	75.2
US Private Placement Loan Notes	**97.1**	102.1
	204.9	177.3
Current liabilities		
Unsecured bank loans	**–**	3.4

At 31 December 2012, the Group had £52.0m (2011: £17.0m) and €70.4m (2011: €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.

Notes

14. Interest bearing loans and borrowings continued

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

	2012		2011	
	Carrying value £m	Nominal value £m	Carrying value £m	Nominal value £m
Sterling	**51.3**	**52.0**	15.9	17.2
US dollar	**97.1**	**98.2**	105.3	106.5
Euro	**56.5**	**57.2**	59.5	60.8
	204.9	**207.4**	180.7	184.5

The difference between the total nominal and carrying value of loans and borrowings relates to the amortised value of prepaid facility fees of £2.5m (2011: £3.8m).

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 2012				
Fair value derivatives				
Forward foreign exchange contracts	0.3	6.8	–	6.0
Cash flow hedges				
Forward foreign exchange contracts	–	2.5	(0.2)	25.7
	0.3	**9.3**	**(0.2)**	**31.7**

	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

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.

During 2012, Filtrona had US dollar and euro denominated borrowings which it designated as hedges of its net investments in subsidiary undertakings. The exchange gains of £5.0m on the US dollar borrowings and the gains of £1.4m on the euro borrowings were recognised in other comprehensive income at 31 December 2012.

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 other comprehensive income at 31 December 2011.

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:

			2012
	Assets £m	**Liabilities £m**	**Net £m**
Property, plant and equipment	(1.6)	16.0	**14.4**
Intangible assets	–	23.7	**23.7**
Employee benefits	(14.3)	3.1	**(11.2)**
Other	(13.0)	0.3	**(12.7)**
Tax (assets) / liabilities	**(28.9)**	**43.1**	**14.2**
Set off of tax	17.4	(17.4)	**–**
Net tax (assets) / liabilities	**(11.5)**	**25.7**	**14.2**

			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

Movements in temporary differences in the year:

	2012 £m	2011 £m
Beginning of year	**6.2**	8.1
Charge / (credit) to the income statement in respect of current year (note 5)	**4.1**	(0.3)
(Credit) / charge to the income statement in respect of prior years	**(0.4)**	0.6
Charge / (credit) to other comprehensive income on movements on defined benefit pension schemes	**0.6**	(4.8)
Credit to equity on share-based incentives	**(1.9)**	(3.5)
Acquisitions (note 23)	**5.9**	6.2
Currency translation	**(0.3)**	(0.1)
End of year	**14.2**	6.2

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 £0.2m (2011: £0.3m) in respect of capital losses have not been recognised where their realisation is not considered probable. No deferred tax assets have been recognised in respect of unutilised tax losses of £22.8m (2011: £19.4m).

Notes

17. Provisions

2012	Discontinued £m	Reorganisation £m	Other £m	Total £m
Movements				
Beginning of year	2.4	2.9	9.7	**15.0**
Provisions made during the year	–	4.1	5.1	**9.2**
Provisions released during the year	–	–	(0.5)	**(0.5)**
Utilised during the year	–	(1.6)	(2.5)	**(4.1)**
Acquisitions (note 23)	–	–	0.4	**0.4**
Transferred from accruals and other payables	–	–	0.6	**0.6**
Currency translation	(0.1)	(0.1)	(0.1)	**(0.3)**
End of year	**2.3**	**5.3**	**12.7**	**20.3**
Non-current	–	0.1	2.7	**2.8**
Current	2.3	5.2	10.0	**17.5**
	2.3	**5.3**	**12.7**	**20.3**

2011	Discontinued £m	Reorganisation £m	Other £m	Total £m
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 provisions relate to warranties made on the disposal of Globalpack. Reorganisation provisions are held against restructuring and redundancy costs (2011: redundancy costs). Other provisions relate primarily to vacant properties, employees' compensation claims and product warranties. Non-current provisions are generally long-term in nature with the timing of utilisation uncertain.

18. Employee benefits

Post-employment 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. A new actuarial valuation as at 5 April 2012 has been prepared and is currently under review by the Company and the Trustees.

Contributions to all schemes are determined in line with actuarial advice, local conditions and practices. Defined benefit contributions in 2013 are currently under consideration by the Company and the trustees and therefore cannot be reasonably determined at the date of this report.

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

	2012 £m	2011 £m
Amounts expensed against operating profit		
Defined contribution schemes	**2.4**	2.2
Defined benefit schemes	**1.5**	1.9
Total operating expense	**3.9**	4.1
Amounts included in exceptional operating items		
Settlement of pension obligations	**(1.7)**	–
Total credit to exceptional operating items	**(1.7)**	–
Amounts included as finance (income) / expense		
Expected return on scheme assets (note 4)	**(10.0)**	(12.0)
Interest on scheme liabilities (note 4)	**9.7**	10.8
Net financial income	**(0.3)**	(1.2)
Amounts recognised in the consolidated statement of comprehensive income		
Actual return less expected return on scheme assets	**5.4**	(3.5)
Impact of changes in assumptions relating to the present value of scheme liabilities	**(1.3)**	(12.1)
Actuarial gain / (loss)	**4.1**	(15.6)

The Group will be adopting IAS 19 (Amended) on 1 January 2013. As a comparator, the income statement charge for 2012 under IAS 19 (Amended) would be £1.9m higher. Under IAS 19 (Amended), there would be a net finance expense in 2012 of £0.9m rather than a net finance income of £0.3m and the defined benefit charge to operating expense would be £2.2m rather than £1.5m. Under IAS 19 (Amended) the actuarial gain, recognised in other comprehensive income, would equally be £1.9m higher in 2012. In addition, removing the expense reserves included in pension scheme liabilities, as required under IAS 19 (Amended), would result in a one-off credit to other comprehensive income and a corresponding increase in net retirement benefit assets of £4.4m in 2012.

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

	2012		2011	
	Europe	US	Europe	US
Increase in salaries (pre-2010)[1]	**3.00%**	**3.00%**	3.50%	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**	3.20%	n/a
Increase in pensions (post-2010)[1]	**2.00%**	**n/a**	2.00%	n/a
Discount rate	**4.50%**	**4.60%**	4.70%	4.60%
Inflation rate	**2.50%**	**n/a**	2.50%	n/a
Expected return on scheme assets	**4.80%**	**7.10%**	5.00%	7.10%

[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%

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:

	2012		2011	
	Europe	US	Europe	US
Male retiring today at age 65	**21.3**	**19.2**	20.8	19.1
Female retiring today at age 65	**24.0**	**21.0**	23.5	21.0
Male retiring in 20 years at age 65	**23.2**	**19.2**	22.8	19.1
Female retiring in 20 years at age 65	**25.9**	**21.0**	25.5	21.0

Notes

18. Employee benefits continued

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

					2012
	Long-term rate of return	**Europe £m**	**Long-term rate of return**	**US £m**	**Total £m**
Equities	6.40%	84.1	8.80%	20.6	**104.7**
Bonds	4.20%	31.3	3.00%	20.9	**52.2**
Gilts	2.40%	48.1		–	**48.1**
Other	2.40%	1.9	2.60%	0.3	**2.2**
Fair value of scheme assets		165.4		41.8	**207.2**
Present value of scheme liabilities		(155.7)		(59.8)	**(215.5)**
Net retirement benefit assets / (obligations)		**9.7**		**(18.0)**	**(8.3)**

					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)

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.

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

	2012 Scheme assets £m	2012 Scheme liabilities £m	2012 Total £m	2011 Scheme assets £m	2011 Scheme liabilities £m	2011 Total £m
Beginning of year	**198.8**	**(222.8)**	**(24.0)**	187.2	(204.8)	(17.6)
Service cost	**–**	**(1.5)**	**(1.5)**	–	(1.9)	(1.9)
Employer contributions	**9.9**	**–**	**9.9**	10.2	–	10.2
Employee contributions	**0.4**	**(0.4)**	**–**	0.5	(0.5)	–
Actuarial gains / (losses)	**5.4**	**(1.3)**	**4.1**	(3.5)	(12.1)	(15.6)
Finance income / (expense)	**10.0**	**(9.7)**	**0.3**	12.0	(10.8)	1.2
Benefits paid	**(7.2)**	**7.2**	**–**	(7.4)	7.4	–
Settlements	**(7.9)**	**9.6**	**1.7**	–	–	–
Currency translation and other	**(2.2)**	**3.4**	**1.2**	(0.2)	(0.1)	(0.3)
End of year	**207.2**	**(215.5)**	**(8.3)**	198.8	(222.8)	(24.0)

	2012 % of scheme assets / liabilities	2012 £m	2011 % of scheme assets / liabilities	2011 £m
Experience gains and losses				
Difference between actual and expected return on scheme assets	**2.7**	**5.4**	(1.9)	(3.5)
Net actuarial gains / (losses) recognised in the statement of comprehensive income	**(1.8)**	**4.1**	7.6	(15.6)

Sensitivity

For the significant assumptions used in determining post-employment 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 2012.

	Scheme liabilities Europe £m	Scheme liabilities US £m	Scheme liabilities Total £m	Annual service cost Europe £m	Annual service cost US £m	Annual service cost Total £m
0.5% decrease in the discount rate	(15.2)	(4.1)	**(19.3)**	(0.1)	(0.1)	**(0.2)**
1.0% increase in the rate of inflation	(5.7)	n/a	**(5.7)**	–	–	**–**
1 year increase in life expectancy	(5.2)	(1.4)	**(6.6)**	–	–	**–**
0.5% increase in the discount rate	9.2	3.7	**12.9**	0.1	0.1	**0.2**
1.0% decrease in the rate of inflation	11.3	n/a	**11.3**	–	–	**–**

Historical information

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Scheme assets	**207.2**	198.8	187.2	158.7	131.6
Scheme liabilities	**(215.5)**	(222.8)	(204.8)	(181.3)	(169.0)
Retirement benefit obligations	**(8.3)**	(24.0)	(17.6)	(22.6)	(37.4)
Actual return less expected return on scheme assets	**5.4**	(3.5)	5.7	18.9	(36.9)
Impact of changes in assumptions relating to the present value of scheme liabilities	**(1.3)**	(12.1)	(10.7)	(12.5)	18.8

Notes

18. Employee benefits continued

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 £4.0m (2011: £3.0m). Details of these plans are set out below:

Share options outstanding

2012	At 1 Jan 2012	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 2012**	**Weighted average exercise price**	**Exercisable at 31 Dec 2012**	**Weighted average exercise price**
LTIP Part A	8,259,704	229.3p	592,412	469.2p	(268,126)	281.6p	(2,583,198)	225.0p	**6,000,792**	**252.4p**	**910,381**	**209.3p**
LTIP Part B	3,547,361	–	1,520,447	–	(206,265)	–	(1,324,653)	–	**3,536,890**	**–**	**–**	**–**
DASB	353,963	–	213,631	–	–	–	(60,375)	–	**507,219**	**–**	**–**	**–**
SAYE 3 year plan	715,368	194.4p	242,309	354.2p	(51,014)	274.2p	(5,673)	245.0p	**900,990**	**232.6p**	**–**	**–**
SAYE 5 year plan	537,243	173.8p	57,315	354.2p	(13,574)	235.0p	(12,081)	162.9p	**568,903**	**190.8p**	**–**	**–**
	13,413,639		**2,626,114**		**(538,979)**		**(3,985,980)**		**11,514,794**		**910,381**	

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	

Fair value model inputs for share options outstanding

2012	LTIP Part A	LTIP Part B	DASB	SAYE 3 year plan	SAYE 5 year plan
Weighted average fair value at grant	65.0p	254.8p	311.1p	97.5p	76.3p
Weighted average share price at grant	252.4p	329.0p	338.3p	306.2p	244.9p
Weighted average exercise price	252.4p	–	–	232.5p	190.8p
Weighted average volatility	36.7%	35.3%	36.0%	37.4%	29.7%
Weighted average dividend yield	3.64%	3.12%	2.98%	3.07%	3.78%
Weighted risk free rate	1.90%	1.28%	1.31%	1.71%	3.57%
Expected employee retention rates	89.5%	99.4%	100.0%	75.0%	75.0%
Expected term	3.41 years	3.06 years	3.00 years	3.00 years	5.00 years
Valuation model	Binomial	Monte Carlo	Binomial	Binomial	Binomial

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

The three year average historic volatility at grant date has been used as the volatility input for the LTIP Part A, LTIP Part B, DASB and SAYE 3 year awards, and the five year average historic volatility at grant date has been used as the volatility input for the SAYE 5 year award.

2012 and 2011	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 65 to 75.

All options are settled with equity.

19. Share capital

	2012 £m	2011 £m
Issued and fully paid ordinary shares of 25p (2011: 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 2012 the Company held 7,944,568 (2011: 10,434,203) of its own shares in treasury.

Notes

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 £25.9m (2011: £30.3m).

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 65 to 75. The assets, liabilities and expenditure of the trust have been incorporated in these financial statements. At 31 December 2012 the trust held 1,614,685 (2011: 2,011,206) shares, upon which dividends have been waived, with an aggregate nominal value of £0.4m (2011: £0.5m) and market value of £8.9m (2011: £7.7m).

The Company holds 7,944,568 ordinary shares with a nominal value of £2.0m in treasury. This represents 3.6% 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. It 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 2012 £m	Cash flow £m	Exchange movements £m	Non-cash movements £m	**31 Dec 2012 £m**
Cash at bank and in hand	31.0	10.4	(1.2)	–	**40.2**
Short-term bank deposits and investments	4.8	(3.7)	0.1	–	**1.2**
Cash and cash equivalents in the statement of cash flows	35.8	6.7	(1.1)	–	**41.4**
Debt due within one year	(3.4)	3.3	0.1	–	**–**
Debt due after one year	(177.3)	(32.9)	6.6	(1.3)	**(204.9)**
Net debt	(144.9)	(22.9)	5.6	(1.3)	**(163.5)**

The non-cash movements are the amortisation of prepaid facility fees.

	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 movement is the amortisation of prepaid facility fees 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:

	2012 £m	2011 £m
Payable within one year	**4.4**	3.9
Payable between one and five years	**8.7**	9.1
Payable after five years	**6.5**	5.6
	19.6	18.6

The commitments shown above include commitments for an onerous lease. At 31 December 2012 provisions include an amount of £0.6m (2011: £0.6m) in respect of this lease.

23. Acquisitions

2012 acquisitions: Securit and Jae Yong
On 17 February 2012, Filtrona acquired 100% of the share capital of Securit World Ltd ("Securit") from the Heyden family. Securit distributes desktop personal identification ("ID") 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 Filtrona's Payne Security personal ID products business and provides new opportunities in adjacent attractive growth sectors, such as Access Control and Membership.

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

It is estimated that if the acquisition of Securit had been completed on 1 January 2012 the contribution to 2012 Group revenue would have been £10.2m and to Group operating profit before intangible amortisation would have been £1.3m.

Securit contributed £8.7m to revenue and £1.1m to operating profit before intangible amortisation in the period from acquisition to 31 December 2012. Related acquisition expenses of £0.2m were recognised in the income statement in exceptional operating items.

On 23 April 2012, Filtrona acquired 100% of the share capital of Jae Yong Co. Ltd ("Jae Yong") from the Lee family. Based in South Korea, Jae Yong is a globally recognised manufacturer of reservoirs, nibs and tubes for the writing instruments industry, and will be reported under the Porous Technologies division.

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

It is estimated that if the acquisition of Jae Yong had been completed on 1 January 2012 the contribution to 2012 Group revenue would have been £2.5m and to Group operating profit before intangible amortisation would have been £nil.

Jae Yong contributed £1.6m to revenue and made a £0.2m loss before intangible amortisation in the period from acquisition to 31 December 2012. Related acquisition expenses of £0.4m were recognised in the income statement in exceptional operating items.

A summary of the acquisitions of Securit and Jae Yong is detailed below:

	Book value at acquisition £m	Revaluation £m	Fair value of assets acquired £m
Property, plant and equipment	0.5	(0.1)	0.4
Inventories	1.3	(0.4)	0.9
Receivables	2.3	–	2.3
Cash and cash equivalents	0.8	–	0.8
Corporation tax payable	0.2	–	0.2
Deferred tax	–	(1.9)	(1.9)
Payables	(2.7)	(0.2)	(2.9)
Provisions	(0.1)	–	(0.1)
	2.3	(2.6)	(0.3)
Customer relationships			6.4
Other intangible assets			0.4
Goodwill			4.9
Consideration			11.4
Satisfied by:			
Initial cash consideration			10.2
Deferred consideration			0.8
Deferred contingent consideration			0.4
Cash consideration (initial and deferred)			11.0
Cash and cash equivalents acquired			(0.8)
Net cash flow in respect of the acquisitions			**10.2**

Notes

23. Acquisitions continued

The deferred contingent consideration of £0.4m in respect of Jae Yong becomes payable between one and three years after completion subject to the achievement of certain performance conditions.

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

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 above.

Included in the £4.9m of goodwill recognised above is the value of revenue and cost synergies and an assembled workforce. Due to their nature these assets cannot be individually identified or measured. It is expected that none of the goodwill and other acquired intangible assets will be allowable for tax deduction in future years.

2012 acquisitions: Lymtech

On 13 June 2012, Filtrona acquired 100% of the share capital of John R. Lyman Company and Big Blue Properties LLC (together "Lymtech Scientific") from William Wright and an associated family trust. Based in the US, Lymtech Scientific is a manufacturer and distributor of porous speciality wiping materials used within the clean environments increasingly required by the medical, life science, electronic and industrial markets. The acquisition of Lymtech Scientific adds complementary technology to Porous Technologies and also enhances the commercial capability of the division through the addition of a distribution selling channel.

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

It is estimated that if the acquisition of Lymtech had been completed on 1 January 2012 the contribution to 2012 Group revenue would have been £17.8m and to Group operating profit before intangible amortisation would have been £2.8m.

Lymtech Scientific contributed £8.2m to revenue and £1.9m to operating profit before intangible amortisation in the period from acquisition to 31 December 2012. Related acquisition expenses of £0.6m were recognised in the income statement in exceptional operating items.

A summary of the acquisition of Lymtech Scientific is detailed below:

	Book value at acquisition £m	Revaluation £m	Fair value of assets acquired £m
Property, plant and equipment	2.7	(1.4)	1.3
Inventories	3.3	(0.3)	3.0
Receivables	2.4	(0.1)	2.3
Cash and cash equivalents	0.3	–	0.3
Deferred tax	–	(4.0)	(4.0)
Provisions	–	(0.3)	(0.3)
Payables	(1.0)	(0.1)	(1.1)
	7.7	(6.2)	1.5
Customer relationships			15.4
Other intangible assets			1.3
Goodwill			10.4
Consideration			28.6
Satisfied by:			
Initial cash consideration			28.6

Cash consideration	28.6
Cash and cash equivalents acquired	(0.3)
Net cash flow in respect of the acquisitions	**28.3**

Property, plant and equipment, inventories, and receivables were all reassessed to their fair value. The adjustment to deferred tax is the tax effect of recognising customer relationships and the tax effect of the fair value adjustments above.

Included in the £10.4m of goodwill recognised above is the value of revenue and cost synergies and an assembled workforce. Due to their nature these assets cannot be individually identified or measured. It is expected that none of the goodwill and other acquired intangible assets will be allowable for tax deduction in future years.

2011 acquisitions: Reid Supply

In 2011, Filtrona acquired the assets and business of Reid Supply Company ("Reid Supply"). Net cash outflow in respect of this acquisition was £18.3m in 2011.

On acquisition, the assets and liabilities of Reid Supply were adjusted to reflect their fair values to Filtrona. The fair value adjustments were finalised in 2012 with an increase in accruals of £0.2m. Goodwill was increased accordingly in 2012.

As detailed in the summary below, 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. Achievement of this target is currently being considered.

A summary of the acquisition of Reid Supply in 2011 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.

The book value of trade receivables acquired is stated net of impairment losses of £0.1m.

Included in the £2.7m of goodwill recognised above is the value of revenue and cost synergies and an assembled workforce. Due to their nature these assets 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.

Notes

23. Acquisitions continued

2011 acquisitions: Richco
In 2011, Filtrona acquired the entire issued share capital of Richco, Inc. ("Richco") from family and employee shareholders of the acquired company. Net cash outflow in respect of this acquisition was £70.7m in 2011.

On acquisition, the assets and liabilities of Richco were adjusted to reflect their fair values to Filtrona. The fair value adjustments were finalised in 2012 with an increase in accruals of £0.2m. Goodwill was increased accordingly in 2012.

In May 2012, the Group received a £2.5m working capital adjustment in respect of Richco. This was recorded as a reduction in the value of goodwill acquired and as a cash inflow from the acquisition of businesses, within investing activities, during the year.

A summary of the acquisition of Richco in 2011 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 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 their nature these assets 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 deduction 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.

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

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 credited to the income statement during 2011.

24. Disposals and discontinued operations

In December 2012, Filtrona received £2.9m from the Itavema Group which represented the final 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 received a £2.7m instalment in relation to the deferred consideration and released tax warranty provisions of £1.9m in respect of Globalpack, which was recognised as discontinued operations in the income statement.

In July 2011, Filtrona disposed of its shares in FractureCode Corporation ApS ("FractureCode") to ITO Technologies ApS for consideration of £0.3m payable over two years. The disposal resulted in a loss after tax of £1.9m which was treated as an exceptional operating item. Cash disposed and disposal expenses were in total £0.1m in 2011. In 2012, Filtrona received £0.2m from ITO Technologies ApS, which represented the final instalment of the consideration.

25. Dividends

	Per share		Total	
	2012 p	2011 p	**2012 £m**	2011 £m
2011 interim: paid 28 October 2011		3.3		6.8
2011 final: paid 30 April 2012		7.2		15.0
2012 interim: paid 26 October 2012	**3.9**		**8.2**	
2012 proposed final: payable 30 April 2013	**8.6**		**18.1**	
	12.5	10.5	**26.3**	21.8

26. Transactions with related parties

Other than the acquisition of further shares in Filthai Company Limited ("Filthai") and the compensation of key management (refer to the Report of the Remuneration Committee), Filtrona has not entered into any material transactions with related parties since the last Annual Report.

On 31 January 2012, Filtrona acquired 14.555% of the share capital of Filthai from non-controlling interests. Following the purchase of the share capital, Filtrona increased its interest in Filthai to 85.455% of the issued share capital. The cash consideration was £1.9m which was recorded directly to equity as an acquisition of non-controlling interests.

On 18 January 2011, Filtrona acquired 9.9% of the share capital of Filthai from non-controlling interests. Following the purchase of the share capital, Filtrona increased its interest in Filthai to 70.9% of the issued share capital. The cash consideration was £1.1m which was recorded directly to equity as an 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 31 January 2013, Filtrona entered into an agreement to form a joint venture with BBM Bommidala ("BBM") in the United Arab Emirates to manufacture filters. BBM is an Indian-based producer of tobacco products and by-products and a leading cigarette exporter from India. The joint venture, in which Filtrona will be the majority shareholder, is expected to be operational during Q3 2013.

On 20 February 2013, Filtrona acquired 100% of the share capital of Ulinco Components AB ("Ulinco Components") from Ulinco Invest Aktiebolag. Ulinco Components is a distributor of plastic protection and finishing products, hardware and specialist masking solutions in the Nordic region of Europe, and will be reported under the Component & Protection Solutions division. The acquisition of Ulinco Components will expand the product range and customer base of the Component Distribution businesses and extend the division's geographic presence in Scandinavia.

Notes

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:

	2012 £m	2011 £m
Operating profit	**86.4**	72.6
Intangible amortisation	**8.3**	3.7
Exceptional operating items	**10.6**	8.2
Adjusted operating profit	**105.3**	84.5
Depreciation and other amounts written off property, plant and equipment	**22.6**	20.7
Share option expense	**4.0**	3.0
Other non-cash items	**(1.6)**	3.4
Working capital movements	**(7.8)**	7.9
Net capital expenditure	**(43.2)**	(26.8)
Operating cash inflow	**79.3**	92.7

30. Additional segmental analysis

With effect from 1 January 2013, Filtrona has implemented a new organisational structure for its Protection & Finishing Products division. Going forward, the Component Distribution businesses, together with MSI Pipe Protection Technologies, will be reported together as the renamed "Component & Protection Solutions division". The Speciality Tapes activities of Duraco will henceforth form part of the Coated & Security Products division. Comparatives for the new organisational structure are shown below:

								2012
	Component & Protection Solutions £m	Porous Technologies £m	Coated & Security Products £m	Filter Products £m	Other £m	Eliminations £m	Central Services[1] £m	Total £m
External revenue	208.3	83.4	114.7	233.6	23.4	–	–	663.4
Intersegment revenue	0.1	2.4	0.2	–	–	(2.7)	–	–
Total revenue	**208.4**	**85.8**	**114.9**	**233.6**	**23.4**	**(2.7)**	**–**	**663.4**
Operating profit / (loss) before intangible amortisation and exceptional operating items	46.0	20.7	22.0	28.9	1.6	–	(13.9)	105.3
Intangible amortisation	(4.7)	(1.6)	(2.0)	–	–	–	–	(8.3)
Exceptional operating items	(7.6)	(2.5)	(1.7)	–	1.6	–	(0.4)	(10.6)
Operating profit / (loss)	**33.7**	**16.6**	**18.3**	**28.9**	**3.2**	**–**	**(14.3)**	**86.4**

[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

Filtrona plc Company Balance Sheet

at 31 December 2012

	Note	2012 £m	2011 £m
Fixed assets			
Investment in subsidiary undertaking	2,10	**291.5**	287.5
Current assets			
Debtors	3	**0.5**	21.2
Current liabilities			
Creditors: amounts falling due within one year	4	**(10.3)**	(1.0)
Net current (liabilities) / assets		**(9.8)**	20.2
Non-current liabilities			
Creditors: amounts falling due after more than one year	5	**(97.1)**	(102.1)
Net assets		**184.6**	205.6
Capital and reserves			
Issued capital	7	**54.8**	54.8
Capital redemption reserve	8	**0.1**	0.1
Profit and loss account	8	**129.7**	150.7
Shareholders' funds: equity interests		**184.6**	205.6

The Company financial statements on pages 121 to 125 were approved by the Board of Directors on 21 February 2013 and were signed on its behalf by:

Colin Day
Chief Executive

Matthew Gregory
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.

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 (2011: £5,000) 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 99.

The Directors' remuneration, which was paid by Filtrona International Ltd is disclosed in the Report of the Remuneration Committee on pages 65 to 75.

2. Investments held as fixed assets

	Investment in subsidiary undertaking	
	2012 £m	2011 £m
At beginning of year	**287.5**	284.5
Additions	**4.0**	3.0
At end of year	**291.5**	287.5

3. Debtors

	2012 £m	2011 £m
Corporate taxes	**0.5**	0.1
Amounts due from subsidiary undertakings	**–**	21.1
	0.5	21.2

4. Creditors: amounts falling due within one year

	2012 £m	2011 £m
Accruals and deferred income	**1.0**	1.0
Amounts payable to subsidiary undertakings	**9.3**	–
	10.3	1.0

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

	2012 £m	2011 £m
US Private Placement Loan Notes	**97.1**	102.1

6. Maturity of financial liabilities

	Non bank loans	
	2012 £m	2011 £m
Debt can be analysed as falling due:		
Between one and five years	**48.7**	–
More than five years	**48.4**	102.1
	97.1	102.1

Notes

7. Share capital

	2012 £m	2011 £m
Issued and fully paid ordinary shares of 25p (2011: 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 2012 the Company held 7,944,568 (2011: 10,434,203) 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 2012	0.1	181.0	(30.3)
Loss for the year ended 31 December 2012		(1.4)	
Acquisition of employee benefit trust shares			(6.1)
Shares issued to satisfy employee share option exercises		(10.5)	10.5
Share options exercised		5.7	
Share-based payments		4.0	
Dividends paid		(23.2)	
31 December 2012	**0.1**	**155.6**	**(25.9)**

		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)

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 £1.4m (2011: £0.4m).

Included in retained earnings are accumulated share-based payments of £17.4m (2011: £13.4m) which are not distributable. Full details of these share-based payments are set out in the Report of the Remuneration Committee on pages 65 to 75 and also on pages 112 to 113.

9. Dividends

	Per share		Total	
	2012 p	2011 p	**2012 £m**	2011 £m
2011 interim: paid 28 October 2011		3.3		6.8
2011 final: paid 30 April 2012		7.2		15.0
2012 interim: paid 26 October 2012	**3.9**		**8.2**	
2012 proposed final: payable 30 April 2013	**8.6**		**18.1**	
	12.5	10.5	**26.3**	21.8

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 2012, 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 79, 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 2012 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 56 to 63 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 78, in relation to going concern;
- the part of the Corporate Governance Statement on pages 56 to 63 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
21 February 2013

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

Advisors and Investor Information

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

Financial advisors and stockbrokers
Deutsche Bank
Winchester House,
1 Great Winchester Street,
London EC2 2DB

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

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

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

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

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

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

Electronic communication
As an alternative to receiving documentation through the post, the Company offers shareholders the option to receive by email, a notification that shareholder documents (including the Annual 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.

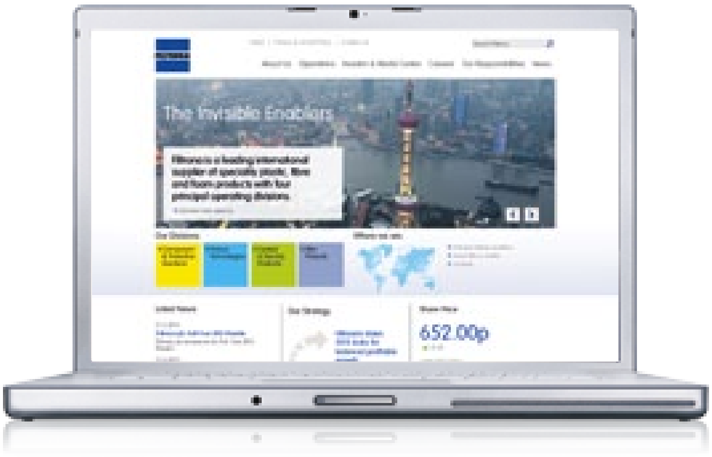
CREST
Share Settlement System
The Company entered the CREST system on listing and the ordinary shares are available for settlement in CREST. As the membership system is voluntary, shareholders not wishing to participate can continue to hold their own share certificates.

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 2HG on Thursday 25 April 2013 at 12 noon.

Financial calendar 2013

Annual General Meeting	25 April 2013
First Interim Management Statement	25 April 2013
Final Dividend	30 April 2013
Half Year Report	31 July 2013

Thank you for your interest in Filtrona
Keep in touch at www.filtrona.com



The printer and paper manufacturing mill are both accredited with ISO 14001

Environmental Management Systems and are both Forest stewardship Council® certified. CPI Colour is also a certified CarbonNeutral® company.

Designed and produced by Addison.

FILTRONA plc

Avebury House
201-249 Avebury Boulevard
Milton Keynes
MK9 1AU
United Kingdom

Telephone: +44 (0)1908 359100
Facsimile: +44 (0)1908 359120
Email: enquiries@filtrona.com

www.filtrona.com