ESSENTRA

THE ESSENTIAL ENABLERS

ANNUAL REPORT 2013 BOOK 2 OF 2

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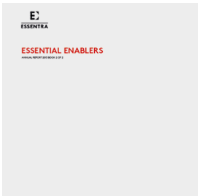
ESSENTRA BELIEVES THAT LITTLE THINGS MAKE THE WORLD GO ROUND. WE ARE PROUD OF WHAT WE DO AND WANT TO SHOW THAT EVEN OUR SMALLEST COMPONENTS PLAY A BIG PART.

ESSENTRA: THE ESSENTIAL ENABLERS



ESSENTRA ANNUAL REPORT 2013
This year's report is divided into two books. Book 1 contains the Strategic Report and the Directors' Report, including the Chief Executive's Review, the Financial Review, the Chairman of the Board's Letter and the Report of the Remuneration Committee. Book 2 contains the financial statements, including details of the Company's accounting policies and the independent external auditor's report to the members of Essentra plc.

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CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2013

	Note	2013 £m	2012 (Restated) £m
Revenue	2	**798.1**	663.4
Operating profit before intangible amortisation and exceptional operating items		**130.4**	104.5
Intangible amortisation		**(14.2)**	(8.3)
Exceptional operating items	3	**(19.2)**	(10.6)
Operating profit	2	**97.0**	85.6
Finance income	4	**1.0**	1.1
Finance expense	4	**(11.6)**	(11.8)
Profit before tax		**86.4**	74.9
Income tax expense	5	**(26.1)**	(22.8)
Profit for the year		**60.3**	52.1
Attributable to:			
Equity holders of Essentra plc		**60.1**	50.8
Non-controlling interests		**0.2**	1.3
Profit for the year		**60.3**	52.1
Earnings per share attributable to equity holders of Essentra plc:			
Basic	7	**26.3p**	24.3p
Diluted	7	**25.7p**	23.5p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2013

	Note	2013 £m	2012 (Restated) £m
Profit for the year		**60.3**	52.1
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit pension schemes	18	**11.2**	6.1
Deferred tax (charge) / credit on remeasurement of defined benefit pension schemes		**(3.1)**	(1.2)
		8.1	4.9
Items that may be reclassified subsequently to profit or loss:			
Effective portion of changes in fair value of cash flow hedges:			
Net change in fair value of cash flow hedges transferred to the income statement		**0.1**	(1.1)
Effective portion of changes in fair value of cash flow hedges		**(0.1)**	(0.1)
Foreign exchange translation differences:			
Attributable to equity holders of Essentra plc:			
Arising on translation of foreign operations		**(14.7)**	(15.7)
Arising on effective net investment hedges		**0.2**	6.4
Income tax charge on effective net investment hedges		**–**	(1.6)
Attributable to non-controlling interests		**(0.5)**	(0.2)
		(15.0)	(12.3)
Other comprehensive income for the year, net of tax		**(6.9)**	(7.4)
Total comprehensive income		**53.4**	44.7
Attributable to:			
Equity holders of Essentra plc		**53.7**	43.6
Non-controlling interests		**(0.3)**	1.1
Total comprehensive income		**53.4**	44.7

CONSOLIDATED BALANCE SHEET

at 31 December 2013

	Note	31 December 2013 £m	31 December 2012 (Restated) £m	1 January 2012 (Restated) £m
Assets				
Property, plant and equipment	8	**213.7**	180.3	168.1
Intangible assets	9	**396.7**	206.3	185.5
Deferred tax assets	16	**6.4**	11.5	8.9
Retirement benefit assets	18	**21.9**	14.1	–
Total non-current assets		**638.7**	412.2	362.5
Inventories	10	**75.5**	76.7	66.4
Income tax receivable		**4.0**	2.2	7.0
Trade and other receivables	1,11	**140.7**	94.5	85.4
Derivative assets	1,15	**0.2**	0.3	1.2
Cash and cash equivalents	1,12	**44.1**	41.4	35.8
Total current assets		**264.5**	215.1	195.8
Total assets		**903.2**	627.3	558.3
Equity				
Issued capital	19	**60.1**	54.8	54.8
Merger relief reserve	19	**136.4**	–	–
Capital redemption reserve		**0.1**	0.1	0.1
Other reserve	20	**(132.8)**	(132.8)	(132.8)
Cash flow hedging reserve		**(0.1)**	(0.1)	1.1
Translation reserve		**(9.9)**	4.6	15.5
Retained earnings	20	**345.0**	311.8	271.7
Attributable to equity holders of Essentra plc		**398.8**	238.4	210.4
Non-controlling interests		**4.2**	5.3	6.4
Total equity		**403.0**	243.7	216.8
Liabilities				
Interest bearing loans and borrowings	1,14	**254.7**	204.9	177.3
Retirement benefit obligations	18	**11.3**	18.0	19.6
Provisions	17	**3.1**	2.8	2.2
Other financial liabilities	1	**5.4**	–	–
Deferred tax liabilities	16	**47.1**	26.7	16.1
Total non-current liabilities		**321.6**	252.4	215.2
Interest bearing loans and borrowings	1,14	**6.5**	–	3.4
Derivative liabilities	1,15	**0.3**	0.2	0.5
Income tax payable		**24.4**	12.6	18.4
Trade and other payables	1,13	**135.1**	100.9	91.2
Provisions	17	**12.3**	17.5	12.8
Total current liabilities		**178.6**	131.2	126.3
Total liabilities		**500.2**	383.6	341.5
Total equity and liabilities		**903.2**	627.3	558.3

The consolidated financial statements on pages 90 to 130 were approved by the Board of Directors on 20 February 2014 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 2013

2013	Issued capital £m	Merger relief reserve £m	Capital redemption reserve £m	Other reserve £m	Cash flow hedging reserve £m	Translation reserve £m	Retained earnings £m	Non-controlling interests £m	Total equity £m
At 1 January 2013 – As previously reported	**54.8**	**–**	**0.1**	**(132.8)**	**(0.1)**	**4.6**	**308.4**	**5.3**	**240.3**
Impact of changes in accounting policies							**3.4**		**3.4**
At 1 January 2013 – Restated	**54.8**	**–**	**0.1**	**(132.8)**	**(0.1)**	**4.6**	**311.8**	**5.3**	**243.7**
Profit for the year							**60.1**	**0.2**	**60.3**
Other comprehensive income					**–**	**(14.5)**	**8.1**	**(0.5)**	**(6.9)**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**(14.5)**	**68.2**	**(0.3)**	**53.4**
Issue of shares	**5.3**	**136.4**							**141.7**
Issue of shares to non-controlling interests								**1.5**	**1.5**
Acquisition of non-controlling interests							**(0.6)**	**(1.3)**	**(1.9)**
Purchase of employee trust shares							**(16.3)**		**(16.3)**
Share options exercised							**4.7**		**4.7**
Share option expense							**5.1**		**5.1**
Tax relating to share-based incentives							**3.3**		**3.3**
Dividends paid							**(31.2)**	**(1.0)**	**(32.2)**
At 31 December 2013	**60.1**	**136.4**	**0.1**	**(132.8)**	**(0.1)**	**(9.9)**	**345.0**	**4.2**	**403.0**

2012 (Restated)	Issued capital £m	Merger relief reserve £m	Capital redemption reserve £m	Other reserve £m	Cash flow hedging reserve £m	Translation reserve £m	Retained earnings £m	Non-controlling interests £m	Total equity £m
At 1 January 2012 – As previously reported	54.8	–	0.1	(132.8)	1.1	15.5	268.3	6.4	213.4
Impact of changes in accounting policies							3.4		3.4
At 1 January 2012 – Restated	54.8	–	0.1	(132.8)	1.1	15.5	271.7	6.4	216.8
Profit for the year							50.8	1.3	52.1
Other comprehensive income					(1.2)	(10.9)	4.9	(0.2)	(7.4)
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	311.8	5.3	243.7

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2013

	Note	2013 £m	2012 (Restated) £m
Operating activities			
Profit for the year		**60.3**	52.1
Adjustments for:			
Income tax expense		**26.1**	22.8
Net finance expense	4	**10.6**	10.7
Intangible amortisation	3,9	**14.2**	8.3
Exceptional operating items	3	**19.2**	10.6
Depreciation	3,8	**26.7**	22.6
Share option expense	18	**5.1**	4.0
Other movements		**(1.8)**	(1.6)
Decrease / (increase) in inventories		**6.1**	(9.2)
Increase in trade and other receivables		**(23.3)**	(10.4)
Increase in trade and other payables		**11.9**	11.8
Cash outflow in respect of exceptional operating items		**(10.5)**	(7.5)
Additional pension contributions		**(6.1)**	(7.6)
Movements in provisions		**(10.8)**	–
Cash inflow from operating activities		**127.7**	106.6
Income tax paid		**(17.5)**	(17.6)
Net cash inflow from operating activities		**110.2**	89.0
Investing activities			
Interest received		**0.3**	0.3
Acquisition of property, plant and equipment		**(44.1)**	(43.8)
Proceeds from sale of property, plant and equipment		**0.4**	0.6
Acquisition of businesses net of cash acquired	23	**(188.9)**	(36.0)
Proceeds from sale of businesses	24	**–**	3.1
Income tax paid on sale of businesses		**–**	(0.2)
Net cash outflow from investing activities		**(232.3)**	(76.0)
Financing activities			
Interest paid		**(9.6)**	(9.2)
Dividends paid to equity holders		**(31.2)**	(23.2)
Dividends paid to non-controlling interests		**(1.0)**	(1.2)
Acquisition of non-controlling interests	26	**(1.9)**	(1.9)
Proceeds from equity issue	19	**141.7**	–
Proceeds from issue of shares to non-controlling interests		**1.5**	–
Repayments of short-term loans		**–**	(3.3)
Proceeds from short-term loans		**0.2**	–
Proceeds from long-term loans		**37.5**	32.9
Purchase of employee trust shares		**(16.3)**	(6.1)
Proceeds from sale of employee trust shares		**4.7**	5.7
Net cash inflow / (outflow) from financing activities		**125.6**	(6.3)
Net increase in cash and cash equivalents	21	**3.5**	6.7
Net cash and cash equivalents at the beginning of the year		**41.4**	35.8
Net increase in cash and cash equivalents		**3.5**	6.7
Net effect of currency translation on cash and cash equivalents		**(0.8)**	(1.1)
Net cash and cash equivalents at the end of the year	1,12	**44.1**	41.4

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 131 to 135.

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 cash flow statement for the comparative period has been re-presented to include cash flows relating to the purchase of employee trust shares within financing activities.

Changes in accounting policies
In the current financial year, Essentra adopted the following accounting pronouncements. Otherwise, the accounting policies and presentation in this set of financial statements are consistent with those applied in the prior years.

The amendments to IAS 1 *Presentation of Items of Other Comprehensive Income* require items of other comprehensive income to be grouped by those items that are or may be reclassified subsequently to profit or loss and those that will not, together with the associated income tax. The amendments have been applied retrospectively. The effect is evident from the consolidated statement of comprehensive income on page 91.

IAS 19 (Revised 2011) *Employee Benefits* and the related consequential amendments have impacted the Group's accounting for defined benefit schemes, by replacing the interest cost and expected return on plan assets with a net interest charge on the net defined benefit asset / liability. For the year ended 31 December 2012, the restated profit is £1.4m lower (including associated tax impact of £0.6m) and other comprehensive income £1.4m higher than previously reported. In addition, IAS 19 (Revised 2011) requires the costs of administering the schemes to be recognised when the administration services are provided, with costs relating to the management of plan assets deducted from the return on plan assets. As a result, the defined benefit obligation as at 1 January 2013 and 1 January 2012 decreased by £4.4m to remove the impact of actuarial assumption for administration costs, with an associated decrease in the deferred tax liability of £1.0m. The basic earnings per share for 2012 is restated from 25.0p to 24.3p, and the diluted earnings per share is restated from 24.2p to 23.5p. Management considered it not practicable to determine the impact of the revised standard on the current period, as under the new policy interest income on plan assets is no longer determined based on their long-term rate of expected return.

The adoption of IFRS 13 *Fair Value Measurements* did not have any impact on the measurement of fair value of assets and liabilities. 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. The new disclosures introduced by IFRS 13 and IFRS 7 are set out in note 1.

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

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

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 has been eliminated and equity accounting has become mandatory.

ACCOUNTING POLICIES CONTINUED

A. BASIS OF PREPARATION CONTINUED

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* makes revisions to the requirements for separate financial statements prepared by a parent or an investor in a joint venture or associate.

IAS 28 (Revised) *Associates and Joint Ventures* includes consequential amendments resulting from the introduction of IFRS 11.

IFRS 10, IFRS 11, IFRS 12, IAS 27 (Revised), IAS 28 (Revised) and IAS 32 (Amendment) all become effective for the Group from 1 January 2014.

All other new pronouncements did not have, or are not expected to have, a significant impact on the Group.

For the purposes of these financial statements "Essentra" or "the Group" means Essentra plc (formerly 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 22 to 23 of the 2013 Annual Report Book 1. 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 Essentra. Control exists when Essentra 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 financial instruments).

(ii) Financial statements of foreign operations
The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated into sterling at the exchange rate ruling at the balance sheet date. The revenues and expenses of foreign operations are translated into sterling at average exchange rates.

(iii) Net investment in foreign operations
Exchange differences on retranslation at the closing rate of the opening balances of overseas entities are taken to reserves, as are exchange differences arising on related foreign currency borrowings and derivatives designated as net investment hedges, to the extent that they are effective. Other exchange differences are taken to the income statement. Differences arising prior to 1 January 2004 are included in retained earnings.

D. FINANCIAL INSTRUMENTS

In accordance with IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"), interest bearing loans and borrowings and other financial liabilities (excluding derivatives) are held at amortised cost, unless they are included in a hedge accounting relationship. See note 15 for separate disclosure of hedge types.

Derivatives are measured initially at fair value. Subsequent measurement 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 equity are included in the initial carrying value of the asset.

(iii) Hedges of net investment in foreign operations
The gain or loss on an instrument used to hedge a net investment in a foreign operation that is deemed effective is recognised in 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.

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.

F. 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.

G. 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. Given their nature, these costs are generally presented within exceptional operating items.

G. 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 when the Group is able to demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during development.

(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.

H. 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.

I. 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.

J. 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 Essentra's cash management and are included as part of cash and cash equivalents in the statement of cash flows.

K. LOANS AND BORROWINGS

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

L. TRADE AND OTHER RECEIVABLES

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

M. TRADE AND OTHER PAYABLES

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

N. 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.

O. INCOME TAX

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

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

Deferred tax is provided, using the balance sheet liability method, 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, using tax rates enacted or substantively enacted at the balance sheet dates.

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

P. REVENUE

Revenue from the sale of goods is recognised in the income statement 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.

Q. FINANCE INCOME AND EXPENSE

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

R. 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.

S. PENSIONS

(i) Defined contribution schemes
Obligations for contributions to defined contribution pension schemes are expensed to the income statement as incurred.

(ii) Defined benefit schemes
The significant pension schemes in Europe and the US have been accounted for on a defined benefit basis.

The net obligations in respect of defined benefit pension schemes are calculated separately for each scheme by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any scheme assets is deducted. The discount rate is the yield at the balance sheet date on AA credit-rated bonds that have maturity dates approximating to the terms of Essentra's obligations. The calculation is performed by a qualified independent actuary using the projected unit credit method. Net interest on defined benefit assets is presented within finance income, and net interest on defined benefit liabilities is presented within finance expense.

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 (including curtailments) and gains and losses on settlement.

The value of a net pension asset is limited to the amount that may be recovered either through reduced contributions or agreed refunds from the scheme.

T. SHARE-BASED PAYMENTS

Essentra 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 conditions are not met.

ACCOUNTING POLICIES CONTINUED

U. 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 (considered for each operating segment). 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 2013 and 2012, Essentra incurred significant one-off costs (such as professional fees) as a result of the various acquisitions and transactions that did not complete (refer to note 23).

(ii) Acquisition integration and restructuring costs
Costs relating to the integration of acquired businesses and restructuring associated with acquisitions.

(iii) Other exceptional items
In 2013, this represents costs incurred in relation to rebranding of the Group to Essentra, an adjustment on contingent deferred consideration in relation to a previous acquisition and Extrusion restructuring. In 2012, this represents a release of pension obligations in the Extrusion business and costs arising from further reconfiguration of the Group.

V. INVESTMENT IN OWN SHARES

The shares held in the Essentra 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.

W. PROVISIONS

A provision is recognised when there is a probable legal or constructive obligation as a result of a past event and a reliable estimate can be made of the outflow of 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.

X. GOVERNMENT GRANTS

Government grants are recognised when it is reasonable to expect that the grants will be received and that all related conditions will be met, usually on submission of a valid claim for payment. Government grants in respect of capital expenditure are included within the carrying amount of the related property, plant and equipment, and are released to profit or loss on a straight-line basis over the expected useful lives of the relevant assets. Grants of a revenue nature are credited to profit or loss so as to match them with the expenditure to which they relate.

Y. NET DEBT

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

Z. DIVIDENDS

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

CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

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

(i) Pensions

Essentra 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 Essentra's actuaries, management decides the point within those ranges that most appropriately reflects Essentra'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-retirement 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 it operates. Management is also required to make an estimate of the current tax liability together with an assessment of the temporary differences which arise as a consequence of different accounting and tax treatments. The Group performs appropriate sensitivity analysis in respect of taxation judgements that are materially sensitive as they arise.

(iv) Provisions

Essentra'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, reflecting management's assessment of factors such as likelihood of product returns and warranty claims, and possible amounts involved. The Group performs appropriate sensitivity analysis in respect of provision judgements that are materially sensitive as they arise.

(v) Depreciation

Property, plant and equipment represent 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.

(vi) Valuation of trade receivables

Valuation of trade receivables includes estimates of provision for impairment losses. The Group considers various relevant factors in arriving at these estimates, including the financial standing and circumstances of the customers, status of any claims or disputes, and wider economic risks such as country specific risks. These estimates and their movements are disclosed in note 1.

NOTES

1. FINANCIAL RISK MANAGEMENT

Essentra's activities expose the business to a number of key financial risks which have the potential to affect its ability to achieve its business objectives.

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

Essentra has a centralised treasury function 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. Essentra 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 function is subject to periodic independent reviews by the Group Assurance department. Underlying policy assumptions and activities are reviewed by the Treasury Committee.

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

The following describes Essentra's financial risk exposure and management from a quantitative and qualitative perspective.

(i) Credit risk
Credit risk is the risk of financial loss if a customer or counterparty to a financial asset or liability fails to meet its contractual obligations, and arises principally from trade receivables and cash and cash equivalents. Essentra has no significant individual concentrations of credit risk. The following is an overview of how Essentra manages its credit risk exposures.

Trade and other receivables
Essentra'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.

Essentra 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 2013, gross trade receivables were £130.7m (2012: £85.4m) of which £19.4m (2012: £13.2m) were past due but not impaired. The ageing analysis of trade receivables past due but not impaired is as follows:

	2013 £m	2012 £m
Up to 3 months	**19.4**	13.2

As at 31 December 2013, trade receivables of £5.7m (2012: £4.9m) were provided for as they were considered to be impaired. The ageing of the impaired receivables provided for is as follows:

	2013 £m	2012 £m
Up to 3 months	**2.1**	3.6
Over 3 months	**3.6**	1.3
	5.7	4.9

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

	2013 £m	2012 £m
Beginning of year	**4.9**	6.7
Impaired receivables acquired	**1.5**	–
Impairment loss recognised	**0.6**	–
Release in the year	**(0.4)**	(1.3)
Utilisation	**(0.9)**	(0.5)
End of year	**5.7**	4.9

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. Essentra monitors the credit ratings of counterparties.

The following credit risk table provides information regarding the credit risk exposure of Essentra by classifying 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.

							2013
	AAA £m	AA £m	A £m	BBB £m	BB £m	Not rated £m	Total £m
Derivative assets	–	–	0.2	–	–	–	0.2
Cash and cash equivalents	–	9.5	29.0	3.6	0.6	1.4	44.1
	–	9.5	29.2	3.6	0.6	1.4	44.3

							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

Essentra's maximum credit risk exposure is £180.3m (2012: £131.9m) and no collateral is held against this amount (2012: £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. Essentra 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.

Essentra is exposed to two types of market price risk: currency risk and interest rate risk.

a) Currency risk
Essentra 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 Essentra'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 through measures such as borrowing in those currencies in which the Group has significant net assets. At 31 December 2013, Essentra's euro denominated assets were 82% hedged by its euro denominated borrowings (2012: 90%), whilst its US dollar denominated assets were approximately 45% (2012: 47%) hedged by the US dollar denominated borrowings.

Transaction exposure hedging
The majority of Essentra's transactions are carried out in the functional currencies of its operations and therefore transaction exposure is limited. However, where such exposure does occur, Essentra 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 18 months.

Essentra 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 recognised in other comprehensive income until the forecast transaction occurs, at which point the gains and losses are transferred either to the income statement or to the non-financial asset acquired.

NOTES CONTINUED

1. FINANCIAL RISK MANAGEMENT CONTINUED

The following table shows Essentra'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.

2013	Weakening in sterling			Strengthening in sterling		
	10% £m	5% £m	1% £m	1% £m	5% £m	10% £m
Impact on the income statement – gain / (loss)	**7.9**	**3.8**	**0.7**	**(0.7)**	**(3.4)**	**(6.5)**
Impact on equity – gain / (loss)	**29.4**	**13.9**	**2.7**	**(2.6)**	**(12.6)**	**(24.0)**

2012	Weakening in sterling			Strengthening in sterling		
	10% £m	5% £m	1% £m	1% £m	5% £m	10% £m
Impact on the income statement – gain / (loss)	6.8	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)

b) Interest rate risk

Essentra'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 Essentra'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 Essentra's interest rate derivatives. There is no impact on amounts recorded directly in other comprehensive income or equity.

2013	Decrease in interest rates			Increase in interest rates		
	200bps £m	100bps £m	50bps £m	50bps £m	100bps £m	200bps £m
Impact on the income statement – gain / (loss)	**3.1**	**1.5**	**0.8**	**(0.8)**	**(1.5)**	**(3.1)**

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

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

(iii) Liquidity risk

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

In 2011 Essentra 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 included within the carrying amount of the borrowings and are being expensed in the income statement over the expected life of the facilities in accordance with the effective interest method.

Essentra's objective is to maintain a balance between continuity of funding and flexibility. Essentra is mostly funded by two series of US$80m US Private Placement Loan Notes from various financial institutions and syndicated 5-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 2013 the available bank and non-bank facilities totalled £418.4m (2012: £416.4m) of which £249.7m (2012: £207.4m) was drawn down. In addition, uncommitted and overdraft facilities are maintained to provide short-term flexibility. During the year, Essentra issued a total of 21,142,613 new ordinary shares of 25p each at a price of 675p per share, raising gross proceeds of £142.7m, to fund the acquisition of Contego (see note 23).

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

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

	2013 £m	**2012 £m**
Expiring after two years	**168.7**	209.0

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 Essentra's financial liabilities, including estimated interest payments, is analysed below.

							2013
	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	**162.6**	**162.6**	**170.6**	**8.7**	**2.8**	**159.1**	**–**
Loan Notes	**105.7**	**95.5**	**123.9**	**5.4**	**5.4**	**60.6**	**52.5**
Derivative liabilities	**0.3**	**0.3**	**0.3**	**0.3**	**–**	**–**	**–**
Trade and other payables	**95.2**	**95.2**	**95.2**	**95.2**	**–**	**–**	**–**
Finance lease liabilities	**3.1**	**3.1**	**3.5**	**0.8**	**2.7**	**–**	**–**
Other non-current financial liabilities							
– Deferred contingent consideration	**5.4**	**5.4**	**5.4**	**–**	**2.1**	**3.3**	**–**
	372.3	**362.1**	**398.9**	**110.4**	**13.0**	**223.0**	**52.5**

							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	66.7	66.7	66.7	66.7	–	–	–
	286.4	271.8	314.8	74.3	7.4	176.7	56.4

Total trade and other payables carried at £135.1m (2012: £100.9m) include accruals and deferred income of £34.2m (2012: £29.6m) and other taxes and social security contributions of £5.7m (2012: £4.6m) 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 CONTINUED

1. FINANCIAL RISK MANAGEMENT CONTINUED

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

	2013 Fair value £m	2013 Loans and receivables £m	2013 Amortised cost £m	2013 Total carrying and fair value £m	2012 Fair value £m	2012 Loans and receivables £m	2012 Amortised cost £m	2012 Total carrying and fair value £m
Trade and other receivables	–	136.0	–	**136.0**	–	90.2	–	90.2
Cash and cash equivalents	–	44.1	–	**44.1**	–	41.4	–	41.4
Interest bearing loans and borrowings	–	–	(261.2)	**(261.2)**	–	–	(204.9)	(204.9)
Trade and other payables	–	–	(94.4)	**(94.4)**	–	–	(65.5)	(65.5)
Level 2 of fair value hierarchy								
Derivative assets	0.2	–	–	**0.2**	0.3	–	–	0.3
Derivative liabilities	(0.3)	–	–	**(0.3)**	(0.2)	–	–	(0.2)
Level 3 of fair value hierarchy								
Other non-current financial liabilities	(5.4)	–	–	**(5.4)**	–	–	–	–
Other current payables	(0.8)	–	–	**(0.8)**	(1.2)	–	–	(1.2)
	(6.3)	**180.1**	**(355.6)**	**(181.8)**	(1.1)	131.6	(270.4)	(139.9)

Total trade and other receivables carried at £140.7m (2012: £94.5m) include prepayments and accrued income of £4.7m (2012: £4.3m) 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. These are determined to be level 2 in the fair value hierarchy.

The only financial instrument with fair value determined by reference to significant unobservable inputs, which is classified as level 3 in the fair value hierarchy, is the deferred contingent consideration of £6.2m relating to the acquisitions of Ulinco Components and Mesan Kilit A.S. (2012: deferred contingent consideration of £1.2m relating to the acquisition of Reid Supply Company). The fair value of the deferred contingent consideration is estimated based on an assessment of the likely outcome of the acquired business' financial performance. There have been no transfers between levels of the fair value hierarchy. There are no non-recurring fair value measurements. During the year, a fair value gain of £0.8m in respect of financial instruments at level 3 fair value hierarchy was recognised within exceptional items (see note 3), and £0.4m was settled in cash. No other fair value gains or losses were recorded in profit or loss and other comprehensive income.

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 £95.5m (2012: £97.1m). The Group estimates that the total fair value of the Loan Notes at 31 December 2013 is £105.7m (2012: £111.7m).

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 table below shows the amount of bank overdrafts offset against the bank balances under enforceable master netting agreements with banks:

	Gross amount of recognised financial assets £m	Gross amount of recognised financial liabilities set off in the balance sheet £m	Net amount of financial assets presented in the balance sheet £m
Cash and cash equivalents:			
At 31 December 2013	**45.8**	**(1.7)**	**44.1**
At 31 December 2012	49.9	(8.5)	41.4

(iv) Capital structure
Essentra 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.

Essentra sets the amount of capital in proportion to risk. Essentra 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, Essentra may return capital to shareholders through dividends and share buybacks, issue new shares or sell assets to reduce debt.

Essentra 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 2013, Essentra's strategy, which was unchanged from 2012, 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	2013 £m	2012 (Restated) £m
Net debt excluding prepaid facility fees		**218.6**	166.0
Operating profit before intangible amortisation and exceptional operating items		**130.4**	104.5
Plus depreciation and other amounts written off property, plant and equipment	8	**28.0**	22.6
Plus share option expense	18	**5.1**	4.0
EBITDA		**163.5**	131.1
Net debt-to-EBITDA ratio		**1.34**	1.27

2. SEGMENT ANALYSIS

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

Component & Protection Solutions consists of a Component Distribution business and a Pipe Protection Technologies business. Component Distribution is a global market leading manufacturer and distributor of plastic injection moulded, vinyl dip moulded, and metal items. The Pipe Protection Technologies business specialises in the manufacture of high performance innovative products from commodity resins to engineering-grade thermoplastics and polymer alloys.

Porous Technologies is a global market leading developer and manufacturer of custom fluid handling components, engineered from a portfolio of technologies that includes bonded and non-woven fibre, polyurethane foam, and porous plastic.

Packaging & Securing Solutions is a global market leading provider of packaging and securing solutions through a range of cartons, tapes, leaflets, foils and labels for the healthcare, consumer and specialist packaging, point of sale and paper & board industries. The division is also a leading supplier of authentication technologies and identity solutions.

Filter Products is an independent cigarette filter manufacturer supplying 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 Extrusion which is a leading custom profile extruder located in The Netherlands offering a complete design and production service.

On 1 January 2013, Essentra implemented a new organisational structure for its previous Protection & Finishing Products division. From 1 January 2013, the Component Distribution businesses, together with Pipe Protection Technologies, have been reported together as the renamed "Component & Protection Solutions division". The Speciality Tapes activities now form part of the Packaging & Securing Solutions division. The results for the year ended 31 December 2012 have been restated to reflect this change and the impact of adoption of IAS 19 (Revised 2011).

NOTES CONTINUED

2. SEGMENT ANALYSIS CONTINUED

2013	Component & Protection Solutions £m	Porous Technologies £m	Packaging & Securing Solutions £m	Filter Products £m	Other £m	Eliminations £m	Central Services[1] £m	Continuing operations £m	Discontinued operations £m	Total £m
External revenue	223.4	98.7	181.3	269.9	24.8	–	–	798.1	–	798.1
Intersegment revenue	0.3	1.3	0.5	–	–	(2.1)	–	–	–	–
Total revenue	**223.7**	**100.0**	**181.8**	**269.9**	**24.8**	**(2.1)**	**–**	**798.1**	**–**	**798.1**
Operating profit / (loss) before intangible amortisation and exceptional operating items	52.6	23.5	30.2	40.1	1.5	–	(17.5)	130.4	–	130.4
Intangible amortisation	(5.2)	(2.2)	(6.8)	–	–	–	–	(14.2)	–	(14.2)
Exceptional operating items	(2.8)	(0.9)	(13.8)	(0.2)	(0.3)	–	(1.2)	(19.2)	–	(19.2)
Operating profit / (loss)	**44.6**	**20.4**	**9.6**	**39.9**	**1.2**	**–**	**(18.7)**	**97.0**	**–**	**97.0**
Segment assets	120.8	65.0	113.5	115.4	13.5	–	1.7	429.9	–	429.9
Intangible assets	136.7	46.0	206.9	–	6.8	–	0.3	396.7	–	396.7
Unallocated items	–	–	–	–	–	–	76.6	76.6	–	76.6
Total assets	**257.5**	**111.0**	**320.4**	**115.4**	**20.3**	**–**	**78.6**	**903.2**	**–**	**903.2**
Segment liabilities	39.6	10.5	40.5	39.7	2.5	–	20.8	153.6	2.3	155.9
Unallocated items	–	–	–	–	–	–	346.6	346.6	–	346.6
Total liabilities	**39.6**	**10.5**	**40.5**	**39.7**	**2.5**	**–**	**367.4**	**500.2**	**2.3**	**502.5**
Other segment items										
Capital expenditure	12.3	2.7	5.0	21.6	1.7	–	0.8	44.1	–	44.1
Depreciation	7.1	3.2	5.9	8.9	1.4	–	0.2	26.7	–	26.7
Average number of employees	1,413	611	1,264	1,494	199	–	47	5,028	–	5,028

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

Continuing operations' net finance expense of £10.6m (2012: £10.7m) and income tax expense of £26.1m (2012: £22.8m) cannot be meaningfully allocated by segment. The unallocated assets relate to deferred tax assets, retirement benefit assets, derivatives and cash and cash equivalents. The unallocated liabilities relate to interest bearing loans and borrowings, retirement benefit obligations, derivatives, deferred tax liabilities and income tax payable. Intersegment transactions are carried out on an arm's length basis.

No customer accounted for more than 10% of revenue in either 2013 or 2012. Analysed by destination, revenue to the UK is £97.7m (2012: £67.8m), with other significant countries being the USA with revenue of £194.9m (2012: £181.4m), China £48.7m (2012: £31.1m) and Germany £41.9m (2012: £31.1m). Non-current assets in the UK total £242.6m (2012: £76.7m), with the other significant location being the USA with £198.7m (2012: £203.1m).

Included within revenue is the net loss arising from the change in the fair value of forward exchange cash flow hedges transferred to the income statement of £0.1m (2012: net gain of £1.1m).

2012 (Restated)

	Component & Protection Solutions £m	Porous Technologies £m	Packaging & Securing Solutions £m	Filter Products £m	Other £m	Eliminations £m	Central Services[1] £m	Continuing operations £m	Discontinued operations £m	Total £m
External revenue	208.4	83.4	114.6	233.6	23.4	–	–	663.4	–	663.4
Intersegment revenue	–	2.4	0.3	–	–	(2.7)	–	–	–	–
Total revenue	208.4	85.8	114.9	233.6	23.4	(2.7)	–	663.4	–	663.4
Operating profit / (loss) before intangible amortisation and exceptional operating items	45.9	20.6	21.8	28.6	1.6	–	(14.0)	104.5	–	104.5
Intangible amortisation	(4.7)	(1.6)	(2.0)	–	–	–	–	(8.3)	–	(8.3)
Exceptional operating items	(7.5)	(2.1)	(1.7)	–	1.6	–	(0.9)	(10.6)	–	(10.6)
Operating profit / (loss)	33.7	16.9	18.1	28.6	3.2	–	(14.9)	85.6	–	85.6
Segment assets	109.7	60.8	62.7	105.0	12.1	–	1.2	351.5	–	351.5
Intangible assets	100.5	47.0	52.2	–	6.6	–	–	206.3	–	206.3
Unallocated items	–	–	–	–	–	–	69.5	69.5	–	69.5
Total assets	210.2	107.8	114.9	105.0	18.7	–	70.7	627.3	–	627.3
Segment liabilities	36.5	11.8	15.2	43.1	1.7	–	10.6	118.9	2.3	121.2
Unallocated items	–	–	–	–	–	–	262.4	262.4	–	262.4
Total liabilities	36.5	11.8	15.2	43.1	1.7	–	273.0	381.3	2.3	383.6
Other segment items										
Capital expenditure	18.1	3.3	6.7	14.2	1.3	–	0.2	43.8	–	43.8
Depreciation	7.0	3.1	4.1	7.0	1.3	–	0.1	22.6	–	22.6
Average number of employees	1,429	551	594	1,263	207	–	38	4,082	–	4,082

[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

NOTES CONTINUED

3. NET OPERATING EXPENSE

	Note	2013 £m	2012 (Restated) £m
Changes in inventories of finished goods and work-in-progress		**5.0**	(4.0)
Raw materials and consumables		**336.1**	289.1
Personnel expense	6	**179.7**	150.2
Depreciation of property, plant and equipment	8	**26.7**	22.6
Amortisation of intangible assets	9	**14.2**	8.3
Exceptional operating items		**19.2**	10.6
Operating lease expense		**6.7**	5.3
Exchange differences recognised in profit or loss		**0.3**	0.2
Other operating expenses		**113.2**	95.5
Net operating expense		**701.1**	577.8

No income or expense (2012: £nil) was recognised in operating expense during the year in respect of ineffective cash flow hedges. Essentra's hedges of net investments were also entirely effective in 2013 and 2012, as defined by IAS 39, and therefore no hedge ineffectiveness has been recognised in net operating expense in 2013 (2012: £nil). Research and development expenses (including relevant staff costs) incurred during the year amounted to £8.3m (2012: £8.0m).

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

Exceptional operating items

	2013 £m	2012 £m
Acquisition fees[1]	**4.7**	1.2
Acquisition integration and restructuring costs[2]	**12.6**	8.8
Other[3]	**1.9**	0.6
Net operating expense	**19.2**	10.6

1 Transaction costs incurred during the year in respect of the acquisitions of Ulinco, Contego, Dakota and Mesan, as well as transactions that did not complete (2012: acquisitions of Securit, Jae Yong and Lymtech)
2 Acquisition integration and restructuring costs incurred during the year associated with the acquisitions of Richco, Ulinco, Contego, Dakota and Mesan (2012: Richco, Securit, Jae Yong and Lymtech)
3 Other exceptional items incurred during the year, which comprise £2.4m relating to costs incurred in relation to rebranding of the Group to Essentra, a £0.8m credit adjustment for contingent deferred consideration in relation to the acquisition of Reid Supply Company, and £0.3m relating to Extrusion restructuring (2012: a release of pension obligations in Extrusion (£1.7m) and costs arising from further reconfiguration of the Group)
4 The tax effect of the exceptional items is a credit of £2.8m (2012: £2.4m)

Auditor's remuneration

	2013 £m	2012 £m
Audit of these financial statements	**0.3**	0.3
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries of the Company	**0.7**	0.5
Tax compliance services	**0.2**	0.2
Other tax advisory services	**–**	0.1
Corporate finance services[2]	**–**	0.2
Other services[1,4]	**0.1**	0.1
Total fees[3]	**1.3**	1.4

1 Fees for other services related principally to the review of the half year financial statements
2 The Company believes that, given their detailed knowledge of Essentra'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
3 £0.1m (2012: £0.2m) of the total non-audit fees were charged in the UK
4 Fees of £22,182 (2012: £22,182) were paid in relation to the audit of the Essentra pension schemes

4. NET FINANCE EXPENSE

	Note	2013 £m	2012 (Restated) £m
Finance income			
Bank deposits		**0.2**	0.3
Other finance income		**–**	0.5
Net interest on net pension scheme assets	18	**0.8**	0.3
		1.0	1.1
Finance expense			
Interest on loans and overdrafts		**(9.4)**	(9.2)
Amortisation of bank facility fees		**(1.0)**	(1.3)
Other finance expense		**(0.3)**	(0.1)
Net interest on net pension scheme liabilities	18	**(0.9)**	(1.2)
		(11.6)	(11.8)
Net finance expense		**(10.6)**	(10.7)

5. INCOME TAX EXPENSE

	Note	2013 £m	2012 (Restated) £m
Amounts charged / (credited) in the consolidated income statement			
Current tax		**29.3**	20.0
Prior years' tax		**(0.6)**	(0.1)
Double tax relief		**–**	(0.2)
Deferred tax	16	**(2.6)**	3.1
Income tax expense		**26.1**	22.8
Amounts recognised in the consolidated statement of comprehensive income			
Deferred tax credit on actuarial movements on defined benefit pension schemes		**(3.1)**	(1.2)
Income tax (credit) / charge on effective net investment hedges		**–**	(1.6)
Income tax credit		**(3.1)**	(2.8)

Factors affecting income tax expense for the year

Essentra operates in many countries and is subject to income tax in many different jurisdictions. Essentra 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.

	2013 £m	2012 (Restated) £m
Profit before income tax	**86.4**	74.9
Tax at weighted average (2013: 28.8%; 2012: 25.3%)	**24.9**	18.9
Effects of:		
Other permanent disallowable items	**2.1**	1.3
Overseas state and local tax	**0.8**	0.6
Unrelieved tax losses	**1.3**	0.7
Prior year adjustments	**(2.1)**	(0.1)
Other items	**(0.9)**	1.4
Income tax expense	**26.1**	22.8

The change 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 £0.7m (2012: £3.1m). The UK corporate tax rate reduced from 24% to 23% on 1 April 2013 and a further reduction in the rate to 21% with effect from 1 April 2014 has been enacted. The impact of these enacted changes on deferred tax is not material. The UK Government has announced its intention to further reduce the rate to 20% from 1 April 2015.

NOTES CONTINUED

6. PERSONNEL EXPENSE

	Note	2013 £m	2012 (Restated) £m
Wages and salaries		**151.0**	127.3
Social security expense		**18.0**	14.2
Pension expense	18	**5.6**	4.7
Share option expense	18	**5.1**	4.0
		179.7	150.2

The Report of the Remuneration Committee on pages 67 to 84 of the 2013 Annual Report Book 1 sets out information on Directors' remuneration.

Key management remuneration

	2013 £m	2012 £m
Short-term employee benefits	**4.9**	4.8
Post-employment benefits	**0.5**	0.5
Share-based payments	**3.1**	2.5
Termination benefits	**–**	0.3
	8.5	8.1

Essentra considers key management personnel to be the Directors and 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

	2013 £m	2012 (Restated) £m
Continuing operations		
Earnings attributable to equity holders of Essentra plc	**60.1**	50.8
Adjustments		
Intangible amortisation	**14.2**	8.3
Exceptional operating items	**19.2**	10.6
	33.4	18.9
Tax relief on adjustments	**(6.8)**	(4.8)
Adjusted earnings	**86.7**	64.9
Basic weighted average ordinary shares in issue (m)	**228.2**	209.0
Dilutive effect of employee share option plans (m)	**6.1**	7.1
Diluted weighted average ordinary shares (m)	**234.3**	216.1
Continuing operations		
Basic earnings per share	**26.3p**	24.3p
Adjustment	**11.7p**	6.8p
Adjusted earnings per share	**38.0p**	31.1p
Diluted basic earnings per share	**25.7p**	23.5p
Diluted adjusted earnings per share	**37.0p**	30.0p

As noted on page 19 of the 2013 Annual Report Book 1 adjusted earnings per share is provided to reflect the underlying earnings performance of Essentra.

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

8. PROPERTY, PLANT AND EQUIPMENT

	Note	2013 Land and buildings £m	Plant and machinery £m	Fixtures, fittings and equipment £m	Total £m
Cost					
Beginning of year		**87.2**	**282.1**	**44.1**	**413.4**
Acquisitions	23	2.7	21.7	1.5	**25.9**
Additions		4.5	28.6	8.4	**41.5**
Disposals		(0.2)	(6.1)	(1.8)	**(8.1)**
Currency translation		(1.9)	(8.4)	(0.4)	**(10.7)**
End of year		**92.3**	**317.9**	**51.8**	**462.0**
Depreciation and impairment					
Beginning of year		**24.3**	**178.0**	**30.8**	**233.1**
Depreciation charge for the year		2.0	21.1	3.6	**26.7**
Impairment charge		0.3	0.9	0.1	**1.3**
Disposals		(0.1)	(6.0)	(1.5)	**(7.6)**
Currency translation		(0.7)	(4.1)	(0.4)	**(5.2)**
End of year		**25.8**	**189.9**	**32.6**	**248.3**
Net book value at end of year		**66.5**	**128.0**	**19.2**	**213.7**

	2012 Land and buildings £m	Plant and machinery £m	Fixtures, fittings and equipment £m	Total £m
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
Depreciation charge for the 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

Included within land and buildings and plant and machinery are assets in the course of construction of £2.6m (2012: £5.1m) which were not depreciated during the year.

The impairment charge recognised during the year primarily relates to write-down of plant and machinery and land and buildings as a result of the Group's decision to withdraw from the manufacture and production of certain lower growth or margin, non-core products (including security and protection films and ID cards) at the Banbury site in the UK. This charge is attributable to the Packaging & Securing Solutions division. The recoverable amount is estimated on the basis of fair value less costs to sell, based on expected disposal proceeds.

Contractual commitments to purchase property, plant and equipment amounted to £3.0m at 31 December 2013 (2012: £0.7m). The net book value of assets under finance leases amounted to £4.2m as at 31 December 2013 (2012: nil).

NOTES CONTINUED

9. INTANGIBLE ASSETS

	Note	Goodwill £	Customer relationships £m	Other intangible assets £m	Total £m
					2013
Cost					
Beginning of year		**96.5**	**121.3**	**12.7**	**230.5**
Acquisitions	23	101.1	104.4	1.7	**207.2**
Currency translation		(1.4)	(1.6)	(0.2)	**(3.2)**
End of year		**196.2**	**224.1**	**14.2**	**434.5**
Amortisation					
Beginning of year		**–**	**21.0**	**3.2**	**24.2**
Charge for the year		–	12.1	2.1	**14.2**
Currency translation		–	(0.4)	(0.2)	**(0.6)**
End of year		–	32.7	5.1	**37.8**
Net book value at end of year		**196.2**	**191.4**	**9.1**	**396.7**

	Goodwill £	Customer relationships £m	Other intangible assets £m	Total £m
				2012
Cost				
Beginning of year	86.4	104.0	11.7	202.1
Acquisitions	13.2	21.8	1.7	36.7
Currency translation	(3.1)	(4.5)	(0.7)	(8.3)
End of year	96.5	121.3	12.7	230.5
Amortisation				
Beginning of year	–	14.5	2.1	16.6
Charge for the year	–	7.1	1.2	8.3
Currency translation	–	(0.6)	(0.1)	(0.7)
End of year	–	21.0	3.2	24.2
Net book value at end of year	96.5	100.3	9.5	206.3

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

The weighted average useful economic lives of customer relationships and other intangible assets at the end of the year were 15.2 years and 14.4 years (2012: 17.2 years and 14.6 years) respectively.

Essentra 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 cash generating unit or group of cash generating units as appropriate.

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

	Goodwill	
Operating segment	2013 £m	2012 £m
Component & Protection Solutions[1]	**55.2**	35.9
Porous Technologies	**24.5**	23.1
Packaging & Securing Solutions[1]	**109.7**	30.9
Other – Extrusion	**6.8**	6.6
	196.2	96.5

[1] 2012 is restated to reflect that since 1 January 2013, the Speciality Tapes business, which was previously disclosed within Component & Protection Solutions, now forms part of Packaging & Securing Solutions

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	2013 £m	2012 £m
Moss and Skiffy	Component & Protection Solutions	**16.1**	16.6
Richco	Component & Protection Solutions	**34.6**	38.1
Reid Supply	Component & Protection Solutions	**8.9**	9.9
Mesan	Component & Protection Solutions	**18.8**	–
Porous St. Charles	Porous Technologies	**5.3**	6.2
Porous Chicopee	Porous Technologies	**14.1**	15.5
Packaging	Packaging & Securing Solutions	**3.7**	3.8
Speciality Tapes	Packaging & Securing Solutions	**14.0**	15.5
Healthcare	Packaging & Securing Solutions	**78.4**	–
Multiple businesses	Multiple segments	**6.6**	4.2
		200.5	109.8

The tests are based on the following assumptions:

> Cash flows for the next two years are based upon the Group's annual Plan. The key assumptions in the cash flow projections for the Group's annual Plan are the revenue growth and operating margin for each division. Operating margin was primarily based on the levels achieved in 2013, which are disclosed in note 2, adjusted by targets set for revenue expansion and cost reduction for each individual division within the Plan period.

  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 Essentra's estimated post-tax weighted average cost of capital of 8.6% (2012: 8.5%) adjusted for the risk applicable to each operating segment. In 2013, the pre-tax discount rates applied for each group of cash generating units to which significant goodwill is allocated are as follows: 16.0% for Component & Protection Solutions, 12.5% for Porous Technologies, 11.2% for Packaging & Securing Solutions and 11.2% for Other. In 2012, the pre-tax discount rates applied for each group of cash generating units to which significant goodwill is allocated were as follows: 16.2% for Protection & Finishing Products, 12.7% for Porous Technologies, 11.3% for Coated & Security Products and 11.3% for Other.

Any impairment losses identified as a result of the analysis are recognised in profit or loss. The test is dependent on management estimates and judgements, in particular in relation to the forecasting of future cash flows, and the discount rate applied to these cash flows.

The Group performed various sensitivity analyses which involved reducing future cash flows by up to 25%, reducing terminal growth rates by up to 8 percentage points or increasing pre-tax discount rates by up to 100 basis points. 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.

NOTES CONTINUED

10. INVENTORIES

	2013 £m	2012 £m
Raw materials and consumables	**30.0**	30.1
Work-in-progress	**5.4**	2.9
Finished goods and goods held for resale	**40.1**	43.7
	75.5	76.7

During the year £1.1m of inventories was written down as a result of the Group's decision to withdraw from the manufacture and production of certain lower growth or margin, non-core products at the Banbury site in the UK.

11. TRADE AND OTHER RECEIVABLES

	2013 £m	2012 £m
Trade receivables	**125.0**	80.5
Other receivables	**11.0**	9.7
Prepayments and accrued income	**4.7**	4.3
	140.7	94.5

12. CASH AND CASH EQUIVALENTS

	2013 £m	2012 £m
Bank balances	**42.0**	40.3
Short-term investments	**2.1**	1.1
Cash and cash equivalents in the statement of cash flows	**44.1**	41.4

13. TRADE AND OTHER PAYABLES

	2013 £m	2012 £m
Trade payables	**72.4**	55.9
Other tax and social security contributions	**5.7**	4.6
Other payables	**22.8**	10.8
Accruals and deferred income	**34.2**	29.6
	135.1	100.9

14. INTEREST BEARING LOANS AND BORROWINGS

	2013 £m	2012 £m
Non-current liabilities		
Unsecured bank loans	**156.8**	107.8
US Private Placement Loan Notes	**95.5**	97.1
Finance lease liabilities	**2.4**	–
	254.7	204.9
Current liabilities		
Unsecured bank loans	**5.8**	–
Finance lease liabilities	**0.7**	–
	6.5	–

At 31 December 2013, the Group had £90.0m (2012: £52.0m) and €76.0m (2012: €70.4m) of unsecured bank loans drawn in sterling and euros at floating rates of interest set by reference to LIBOR for three months. Essentra's two $80m Loan Notes are at interest rate of 5.37% and 5.91% per annum respectively.

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

	2013		2012	
	Carrying value £m	Nominal value £m	Carrying value £m	Nominal value £m
Sterling	91.3	91.6	51.3	52.0
US dollar	96.0	96.9	97.1	98.2
Euro	73.9	74.2	56.5	57.2
	261.2	**262.7**	204.9	207.4

The difference between the total nominal and carrying value of loans and borrowings relates to the amortised value of prepaid facility fees of £1.5m (2012: £2.5m).

15. DERIVATIVES

Essentra 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, Essentra 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 2013				
Fair value derivatives				
Forward foreign exchange contracts	0.1	5.8	(0.1)	6.4
Cash flow hedges				
Forward foreign exchange contracts	0.1	10.9	(0.2)	4.6
	0.2	**16.7**	**(0.3)**	**11.0**

	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

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

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

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

The net fair value gains on open forward foreign exchange contracts that hedge foreign currency risk of anticipated future sales and purchases will be transferred to the income statement when the forecast sales and purchases occur. All of the hedged transactions are expected to occur over the next 15 months and all derivative instruments mature within the next 15 months.

NOTES CONTINUED

15. DERIVATIVES CONTINUED

During 2013, Essentra had US dollar and euro denominated borrowings which it designated as hedges of its net investments in subsidiary undertakings. The exchange gains of £1.7m on the US dollar borrowings and the losses of £1.5m on the euro borrowings were recognised in other comprehensive income at 31 December 2013.

During 2012, Essentra 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.

Finance income and expense arising on financial assets and financial liabilities held at amortised cost are those amounts, excluding interest on pension scheme assets and interest on pension scheme liabilities, detailed in note 4.

16. DEFERRED TAX

Deferred tax assets and liabilities are attributable to the following:

			2013
	Assets £m	Liabilities £m	Net £m
Property, plant and equipment	**(2.2)**	**15.1**	**12.9**
Intangible assets	**(0.5)**	**45.5**	**45.0**
Employee benefits	**(12.0)**	**5.1**	**(6.9)**
Other	**(16.6)**	**6.3**	**(10.3)**
Tax (assets) / liabilities	**(31.3)**	**72.0**	**40.7**
Set off of tax	**24.9**	**(24.9)**	**–**
Net tax (assets) / liabilities	**(6.4)**	**47.1**	**40.7**

			2012 (Restated)
	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)	4.1	(10.2)
Other	(13.0)	0.3	(12.7)
Tax (assets) / liabilities	(28.9)	44.1	15.2
Set off of tax	17.4	(17.4)	–
Net tax (assets) / liabilities	(11.5)	26.7	15.2

Movements in temporary differences in the year:

	Note	2013 £m	2012 (Restated) £m
Beginning of year		**15.2**	7.2
(Credit) / charge to the income statement in respect of current year		**(1.8)**	3.5
Credit to the income statement in respect of prior years		**(0.8)**	(0.4)
Charge to other comprehensive income on movements on defined benefit pension schemes		**3.1**	1.2
Credit to reserves on share-based incentives		**(1.0)**	(1.9)
Acquisitions	23	**25.0**	5.9
Currency translation		**1.0**	(0.3)
End of year		**40.7**	15.2

No deferred tax liability is provided in respect of any future remittance of earnings of foreign subsidiaries where Essentra 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. The amount of temporary differences associated with investments in subsidiaries and branches for which deferred tax liabilities have not been recognised is £97.4m as at 31 December 2013 (2012: £85.8m), and the associated amount of unrecognised deferred tax is £7.6m (2012: £7.1m). Deferred tax assets of £0.2m (2012: £0.2m) 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 £24.6m (2012: £22.8m).

17. PROVISIONS

	Note	Discontinued £m	Reorganisation £m	Other £m	2013 Total £m
Beginning of year		2.3	5.3	12.7	**20.3**
Provisions made during the year		–	2.3	2.2	**4.5**
Provisions released during the year		–	–	(5.9)	**(5.9)**
Utilised during the year		–	(4.4)	(2.1)	**(6.5)**
Acquisitions	23	–	1.0	4.1	**5.1**
Transferred to accruals and other payables		–	(0.5)	(1.5)	**(2.0)**
Currency translation		–	(0.1)	–	**(0.1)**
End of year		**2.3**	**3.6**	**9.5**	**15.4**
Non-current		–	–	3.1	**3.1**
Current		2.3	3.6	6.4	**12.3**
		2.3	**3.6**	**9.5**	**15.4**

	Discontinued £m	Reorganisation £m	Other £m	2012 Total £m
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	–	–	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

Discontinued provisions relate to warranties made on the disposal of Globalpack. Reorganisation provisions are held against restructuring and redundancy costs, primarily related to the integration of acquired businesses and restructuring associated with acquisitions. Other provisions relate primarily to vacant properties, employees' compensation claims, other claims and product warranties. Non-current provisions are generally long-term in nature with uncertain timing of utilisation. The release during the year relates mostly to claims and warranty liabilities.

18. EMPLOYEE BENEFITS

Post-employment benefits
The Group operates a number of defined benefit and defined contribution pension schemes around the world covering many of its employees. The Group also has a number of other post-employment obligations in certain countries, some of which are required under local law.

The defined benefit plans are administered by boards of trustees and the assets are held independently from Essentra. The boards of trustees comprise member nominated trustees, employer nominated trustees and independent advisory trustees. The articles of the plans prohibit a majority on the boards to be established by either the member or employer nominated trustees.

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 2012 and annual actuarial valuations are performed on the principal US defined benefit schemes. The assets and liabilities of the defined benefit schemes have been updated to the balance sheet date from the most recent actuarial valuations taking account of the investment returns achieved by the schemes and the level of contributions.

The principal European defined benefit schemes entitle remaining members to a pension calculated on 1.25% or 2% of their capped final pensionable pay multiplied by the number of pensionable years of service. Some members have historical entitlements to accrual rates of 1.67%-1.9% and 3% for certain tranches of their service. The principal US defined benefit schemes entitle certain participating employees to annuity benefits equal to 50% of final average pensionable salary, reduced for years of service less than 30, and other participating employees to annuity benefits equal to $49 per month for each year of service.

NOTES CONTINUED

18. EMPLOYEE BENEFITS CONTINUED

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

	Note	2013 £m	2012 (Restated) £m
Amounts expensed against operating profit			
Defined contribution schemes		**3.2**	2.4
Defined benefit schemes		**2.4**	2.3
Other post-employment obligations		**–**	–
Total operating expense		**5.6**	4.7
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			
Net interest on defined benefit scheme assets	4	**(0.8)**	(0.3)
Net interest on defined benefit scheme liabilities	4	**0.9**	1.2
Net finance expense		**0.1**	0.9
Amounts recognised in the consolidated statement of comprehensive income			
Return on defined benefit scheme assets excluding amounts in net finance income		**10.8**	7.4
Impact of changes in assumptions and experience to the present value of defined benefit scheme liabilities		**0.4**	(1.3)
Remeasurement of defined benefit schemes		**11.2**	6.1

In 2012 a defined benefit plan in the Group's Extrusion business was closed resulting in an exceptional credit to the income statement.

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

	2013		2012	
	Europe	US	Europe	US
Increase in salaries (pre-2010)[1]	3.00%	3.00%	3.00%	3.00%
Increase in salaries (post-2010)[1]	3.00%	3.00%	3.00%	3.00%
Increase in pensions[1]				
at RPI capped at 5%	3.30%	n/a	2.80%	n/a
at CPI capped at 5%	2.40%	n/a	2.20%	n/a
at CPI minimum 3%, capped at 5%	3.30%	n/a	3.30%	n/a
at CPI capped at 2.5%	1.90%	n/a	1.80%	n/a
Discount rate	4.50%	4.90%	4.50%	4.10%
Inflation rate	2.90%	n/a	2.50%	n/a

[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%

Due to the timescale covered, the assumptions applied may not be borne out in practice.

The life expectancy assumptions used to estimate defined benefit obligations at the year end are:

	2013		2012	
	Europe	US	Europe	US
Male retiring today at age 65	**22.3**	**19.3**	21.3	19.2
Female retiring today at age 65	**24.7**	**21.1**	24.0	21.0
Male retiring in 20 years at age 65	**24.2**	**19.3**	23.2	19.2
Female retiring in 20 years at age 65	**26.5**	**21.1**	25.9	21.0

The allocation of assets between different classes of investment is reviewed regularly and is a key factor in the Trustees' investment policies. The allocation of assets is arrived at taking into consideration current market conditions and trends, the size of potential returns relative to investment risk and the extent to which asset realisation needs to match liability maturity. There are risks underlying these considerations. If asset returns fall below the returns required for scheme assets to match the present value of scheme liabilities, a scheme deficit results. Persistent deficits represent an obligation the Group has to settle through increased cash contributions. If asset maturities are not properly matched with liability maturities, there is also the risk that the Group could be required to make unplanned short-term cash contributions to resolve resulting liquidity issues. Scheme assets are invested by the Trustees in asset classes and markets that are considered to be reasonably liquid, so this matching and liquidity risk is considered to be sufficiently mitigated.

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:

					2013
		Europe £m		**US £m**	**Total £m**
Equities	51%	91.8	62%	28.5	**120.3**
Corporate bonds	17%	31.4	34%	15.5	**46.9**
Government bonds	31%	56.4	0%	–	**56.4**
Other	1%	1.2	4%	1.8	**3.0**
Fair value of scheme assets		180.8		45.8	**226.6**
Present value of scheme liabilities		(158.9)		(54.4)	**(213.3)**
Net retirement benefit assets / (obligations)		**21.9**		**(8.6)**	**13.3**

					2012 (Restated)
		Europe £m		**US £m**	**Total £m**
Equities	51%	84.1	49%	20.6	104.7
Corporate bonds	19%	31.3	50%	20.9	52.2
Government bonds	29%	48.1	0%	–	48.1
Other	1%	1.9	1%	0.3	2.2
Fair value of scheme assets		165.4		41.8	207.2
Present value of scheme liabilities		(151.3)		(59.8)	(211.1)
Net retirement benefit assets / (obligations)		14.1		(18.0)	(3.9)

The equity, corporate bond and government bond assets are either direct investments or investments made via a managed fund for those asset classes. All of these assets have a quoted market price in an active market. The other asset class relates primarily to property and hedge funds, which are valued at their cumulative unit offer price. No direct investment in property is held. No plan assets are invested directly in the shares of Essentra plc.

The average expected duration of the Group's European defined benefit liability at 31 December 2013 is 20 years (2012: 21 years). The average expected duration of the Group's US defined benefit liability at 31 December 2013 is 12.3 years (2012: 13.3 years).

The Group's contributions to its defined benefit schemes are determined in consultation with trustees, taking into consideration actuarial advice, investment conditions and other local conditions and practices. In 2014, the Group expects to make defined benefit contributions of £2.8m to its European schemes and $3.8m to its US schemes.

NOTES CONTINUED

18. EMPLOYEE BENEFITS CONTINUED

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

	2013				2012 (Restated)			
	Defined benefit scheme assets £m	Defined benefit scheme liabilities £m	Other £m	Total £m	Defined benefit scheme assets £m	Defined benefit scheme liabilities £m	Other £m	Total £m
Beginning of year	**207.2**	**(211.1)**	**–**	**(3.9)**	198.8	(218.4)	–	(19.6)
Service cost and administrative expense	**(0.7)**	**(1.7)**	**–**	**(2.4)**	(0.8)	(1.5)	–	(2.3)
Employer contributions	**8.5**	**–**	**–**	**8.5**	9.9	–	–	9.9
Employee contributions	**0.4**	**(0.4)**	**–**	**–**	0.4	(0.4)	–	–
Return on plan assets excluding amounts in net finance income	**10.8**	**–**	**–**	**10.8**	7.4	–	–	7.4
Actuarial gains / (losses) arising from change in financial assumptions	**–**	**3.6**	**–**	**3.6**	–	(8.3)	–	(8.3)
Actuarial gains / (losses) arising from change in demographic assumptions	**–**	**(2.6)**	**–**	**(2.6)**	–	–	–	–
Actuarial gains / (losses) arising from experience adjustment	**–**	**(0.6)**	**–**	**(0.6)**	–	7.0	–	7.0
Finance income / (expense)	**9.2**	**(9.3)**	**–**	**(0.1)**	8.8	(9.7)	–	(0.9)
Benefits paid	**(7.3)**	**7.3**	**–**	**–**	(7.2)	7.2	–	–
Settlements	**–**	**–**	**–**	**–**	(7.9)	9.6	–	1.7
Currency translation	**(1.5)**	**1.5**	**–**	**–**	(2.2)	3.4	–	1.2
Business combination	**–**	**–**	**(1.1)**	**(1.1)**	–	–	–	–
Other	**–**	**–**	**(1.6)**	**(1.6)**	–	–	–	–
End of year	**226.6**	**(213.3)**	**(2.7)**	**10.6**	207.2	(211.1)	–	(3.9)

Sensitivity
For the significant assumptions used in determining defined benefit 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 2013.

	Scheme liabilities			Annual service cost		
	Europe £m	US £m	Total £m	Europe £m	US £m	Total £m
0.5% decrease in the discount rate	(14.7)	(3.4)	**(18.1)**	(0.1)	(0.1)	**(0.2)**
1.0% increase in the rate of inflation	(10.6)	n/a	**(10.6)**	–	n/a	**–**
1.0% increase in rate of salary / pension increases	(4.7)	(0.3)	**(5.0)**	–	–	**–**
1 year increase in life expectancy	(3.8)	(1.3)	**(5.1)**	–	–	**–**
0.5% increase in the discount rate	12.7	3.1	**15.8**	0.1	0.1	**0.2**
1.0% decrease in rate of salary / pension increases	4.4	0.3	**4.7**	0.1	–	**0.1**
1.0% decrease in the rate of inflation	9.1	n/a	**9.1**	0.1	n/a	**0.1**

Share-based incentives

Essentra operates equity-settled share-based incentive plans for its Executive Directors and employees. The total expense in respect of these plans during the year was £5.1m (2012: £4.0m). Details of these plans are set out below:

Share options outstanding

												2013
	At 1 Jan 2013	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 2013**	**Weighted average exercise price**	**Exercisable at 31 Dec 2013**	**Weighted average exercise price**
LTIP Part A	6,000,792	252.4p	483,069	692.0p	(203,030)	414.0p	(1,931,892)	181.7p	**4,348,939**	**325.1p**	**857,930**	**184.1p**
LTIP Part B	3,536,890	–	1,024,549	–	(423,069)	–	(918,062)	–	**3,220,308**	**–**	**229,235**	**–**
DASB	507,219	–	167,404	–	(67,630)	–	(178,903)	–	**428,090**	**–**	**–**	**–**
SAYE 3 year plan	900,990	232.6p	256,578	495.0p	(51,511)	354.2p	(379,210)	159.9p	**726,847**	**354.5p**	**–**	**–**
SAYE 5 year plan	568,903	190.8p	67,032	495.0p	(30,091)	330.4p	(306,784)	156.7p	**299,060**	**279.9p**	**–**	**–**
	11,514,794		**1,998,632**		**(775,331)**		**(3,714,851)**		**9,023,244**		**1,087,165**	

												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	

The exercise prices of options outstanding at the end of the year range from nil to 692.0p.

The weighted average share price at the date of exercise for options exercised during the year was 712.5p (2012: 479.3p). The following table shows the weighted average fair value at the date of grant for options granted during the year:

	LTIP Part A	LTIP Part B	DASB	SAYE 3 year plan	SAYE 5 year Plan
Year ended 31 December 2013	**141.4p**	**534.7p**	**625.9p**	**210.4p**	**261.0p**
Year ended 31 December 2012	98.6p	366.2p	412.2p	130.2p	163.7p

NOTES CONTINUED

18. EMPLOYEE BENEFITS CONTINUED

Fair value model inputs for share options awarded

					2013
	LTIP Part A	LTIP Part B	DASB	SAYE 3 year plan	SAYE 5 year plan
Weighted average fair value at grant	80.2p	370.0p	458.7p	142.4p	134.1p
Weighted average share price at grant	325.1p	476.8p	490.4p	471.5p	375.8p
Weighted average exercise price	325.1p	–	–	354.5p	279.9p
Weighted average volatility	36.1%	31.4%	31.4%	32.4%	34.9%
Weighted average dividend yield	3.14%	2.42%	2.36%	2.42%	2.84%
Weighted risk free rate	1.43%	0.84%	0.78%	1.10%	2.33%
Expected employee retention rates	89.8%	100.0%	100.0%	75.0%	75.0%
Expected term	3.37 years	3.03 years	3.00 years	3.00 years	5.00 years
Valuation model	Binomial	Monte Carlo	Binomial	Binomial	Binomial

					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

Where relevant, market conditions are taken into account in determining the fair value of the awards at grant date. 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.

					2013 and 2012
	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 67 to 84 of the 2013 Annual Report Book 1.

19. SHARE CAPITAL

	2013 £m	2012 £m
Issued and fully paid ordinary shares of 25p (2012: 25p) each	**60.1**	54.8
Number of ordinary shares in issue		
Beginning of year	**219,326,796**	219,326,796
Issue of shares during the year	**21,142,613**	–
End of year	**240,469,409**	219,326,796

At 31 December 2013 the Company held 5,305,790 (2012: 7,944,568) of its own shares in treasury.

To fund the acquisition of Contego (see note 23), Essentra issued a total of 21,142,613 new ordinary shares of 25p each at a price of 675p per share, raising gross proceeds of £142.7m. Issue costs of £1.0m were incurred. The excess of the net proceeds over the nominal value of shares issued is recorded in a merger relief reserve in accordance with Section 612 of the Companies Act 2006.

20. RESERVES

Within retained earnings the Company has deducted the value of own shares purchased for an employee trust and treasury shares held by the Company with a total cost of £30.4m (2012: £25.9m).

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 67 to 84 of the 2013 Annual Report Book 1. The assets, liabilities and expenditure of the trust have been incorporated in these financial statements. At 31 December 2013 the trust held 2,484,586 (2012: 1,614,685) shares, upon which dividends have been waived, with an aggregate nominal value of £0.6m (2012: £0.4m) and market value of £21.3m (2012: £8.9m).

The Company holds 5,305,790 ordinary shares with a nominal value of £1.3m in treasury. This represents 2.2% of the number of ordinary shares in issue.

The other reserve relates to the Group reorganisation, which took place as part of the demerger from Bunzl plc. It represents the difference between Essentra plc's share capital and Essentra International Limited's share capital and share premium on 6 June 2005 and is not distributable.

21. ANALYSIS OF NET DEBT

	1 Jan 2013 £m	Cash flow £m	Exchange movements £m	Non-cash movements £m	31 Dec 2013 £m
Cash at bank and in hand	40.2	2.3	(0.5)	–	**42.0**
Short-term bank deposits and investments	1.2	1.2	(0.3)	–	**2.1**
Cash and cash equivalents in the statement of cash flows	41.4	3.5	(0.8)	–	**44.1**
Debt due within one year	–	(0.2)	0.3	(6.6)	**(6.5)**
Debt due after one year	(204.9)	(37.5)	0.9	(13.2)	**(254.7)**
Net debt	(163.5)	(34.2)	0.4	(19.8)	**(217.1)**

The non-cash movements represent the amortisation of prepaid facility fees and the increase in net debt from loans acquired.

	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 movement is the amortisation of prepaid facility fees, acquisition of debt through business combinations and movement of debt due after one year to debt due within one year.

22. COMMITMENTS

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

	2013 £m	2012 £m
Payable within one year	**7.0**	4.4
Payable between one and five years	**18.0**	8.7
Payable after five years	**11.4**	6.5
	36.4	19.6

NOTES CONTINUED

23. ACQUISITIONS

2013 acquisitions: Ulinco
On 20 February 2013, Essentra 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 is reported under the Component & Protection Solutions division. The acquisition of Ulinco Components expanded the product range and customer base of the Component Distribution businesses and extended the division's geographical presence in the Nordic region.

On acquisition the assets and liabilities of the business acquired were adjusted to reflect their fair values to Essentra. Had the acquisition been completed on 1 January 2013, the Group's revenue and operating profit before amortisation and exceptional items would have been £798.6m and £130.5m respectively.

Ulinco Components contributed £3.1m to revenue in the period from acquisition to 31 December 2013. The amount of post-acquisition operating profit cannot be reliably estimated, as the operations of Ulinco Components have since been integrated with Essentra's other operations in Sweden, and the results have become indistinguishable. Related acquisition expenses of £0.3m were recognised in the income statement in exceptional operating items.

A summary of the acquisition of Ulinco Components is detailed below:

	Fair value of assets / (liabilities) acquired £m
Property, plant and equipment	–
Inventories	0.4
Receivables	0.4
Cash and cash equivalents	0.2
Deferred tax	(0.9)
Payables	(0.5)
Provisions	(0.1)
	(0.5)
Customer relationships	3.9
Other intangible assets	0.2
Goodwill	3.9
Consideration	7.5
Satisfied by:	
Initial cash consideration	6.7
Deferred contingent consideration	0.8
Cash consideration	6.7
Cash and cash equivalents acquired	(0.2)
Net cash flow in respect of the acquisition	**6.5**

The deferred contingent consideration of £0.8m becomes payable between 1 and 2 years after completion subject to the achievement of certain performance conditions.

Property, plant and equipment, inventories, receivables and payables were all reassessed to their fair value. The fair value of receivables represents the gross contractual amounts receivable. The provisional fair values as shown in the table above have been adjusted from the amounts previously disclosed in the 2013 half-yearly financial statements, mainly reflecting a more detailed valuation of the customer relationship intangible assets and adjustments to liabilities including deferred tax.

Goodwill represents the expected operating synergies and financial synergies, and the value of an assembled workforce. Goodwill is not deductible for tax purposes. The adjustment to deferred tax is the tax effect of recognising customer relationships and other intangible assets and the tax effect of the fair value adjustments above.

2013 acquisitions: Contego

On 30 April 2013, Essentra acquired 100% of the share capital of Contego Healthcare Limited ("Contego") from Maximus Holding II. S.Á.R.L. and Storey Evans & Company Limited. Contego is a pan-European specialist business, providing a range of innovative print, packaging and support services to the pharmaceutical and healthcare markets from operational sites across Europe. Contego's product portfolio is complementary to Essentra's existing packaging solutions capabilities in the pharmaceutical and healthcare markets of labels, tear tape and authentication technologies. As such, the acquisition enhances the range and innovation offered to existing Contego and Essentra customers, and provides access to potential new customers through leveraging skills in the combined Group. The acquisition of Contego also provides opportunities for further development in both Porous Technologies and in speciality tapes through an expanded and more focused category-based commercial approach.

On acquisition the assets and liabilities of the business acquired were adjusted to reflect their fair values to Essentra. Due to the timing of the transaction, the fair value adjustments are provisional and subject to finalisation for up to one year from the date of acquisition. Had the acquisition been completed on 1 January 2013, the Group's revenue and operating profit before amortisation and exceptional items would have been £833.7m and £135.6m respectively.

Contego contributed £61.4m to revenue and £7.0m to operating profit before intangible amortisation in the period from acquisition to 31 December 2013. Related acquisition expenses of £2.5m were recognised in the income statement in exceptional operating items.

A summary of the acquisition of Contego is detailed below:

	Fair value of assets / (liabilities) acquired £m
Property, plant and equipment	24.2
Inventories	6.0
Receivables	23.9
Cash and cash equivalents	10.7
Deferred tax	(18.7)
Loans and borrowings	(14.0)
Payables	(18.2)
Income tax	(0.8)
Provisions	(3.2)
Retirement benefit obligations	(1.1)
	8.8
Customer relationships	74.4
Other intangible assets	1.2
Goodwill	71.9
Consideration	156.3
Satisfied by:	
Initial cash consideration	156.3
Cash consideration	156.3
Cash and cash equivalents acquired	(10.7)
Net cash flow in respect of the acquisition	**145.6**

Property, plant and equipment, inventories, receivables and payables were all reassessed to their fair value. The fair value of trade receivables acquired is stated net of an allowance for impairment losses of £0.9m. The amount of the allowance represents the best estimate as at the date of acquisition. The provisional fair values as shown in the table above have been adjusted from the amounts previously disclosed in the 2013 half-yearly financial statements, mainly reflecting a more detailed valuation of the customer relationship intangible assets and adjustments to liabilities including deferred tax and provisions.

Goodwill represents the expected operating synergies and financial synergies, and the value of an assembled workforce. Goodwill is not deductible for tax purposes. The adjustment to deferred tax is the tax effect of recognising customer relationships and other intangible assets and the tax effect of the fair value adjustments above.

NOTES CONTINUED

23. ACQUISITIONS CONTINUED

2013 acquisitions: Dakota and Mesan
On 7 November 2013, Essentra acquired 100% of the share capital of Dakota Packaging Limited ("Dakota"). Based in Dublin, Dakota is a supplier of printed, folding and litho-laminate cartons to the pharmaceutical and healthcare end-markets in Ireland, and is reported under the Packaging & Securing Solutions division. The acquisition of Dakota reinforced the division's product range and customer base in healthcare packaging, and provided significant additional scale in the Irish market.

On 30 December 2013, Essentra acquired 100% of the share capital of Mesan Kilit A.S. ("Mesan"). Mesan is reported under the Component & Protection Solutions division. Mesan is a Turkish manufacturer and distributor of a range of locks, hinges, latches and hardware accessories for use in a wide variety of attractive growth end-markets. These markets include electricity and power distribution, telecoms, industrial, IT and transportation. Based in Istanbul, Mesan additionally exports to more than 75 countries, including to the Middle East & Africa and Asia. The acquisition of Mesan enhanced Essentra's offering in the growing hardware sector, and provided entry into the Turkish market and a number of other fast-growing export markets for the Components business, as well as a platform for the geographical expansion of Essentra's other activities in the region.

On acquisition the assets and liabilities of the business acquired were adjusted to reflect their fair values to Essentra. Due to the timing of the transactions, the fair value adjustments are provisional and subject to finalisation for up to one year from the respective date of acquisition. The impact on Group revenue and operating profit if the acquisitions had been completed on 1 January 2013 is currently being assessed.

Dakota contributed revenue of £0.9m and an operating loss of £0.1m in the period from acquisition to 31 December 2013. Related acquisition expenses of £0.5m were recognised in the income statement in exceptional operating items.

As Mesan was acquired shortly before the year end, it contributed no revenue and operating profit to the Group during 2013. Related acquisition expenses of £0.6m were recognised in the income statement in exceptional operating items.

A summary of the acquisitions of Dakota and Mesan is detailed below:

	Fair value of assets / (liabilities) acquired		
	Dakota £m	Mesan £m	Total £m
Property, plant and equipment	0.5	1.2	1.7
Inventories	0.8	1.3	2.1
Receivables	1.7	1.9	3.6
Cash and cash equivalents	–	0.3	0.3
Deferred tax	(1.1)	(3.8)	(4.9)
Loans and borrowings	–	(4.7)	(4.7)
Payables	(2.0)	(2.4)	(4.4)
Provisions	(1.8)	–	(1.8)
	(1.9)	(6.2)	(8.1)
Customer relationships	7.3	18.8	26.1
Other intangible assets	0.3	–	0.3
Goodwill	7.3	16.2	23.5
Consideration	13.0	28.8	41.8
Satisfied by:			
Initial cash consideration	13.0	23.4	36.4
Deferred contingent consideration	–	5.4	5.4
Cash consideration	13.0	23.4	36.4
Cash and cash equivalents acquired	–	(0.3)	(0.3)
Net cash flow in respect of the acquisitions	**13.0**	**23.1**	**36.1**

The Mesan deferred contingent consideration becomes payable within three years after completion subject to the achievement of certain performance conditions.

Property, plant and equipment, inventories, receivables and payables were all reassessed to their fair value. The fair value of receivables shown in the table above represents the gross contractual amounts receivable less an allowance for impairment losses of £0.6m. The amount of the allowance represents the best estimate as at the date of acquisition.

Goodwill represents the expected operating synergies and financial synergies, and the value of an assembled workforce. Goodwill is not deductible for tax purposes. 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.

Relevant previous acquisitions

During 2013, Essentra reassessed the fair value adjustments made in respect of Securit, Lymtech and Jae Yong, which were acquired in 2012, and made changes to certain accruals and adjustments to the fair value of receivables and inventories. These adjustments were insignificant individually and in aggregate, and had no overall impact on goodwill recognised in respect of these acquisitions. In addition, deferred tax in relation to Lymtech was increased by £1.8m, resulting in an increase in goodwill by the same amount.

24. DISPOSALS

In December 2012, Essentra 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.

In July 2011, Essentra disposed of its shares in FractureCode Corporation ApS ("FractureCode") to ITO Technologies ApS for consideration of £0.3m payable over two years. In 2012, Essentra received £0.2m from ITO Technologies ApS, which represented the final instalment of the consideration.

25. DIVIDENDS

	Per share		Total	
	2013 **p**	**2012** **p**	**2013** **£m**	**2012** **£m**
2012 interim: paid 26 October 2012		3.9		8.2
2012 final: paid 30 April 2013		8.6		20.0
2013 interim: paid 28 October 2013	**4.8**		**11.2**	
2013 proposed final: payable 2 May 2014	**10.6**		**24.7**	
	15.4	12.5	**35.9**	28.2

26. TRANSACTIONS WITH RELATED PARTIES

On 3 July 2013, Essentra acquired a further 14.545% of the share capital of Filthai Company Limited ("Filthai") from the minority shareholders for a cash consideration of £1.9m. Other than the acquisition of further shares in Filthai and the compensation of key management (note 6), Essentra has not entered into any material transactions with related parties during the year.

27. PARENT COMPANY

Essentra 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 Essentra Group. Its registered office is Avebury House, 201-249 Avebury Boulevard, Milton Keynes MK9 1AU.

NOTES CONTINUED

28. ADJUSTED 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:

	2013 £m	2012 £m
Operating profit	**97.0**	85.6
Intangible amortisation	**14.2**	8.3
Exceptional operating items	**19.2**	10.6
Adjusted operating profit	**130.4**	104.5
Depreciation	**26.7**	22.6
Share option expense	**5.1**	4.0
Other non-cash items	**(6.0)**	(1.6)
Working capital movements	**(5.3)**	(7.8)
Net capital expenditure	**(43.7)**	(43.2)
Operating cash inflow	**107.2**	78.5

ESSENTRA PLC COMPANY BALANCE SHEET

at 31 December 2013

	Note	2013 £m	2012 £m
Fixed assets			
Investment in subsidiary undertaking	2,10	**439.2**	291.5
Current assets			
Debtors	3	**0.6**	0.5
Current liabilities			
Creditors: amounts falling due within one year	4	**(57.7)**	(10.3)
Net current liabilities		**(57.1)**	(9.8)
Non-current liabilities			
Creditors: amounts falling due after more than one year	5	**(95.5)**	(97.1)
Net assets		**286.6**	184.6
Capital and reserves			
Issued capital	7	**60.1**	54.8
Merger relief reserve	7,8	**136.4**	–
Capital redemption reserve	8	**0.1**	0.1
Profit and loss account	8	**90.0**	129.7
Shareholders' funds: equity interests		**286.6**	184.6

The Company financial statements on pages 131 to 135 were approved by the Board of Directors on 20 February 2014 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, Essentra plc (formerly Filtrona plc) ("the Company") 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 FRS 29 *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 Essentra 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 (2012: £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 110.

The Directors' remuneration, which was paid by Essentra International Limited is disclosed in the Report of the Remuneration Committee on pages 67 to 84 of the 2013 Annual Report Book 1.

2. INVESTMENTS HELD AS FIXED ASSETS

	Investment in subsidiary undertaking	
	2013 £m	**2012 £m**
At beginning of year	**291.5**	287.5
Additions	**147.7**	4.0
At end of year	**439.2**	291.5

3. DEBTORS

	2013 £m	**2012 £m**
Corporate taxes	**0.6**	0.5

4. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2013 £m	**2012 £m**
Accruals and deferred income	**1.0**	1.0
Amounts payable to subsidiary undertakings	**56.7**	9.3
	57.7	10.3

5. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2013 £m	**2012 £m**
Loan Notes	**95.5**	97.1

6. MATURITY OF FINANCIAL LIABILITIES

	Non bank loans	
	2013 £m	**2012 £m**
Debt can be analysed as falling due:		
Between one and five years	**47.9**	48.7
More than five years	**47.6**	48.4
	95.5	97.1

NOTES CONTINUED

7. SHARE CAPITAL

	2013 £m	2012 £m
Issued and fully paid ordinary shares of 25p (2012: 25p) each	**60.1**	54.8
Number of ordinary shares in issue		
Beginning of year	219,326,796	219,326,796
Issue of shares during the year	21,142,613	–
End of year	**240,469,409**	219,326,796

At 31 December 2013 the Company held 5,305,790 (2012: 7,944,568) of its own shares in treasury.

Essentra issued a total of 21,142,613 new ordinary shares of 25p each at a price of 675p per share, raising gross proceeds of £142.7m. Issue costs of £1.0m were incurred. The excess of the net proceeds over the nominal value of shares issued is recorded in a merger relief reserve in accordance with Section 612 of the Companies Act 2006.

8. MOVEMENTS ON RESERVES

			Profit and loss account	
	Merger relief reserve £m	Capital redemption reserve £m	Retained earnings £m	Own shares £m
1 January 2013	–	0.1	155.6	(25.9)
Loss for the year ended 31 December 2013			(2.0)	
Issue of shares	136.4			
Acquisition of employee benefit trust shares				(16.3)
Shares issued to satisfy employee share option exercises			(11.8)	11.8
Share options exercised			4.7	
Share-based payments			5.1	
Dividends paid			(31.2)	
31 December 2013	**136.4**	**0.1**	**120.4**	**(30.4)**

			Profit and loss account	
	Merger relief reserve £m	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)

As permitted by Section 408 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 £2.0m (2012: £1.4m).

Included in retained earnings are accumulated share-based payments of £22.5m (2012: £17.4m) which are credited directly to reserves and are not distributable. Full details of these share-based payments are set out in the Report of the Remuneration Committee on pages 67 to 84 of the 2013 Annual Report Book 1 and also on pages 123 to 124.

9. DIVIDENDS

	Per share		Total	
	2013 p	**2012 p**	**2013 £m**	**2012 £m**
2012 interim: paid 26 October 2012		3.9		8.2
2012 final: paid 30 April 2013		8.6		20.0
2013 interim: paid 28 October 2013	**4.8**		**11.2**	
2013 proposed final: payable 2 May 2014	**10.6**		**24.7**	
	15.4	12.5	**35.9**	28.2

10. PRINCIPAL SUBSIDIARY UNDERTAKINGS

	Country of incorporation
Essentra International Limited	UK
Essentra Finance Limited	UK
ESNT International Limited	UK
Essentra Components Limited	UK
ESNT Packaging & Securing Solutions Limited	UK
Essentra Packaging Limited	UK
Essentra Corp	US
Essentra Porous Technologies Corp	US
Essentra Holdings Corp	US
ESNT US Holdings Inc	US
Essentra Components Inc	US
Essentra International GmbH	Germany
PT Essentra	Indonesia
Essentra BV	The Netherlands
Essentra Pte Limited	Singapore

The companies named above are the principal subsidiary undertakings of Essentra 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.

Essentra International Limited is the only direct subsidiary of Essentra plc.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ESSENTRA PLC ONLY

OPINIONS AND CONCLUSIONS ARISING FROM OUR AUDIT

1. Our opinion on the financial statements is unmodified
We have audited the financial statements of Essentra plc for the year ended 31 December 2013 set out on pages 90 to 135. 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 2013 and of the Group's profit for the year then ended;

> the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;

> the parent company financial statements have been properly prepared in accordance with UK Accounting Standards; 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.

2. Our assessment of risks of material misstatement
In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit were as follows.

Warranty and restructuring provisions
Refer to page 63 (Report of the Audit Committee) of the 2013 Annual Report Book 1, page 101 (accounting policy) and page 119 (financial disclosures).

> **The risk** – The Group produces a wide range of products and operates manufacturing facilities in a number of countries. The Group has reorganised its facilities within the Component & Protection Solutions and Packaging & Securing Solutions segments. A provision for the future costs related to these reorganisations can only be recognised when sufficient information has been provided to the affected parties. Where a reorganisation is announced after the year end, judgement may be required to determine the impact of restructuring plans on forecasts used for impairment testing.

Many of the Group's products are used by its customers in creating their end product; if quality issues arise the Group may need to make a provision for returns. Measuring these provisions is a significant judgement and is inherently subjective.

> **Our response –** Our audit procedures included, among others:

– In respect of restructuring provisions, challenging the Group's assertion that their intentions were sufficiently clear to allow recognition of a restructuring provision by considering the information provided in the Group's external announcements (such as press releases) and comparing those announcements to the requirements within accounting standards. In assessing the amount of any restructuring provision to be recognised we considered: the content of the Group's external announcements; the relevant employment terms; the legal requirements of the relevant jurisdiction, which takes into account advice provided to the Group by their legal advisors where necessary; and the historical practice of the Group of making any payments over and above the minimum required by law. We also considered the carrying amount and remaining useful life of assets affected by restructuring programmes announced during the year and after the year end to assess whether any impairment charge was required. We have also considered the adequacy of the Group's disclosures in respect of restructuring provisions.

– In respect of warranty provisions, considering whether the Group's methodology for calculating the provision was appropriate based on the historical accuracy of the methodology. This included comparing actual outcomes to provision levels from prior periods and discussing significant customer complaints during the year end with the Group and divisional management. We considered changes in market conditions, such as new product launches, when setting our expectation based on past events. We compared actual warranty outflows post year end, where significant, to those expected at the balance sheet date. We have also considered the adequacy of the Group's disclosures in respect of warranty provisions.

Valuations of trade receivables
Refer to page 62 (Report of the Audit Committee) of the 2013 Annual Report Book 1, page 101 (accounting policy) and page 102 (financial disclosures).

> **The risk –** The Group has a large number of customers which in aggregate have significant outstanding balances. Some of these customers operate in countries facing more difficult economic circumstances, which exposes the Group to additional bad debt risk.

> **Our response –** Our audit procedures for valuation of trade receivables included, among others, testing the effectiveness of the Group's controls over the monitoring of receivables and over the collection process. We considered whether the Group's provisioning methodology, taking into consideration publicly available global and local country economic data (such as GDP information), was appropriate given the changing economic conditions faced by customers. We compared cash collections post year end to the Group's expectations at the balance sheet date, as well as assessing the ageing of the trade receivables. For the outstanding amounts we considered the location of the customer and the externally available market data for that country to set an expectation of the level of provision required and compared our expectation to the Group's provision. We have also considered the adequacy of the Group's disclosures about the degree of estimation involved in arriving at the provision.

Taxation contingencies

Refer to page 63 (Report of the Audit Committee) of the 2013 Annual Report Book 1 and page 101 (accounting policy).

> **The risk –** Accruals for tax contingencies require the directors to make judgements and estimates in relation to tax issues and exposures. This is one of the key judgemental areas that our audit is concentrated on due to the Group operating in a number of different tax jurisdictions and the complexities of transfer pricing and other international tax legislation

> **Our response –** In this area our audit procedures included, among others, assessment of correspondence with the relevant tax authorities and the use of internal tax specialists to analyse correspondence with tax authorities and challenge the assumptions used to determine the requirement for any tax provisions based on the internal tax specialists' knowledge of tax legislation and their past experience of the outcome of similar arrangements. We have also considered the adequacy of the Group's disclosures in respect of tax and uncertain tax positions.

3. Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at £6.4 million. This has been determined with reference to a benchmark of Group profit before taxation, which we consider to be one of the principal considerations for members of the company in assessing the financial performance of the Group. Materiality represents 7% of Group profit before tax and 5% of Group profit before tax adjusted for intangible amortisation and exceptional items, as disclosed on the face of the income statement.

We agreed with the audit committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of £0.3 million, in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

Audits for Group reporting purposes or specified audit procedures were performed by component auditors at the reporting components in the following countries:

Audits for group reporting purposes	Specified audit procedures
United Kingdom (8 sites)	United Kingdom (1 site)
United States of America (2 sites)	United States of America (4 sites)
Singapore (2 sites)	India (1 site)
Indonesia (1 site)	Italy (1 site)
Thailand (1 site)	Germany (1 site)
Netherlands (2 sites)	China (1 site)
Italy (2 sites)	Mexico (1 site)
Hungary (1 site)	
Germany (1 site)	

These Group procedures covered 72% of total Group revenue; 70% of Group profit before taxation; and 77% of net Group assets. The remaining 28% of Group revenue, 30% of Group profit before tax and 23% of Group net assets is represented by 82 components around the world. None of the 82 components represented more than 1.9% of total Group Revenue, 2.6% of Group profit before tax, or 1.9% of Group net assets. We consider the aggregate risk when performing our audit planning and during our final analytical procedures over the Group financial statements.

The audits undertaken for Group reporting purposes at the key reporting components of the Group were all performed to materiality levels set by, or agreed with, the Group audit team. These materiality levels were set individually for each component and ranged from £0.3m to £2.3m.

Detailed instructions were sent to all the auditors in these locations. These instructions covered the significant audit areas that should be covered by the component auditors (which included the relevant risks of material misstatement detailed above) and set out the information required to be reported back to the Group audit team. The Group audit team visited the following locations: United Kingdom, Hungary and United States. Telephone meetings were also held with the auditors at these locations and the majority of the other locations that were not physically visited.

4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

> the part of the Report of the Remuneration Committee to be audited has been properly prepared in accordance with the Companies Act 2006; and

> the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ESSENTRA PLC ONLY

5. We have nothing to report in respect of the matters on which we are required to report by exception
Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

> we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy; or

> the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

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

> adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or

> the parent company financial statements and the part of the Report of the Remuneration Committee to be audited are not in agreement with the accounting records and returns; or

> certain disclosures of directors' remuneration specified by law are not made; or

> we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

> the directors' statement, set out on page 87 of the 2013 Annual Report Book 1, in relation to going concern; and

> the part of the Corporate Governance Statement on pages 56 and 61 of the 2013 Annual Report Book 1, relating to the company's compliance with the nine provisions of the 2010 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

SCOPE AND RESPONSIBILITIES

As explained more fully in the Directors' Responsibilities Statement set out on page 88 of the 2013 Annual Report Book 1, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to Essentra plc's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2013a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Mike Barradell (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants
15 Canada Square
London
E14 5GL

20 February 2014

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

Computershare also has an internet facility whereby shareholders in Essentra 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 Tuesday 29 April 2014 at 12 noon.

Financial calendar 2014

Annual General Meeting	29 April 2014
First Interim Management Statement	29 April 2014
Final Dividend	3 May 2014
Half Year Report	31 July 2014

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.

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