ESSENTRA

HOW TO NAVIGATE THIS DOCUMENT

PDF INFO PAGE | SEARCH | PRINT | CONTENTS | PREVIOUS | NEXT | BACK

FOR BEST RESULTS

To view and use this PDF with its full functionality, you can download Adobe Reader here for free.

WHAT IS IN MY INTERACTIVE PDF?

At the top of each page in this PDF you will see a series of icons (as shown above). These icons allow you to navigate the PDF and access certain Acrobat Reader functionality.

WHAT DOES THE UNDERLINED TEXT ON SOME PAGES MEAN?

Throughout this report there are links to pages, other sections and web addresses for additional information. You can quick link from any piece of text that is underlined in black.

Example: This is an example of how the links appear within this document. They are recognisable by the text underline, simply click to go to the appropriate page or web URL www.Essentra.com.

WHAT DO THE ICONS MEAN?

Clicking on the buttons you will be able to:

Info icon:
Links you back to this information page.

Search icon:
Opens the search functionality in Acrobat in a separate panel allowing you to search the PDF.

Print icon:
Opens the print dialogue box.

Contents icon:
Links to the contents page within this PDF. You can click on any of the headings to jump to the area you want to go to (remember you also have the bookmark list to the left if you want to use that as well).

Previous page arrow icon:
Click on this to take you to the previous page in the PDF.

Next page arrow icon:
Click on this to take you to the next page in the PDF.

Back:
Click on this to take you back to your last visited page.

ESSENTRA

Annual Report 2014

This year, our Annual Report reflects a drive to streamline our publications – providing relevant content for specific audiences.

Keep up-to-date at www.essentra.com

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

Contents

ESSENTRA AT A GLANCE

Component & Protection Solutions

The Components business is a global, market-leading supplier of protection and finishing products, manufacturing and distributing plastic injection moulded, vinyl dip moulded and metal items. Operating units in 27 countries serve a very broad industrial base of customers with a rapid supply of essential components for a variety of applications in industries such as equipment manufacturing, automotive, fabrication, electronics and construction.

The Pipe Protection Technologies business specialises in the manufacture of high performance innovative products from commodity resins to engineering-grade thermoplastics and polymer alloys for use in a range of end-markets. Locations in four countries, combined with a wide distributor network, serve customers around the world.

2014 highlights

> Further balanced growth in both Components and Pipe Protection Technologies

> Benefit from site openings and geographical expansion

> Successful new business wins and product development in Pipe Protection Technologies

> Acquisition of Kelvindale Products Pty Ltd in Australia and the major operating subsidiaries of Abric Berhad in Malaysia

> Integration of Mesan Kilit A.S. in Turkey

> Go-live of new Components eCommerce platform

Revenue		
2014: £243.6m	2013: £223.7m	+8.9%

Operating profit[1]		
2014: £58.9m	2013: £52.6m	+12.0%

Further details
Page 18

Porous Technologies

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

2014 highlights

> Strong growth in household and personal care, boosted by significant new business wins

> Further successful globalisation of speciality wipes product line

> Increase in healthcare supported by advanced wound care and products using porous plastics

> Continued expansion of capabilities in writing instruments, particularly in nibs

> Successful conversion of intellectual property in wound care, printer systems and oil and water filtration

> Additional investment in nib development and speciality wipes

Revenue		
2014: £89.8m	2013: £100.0m	-10.2%

Operating profit[1]		
2014: £15.8m	2013: £23.5m	-32.8%

Further details
Page 21

Packaging & Securing Solutions

A leading global provider of packaging and securing solutions to a diversified blue-chip customer base. The division focuses on delivering value-adding innovation, quality and service through the provision of a wide range of cartons, tapes, leaflets, foils, labels and brand protection security solutions, and primarily serves the pharmaceutical, health and personal care, consumer and specialist packaging, and the point of purchase and paper and board industries. It is also Europe's leading provider of identity card printers, systems and accessories to direct and trade customers. Customers in over 100 countries are served from facilities in ten countries, with development and design centres supporting the division worldwide.

2014 highlights

> Growth led by healthcare and consumer packaging

> Continued strong contribution from the Speciality Tapes' Express format in North America

> Agreement to acquire the Specialist Packaging Division of Clondalkin Group, establishing a global leading player in specialist secondary packaging to the pharmaceutical, health and personal care industries

> Successful development of innovative new packaging products

> Accelerating acquisition integration savings from Contego Healthcare Limited and Dakota Packaging Limited

> Official opening of state-of-the-art manufacturing facility in Newport, UK

Revenue

2014: £216.3m	2013: £181.8m	+19.0%

Operating profit[1]

2014: £38.3m	2013: £30.2m	+26.8%

Further details
Page 24

Filter Products

The only global independent cigarette filter supplier. The nine worldwide locations, including a dedicated Technology Centre and three regional development facilities, provide a flexible infrastructure strategically positioned to serve the tobacco industry. The division supplies a wide range of value-adding high quality innovative filters, packaging solutions to the roll your own sector and analytical laboratory services for ingredient measurement to the industry.

2014 highlights

> Continued excellent growth, driven by successful new products and additional services

> Further increase in revenue from innovative special filters and ongoing intellectual property development

> Successful commercialisation of Smokeless Nicotine Device ("SND") products, including e-cigarettes

> Growth in Scientific Services, boosted by e-cigarette testing capabilities

> Ongoing production and quality efficiencies from investment in high speed, flexible equipment

> Reconfiguration of site footprint, to better serve customers and drive further opportunities and efficiencies

Revenue

2014: £291.5m	2013: £269.9m	+8.0%

Operating profit[1]

2014: £43.9m	2013: £40.1m	+9.5%

Further details
Page 28

1 Excluding intangible amortisation and exceptional items

WHAT WE DO

Our business model

Essentra operates at a Company, a divisional and a regional level. The Company is responsible for managing the overall portfolio of business activities, to create sustainable long-term value for shareholders. Essentra has established processes and procedures in place to ensure effective and efficient management across all of our segments.

Clear portfolio management

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

Strategic framework

Essentra's business and financial objectives were defined in its Vision 2015 strategy, which calls for balanced, profitable organic growth complemented by value-creating acquisitions. Each of the businesses is responsible for contributing to Essentra's overall strategic priorities, to ensure the Company's ongoing success and, hence, the creation of sustainable long-term shareholder value.

Risk management and governance

Effective management of risk and opportunity is essential to the protection of Essentra's reputation and the achievement of sustainable shareholder value. The Board of Directors is responsible for determining the risk attitude of the Company and for communicating to the organisation what constitutes acceptable risk-taking. The Board, supported by the Audit Committee, also oversees the management process for the identification, assessment and mitigation of risk across Essentra.

Talent management

Essentra's employees are a vital resource in the pursuit of operational excellence and the provision of quality products and service. The skills and expertise of Essentra's employees drive the innovation which enables the Company to provide added value to its customers, enhance supply chain logistics with its suppliers and reduce the environmental impact of its operations. The Company regularly reviews its organisational structure to ensure that the business has the necessary personnel to deliver its strategic priorities.

Legal requirements and compliance

Essentra is committed to ensuring that all of its activities are conducted in accordance with all applicable legal and regulatory requirements and the highest standards of ethical business conduct. The Company's Code of Business Ethics policy aims to guide stakeholders, including employees, on the elements that drive the conduct of Essentra businesses. The way in which Essentra does business reflects its commitment to profitable growth, sustainable development and integrity, and the Company's policies continue to promote fair and ethical dealings with customers and competitors as a matter of law and conscience.

Shared divisional priorities

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

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

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

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

Develop long-term customer relationships
We develop and maintain a close relationship with a wide portfolio of blue-chip customers, who are successful leaders in their respective markets. The high standards of service and supply demanded by such customers help to drive continuous improvement across the Company. Our manufacturing and distribution expertise adds value in response to customer demands, and our innovative capabilities drive the joint development of new products and services with key strategic partners.

Delivering value

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

CHIEF EXECUTIVE'S REVIEW

In the final year of Vision 2015, I am pleased to report that in 2014 we again successfully delivered our strategic objectives.

Delivering balanced, profitable growth in 2014 ...
In FY 2014, revenue increased 9% on a like-for-like basis – well ahead of our "at least our mid single-digit growth" objective – with this strong result being supported by investment in both existing and new geographies, improved marketing effectiveness and continued product innovation.

FY 2014 adjusted operating profit rose 16% (at constant exchange), equating to a 30bps uplift in the margin to 16.5%. This improvement came from the delivery of acquisition integration synergies and other savings initiatives – combined with ongoing discipline around our underlying cost base. Financing costs benefited from the successful refinancing of our banking facilities at more favourable rates in July and, combined with a further 250bps improvement in the tax rate, adjusted earnings per share (at constant exchange) increased 19%, again well in excess of our "at least double-digit growth" objective.

2014 saw further investment in future revenue growth opportunities, with capital expenditure of £38m. However, notwithstanding this spend, our operating cash flow conversion ratio remained strong at 75%, and was boosted by a further 10bps improvement in underlying net working capital / revenue. Underpinned by this strong cash flow generation, we again confirmed our commitment to paying a progressive dividend, with a recommended increase in the FY 2014 payout of 19%, to 18.3p per share.

Consistent with our strategic objectives, we successfully completed a number of value-adding acquisitions to complement the organic performance of the Company. In Component & Protection Solutions, we undertook a number of attractive bolt-on transactions in 2014, which have not only expanded our product offering to customers but also provided compelling entry points into new geographies. First, in January, we announced that we had purchased Mesan Kilit A.S. ("Mesan"), the leading Turkish manufacturer and distributor of locks, hinges, latches and hardware accessories for use in a wide variety of attractive growth end-markets. Then in April, we reported the acquisition of Kelvindale Products Pty Ltd ("Kelvindale") in Australia, a leading manufacturer and distributor of an extensive range of plastic protection and finishing products. And finally, in December, we announced that we had completed the acquisition of 100% of the share capital of the major operating subsidiaries of Abric Berhad ("Abric Seals"), a global leading manufacturer and distributor of security sealing products and solutions based in Malaysia.

Separately in Packaging & Securing Solutions, in November we announced an agreement to acquire the Specialist Packaging Division of Clondalkin Group ("Clondalkin SPD"), a leading global provider of a broad suite of speciality secondary packaging solutions for the pharmaceutical, health and personal care industries. With 24 facilities in North America and Europe, Clondalkin SPD transforms our existing geographical capabilities to pharmaceutical and healthcare customers who are increasingly seeking a global partner for their packaging requirements. In addition, Clondalkin SPD's complementary portfolio of folding carton, product literature and labels not only broadens the range and innovation offered to these targeted end-markets, but also significantly enhances Essentra's position in the growing personal care and beauty packaging industry.

Valued at approximately US$455m, Clondalkin SPD is by far the largest transaction we have undertaken to date, and the Board was very encouraged by the support for the deal shown by the Company's major shareholders through their participation in the 9.99% placing of ordinary shares which partially funded the consideration. With a price of 713.5p per placing share – at par with the previous day's close – the placing raised gross proceeds of £168.8m. The acquisition of Clondalkin SPD completed on 30 January 2015.

During the year, we also continued our investment in our site footprint, as well as identified further opportunities for rationalisation and efficiency savings through adopting a more Company-wide approach to our manufacturing and distribution capabilities. In Newport, UK, we opened a purpose-built 52,000 sq. ft. labels manufacturing facility, incorporating the latest in digital printing capability and the best in cleanroom technology, to meet the growing needs of the Company's targeted healthcare and consumer packaging end-markets from a world-class operation. In Louisville, US, our new warehousing and distribution facility not only allows us to provide an even wider choice of standard Components products for rapid delivery, but is now also holding speciality wipes and other porous components, and has the scope to accommodate more of Essentra's products over time. And in Alta Parana, Paraguay, what was previously just a Filter Products manufacturing site has received investment in additional capacity and tear tape slitting equipment, providing a cost-effective way of expanding our presence in Latin America.

... and over the course of Vision 2015
Back in 2011 when I joined the Company, I said that I had found a business that was essentially in good shape and doing many positive things, with an international footprint, leading market positions and a loyal, experienced workforce: in essence, a business that was solid, steady and stable. At the same time, I stated that the introduction of Vision 2015 represented a more ambitious strategy for the Company, looking to build on the positive features and values which I inherited, while rekindling an appetite for growth behind key objectives and targets, and creating a more unified culture across the

organisation. In reviewing the Company's performance over the last three and a half years, versus our objective of creating sustainable long-term value for our shareholders, and our strategic and operational priorities, the Board and the Group Management Committee ("GMC") believe that we have made good progress.

From the outset of Vision 2015, we have sought to reposition the business to focus on revenue growth and – with the Company being a high volume manufacturer, supplier and distributor of essential components – looked to volume to be the key driver of our top-line performance. In this respect, our compound annual growth rate ("CAGR") in revenue of 9% – of which volume has averaged c. 7% pa – has demonstrated a consistent ability to outperform our weighted average market growth rate (which we estimated at low to mid single-digit).

At the same time, we have improved the Group adjusted operating margin by 110bps – equating to a CAGR in adjusted operating profit of 16%. This increase in absolute terms has partially been impacted by the acquisitions which we have undertaken during the period (which are typically, initially at least, at a lower margin than the Company average) – as well as the mix impact of the very high revenue growth in the lower margin Filter Products division. However, our volume-driven revenue growth, together with rigorous control of our cost base, the successful delivery of acquisition integration synergies and other savings initiatives, have nonetheless fuelled a strong improvement in the profitability of the Company.

Cash flow generation has equally been a key performance indicator where – over the course of Vision 2015 – we have averaged a conversion rate of 86%: this is notwithstanding that we have invested over £150m of capital in future revenue growth opportunities during the period. In conjunction with the increase in operating profit, a more disciplined approach to the Company's financial and fiscal positions has not only contributed to us surpassing our "at least double-digit adjusted earnings per share growth" objective (with a CAGR of 19%); together with a 390bps improvement in our net working capital / revenue ratio, it has similarly contributed to our cash conversion. All of which has enabled us to fulfil our commitment to paying a progressive dividend to shareholders, with an average annual increase of 19% to the aforementioned recommended level of 18.3p in 2014.

Our primary strategic objective has been – and, indeed, remains – the creation of sustainable long-term value for our shareholders. In this respect, our total shareholder return since end-2010 has increased 230%. This improvement has seen us quadruple our market capitalisation and improve our ranking in the FTSE index by approximately 150 places. This is certainly a creditable performance; however, there is more to do, and further opportunity to realise as we move into the next phase of Essentra's growth and development.

As we have previously noted, Vision 2015 has not merely been about financial performance; it has also been about our people, and the strategic objective of creating a more unified Group culture. Indeed, talent and culture are arguably the issues that many organisations cite as being the most challenging to improve and / or change, and in this respect our Company – being a collection of a number of operating brands with limited affiliation to the Group when I joined – it was a particular case in point. As such, our rebranding to Essentra represented a key milestone in our development not least since, for the first time, it provided us with a single identity behind which to go to market in a more co-ordinated way. This has opened up new growth opportunities, as well as facilitated the necessary organisational change to deliver our strategic objectives beyond 2015 (of which more below). Such changes – which permeate all levels of the Company – are neither easy to implement, nor always to be a part of. So, on behalf of the Board, I would like to recognise the efforts of all our employees in driving them through, and embracing them as critical success factors for the future growth and development of Essentra.

Our new organisational structure: "join up, scale up, speed up"

As the Board and the GMC looked to the future successful development of the Company beyond 2015, it was clearly imperative that Essentra had an organisational structure that was appropriate to the delivery of our strategic objectives.

Although we have progressively been working more collaboratively over the last couple of years, nonetheless being organised purely along divisional lines still tended to encourage an ad hoc, piecemeal approach, and an individual – rather than Group-wide mentality. Specifically, the absence of a regional organisational structure has meant that no one individual – or team of individuals – has previously been responsible or accountable for driving Essentra's overall performance in a particular country. This was clearly not optimal and, at some point, would likely have constrained our potential. As such, the adoption of a more matrix structure over the course of 2014 – with the grouping of our activities into the three geographic regions of Europe, Americas and Asia, supplementing the divisional structure – has been an important and logical step. From a product perspective, the agreement to acquire Clondalkin SPD prompted a revision to the original intention to reorganise our divisions into two Strategic Business Units ("SBUs"), such that, with effect from January 2015, we are grouped into four. Indeed, the substantial increase in our health and personal care packaging capabilities – combined with our offering to the consumer goods and tobacco industries – has warranted the creation of a separate business unit which will also be responsible for product development and support to the Speciality Tapes business. This latter operation combines with our Components and Security Card activities to form Distribution, while the specialised solutions providers of Porous Technologies, Pipe Protection Technologies and Extrusion now come together as Specialist Technologies. Filter Products remains as per our previous divisional structure, although now incorporates the development and product management of our e-cigarette range.

In adopting our new organisational structure, it has been imperative that it has not layered in additional bureaucracy, and we are pleased to confirm that the relevant changes have been cost-neutral, as anticipated. Rather, the structure is designed as a growth enabler which will help to enhance focus, scale and operational efficiency, and will allow us to offer customers the best of Essentra – not just the best of each division. Indeed, leveraging the collective skills and capabilities of the entire Essentra Group, our additional scale is already making us more relevant to our stakeholders – not only to customers, but also to suppliers and as an employer: in turn, this will force us to better understand the regional dynamics and requirements of our targeted end-markets. At the same time, breaking down the traditional divisional boundaries should facilitate broader thinking and better transfer of skills – both in terms of organic growth and acquisition opportunities – and the Board and GMC firmly believe that our new organisational structure will provide a superior platform from which we can stretch our capabilities into adjacent business activities.

While it is still clearly very early days to evaluate the impact, we are already encouraged by a number of examples of the positive features of the new structure. For example, in Pipe Protection Technologies – which was already a leader in the Oil Country Tubular Goods market – we have not only benefited from a best-practice solution to certain capacity, issues in Houston, US from the Americas' regional Operations team (a positive challenge arising from the commercial success of the business), but we have also been able successfully to enter the sizeable Brazilian energy market, thanks to the footprint which the overall Essentra Group provides. Separately, in Asia – and with the exception of Filter Products – our previous divisional approach had left Essentra significantly underweight in what are some of the world's most sizeable and fastest-growing opportunity markets. However, in the short space of time since we introduced our regional structure, we have already established a strategically-located logistics hub in Changi, Singapore to feed the entire region with products from all our businesses, and have plans in place for Asia to become the primary sourcing and manufacturing location for the entire Essentra Group. While this is to cite but two early wins, such hitherto untapped opportunities underscore the firm belief in our ability to continue to deliver value to shareholders – notwithstanding the progress we have already made under Vision 2015.

Talent

At all levels, our employees are a vital resource in the Company's pursuit of operational excellence and the provision of quality products and service to our customers.

Indeed, as an international organisation, it is important that we attract an appropriate level of local talent and enhance mobility through increasing cross-divisional moves. In this respect, we made good progress during the year, not only in terms of developing our existing employees but also in adding to our talent base from outside the Company and through our recent acquisitions.

At GMC level, we welcomed Gavin Leathem as Group Human Resources Director. Gavin brings significant human resources experience to Essentra, and will be responsible for developing and strengthening the talent base at all levels of the Company. In addition, we filled the roles required by the new organisational structure – not only on the GMC, but also below – with the majority of appointments to the regional and SBU teams made during the first half of the year. This timely recruitment has proved instrumental to the successful phasing of the implementation and transition to the new structure.

Responding to the growing risk which all companies face regarding cyber security – and Information Technology in general – we appointed a new Chief Information Officer to the Group Leadership Team.

In 2014, we also launched a comprehensive talent management process, involving a global assessment of the base, the development of competencies for various grades across the organisation and the roll out of new Leadership Development Centres. The Development Centres were held in all three geographical regions during the year, and will continue in 2015. In order to maintain and improve our internal "fill" rate for senior roles across the organisation, a quarterly review of talent has been initiated as part of the new process.

The Essentra Graduate Development Programme enjoyed further success in 2014. The two-year graduate programme has provided a talent pipeline for a number of years and, in 2014, 21 people joined the scheme which continues to expand its international reach. The 2014 intake will join the 15 graduates recruited in 2013, and will have the opportunity to develop their management skills through bespoke training which takes place around Essentra's sites, giving graduates exposure to the business while carrying out an operational role from day one. Separately, in September, the 2012 graduate intake completed their programme, with four successful presentations hosted in Chicago, US. Representatives from senior management were invited to watch the graduate teams drawn from across functions and geographies present on projects focusing on rebranding, high performance culture, new product development and competitor analysis.

The Board and the GMC are committed to ensuring that Essentra is a great place to work, and to ensure that we continue to improve as an organisation, we launched *Enable 2014* – our second Group-wide employee engagement survey – in December. Translated into 20 languages and distributed to c. 5,000 employees worldwide, the survey saw an excellent 81% response rate. Given the changes which have been introduced under Vision 2015 – from rebranding to the adoption of our new organisational structure – Enable 2014 has been a key forum for employees to share their views and to help shape how the Company develops in the future, so we confidently move forward to the next phase of growth. Naturally, there are areas for improvement, where action plans are in the process of being agreed and will be implemented: however, it was particularly encouraging that a very high 80% of respondents are proud to work for Essentra.

"Drive for 2020"

As Essentra has become larger it has been imperative that we continue to evolve in order to maximise the opportunities available to the Company. At the same time, however, the model of balanced, profitable growth which we introduced with Vision 2015 has proven to be successful in terms of delivering value to our shareholders. As a result, in formulating the strategy to take Essentra forward over the next five years, the Board and the GMC were concerned to ensure that it was more a case of evolution than revolution, maintaining the core philosophy of Vision 2015 while flexing certain aspects to ensure that we focus our efforts on those activities which genuinely make a difference to a growing organisation.

In introducing our Drive for 2020 strategy, we have slightly amended our vision statement to reflect that as a company we are still a "work in progress". As such, our goal of building Essentra into a leading provider of essential components and solutions reflects both our continued global growth ambitions and acknowledges our ability to provide our customers with innovative solutions and services across a range of targeted end-markets, which is not limited by material.

As Essentra becomes larger, we need to elevate our ambition and broaden our thinking to deliver the next phase of our growth. Accordingly, we need to continue the efforts which we have already started, to move from a product to a market and category-focused model. In this respect, the aforementioned acquisition of Clondalkin SPD is a compelling illustration. Until two years ago, our capabilities in pharmaceutical, health and personal care packaging were limited, amounting to tear tape, labels and authentication technologies. However, these end-markets are very sizeable, with attractive, long-term growth characteristics and in which Essentra had a low share. Having recognised the opportunity, we bolstered our category exposure – first, through the acquisition of Contego Healthcare Limited ("Contego") and Dakota Packaging Limited ("Dakota") in 2013, and we are now globalising our footprint with Clondalkin SPD. As a result, our product range has been expanded to include folding carton, leaflets and foils for blister packs; healthcare packaging accounted for some 40% 2014 revenue on a pro forma basis; and we have become the global number two supplier to a range of blue-chip customers.

This diversification – whether undertaken organically or via M&A – is precisely the sort of bold thinking which Drive for 2020 entails, and which the Board and GMC believe Essentra needs to embrace to ensure we continue to deliver value to our shareholders. Of course, this is not to ignore our more specialised capabilities in which we have considerable expertise and hold very strong market shares; however, we cannot simply focus our efforts on such areas as – on their own – they will not necessarily present the Group with the sort of scaleable global opportunities which we are seeking to exploit in the future. In re-iterating our objective of delivering "at least mid single-digit organic revenue growth" with the aspiration of doubling the size of the Company through 2020 – the premise is that we will continue to outperform our underlying markets on a consistent basis: evidently, this is a more realistic proposition if we prioritise larger end-markets and opportunities. Recognising this, the strategic priorities which we have set for the next five years to facilitate this goal are: operating as "One Essentra" Group, creating synergies across regions and functions; becoming more relevant to customers and increasing market penetration; managing and upgrading the portfolio; driving operational excellence; and developing a global talent base and high performance culture.

Continuing to build on our track record in health and safety

Essentra's overriding concern in the workplace continues to be the health, safety and welfare of all its employees and those who visit the Company's locations, as well as those who carry out work on our behalf.

In 2014, the recently-adopted regional leadership structure helped to drive further improvements in the HSE standards which the Company has already achieved. A Group-wide HSE management system, ESHAM, was successfully rolled out, to facilitate best-practice sharing and cultural change, in conjunction with a shop-floor Stop, Think, Evaluate, Proceed ("STEP") programme. Taken together, these initiatives have led to a shift in focus from accident reporting to risk identification, as a result of which our lost time accident rate has decreased.

During the year, we also introduced a new HSE awards scheme, progressing from the previous approach of recognising sites with low accident rates alone to one which now better acknowledges cultural change, hazard spotting and HSE initiatives in addition. As such, the objective of the new programme is to reward employees and facilities which have achieved – or are progressing towards – world class levels of performance, including the development, sustainment and continuous improvement of a positive and supportive HSE culture.

The Chief Executive's Award for Improved & Sustained Operational Safety Performance recognises and rewards sites which have significantly improved and sustained high levels of reactive and proactive key performance indicators. The GMC was pleased to award this to our site in Thailand, for demonstrating a step change in HSE culture as well as achieving a very low accident rate.

We have also introduced an Award for a Specific Improvement / Best Practice Project, for implementing a unique process of system that has reduced / will reduce or eliminate a specific risk. In assessing site applications, the ease of sharing the project around the Essentra Group is a key consideration. In 2014, this award was presented to our healthcare packaging facility in Dublin, Ireland for the priority given to HSE and improved ergonomics – in addition to efficiency – as part of an engineering project to reconfigure the production area.

As Essentra continues to increase in size – both organically and via acquisition – and the global legislative backdrop for HSE continues to change apace, the Board and the GMC are convinced that this regional approach will allow the Company to make continuous improvement in this critical area.

Reinforcing our responsibilities

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

All our principal manufacturing facilities hold the ISO 14001 environmental accreditation and, with the exception of recently-acquired sites (which, as per Essentra policy, have a period of 24 months to reach the required standard), they have also achieved the Occupational Health & Safety Management Systems OHSAS 18001. As anticipated in 2014, our Filter Products joint venture facility in Dubai, UAE attained ISO 14001 and OHSAS 18001 accreditation, with the Components site in Turkey also achieving the latter certification. In addition, both Reinbek and Wolfen, Germany gained ISO 50001 status during the year. Attaining the ISO 50001 energy management standard at all our manufacturing facilities is a key objective, where we now intend to meet the more stringent conditions required to gain a single Group-wide certificate by the end of 2016.

Essentra is committed to energy efficiency within the organisation, and we have continued to improve our performance on this front: at the same time, we have also further reduced the environmental impact of our business in other aspects, with our War on Waste initiative continuing to deliver better utilisation – and reuse – of raw materials across the Company.

In summary

In the final 12 months of Vision 2015, we continued to successfully deliver our strategic objectives in 2014. In addition, we also made important organisational changes through the introduction of a regional structure to supplement our existing product-based reporting lines, to ensure that we are optimally positioned to continue generating balanced, profitable growth beyond 2015 under our new Drive for 2020 strategy. In delivering these results and implementing these changes, I would like to acknowledge the efforts of all our employees, and to thank them for their continued dedication and commitment.

Outlook

Essentra is provided with a degree of defensiveness in an environment in which economic growth is by no means well-established or uniform, thanks to its international footprint and diverse range of products and end-markets. As a result, we are well-positioned to continue our track record of balanced, profitable growth in 2015, and to begin our Drive for 2020 strategy on a strong note.

COLIN DAY
Chief Executive
20 February 2015

STRATEGY AND PROGRESS

Our vision
To build a leading global provider of essential components and solutions.

Our objective
To create sustainable long-term value for our shareholders.

Our strategic and operational priorities

> Deliver balanced, profitable growth in both our existing and future opportunity markets and technologies

> Prioritise volume growth to drive higher revenue and gross margin expansion

> Re-invest in the business for future growth

> Focus on strong translation of profit into cash

Our responsibilities

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

> Establish safe operational procedures, and manage our impact on the environment

> Attract and develop motivated and highly-skilled employees

> Conduct our business to the highest ethical standards

How we will achieve it
Vision 2015 was an ambitious three-year strategy which was introduced in August 2011, with a view to building upon the positive features and values of the Company while rekindling an appetite for growth behind key business objectives and targets. From a financial perspective, Vision 2015 has called for balanced profitable organic growth: a top-down model with an emphasis on strong performance across the board, rather than placing undue reliance on one particular metric to drive Essentra's results. The Company seeks to complement this balanced, profitable organic growth with value-adding acquisitions across its divisions.

The delivery of Essentra's strategic priorities is underpinned by focusing on key performance indicators which measure the Company's progress in the delivery of shareholder value.

A number of these indicators have also been used as principal elements in assessing the short-term and long-term performance of the operating businesses. Executive remuneration has been linked to the priorities of Vision 2015.

In November 2014, Essentra's Drive for 2020 strategy was presented in London, UK to the financial markets, being the next strategic roadmap for continuing to deliver value to shareholders. Further details can be found on the Company's website www.essentra.com.

◇ Performance measures for the Executive Annual Bonus Plan

▢ Performance measures for the Executive Long-Term Incentive Plan

What we measure	Why we measure it	How did we do?
Revenue growth[1] ◇ % growth in like-for-like revenue	Measures the ability of the Company to grow sales by operating in selected markets and geographies, and offering differentiated, cost-competitive products and services	**9** Revenue growth (%) (2013: 9%)
Operating margin[2] ◇ Operating profit[2] as a % of revenue	Measures the profitability of the Company	**16.5** Operating margin (%) (2013: 16.2%)
Earnings per share[2] ▢ % change in earnings per share[2]	Measures the benefits generated for shareholders from the Company's overall performance	**41.9** Adjusted earnings per share (p) (2013: 35.2p)
Net working capital ratio[3] ◇ Defined as inventories plus trade & other receivables less trade & other payables, adjusted to exclude deferred consideration receivable / payable, interest accruals / capital payables and other normalising items, as a % of revenue	Measures the ability of the Company to finance its expansion and release cash from working capital	**11.3**[4] Net working capital ratio (%) (2013: 11.4%[4])
Cash conversion Operating cash flow as a % of operating profit	Measures how the Company converts its profit into cash	**75** Cash conversion (%) (2013: 82%)
Dividend per share % change in dividend per share	Measures the amount of cash per share which the Company returns to shareholders	**18.3** Dividend per share (p) (2013: 15.4p)
Total shareholder return ▢ Total annual increase in value based on the increase in share price and the dividend paid to shareholders	Measures the Company's ability to generate long-term value	**-13.1%** Total shareholder return (%) (2013: 59.1%)

1 At constant exchange rates, excluding acquisitions and disposals
2 At constant exchange rates, excluding the impact of intangible amortisation and exceptional operating items
3 At constant exchange rates
4 Excluding the impact of acquisitions undertaken in December 2014 and 2013

STRATEGIC OBJECTIVES

Essentra's key strategic objectives can be summarised as the "3Ps": Place, Products & markets and People.

These apply equally to how we seek to deliver balanced, profitable organic growth and the way in which we identify value-adding, complementary acquisition opportunities.

■ Place

In order to take advantage of new revenue growth opportunities, we look to expand our geographic footprint through reinforcing and strengthening our penetration in existing markets, and our presence in new or faster-growing economies.

▲ Products & markets

We continually seek to develop new product initiatives which will help to drive future revenue growth. In order to continue to add value for our customers, we aim to leverage the collective capabilities of the Company in terms of our intellectual property and business know-how, and successfully commercialise innovative new products in our targeted end-markets. Range expansion and moving into adjacent technologies also provide us with growth opportunities.

● People

Essentra's Vision 2015 strategy has not just been about financial performance – it is also about people. Indeed at all levels, our employees are a vital resource in the Company's pursuit of operational excellence and the provision of quality products and service to our customers. As an international organisation, it is important that we attract an appropriate level of local talent and enhance mobility through increasing cross-divisional moves. This priority is reinforced by our Drive for 2020 strategic objectives.

Strategic objectives	Progress in 2014	Priorities in 2015
Focus on faster-growing markets / economies ■ **Place** ▲ **Products & markets**	> Improved co-ordination and potential, due to adoption of regional organisational structure > Rolled out additional sites in both existing and new markets (eg, new Filter Products' JV site in India, new facilities in Components and Speciality Tapes, Singapore distribution hub) > Entered / expanded in opportunity markets (eg, Abric Seals)	> Better leverage opportunities in faster-growing opportunity markets, following adoption of a more co-ordinated commercial effort and greater in-market accountability > Further expansion of international distribution, sales and marketing expertise, to exploit growth opportunities
Identify key new product opportunities ▲ **Products & markets**	> Converted manufacturing know-how and intellectual property into commercial success across divisions > Continued range expansion and improved marketing effectiveness > Successfully commercialised new SND products > Exploited cross-selling opportunities (eg, speciality wipes through Components' distribution channel)	> Further successful exploitation of innovative and manufacturing capabilities in new technologies, products and services across the Company
Identify value-creating, complementary M&A opportunities ■ **Place** ▲ **Products & markets** ● **People**	> Announced agreement to acquire Clondalkin SPD in Packaging & Securing Solutions > Acquired Mesan, Kelvindale and Abric Seals in Component & Protection Solutions	> Successful integration of 2014 acquisitions > Identify further opportunities across SBUs
Investment in improving operational excellence and execution ▲ **Products & markets** ● **People**	> Leveraged site footprint more efficiently > Increased consolidation of business activities at individual site level > Continued investment in upgrading / adding machinery and equipment, and capacity	> Continued investment to support revenue growth opportunities > Drive revenue growth from a more focused go-to-market effort by end-market > Further roll-out of regional organisational structure, to leverage collective capabilities better
Strengthen organisational structure and talent base ● **People**	> Successfully filled roles required by the new organisational structure > Extended geographic reach of the Graduate Development Programme > Introduced new Leadership Development Centres and extended geographic reach	> Continue to grow and develop talent across Essentra > Increase intra-Company moves to enhance mobility > Attract appropriate level of talent for a global business > Continue to widen the geographic reach of the Leadership Development Centres and Graduate Development Programme

FINANCIAL REVIEW

Basis of preparation

The financial information is prepared in accordance with IFRS as adopted by the European Union and IFRS as issued by the International Accounting Standards Board, and with the accounting policies set out on pages 97 to 103.

Foreign exchange rates
Movements in exchange rates relative to sterling affect actual results as reported. The constant exchange rate basis adjusts the comparative to exclude such movements, to show the underlying performance of the Company. For the principal exchange rates for Essentra for the year ended 31 December 2014 ("FY 2014"), see the table below. Re-translating at FY 2014 average exchange rates increases the prior year revenue and adjusted operating profit by £40.2m and £7.8m respectively.

Principal exchange rates	US$:£	€:£
Average		
FY 2014	**1.65**	**1.24**
FY 2013	1.57	1.18
Closing		
FY 2014	**1.56**	**1.28**
FY 2013	1.66	1.20

Like-for-like basis
The term "like-for-like" describes the performance of the business on a comparable basis, excluding the impact of acquisitions, disposals and foreign exchange. The FY 2014 results are adjusted for the results of Contego Healthcare Limited ("Contego", acquired on 30 April 2013), Mesan Kilit A.S. ("Mesan", acquired on 30 December 2013) and Abric Berhad's major operating subsidiaries ("Abric Seals", acquired on 16 December 2014). The impact of Dakota Packaging Limited ("Dakota", acquired on 7 November 2013) is not excluded from the LFL results from 30 April 2014, as it is no longer separately identifiable having been fully integrated into the healthcare packaging business.

The impact of Kelvindale Products Pty Ltd ("Kelvindale", acquired on 12 May 2014) is not excluded from the LFL results from 30 September 2014, as it is no longer separately identifiable having been fully integrated into the Components business.

Adjusted basis
The term "adjusted" excludes the impact of intangible amortisation and exceptional operating items, less any associated tax relief. In FY 2014, intangible amortisation was £17.5m (2013: £14.2m), and there was an exceptional pre-tax charge of £16.2m (2013: £19.2m) mainly relating to integration costs and fees arising from the aforementioned acquisitions.

Trading performance
Full year revenue was 8.5% ahead of the prior year (+14.2% at constant exchange) at £865.7m, with like-for-like growth of 8.5%. Ongoing operational initiatives, volume leverage and successful pricing programmes to mitigate input cost increases were partially offset by the mix effect of the very strong revenue growth in the lower margin Filter Products division and inventory destocking in the higher margin Porous Technologies division. Current year acquisitions had a further dilutive impact such that, in total, the gross margin declined 130bps (140bps at constant exchange), to 33.6%.

On an adjusted basis, operating profit was ahead 9.3% (+16.2% at constant exchange) at £142.5m, equating to a 20bps uplift in the margin to 16.5% (+30bps at constant exchange). Operating profit as reported was £108.8m, 12.2% higher than last year (+20.8% at constant exchange).

Net finance expense
Net finance expense was lower at £9.1m (2013: £10.6m). The net interest charge on net debt reduced to £8.6m (2013: £9.5m), the amortisation of bank facility fees was broadly unchanged at £1.1m (2013: £1.0m) and there was a IAS 19 pension finance credit of £0.6m (2013: charge of £0.1m).

Tax
The effective tax rate on profit before exceptional items and tax was 24.9% (2013: 27.4%).

Net income
Adjusted net income was up 15.2% (+24.2% at constant exchange) to £100.1m. On a reported basis, net income of £71.8m increased 19.1% (+31.3% at constant exchange). Fully diluted adjusted earnings per share of 41.1p was up 11.1% (19.8% ahead at constant exchange).

Dividends
The Board of Directors recommends a final dividend of 12.6p per share (2013: 10.6p), an increase of 18.9%. This takes the FY 2014 dividend to 18.3p per share (+18.8% versus FY 2013).

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

Net working capital of £101.4m was £15.7m higher than the 31 December 2013 level of £85.7m as a result of acquisitions and growth. The net working capital / revenue ratio reduced to 11.3% excluding the acquisition of Abric Seals (2013: 11.4% at constant exchange, excluding the acquisition of Mesan) due to continued efforts to utilise the Company's working capital more efficiently.

Cash flow
Operating cash flow was broadly unchanged, at £107.0m (2013: £107.2m). This included an outflow of net working capital for the year of £25.4m (2013: £5.3m) and gross capital expenditure of £38.1m (2013: £44.1m), with net capital expenditure at £33.1m (2013: £43.7m). Net capital expenditure equated to 122% (2013: 164%) of the depreciation charge for the year of £27.2m (2013: £26.7m).

Net interest paid was £8.5m (2013: £9.3m) and tax payments increased by £3.0m to £20.5m (2013: £17.5m). The outflow in respect of pension obligations was lower at £2.5m (2013: £6.1m).

Free cash flow of £75.5m compared to £74.2m in FY 2013.

Free cash flow reconciliation	**(£m)**
Adjusted operating profit	**142.5**
Non-cash / other items	**23.0**
Net working capital	**(25.4)**
Net capital expenditure	**(33.1)**
Adjusted operating cash flow	**107.0**
Tax paid	**(20.5)**
Net interest paid	**(8.5)**
Pension contributions	**(2.5)**
Free cash flow	**75.5**

Net debt
Net debt at the end of the period was £62.1m, a decrease of £155.0m from 1 January 2014, owing to strong free cash flow generation and the proceeds from the share placing to fund the acquisition of Clondalkin SPD.

The Company's financial ratios remain strong. The ratio of net debt to EBITDA as at 31 December 2014 was 0.4x (31 December 2013: 1.3x) and interest cover was 15.5x (31 December 2012: 13.0x).

Balance sheet
At the end of 2014, the Company had shareholders' funds of £592.8m (2013: £398.8m), an increase of 48.6%. Net debt was £62.1m (2013: £217.1m) and total capital employed in the business was £659.9m (2013: £620.1m).

This finances non-current assets of £671.9m (2013: £638.7m), of which £230.5m (2013: £213.7m) is tangible fixed assets, the remainder being intangible assets, deferred tax assets, retirement benefit assets and long-term receivables.

The Company has net working capital of £101.4m (2013: £85.7m), current provisions of £4.2m (2013: £12.3m) and long-term liabilities other than borrowings of £83.4m (2013: £66.9m). The return on average invested capital (including intangibles) was 17.3% (2013: 18.4%), owing to acquisitions during the year.

Pensions
As at 31 December 2014, the Company's IAS 19 pension liability was £1.7m (2013: asset of £10.6m) and the associated deferred tax asset was £2.9m (2013: deferred tax liability of £1.6m). The pension asset has been calculated after updating asset values and certain assumptions as at 31 December 2014.

Treasury policy and controls
Essentra has a centralised treasury function to control external borrowing and manage exchange risk. Treasury policies are approved by the Board and cover the nature of the exposure to be hedged, the types of financial investments that may be employed and the criteria for investing and borrowing cash. The Company uses derivatives only to manage foreign currency and interest rate risk arising from underlying business activities. No transactions of a speculative nature are undertaken.

Treasury activities are subject to 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 and suitable credit rating. Essentra monitors the credit ratings of its counterparties and credit exposure to each counterparty.

Foreign exchange risk
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 by borrowing in those currencies in which the Company has significant net assets. As at 31 December 2014, Essentra's US dollar-denominated assets were approximately 48% hedged by its US dollar-denominated borrowings. At 31 December 2014, Essentra did not have any euro-denominated borrowings.

The majority of Essentra's transactions are carried out in the functional currencies of its operations, and so transaction exposure is limited. However, where they do occur, the Company's policy is to hedge the exposures as soon as they are committed using forward foreign exchange contracts.

MATTHEW GREGORY
Group Finance Director
20 February 2015

OPERATIONAL REVIEW

Component & Protection Solutions

The division is a global, market-leading provider of a rapid supply of plastic and metal products for a broad range of industrial applications.

Revenue		
2014: £243.6m	2013: £223.7m	+8.9%
Operating profit[1]		
2014: £58.9m	2013: £52.6m	+12.0%

Who we are and what we do

The Components business is a global, market-leading manufacturer and distributor of an extensive range of plastic injection moulded, vinyl dip moulded and metal items. Operating units in 27 countries serve over 150,000 customers with a rapid supply of essential components for a variety of applications in a very broad range of industries, such as equipment manufacturing, automotive, fabrication, electronics and construction.

The Pipe Protection Technologies business specialises in the manufacture of high performance innovative products from commodity resins to engineering-grade thermoplastics and polymer alloys for use in a range of end-markets. Locations in four countries, combined with a wide distributor network, serve customers around the world.

How we do it

Our objective is to leverage our extensive product range and distribution capability, using our efficient sourcing and manufacturing operations and integrated IT platform, to respond to the demands of our diverse customer base. Our tool library, product development skills and manufacturing experience, combined with our inventory and logistics infrastructure, are unique assets. We have sophisticated business-to-business, multi-channel marketing expertise, and support this with our knowledgeable sales resource and comprehensive product catalogues, which are available in many languages and online.

We target organic growth through increasing the range of our products, expanding our customer base and entering new geographic markets. We also seek opportunities to grow through acquisition, where it can move our business into complementary product categories or further our geographic distribution capability.

How we performed in 2014

Delivering balanced, profitable growth
Revenue increased 8.9% (14.5% at constant exchange) to £243.6m. Excluding the acquisition of Mesan in December 2013, Kelvindale in May 2014 and Abric Seals in December 2014, like-for-like revenue growth was 8.4% and was driven by a more positive market backdrop and new business wins, as well as the roll out of distribution sites and range consolidation opportunities.

In Europe, the underlying performance was supported by continued improvement in the trading environment, and boosted by the consolidation benefits of migrating the five operating brands to a single Essentra Components brand. Growth in Asia accelerated during the second half of the year, benefiting from the recently-opened south east Asian distribution hub in Changi, Singapore, which now holds c. 10,000 SKUs for rapid delivery throughout the region. In addition, the Mesan business acquired at the end of 2013 performed well, with a Components catalogue featuring 28,000 products already being marketed to Mesan's customers.

The successful roll-out programme continued in 2014, with market entry in Thailand, Romania and Mexico. In addition, a new distribution centre was opened in Louisville, US. While this was not without challenge, given that it can cover some 70% of US manufacturing GDP within a two-day shipping window, it is ideally located to serve existing customers

[1] Before intangible amortisation and exceptional operating items

even better and target new customer opportunities. Not only does this centre hold some 30,000 Components' SKUs, but it is also already stocking certain speciality wipes and porous components – with the potential to leverage the capacity further to encompass more of the Essentra Group portfolio over time.

Pipe Protection Technologies delivered further excellent growth in 2014, with encouraging performance across all sites and supported by successful product development and new business wins. In particular, our innovative and industry-compliant MaxX™ range of thread protectors continued to perform well, underpinned by the recent launch of a "liftable" variant designed to service drilling wellsite applications that require protectors which allow pipes to be lifted individually onto the drilling floor.

The Pipe Protection Technologies business also benefited from the transition to the new organisational structure, with a regional approach in the Americas already unlocking potential. Leveraging the existing Essentra Group site footprint in Alta Parana, Paraguay and Jaguariúna, Brazil, facilitated entry into the sizeable latter market for the first time, where investment in polyurethane rise pipe protector capability will help continue the successful commercialisation of the growth opportunity.

Adjusted operating profit grew 12.0% (+18.2% at constant exchange) to £58.9m, equating to a 70bps uplift in the margin to 24.2%. This improvement was driven by further operating and process efficiencies, as well as savings from the ongoing consolidation of the Components' site footprint.

Complemented by value-adding M&A
On 12 May, we announced that we had completed the acquisition of 100% of the share capital of Kelvindale. Based in Australia, Kelvindale is a leading distributor of an extensive range of plastic protection and finishing products, and provides a compelling market entry point for the Components business. Having introduced some 12,000 products onto Kelvindale's website since completion, over 25% of its sales now comes from the Essentra Components range, and the integration of the acquisition to date is in line with expectations.

Then, on 16 December, we reported that we had completed the acquisition of 100% of the share capital of Abric Seals. Based in Malaysia, Abric Seals is a global leading manufacturer and distributor of security sealing products and solutions for use in a diverse range of growing end-markets, including healthcare, manufacturing, energy, retail, transportation and automotive. With low-cost manufacturing facilities in Malaysia and Thailand, Abric Seals' distribution network additionally covers 88 countries, with a strong focus on Asia Pacific which accounts for approximately 40% of revenue.

Improving operational excellence
Towards the end of the year, we opened two new, purpose-built distribution centres in Bologna, Italy and Roissy, France. These investments provide the necessary space to accommodate the Components' rapidly expanding product range in two strategically important European markets, and underscore our commitment to providing our customers with even greater product choice and availability, combined with the best possible delivery and service proposition.

As anticipated, the recently-acquired Mesan facility in Turkey achieved OHSAS 18001 certification during the year.

Revenue by destination	**(%)**
Europe and Africa	**47.5**
Americas	**46.3**
Asia including Middle East	**6.2**

Revenue by end-market	**(%)**
Oil and gas	**22.7**
Fabrication machinery	**20.3**
Distributors	**13.4**
Automotive	**9.3**
Electrical / electronics	**8.0**
Hydraulics / pneumatics	**4.3**
Other	**22.0**

Revenue	**(£m)**
2010	**108.5**
2011	**135.9**
2012	**208.4**
2013	**223.7**
2014	**243.6**

Operating profit[1]	**(£m)**
2010	**23.4**
2011	**31.1**
2012	**45.9**
2013	**52.6**
2014	**58.9**

Operating margin[1]	**(%)**
2010	**21.6**
2011	**22.9**
2012	**22.0**
2013	**23.5**
2014	**24.2**

Revenue per employee	**(£k)**
2010	**156.1**
2011	**157.6**
2012	**146.0**
2013	**158.3**
2014	**143.5**

2015 key initiatives

- Further site roll out in Components in Dubai, Korea and Ireland
- Grow Pipe Protection Technologies presence in South America
- Continue to expand Components range in springs and magnets, and globalise product offering
- Successfully integrate acquisition of Abric Seals in Malaysia
- Exploit new eCommerce platform and upgrade of CRM system

Market trends

Given their very wide application, the global market for industrial components is large, fragmented and ill-defined for both suppliers and customers. However, management estimates the value of the available market for low cost direct material components at c. £4.5bn pa.

Manufacturing GDP growth rate
With low cost direct material components being used in a very broad spectrum of industrial end-markets, those countries with a higher manufacturing GDP growth rate are particularly attractive.

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

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

Increasing labour costs
Standardised manufacturing processes and components typically require less labour, thereby helping customers reduce their cost base. There is also a trend among larger customers to design in "higher technology" markets such as the US, UK, Germany, Japan and Singapore, and then to manufacture in lower labour cost regions (eg, eastern Europe, China and India), which benefits component suppliers with global reach.

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

Key new product opportunities

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

What we measure

NUMBER OF ACTIVE CUSTOMERS
Why we measure it
Reflects marketing effectiveness and measures the potential population for future growth opportunities

How we have done
15% decrease in customers purchasing in the prior 12 months compared to 2013, reflecting the consolidation to a single Essentra brand

NEW CUSTOMER ACQUISITION
Why we measure it
Reflects the success of targeting organic growth opportunities

How we have done
46,699 new customers compares with 64,517 in 2013, and reflects the consolidation to a single Essentra brand

MARKETING RESPONSES
Why we measure it
Indicates the potential revenue generating impact of marketing investment

How we have done
7% decrease in marketing responses versus 2013, reflecting the consolidation to a single Essentra brand

ON TIME IN FULL
Why we measure it
Demonstrates the ability to meet delivery demands

How we have done
86.4% compares to 90.4% in 2013

Further information on
www.essentracomponents.com
www.essentrapipeprotection.com

Porous Technologies

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

Revenue		
2014: £89.8m	2013: £100.0m	-10.2%
Operating profit[1]		
2014: £15.8m	2013: £23.5m	-32.8%

Who we are and what we do

Our range consists of components which serve as a critical part of a variety of end-products, including medical diagnostic devices, wound care products, writing instruments, printer cartridges, air fresheners, cosmetic applicators and speciality wiping products used in critical environments such as clean rooms and laboratories.

How we do it

Our objective is to leverage our technical expertise in collaboration with our customers, to provide them with innovative, high quality, reliable, quick-to-market solutions to their respective fluid and vapour handling challenges.

The division's R&D teams focus on each of our three material technologies and constantly develop new intellectual property regarding materials, processes and applications, with a view to providing new and existing customers with unique solutions. Our orientation towards R&D further enables us to offer prototypes and modifications, to ensure components fit perfectly to our customers' applications.

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

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

How we performed in 2014

Revenue decreased -10.2% (-5.7% at constant exchange) to £89.8m. Adjusting for the transfer of a portion of intercompany revenue to the Filter Products division, like-for-like growth was -4.5%.

An increase of 41% in household and personal care (together c. 10% divisional revenue) was driven by significant new business wins in air care with multinational customers, while growth of 21% in speciality wipes (c. 23% divisional revenue) came from the ongoing success of globalising the product portfolio and new applications in critical care environments. Healthcare (c. 22% divisional revenue) rose 9%, led by wound care and products using porous plastics.

In writing instruments (c. 29% divisional revenue), new sales of nibs to global customers were offset by the impact of a more challenging market backdrop, such that the total result decreased by -3%. As anticipated, the performance in printer systems (c. 15% divisional revenue) of -44% reflected the impact of inventory destocking with a major global OEM, where shipments recommenced in the second half of the year and improved in Q4.

[1] Before intangible amortisation and exceptional operating items

In 2014, the division continued its track record of converting its intellectual property and manufacturing know-how into commercial success. This included customer qualifications of superior medical grade foam for wound care applications, new platform wins with an Asian printer systems OEM and initial orders in both water and automotive engine filtration.

The business also collaborated in product development with other Essentra divisions by providing innovative porous components. One such successful initiative was the AquaSense™ consumer packaging label, which features a unique absorbent pad that is activated by the consumer on opening the pack or tub. The pad is placed under a tap and soaks up a specific amount of water which it then releases within the pack, keeping contents fresh, controlling humidity and reducing product waste due to goods drying out. In addition, the division was pleased to support the commercialisation of Essentra's range of smokeless nicotine devices by developing a unique and superior reservoir technology. The Essentra patented process allows for the formation of rigid three-dimensional structures acting as a reservoir that can hold, transfer and deliver nicotine and other liquids prior to conversion to a vapour state.

Adjusted operating profit decreased -32.8% (-29.3% at constant exchange) to £15.8m and the margin declined by 590bps. Successful cost reduction initiatives and productivity improvements were offset by the mix effect of the aforementioned inventory destocking, with margins returning towards more normalised levels in the second half of the year, as anticipated.

Investing in operational excellence and execution
A number of operational initiatives were completed during the year. To support global growth opportunities, a new nib product development line was installed at the Richmond, US site, facilitating both product development and rapid turnaround sampling. In addition, and building on the extension of the sterile alcohol bottling facility undertaken in 2013, there was further investment in new laminator and sachet lines in Chicopee, US, to support further growth and range expansion opportunities in speciality wipes.

As anticipated, our facility in Reinbek, Germany achieved ISO 50001 status in 2014.

2015 key initiatives

> Focus on infection prevention / control for new medical components and antimicrobial wound care foam

> Install a new cleanroom to manufacture medical components

> Increase sales of writing instrument nibs made from porous plastic, combined with investment in new production equipment in Asia and the Americas

> Expand offering in industrial air filtration

> Reinforce global distribution network in speciality wipes, and exploit cross-selling opportunities

> Develop new insecticide and innovative new air freshener wick opportunities

Revenue by destination	(%)
Americas	49.0
Europe and Africa	26.9
Asia including Middle East	24.1

Revenue by end-market	(%)
Writing instruments	29.0
Health care	23.1
Clean room	20.1
Printer systems	15.5
Household products	9.6
Other	2.7

Revenue	(£m)
2010	74.7
2011	77.9
2012	85.8
2013	100.0
2014	89.8

Operating profit[1]	(£m)
2010	17.7
2011	18.4
2012	20.6
2013	23.5
2014	15.8

Operating margin[1]	(%)
2010	23.7
2011	23.6
2012	24.0
2013	23.5
2014	17.6

Revenue per employee	(£k)
2010	164.2
2011	170.2
2012	155.6
2013	163.7
2014	161.2

Market trends

Management estimates the global addressable market for our porous technologies products at around £1.2bn, with low to high single-digit growth. The underlying growth rates and key trends vary depending on the end-market served and the respective fluid or vapour handling challenge being addressed.

Printing systems: performance improvements
While the market shows a degree of uncertainty given trading difficulties reported by certain OEMs, customers continue to look to enhance the performance of their products, such as through the use of increasingly complex inks.

Healthcare: enhanced fluid handling capabilities and changing customer / patient needs
Market growth is partly driven by the migration from slower and more expensive laboratory-based testing to results being provided at the point of care.

In addition, a globally ageing population is resulting in a change in the incidence of medical conditions (such as diabetes) which require advanced wound care products.

Household & personal care: emerging market growth
Consumers are increasingly transitioning to more sophisticated household and personal care products.

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

Writing instruments: range expansion
Customers are increasingly looking for a total solutions provider – from ink reservoirs to nibs.

Key new product opportunities

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

What we measure

INNOVATION – PERCENTAGE OF SALES DERIVED FROM NEW PRODUCTS
Why we measure it
Demonstrates the success of new products and technologies

How we have done
13.8% of revenue generated from products launched in the last three years

SUSTAINED IP DEVELOPMENT
Why we measure it
Continued development of intellectual property to support future growth and strong development project pipeline

How we have done
Currently 38 (2013: 28) patents in force in the US, with 10 (2013: 18) applications pending

CUSTOMER COMPLAINTS
Why we measure it
Drives performance of quality systems and service delivery

How we have done
81 complaints, being a 4.7% decrease versus 2013

MAN HOURS PER MACHINE HOUR
Why we measure it
Indicative of shop floor productivity

How we have done
1.73 (2013: 1.77) man hours per machine hour

Further information on
www.essentraporoustechnologies.com

Packaging & Securing Solutions

The division is a leading global supplier to the health and personal care, consumer and specialist packaging sectors, and to the point of purchase and paper & board industries. It is also a leading provider of brand protection and identity solutions.

Revenue

2014: £216.3m	2013: £181.8m	+19.0%

Operating profit[1]

2014: £38.3m	2013: £30.2m	+26.8%

Who we are and what we do

The Packaging & Securing Solutions division comprises the following activities:

Essentra Packaging is a global provider of healthcare and consumer packaging products. Our "Packaging Resolved" positioning emphasises the four core themes of Open, Close, Inform and Protect, where our cartons, tapes, leaflets, foils, labels and brand protection security solutions can combine to provide all or merely one of these benefits. From helping to ensure that consumers do not get frustrated in opening packs to providing the reassurance that goods are fresh and have not been tampered with, our packaging components can be an integral part of the product and brand pack experience.

Essentra Security is Europe's leading provider of ID card printers, systems and accessories to direct and trade customers, providing the broadest product offering and most competitive value.

Essentra Speciality Tapes is a leading manufacturer and distributor of adhesive coated products for a wide range of industries and applications, in particular the point of purchase sector.

Collectively, the division serves customers in over 100 countries from facilities operating in ten countries. They are supported by an in-house design studio, R&D and multi-million pound print facilities, to deliver the very best in quality, service and reliability.

How we do it

Our objective is to use our business development philosophy and resources to identify innovation opportunities and translate these into novel, workable solutions. We seek to leverage our well-invested and developing international footprint to provide market-leading quality and service on a global basis, and to add value for both customers and consumers.

The Packaging business manufactures a range of cartons, tapes, leaflets, foils, labels, closures and seals which offer functional benefits to packaged goods through providing easy opening and resealability. Our products are also the ideal medium to carry sophisticated branding and communications' messages, in the form of printed images, text or data.

Additionally, we look to add value to our customers' packaging through providing brand protection solutions, such as tamper evidence or authentication technologies, to enable them to identify and secure products in the fight against counterfeiting. Our offering comprises overt, covert and forensic technologies.

The Security business has been at the forefront of ID technology for over 30 years, and has access to the widest portfolio of products and services, including printers, software and consumables from leading manufacturers. Our systems produce durable, high quality, credit card-style photo ID cards which are compatible with the majority of security systems, and which can be specified to incorporate magstripes, barcodes, contactless chips or smart cards. To complement our ID card systems, the Security business also offers a range of manual and electronic visitor management systems, as well as an extensive range of ID accessories such as badge holders, clips and lanyards.

The Speciality Tapes' business has expertise in coating multiple adhesive systems in numerous technologies. With close to 3,000 adhesive products available for same-day shipping, our products can meet all high performance needs, from foam, magnetic, finger lift and acrylic high bond tapes to hook and loop and non-skid foam.

[1] Before intangible amortisation and exceptional operating items

How we performed in 2014

Delivering balanced, profitable growth
Revenue increased 19.0% (22.0% at constant exchange) to £216.3m. Adjusting for the healthcare packaging acquisitions of Contego and Dakota with effect from 30 April 2014, like-for-like growth was 4.7%.

The result in Packaging reflected a positive performance in healthcare and consumer packaging – and boosted by new product launches – partially offset by tear tape sales to the tobacco industry, where market conditions remain challenging.

2014 was another strong year for successful packaging innovation. In healthcare packaging, we introduced the Parenteral Paper Pack carton, a new concept in display boxes designed specifically for fragile items such as vials, bottles and syringes. A variety of our overt and covert tamper and authentication solutions can also be built into this carton, to protect against potential counterfeit or tampering – including holography, Patron™ security inks, taggant systems and tamper-evident labels – which can form a vital component of the measures required to meet the EU Falsified Medicines Directive. And among our innovative leaflet formats were the PiggyBack™ and Triple PiggyBack™ two or three-fold leaflets glued together back-to-back in a compact design, as well as Plurium™, a multi-page booklet with additional space for information but compact when folded.

Building on the Packaging Resolved commercial positioning around the four key aspects of effective packaging launched in 2013, our Re:Close Tape™ was created in response to growing consumer demand. The tape allows a product to be retained in the original pack between uses and has added user-friendly reclosability to millions of packs of bagged snacks on-shelf in Europe, thereby facilitating portion control. And as part of our Protect range, we also developed and jointly patented AquaSense™ with the Porous Technologies division, the first example of Essentra's Active Label Technology and further details of which can be found on page 22.

Growth in Speciality Tapes was driven by a strong performance in the industrial, point of purchase and online shopping end-markets. Finger Lift tape continued to perform well, benefiting from our recent expansion of hot melt capability at the Chicago, US site, and was supported by the Foam and Duraco Red tape ranges. From a geographical perspective, the result reflected a particularly strong contribution from the growing Express footprint in North America, boosted by encouraging performance in China.

Adjusted operating profit increased 26.8% (30.0% at constant exchange) to £38.3m. The 110bps improvement in the margin to 17.7% was driven by accelerating healthcare acquisition synergies, combined with ongoing cost savings and efficiency initiatives.

Complemented by value-creating M&A
In November, we announced an agreement to acquire Clondalkin SPD, which will further expand our packaging solutions' capabilities to the pharmaceutical, health and personal care industries.

As a leading global provider of a broad suite of speciality secondary packaging solutions, the transaction transforms Essentra's position in these targeted end-markets. In addition, as a leading player in North America and with strong market positions in Europe, Clondalkin SPD significantly enhances our existing geographic presence in healthcare packaging and, through leveraging the combined footprint of both our businesses, will allow us to further exploit both existing, and attractive new growth opportunities.

With a product portfolio including folding carton, product literature and labels, Clondalkin SPD is complementary to our existing packaging and authentication capabilities, thereby broadening the range and innovation we can offer our customers, who are increasingly seeking a global partner for their packaging needs.

Investing in operational excellence and execution
In 2014, we successfully completed a number of operational initiatives to help support future revenue growth opportunities and to generate further efficiency savings. In healthcare packaging, new, more energy / waste efficient equipment was installed in a number of European facilities, with our sites at Portsmouth, Bradford and Newmarket, UK and Dublin, Ireland also all successfully passing ethical audits on the part of customers. In addition, and as anticipated, the site at Wolfen, Germany secured ISO 50001 accreditation.

Towards the end of the year, we officially opened our new purpose-built manufacturing facility in Newport, UK, which provides us with a 52,000 sq. ft. site from which to meet the growing demands of both existing and new business across our targeted end-markets. The facility incorporates our latest investment in digital printing and cleanroom technology for the production of primary packaging foils for the healthcare market. To ensure the exacting requirements are fulfilled for this new product, the cleanroom meets the Class 8 ISO standards and is a first for Essentra, enabling us to better service our healthcare customers from this world class operation. The site already meets all of the Company's internal standards, having gained the triple certification of ISO 9001, ISO 14001 and OHSAS 18001, as well as the BRC / IoP global standard for packaging and packaging materials.

2015 key initiatives

- Further develop innovative, creative and functional packaging solutions
- Successfully integrate Clondalkin SPD acquisition and deliver integration savings
- Grow market shares in health, beauty and personal care packaging
- Leverage geographical footprint and account management discipline to increase customer relevance and revenue potential
- Use existing packaging expertise to build a position in faster-growing opportunity markets
- Continue geographic expansion and commercialisation of new end-markets in Speciality Tapes

Revenue by destination	(%)
Europe and Africa	75.3
Americas	18.0
Asia including Middle East	6.7

Revenue by end-market	(%)
Healthcare	52.3
Tobacco	15.7
Document & identity solutions	7.0
Consumer goods	7.0
Transit packaging	4.4
Other	13.6

Revenue	(£m)
2010	88.8
2011	99.7
2012	114.9
2013	181.8
2014	216.3

Operating profit[1]	(£m)
2010	18.2
2011	20.3
2012	21.8
2013	30.2
2014	38.3

Operating margin[1]	(%)
2010	20.5
2011	20.3
2012	19.0
2013	16.6
2014	17.7

Revenue per employee	(£k)
2010	187.7
2011	190.4
2012	193.2
2013	143.8
2014	142.6

What we measure

INNOVATION – PERCENTAGE OF SALES DERIVED FROM RECENTLY DEVELOPED PRODUCTS

Why we measure it

Demonstrates the success of new products and technologies

How we have done

27.9% of revenue generated from products launched in the last three years (excluding acquisitions)

ON TIME IN FULL

Why we measure it

Drives performance of quality systems and service delivery

How we have done

90.2% compares to 95.8% in 2013 (excluding acquisitions)

CUSTOMER SATISFACTION – CUSTOMER COMPLAINTS

Why we measure it

Drives performance of quality systems and delivery

How we have done

7.9% decrease in complaints from 2013 (excluding acquisitions)

Market trends

Management estimates the value of the global market addressable for specialist secondary health and personal care packaging, pressure sensitive tear tapes and speciality tapes at c. £10bn, growing at a low to mid single-digit level depending on the end-markets served.

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

Functionality and convenience of packaging
There is a growing demand for packaging which not only offers optimum product protection, but is also easy for consumers to access without frustration.

Brand and identity protection and verification
Brand owners have a continued need to protect their assets from counterfeiters, while public and private organisations require secure identification of individuals.

Legislation
Increasing regulatory requirements, such as the European Falsified Medicines Directive, are driving demand for tamper evident packaging, while the more standardised pack requirements of the EU Tobacco Products Directive potentially limit the scope for innovative solutions.

Sustainability and waste reduction
There is a growing need for packaging to be resealable so as to maintain freshness and reduce waste, as well as to have a lower environmental impact.

Provision of total solutions
Customers are increasingly seeking a partner which can deliver a complete offering – from design to end-supply – as well as individual products capable of providing multiple pack benefits.

Key new product opportunities
> Investment in technology, to develop novel, value-added packaging and brand protection solutions
> Functional packaging benefits, such as opening, closing and tamper evidence
> Eco-friendly packaging solutions, such as closing and resealing
> Creative and secure design solutions to provide enhanced communication and authentication opportunities

Further information on:
www.essentrapackaging.com
www.essentrasecurity.com
www.essentraspecialtytapes.com

Filter Products

The division is the only global independent provider of filters and related solutions to the tobacco industry.

Revenue		
2014: £291.5m	2013: £269.9m	+8.0%
Operating profit[1]		
2014: £43.9m	2013: £40.1m	+9.5%

[1] Before intangible amortisation and exceptional operating items

Who we are and what we do

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

We also increasingly provide adjacent services to the tobacco industry. Our Scientific Services facility located in the UK was one of the first independent externally accredited laboratories for the testing of cigarettes, cigarette filters, smokeless devices (such as e-cigarettes) and low ignition propensity ("LIP") for cigarette papers, and has over 20 years' experience of providing analytical services to state monopolies and both independent and multinational customers. Additionally, we offer a full bespoke range for the design, packing and packaging of filters for roll your own brands, providing an efficient and cost-effective solution to delivering retail-ready products to the market.

The Filter Products division supplies over 700 product specifications to more than 320 customers, including all the multinational tobacco companies. We have nine manufacturing facilities in nine countries, supported by a dedicated research facility and three regional development centres.

How we do it

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

Research in filters is carried out at a dedicated Technology Centre, supported by three regional development facilities. Together, they work closely with customers to understand their specific needs, and strive to deliver innovative solutions which will give their brands differentiation and relevance, at a pace appropriate to local market conditions and legislative requirements. Our offering is further enhanced by our ability to complement our customers' own strengths and assets in a variety of tolling, or outsourced management, relationship arrangements, as well as our growing adjacent services activities.

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

How we performed in 2014

Delivering balanced, profitable growth
Revenue increased 8.0% (16.2% at constant exchange) to £291.5m. Underlying volumes were ahead of the prior year, with particularly strong growth in Asia, and in both special and flavoured filters. In FY 2014, Asia accounted for 59% volumes (FY 2013: 61%).

2014 saw the successful launch of a number of proprietary new products and development initiatives, as well as the successful commercialisation of recent contract wins. Among our innovations during the period was Dual Sensation™, a new filter solution which enables a capsule segment to be combined in a multi-segment filter, giving customers greater design flexibility to provide their consumers with flavour on demand and the benefits of either carbon or a visually distinctive design. This innovation was also introduced as Super Slim Sensation™, bringing the same interactive capsule technology to smaller circumference cigarettes and thereby catering to the fastest growing segment in the tobacco market. In addition, we announced our latest advance in degradability, with the launch of a unique plugwrap material that disperses in water at least three times faster than standard alternatives, addressing increasing public concerns over the degradability of cigarette butts and the corresponding demand for more environmentally-friendly products.

During the year, we continued our track record of supporting customers in the development of bespoke solutions tailored to their specific needs, with such joint activity increasing 11% versus FY 2013. In support of our future innovation capabilities through ongoing intellectual property, a total of nine patent and trademark applications were filed in 2014.

Our Scientific Services laboratory continued to perform well, further building on its extensive experience and expanded range of accredited testing methods. The growth was boosted by our expertise in field of e-cigarettes, which has significantly contributed to our becoming the largest independent tobacco testing laboratory in Europe.

As an innovator and trusted partner to the tobacco industry, it is essential that we identify and respond to evolving markets' trends which impact our customers in a way that enables us to continue to add value to them. As such, we were pleased to launch a new, full-service e-cigarette offering during the year, to allow them to meet the growing global demand for smokeless nicotine products. Indeed, following extensive research and development, we successfully commercialised a number of fully-functional and packaged products, which draw upon the broad range of solutions which the entire Essentra Group can deliver – not merely the Filter Products division. In addition, with the backing of analytical results from our accredited testing laboratory, we can assure customers that our e-cigarette solutions are not only innovative but also reliable, thereby addressing the issue of inconsistent performance which our in-depth market research identified as a key consumer concern.

Adjusted operating profit rose 9.5% (18.7% at constant exchange) to £43.9m, equating to a 20bps improvement in the margin to 15.1%. A further improvement in productivity and efficiency initiatives – combined with significant savings in the second half of the year from the closure of our site in Italy – were partially offset by the one-off cost of the latter in H1.

Improving operational excellence and efficiency

In order to ensure that we continue to deliver value, we are committed to maintaining a flexible and competitive geographic footprint. With our customers continuing to shift their production from western to eastern Europe and Asia, during the year we took the decision to expand our facility in Hungary and to close the site in Italy.

We also expanded our state-of-the-art joint venture facility in Dubai, UAE, which is well-positioned to meet the requirements of cigarette manufacturers based in the Middle East and North Africa region for innovative filter products and solutions, supported by our extensive technical experience and expertise. As anticipated, this site attained both ISO 14001 and OHSAS 18001 accreditations during the year.

In 2014, we continued our investment in high-speed equipment to underpin our objective of improving capability and capacity, not least in Thailand where the expansion of the facility and the installation of the latest machines will support a long-term supply agreement with a multinational customer.

Not only does such investment allow us to continue to meet our customers' current needs in terms of quality and functional tolerances, but also their future requirements as the global tobacco industry continues to evolve.

2015 key initiatives

- Continue to align geographic footprint with market shift in production volume
- Respond to rising demand for new filter formats and flavours in Asia and the Middle East
- Improve value proposition in more competitive mature markets
- Strengthen regional R&D capability, to support the growing requirement in Asia
- Rapidly grow e-cigarette offering and expand SND range
- Leverage further benefits from investment in high speed, more flexible equipment

Revenue by destination	(%)
Asia including Middle East	39.9
Europe and Africa	38.2
Americas	21.9

Sales volume by type	(%)
Monoacetate	44.1
Other special	37.6
Carbon	13.5
Flavour	4.8

Revenue	(£m)
2010	200.7
2011	208.0
2012	233.6
2013	269.9
2014	291.5

Operating profit[1]	(£m)
2010	23.7
2011	24.5
2012	28.6
2013	40.1
2014	43.9

Operating margin[1]	(%)
2010	11.8
2011	11.8
2012	12.2
2013	14.9
2014	15.1

Revenue per employee	(£k)
2010	126.1
2011	136.2
2012	143.1
2013	163.7
2014	168.3

Market trends

The global tobacco market is valued at c. US$740bn, with broadly flat cigarette retail volume growth.

Regulation
The tobacco industry is heavily regulated around the world on health grounds, with significant restrictions on the way in which products can be marketed to consumers. Legislation continues to evolve, both in respect of traditional cigarettes and innovations such as e-cigarettes, as well as surrounding the testing and packaging requirements for these products.

Illicit trade
Counterfeiting of tobacco products is a significant and increasing challenge for the industry, undermining brand value, presenting a risk to consumers from low quality goods and reducing tax revenues. The illicit trade accounts for approximately 10% of duty-paid cigarette volumes and is estimated to be growing at c. 9% pa – well ahead of the overall industry.

"Beyond tobacco" products
The market for products beyond traditional cigarettes continues to evolve rapidly. There is increased interest in other nicotine delivery mechanisms which offer heat but not burn, in particular in e-cigarettes which are reportedly delivering rapid growth (albeit from a low base) and which are forecast to continue doing so.

East versus West
Accounting for over 60% of total world cigarette volume, the growth markets of Asia dominate the global tobacco industry and are forecast to continue to increase.

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

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

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

Key new product opportunities

> Lifestyle solutions (eg, Slims / Super Slims, low / ultra-low tar, "eco" ranges)

> Brand-specific requirements, such as recessed filters

> Enhanced user experience, such as capsules, flavoured thread and activated carbon

> Full bespoke service for roll your own brands

> Provision of scientific services

What we measure

CONVERSION COSTS AS PERCENTAGE OF REVENUE

Why we measure it
Continued focus delivers financial performance

How we have done
25.4%, a 40bps improvement from 25.8% in 2013

ON TIME IN FULL

Why we measure it
Demonstrates the ability to meet delivery demands

How we have done
92.1% compares to 96.9% in 2013

QUALITY COMPLAINTS PER BILLION RODS

Why we measure it
Drives productivity and the efficient use of material

How we have done
3.8 complaints per billion rods, an increase from 2.7 in 2013

WASTE

Why we measure it
Drives productivity and the efficient use of material

How we have done
6.7%, a reduction from 8.0% in 2013

Further information on
www.essentrafilters.com

MANAGEMENT OF PRINCIPAL RISKS

Introduction

The sound management of risk within the parameters of a clearly defined risk attitude has underpinned the delivery of the Company's Vision 2015 strategy, and the management of principal risks remains an essential component in Drive for 2020. By focusing on the challenges which arise in the international environment in which Essentra conducts business, and reflecting the Company's attitude to risk in the delivery of its business objectives, Essentra's risk management practices are designed to ensure risks are continuously monitored, associated action plans are reviewed, appropriate contingencies are provisioned and information is reported through established management control procedures.

Essentra seeks continuously to improve its risk management processes, and continues to develop new systems which serve to enhance the Company's response to the risks inherent in its international business activities.

Throughout 2014, Essentra embedded a new risk management framework that includes both Operational and Executive Risk Management Committees meeting on a quarterly basis, to discuss and monitor the changing risk environment to which Essentra is exposed and ensure any necessary mitigating actions are undertaken. The Board and Audit Committee review the output from those respective committees in fulfilling their risk management responsibilities.

Essentra recognises that the ability to monitor, assess and respond to business risks quickly and effectively may provide a competitive advantage. Reporting within the Group is structured so that key issues are escalated, as appropriate, at the earliest opportunity. Each area of the business is required to review its areas of risk and uncertainty formally and regularly. There is an ongoing process to ensure that there are clear and consistent procedures for monitoring, updating and implementing appropriate controls to manage identified risks. Essentra's short- and long-term performance may be impacted by many risks and uncertainties, not all of which are within the Company's control. Outside the formal processes, the Company also seeks to ensure risk management is embedded in its everyday activities and the subject of ongoing review and discussion.

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

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

Disruption to infrastructure

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

Impact

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

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

Mitigation

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

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

Emerging technologies and competition pressures

Essentra faces pressure from direct competitors, as well as competition from alternative technologies. Some of the Company's competitors may derive advantage from greater financial resources, economies of scale, additional purchasing power or a lower cost base, and Essentra may face aggressive pricing practices.

Impact

Demand for competitors' products and the development of competing technologies may result in:

- Loss of market positions
- Erosion of margins
- Intellectual property challenges
- Decline in revenue
- Decline in profitability
- Deterioration in financial condition

Mitigation

Essentra seeks to mitigate the risk of competitive pressure by:

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

Failure to drive business development

Essentra's development and growth has benefited from the success of start-up operations and the continued growth of already established businesses. The rate of success of any development may in part be dependent on the Group's innovation pipeline and / or employees who have the ability to successfully extend the product range, or identify and develop products. Additionally, future business development will be dependent on the continued successful implementation of the new organisational structure. There can be no assurance that the Company will develop, complete and commercialise current and suitable new products, nor expand further through start-up operations.

Impact	Mitigation
If Essentra fails to meet the challenges of business development, the Company may experience: > Lower growth rates > Delay in the achievement of strategic objectives > Reduced profitability	Essentra addresses the challenges of international business development with: > Experienced and skilled management > Detailed due diligence and planning > Project risk reviews > External expert advice > Regional structure development

Mergers and acquisitions

Essentra's development and growth has benefited from value-adding acquisitions. The rate of any future acquisition integration may in part be dependent on the success of identifying the correct acquisitions and having sufficient resources available for integration. There can be no assurance that the Company will be successful in completing and integrating suitable acquisitions.

Impact	Mitigation
If Essentra fails to meet the challenges of business development arising from acquisitions the Company may experience: > Lower growth rates > Delay in the achievement of strategic objectives > Increased costs > Reduced profitability	Essentra addresses the challenges of mergers and acquisitions with: > Experienced and skilled management > Detailed due diligence and planning > Project risk reviews > External expert advice

Customer profile

In some of Essentra's businesses the customer base is relatively concentrated. In addition, trends in certain markets may reduce the demands for the Company's products. Should Essentra's customers decide to satisfy their requirements internally or from other suppliers and if Essentra were unable to secure new business this could result in a significant loss of business. Due to the acquisitions that the Company has made in 2014, Essentra must serve an increased size and complexity profile of customers who will be heavily reliant on our business in some cases. There is now an increased expectation on Essentra from these customers, and the Company risks losing business should it fail to adequately measure customer satisfaction and manage relationships.

Impact	Mitigation
The loss of certain of Essentra's key customers may expose the Company to: > Reduced revenue > Restructuring costs > Profit decline > Deterioration in financial condition > Reputational damage	To counteract the Company's exposure to its customer profile, Essentra: > Invests in innovative, high quality, value-added products and services > Develops long-term relationships and loyalty with customers at all levels through key account management techniques > Seeks new markets and growth opportunities to expand the customer base

Key raw material supply

Some of Essentra's businesses are dependent on the availability of specialist raw materials or components which are incorporated into the Company's products. Key raw materials may be subject to price fluctuations from supply shortages. If rapid increases occur in the price of such raw materials prices, including energy costs, the Company's revenue and profitability may be materially and adversely affected.

Impact	Mitigation
If Essentra is exposed to raw material price increases or supply shortages, the Company may suffer: > Disruption to supply > Increased costs > Profit decline > Reduced revenue	To counteract the Company's exposure to increases in raw material costs or supply shortages, Essentra seeks to: > Adopt appropriate procurement practices > Secure longer-term supply agreements > Implement cost recovery programmes > Investigate the availability of alternative supply options > Use consignment stock

Intellectual property development and protection

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

Impact	Mitigation
Failure to develop and protect intellectual property rights may expose the Company to: > Reduced revenue > Profit decline > Litigation > Reputational damage	To counteract the Company's exposure to the erosion of its intellectual property portfolio, Essentra: > Invests in research and development > Secures formal registrations of patent and trademark rights > Adopts appropriate confidentiality and licensing practices > Monitors potential infringements and takes appropriate enforcement actions

Relationship with the tobacco industry

A substantial part of Essentra's business relates to the supply of filter products and packaging solutions to manufacturers in the tobacco industry. Future performance may be affected by trends in the tobacco industry, such as changes in the consumption of filter products, self-manufacture and increasingly restrictive regulations. Tobacco-related litigation could also adversely affect Essentra, although there is no history of the Company being involved in such claims.

Impact	Mitigation
Essentra's relationship with the tobacco industry may lead to: > Reduced revenue > Restructuring costs > Profit decline > Reputational damage > Deterioration in financial condition	In seeking to minimise the potential impact of the exposure to the tobacco industry, Essentra: > Invests in the research and development of innovative and new value-added products and services > Targets growth opportunities outside the manufacture of filter products > Focuses on low cost filter production > Takes internal and external legal advice to manage litigation risk > Seeks to add value with a range of low cost and innovative packaging solutions

Talent management

Essentra's international operations are dependent on existing key executives and certain other employees in order to sustain, develop and grow its businesses, and there can be no assurances that these employees will remain with the Company. The success of the Company will reflect its ability to retain, attract and motivate highly qualified executives and other personnel equipped to deliver Essentra's strategic objectives. This risk becomes more prevalent in 2015 as the Company moves forward with Drive for 2020, as there is a high level of change inherent in the strategic objectives which naturally creates more risk.

Impact	Mitigation
If Essentra fails to retain, attract or motivate the required calibre of employees, its operational performance and financial condition may be materially impacted by a lack of: > Experience > Expertise > Commercial relationships > Market insight > Product innovation	In order to manage the risk of personnel change, Essentra: > Regularly reviews personal development and succession planning > Sets appropriate key performance indicators > Implements management development schemes and other training programmes > Sets effective remuneration programmes > Provides long-term share-based incentive plans > Uses a talent management system > Continues to recruit graduates on its development programme

Compliance risk

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

Impact	Mitigation
Failure by the Company or its employees or others acting on its behalf to abide by the laws and regulations could result in: > Administrative, civil or criminal liability > Significant fines and penalties > Suspense or debarment of the Company from trading > Reputational damage > Loss of commercial relationships	In order to manage compliance risk Essentra: > Establishes a clear compliance culture from the top down > Conducts risk assessments and ongoing compliance reviews > Implements relevant policies and procedures > Provides behavioural guidance and training to all employees > Monitors compliance through verification procedures > Engages local advisers as appropriate

CORPORATE RESPONSIBILITY

Corporate responsibility encompasses a broad range of philosophies, activities and standards.

Essentra considers the issues that are material to its business and seeks to respond to them in a manner appropriate to the interests of all its stakeholders.

Priorities / goals	How do we manage it?
Reduce the impact of carbon emissions and secure continuous improvement in environmental performance	> Set carbon emission targets at each operational location > Reduce carbon emissions, prevent pollution and improve manufacturing efficiency > Implement initiatives to reduce waste and increase recycling > Explore the use of energy-saving technology in manufacturing > Extend the span and quality of data collection > Develop new techniques with suppliers and customers for environmentally friendly products > Gain ISO 14001 accreditation > Gain ISO 50001 accreditation
Secure continuous improvement in health and safety	> Secure OHSAS 18001 accreditation at principal manufacturing sites > Establish Group standards for improvements and results > Encourage employee initiatives to reinforce Company training
Ensure the highest standards of business integrity and conduct	> Promote Essentra Values > Establish clear policies and guidance > Secure employee awareness and engagement > Continue to promote Right to Speak policy > Regular review of adherence with policies and guidance by Group Assurance

How did we do?	How will we do it?
> Established year-on-year environmental improvement objectives > Improved utilisation of raw materials and energy at principal operating locations (excluding acquired sites) > Invested in more flexible equipment to improve energy and production efficiency > Reduced environmental impact through site consolidation > Achieved ISO 14001 at Filter Products, Dubai > Attained ISO 50001 at Reinbek and Wolfen, Germany sites	> Continue with global carbon reduction initiatives > Offset emissions when possible > Continue environmental improvement to ensure retention of accreditations > Secure accreditation for newly acquired sites within two year period > Pursue single, Group-wide accreditation to ISO 50001 for all manufacturing facilities by 2016 > Continue to prioritise "War on Waste" initiative
> Achieved OHSAS 18001 at Components, Turkey and Filter Products, Dubai > Introduced Essentra Heath and Safety Management System > Rolled out STEP initiative across all sites > Reinforced the Essentra 8 Safety Expectations > Improved the reporting of hazards and near miss incidents	> Identify other training needs > Demonstrate year-on-year improvement in the lost work day rate > Continue to implement three-year HSE improvement plan
> Continued communication of core policies through e-Learning and reviews in Essentra Group System > Implemented new compliance systems > Continued to train employees in Code of Business Ethics	> Respond to new risks and requirements > Provide further training > Drive employee responsibility > Investigate complaints

Essentra recognises the significance and importance of being a responsible corporate citizen in the workplace, marketplace, environment and community. The Company's international operations fulfil their responsibility to record, monitor and make publicly available the potential impact of its activities. In pursuing its corporate strategy, Essentra's aim is to adopt business practices that are economically, socially and environmentally sustainable, and to promote these to its stakeholders in order to strengthen relationships, share knowledge and encourage best practice.

The Company's risk management processes include consideration of the potential impact of corporate responsibility issues on Essentra's performance. The Company's investment decisions take into account appropriate evaluations of the potential consequences for its employees, customers and suppliers and the environment.

The Essentra Values are fundamental to the Company's adoption of the highest standards of business ethics and integrity that underpin its relationships with both internal and external stakeholders. Essentra's culture is one of openness, integrity and accountability Employees are encouraged to act fairly in their dealings with fellow colleagues, customers, suppliers and business partners.

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

Average lost time accident (incidents) x1,000

2010	**0.809**
2011	**0.639**
2012	**0.534**
2013	**0.838**
2014	**0.808**

Near misses recorded (incidents)

2010	**5.3**
2011	**4.2**
2012	**5.4**
2013	**3.5**
2014	**10.8**

Workplace

Health and safety

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

The Group-wide intranet-based management reporting system facilitates an extensive live programme of active monitoring, that measures in detail how successful the Company is in managing the safety of its workplaces at individual site level.

The Company manages occupational health by identifying key risk activities, undertaking health assessments and, where appropriate, implementing health surveillance programmes. The Company has achieved the Occupational Health & Safety Management Systems OHSAS 18001 standard for all its principal manufacturing facilities. Recently-acquired sites are given a period of 24 months to reach the required standard, in accordance with Essentra policy. Although acquisitions and growth have a bearing on the results, the Company has designed procedures and developed a culture which aims for continuous improvement, with the sharing of best practice in all areas of health and safety. As part of its three-year improvement plan, in 2014 a 12-point Essentra Safety and Health Management System ("ESHAM") – supported by a comprehensive communications programme – was introduced across all sites, to facilitate the adoption of best practice and encourage behavioural change. Internal verification audits of the system indicated a progressive improvement in scores during the year, such that the Company achieved its initial target level. In addition, a shop floor STEP initiative was rolled out, to improve hazard spotting, reporting and corrective action. Taken together, these initiatives have resulted in a shift in focus from accident reporting to risk identification, with the lost time accident rate decreasing in 2014, notwithstanding organic growth and acquisitions undertaken during the period. Accordingly, progress has been made in terms of further enhancing the way in which health and safety change is identified, reported and communicated, thereby improving the Company's ability to learn from potentially hazardous conditions and prevent their reoccurrence or escalation into more serious incidents.

As a result, the adoption of a structure with a more geographical focus in 2013 has delivered improvement in the Company's health and safety performance. In particular, the development of greater regional expertise, the more rapid implementation of standards and a higher degree of data standardisation across the Group helps to support and streamline Essentra's ongoing HSE compliance and governance strategies.

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

Details of Essentra's health and safety performance for 2014 and subsequent progress throughout 2015 can be viewed on the Company's website www.essentra.com.

Employees

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

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

Essentra understands the importance of having the right people with the right skills now and in the future to deliver the exceptional service and expertise which is the bedrock of the Company's long-term relationships with its customers. To deliver that service and expertise, Essentra is continually improving its comprehensive talent pool, from graduates to senior management. Essentra runs a very successful graduate training programme which continues to expand its international reach.

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

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

Essentra encourages the involvement of employees in the Company's performance through employees' share schemes, and to further enhance this a new Stock Purchase Plan was launched in the US during the year.

Essentra is committed to improving employee engagement and learning more about the needs of its workforce. In addition to the impact of the training and development programmes, employee engagement is enhanced by the communication practices which have been adopted across the businesses.

Essentra values highly the commitment of its employees and recognises the importance of communication to good working relationships and practices. The Company seeks to ensure that employees are informed on matters relating to their employment and on financial and economic factors affecting the businesses. The Company actively seeks feedback and ideas from employees to improve its operations, and forums appropriate to Essentra's local businesses have been established to allow employees to voice their views as to how the Company should fulfil the demands of all its local and international stakeholders. The Company's European Information and Consultation Forum facilitates the discussion of issues across all of its operations in the European Union.

The Company recognises the importance of, and the benefits to be derived from, diversity across its international operations and is committed to offering equal opportunities to all people without discrimination of any form. Essentra remunerates fairly with respect to skills, performance and local market conditions.

The gender of Essentra's employees as at 31 December 2014 was:

	Male	Female
Non-Executive Directors	4	1
Executive Directors	2	0
Senior Managers	38	2
All employees	4,496	1,892

The Company gives full and fair consideration to employment applications by disabled people. In the event of employees becoming disabled, every effort is made to ensure that the training, career development and promotion opportunities available to disabled persons are as far as possible identical to those of other non-disabled employees.

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

The Group's activities are carried out in developed countries that have strong legislation governing human rights. The Group complies fully with appropriate legislation in the countries in which it operates. Essentra's commitment to Human Rights is repeated in its Values and Code of Business Ethics policy.

Marketplace

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

Essentra's Code of Business Ethics policy is applicable to all its businesses around the world. The policy details the standards expected by Essentra in the conduct of its business and its relationships with third parties, including free and fair competition, plus the prohibition of bribery and political donations, and provides general guidance on honest and fair dealings with suppliers, customers and local and national authorities.

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

Environment

Essentra applies a structured approach to maintaining its environmental impact by:

> Implementing and maintaining environmental and energy management systems certified to ISO 14001 on a global basis

> Measuring and monitoring consumption and emissions,and setting targets to improve performance

> Conducting environmental impact assessments and developing site management plans

> Providing training to employees,and engaging with customers and suppliers to raise environmental awareness

> Providing facilities to segregate and reuse or recycle waste

Essentra is listed in the FTSE4Good index which is designed to measure the performance of companies striving to meet globally recognised corporate responsibility standards, and to facilitate investment in those companies where corporate responsibility issues are an influencing factor in an investor's decision-making process.

In the UK, Essentra's sites comply with the Carbon Reduction Commitment ("CRC") legislation. The Company has registered for Phase II and has complied with all relevant data submissions. Essentra continues to apply the principles of the CRC to its global operations and is well placed to manage further legislative changes in its operating regions.

Given the diversity of Essentra's international operations, local management drives environmental performance in accordance with Group policy, copies of which can be found on the Company's website www.essentra.com. Specific site-level objectives are established to ensure compliance with local legislative and external management systems (ISO 14001).

Essentra uses a variety of indicators to monitor environmental performance, but the following core impacts are identified for the Group as a whole:

> Greenhouse gas emissions from energy use, including electricity, natural gas, heating fuel, transport and travel

> Use of resources, including water

> Generation and disposal of waste

Essentra is continuously seeking ways to improve its utilisation of natural resources. A process of continuous improvement is applied not only to the impact of its usage, but also to the measurement and capture of key environmental data. The Group has additionally established research and development facilities in the UK, Asia and the US to investigate the use of renewable resources and recyclable biodegradable versions of products.

The following assumptions, methodology, definitions and data validation processes have been used to report the Group's key environmental performance indicators in 2014. The reported data complies with the Companies Act, for the Mandatory Reporting of Greenhouse Gases.

> Boundary scope: Data from all locations over which the Company has operational control is collected and measured

> Primary data sources: These include billing, invoices and other systems provided by the supplier of the energy to communicate energy consumption

> Secondary data sources: These include the Company's internal systems used to record and report the above consumption data

> Internal data validation: The process used to review and compare primary data with secondary data. All invoices and data loggers for locations consuming more than 1 million Kwh per year are cross-checked with the data held within the Company's own internal data capture systems

> Conversion factors: The 2013 Government GHG Conversion Factors for Company Reporting, published by the UK Department for Environment Food & Rural Affairs ("DEFRA"), are used when converting gross emissions. The applicable country conversion factors published in this guidance have been applied to operations outside of the UK

> Intensity metric: Total carbon emissions per £m of revenue are used to calculate the Company's intensity metric.

Tonnes of CO_2 e (gross)

	year ended 31 Dec 2014	year ended 31 Dec 2013
Scope 1	**8,967**	11,595
Scope 2	**74,039**	63,361
Total gross emissions	**83,006**	74,956
Total carbon emissions per £m revenue	**95.85**	93.92

Acquisitions and growth have contributed to Essentra's increased use of energy. The application of energy improvement initiatives is expected to continue to improve the Company's overall utilisation of energy and raw materials.

Core impacts

	year ended 31 Dec 2014	year ended 31 Dec 2013
General waste[1]	**3,052**	2,183
Recycled factory waste & cardboard[2]	**1,716**	1,503
Water[3]	**256m³**	217m³

1 Tonnes of waste to landfill
2 Tonnes of production waste
3 Per £million of Company revenue

Essentra is committed to ensuring good environmental practices at all its locations, in its operational processes and investment decisions. Essentra's principal manufacturing locations are ISO 14001 accredited, and all the Company's European businesses comply with EU and domestic regulations.

Due to the scale of Essentra's international operations, the use of energy and raw materials has both environmental and commercial importance. Where possible, and financially viable, raw materials and energy from renewable resources are utilised to limit environmental impact, commercial risk and costs.

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

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

Community

Essentra's commitment to being a responsible corporate citizen extends to support for appropriate non-political and non-sectarian projects across a range of organisations and charities. Regardless of regional or national boundaries, the Company aims to support the creation of prosperous, educated, sustainable and healthy communities in the countries and cultures in which it operates. In its attempts to bring benefits back to those communities whose support provides a basis for Essentra's success, the Company has focused on education and enterprise, health and welfare and the environment, with support driven at a local, rather than a corporate level. The approach is to support and enhance employee efforts in their communities through the application of the Company's resources. In pursuit of its aims within the community, Essentra has developed targeted programmes for local communities, often involving commercial sponsorship and significant employee engagement through direct involvement or secondment.

Ethics

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

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

GROUP MANAGEMENT COMMITTEE

Colin Day
Chief Executive

Colin's biographical details can be found on page 46.

Matthew Gregory
Group Finance Director

Matthew's biographical details can be found on page 46.

Hugh Ross
Managing Director, Europe

Hugh Ross joined Essentra in 1999. Before being appointed to his current role in January 2014, Hugh was President of the Speciality Tapes business in the US, prior to which he held increasingly senior roles in the Filter Products and the Packaging & Securing Solutions divisions in North America. Hugh is a Chartered Accountant, having qualified with PricewaterhouseCoopers, and served as an Officer in the British Army.

Malcolm Waugh
Group Commercial Director / Managing Director, Health & Personal Care Packaging

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

Brett York
President, Americas

Brett York joined Essentra in 2001 as Vice President of Sales & Marketing for the US Components business. Before being appointed to his current role in January 2014, Brett held the position of President of Component Distribution Americas from 2012 and President of the Speciality Tapes business from 2007. Prior to joining Essentra, Brett held a variety of increasingly senior commercial and operational positions at a number of companies, including Industrial Molding Corp., Waddington and PepsiCo.

Joanna Speed
Corporate Affairs Director

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

Scott Fawcett
Managing Director, Distribution

Scott Fawcett joined Essentra in 2010 as Managing Director of the European Components business, and was appointed to his current role in January 2014. Prior to joining Essentra, Scott was Head of eCommerce at Electrocomponents plc, where he held a variety of increasingly senior sales, marketing and eCommerce positions during his 17-year career there.

PT Sreekumar
Managing Director, Filter Products / Managing Director, Asia

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

Jon Green
Company Secretary & General Counsel

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

Alan Richards
Group Operations Director

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

Stefan Schellinger
Corporate Development Director

Stefan Schellinger joined Essentra as Corporate Development Director in 2013, before which he was Finance Director – Emerging Markets at Gilbarco Veeder Root from 2011, having initially joined the Danaher Corporation as Director, Corporate Development – Europe in 2005. Prior to this, Stefan worked in investment banking at JP Morgan and in accountancy at Arthur Andersen.

Gavin Leathem
Group Human Resources Director

Gavin Leathem joined Essentra as Group Human Resources Director in 2014. Prior to joining Essentra, Gavin was Vice President of HR for Europe, Middle East and Africa at Emerson Network Power Systems, before which he was Group HR Director at Chloride Group plc during his 13-year career there. Gavin is a Chartered Fellow of the Institute of Personnel & Development.

BOARD OF DIRECTORS

Jeff Harris

Non-Executive Chairman
Appointed to the Board: May 2005

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

Other appointments
Non-Executive Director and Senior Independent Director of Synergy Health plc.

Past appointments
Chief Executive and Chairman of Alliance UniChem plc, Non-Executive Chairman of Bunzl plc, Non-Executive Director of Associated British Foods plc, Non-Executive Chairman of Cookson Group plc and Non-Executive Director of WH Smith PLC.

Committee membership
Chairman of the Nomination Committee.

Terry Twigger

Senior Independent Non-Executive Director
Appointed to the Board: June 2009

Skills and experience
Terry has considerable mergers and acquisitions experience and has also held a number of senior finance roles, including having previously been Finance Director at Meggitt PLC. Prior to his retirement in 2013, Terry was Chief Executive of Meggitt.

Other appointments
Senior Independent Non-Executive Director and Chairman of the Audit Committee of X Power Limited.

Past appointments
Chief Executive of Meggitt PLC, Director of Lucas Aerospace.

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

Colin Day

Chief Executive
Appointed to the Board: April 2011

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

Other appointments
Non-Executive Director of WPP Group plc, AMEC Foster Wheeler plc and FM Global.

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

Matthew Gregory

Group Finance Director
Appointed to the Board: September 2012

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

Peter Hill, CBE

Non-Executive Director
Appointed to the Board: July 2013

Skills and experience

Peter is currently Chairman of the speciality chemicals business Alent plc, where he also chairs the Nominations Committee. In addition, he is Non-Executive Chairman of Volution Group plc, a leading supplier of ventilation products. Peter brings a wealth of experience to Essentra, gained in particular in increasingly senior operational and strategic executive roles, and has also served on a number of Boards in a Non-Executive capacity for over 20 years.

Other appointments

Chairman of Alent plc and of Volution Group plc, Non-Executive Director of the Royal Air Force.

Past appointments

Chief Executive of Laird PLC, Executive Director of Constain Group PLC, Non-Executive Director of Cookson Group plc, Meggitt PLC and Oxford Instruments plc, Non-Executive Board member of UK Trade and Investment.

Committee membership

Member of the Audit, Remuneration and Nomination Committees.

Lorraine Trainer

Non-Executive Director
Appointed to the Board: July 2013

Skills and experience

Lorraine began her executive career at Citibank, and has some 20 years' experience in Human Resources at such blue-chip companies as the London Stock Exchange and Coutts NatWest Group. Lorraine currently combines her Board work with consultancy at and around Board level in Director development.

Other appointments

Non-Executive Director of Colt Group S.A. and Jupiter Fund Management plc.

Past appointments

Non-Executive Director of Aegis Group plc.

Committee membership

Chairman of the Remuneration Committee and Member of the Audit and Nomination Committees.

Paul Drechsler

Non-Executive Director
Appointed to the Board: May 2005
Retiring from the Board: April 2015

Skills and experience

Paul is currently the Chairman of the Teach First charitable organisation and a Non-Executive Director of Bibby Line Group. Having served on the Board of Essentra since its formation in 2005, Paul has played a key role in the development of the Company, particularly regarding its remuneration policy. Paul brings extensive business experience to his role, having spent 24 years at ICI plc in a variety of senior positions and at Wates Group Limited as Chairman and Chief Executive.

Other appointments

Chairman of Teach First, member of the Trinity College Dublin Business School Advisory Board, Board member of CBI, member of the Board of Business in the Community and Chairman of the Education Leadership Team. Non-Executive Director Bibby Line Group.

Past appointments

Chairman and Chief Executive of Wates Group Limited, Executive Director of ICI plc, Chairman of the ICI Group pension fund.

CHAIRMAN OF THE BOARD'S LETTER

Dear Shareholder,

I am pleased to report that, as anticipated, Essentra achieved its Vision 2015 strategic objectives in 2014, with balanced profitable organic growth complemented by value-adding transactions.

A further notable achievement during the year was the transition to a new organisational structure, operating with three geographical regions and four Strategic Business Units. No organisational change is without its challenges, but the greater resulting co-ordination has established a strong foundation for further development of the Group's operations in both existing and new product categories and geographies.

As the end of Vision 2015 approached, the Board met during the year to discuss and agree a new five-year strategy called Drive for 2020, details of which can be found on the Company's website www.essentra.com. This is a clear and focused strategy to maintain the growth and momentum of Essentra.

Risk attitude
The Board continues to focus on strategy and sets the performance targets for the Group. The Executive management team is empowered to deliver those targets, through appropriate levels of delegated authority and support. During the year the Board reviewed the risk attitude for the Group, and maintained its focus on ensuring the appropriate balance of risk and reward in the Company's pursuit of its strategic objectives.

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

Code compliance
I am pleased to confirm that the Group complied throughout the year with the UK Corporate Governance Code 2012.

The required regulatory and governance assurances are provided throughout this report. The Board has received regular updates on the various legislative and governance-related developments which occurred during the year. As the Company increases in size, complexity and geographical reach, this brings more compliance requirements and challenges, against a background of changing legislation and regulation along with increased enforcement action by relevant authorities. The Board is committed to maintaining the highest standards of governance.

Audit Committee
The work of the Audit Committee has continued to focus on the integrity of financial reporting, and the oversight of the risk management process and internal controls across the Group. The latest governance requirements provide for the Committee to give a more detailed assessment of the key matters under consideration and the potential impact on the financial statements for the year.

Remuneration Committee
The Committee's task is to incentivise the Executive team to deliver the Company's success while setting rewards taking the views of investors into account. The Drive for 2020 strategy underscores the need to attract, retain and motivate the team to deliver the new objectives. The Committee ensures that the Company's practices and incentives are appropriate and that there is a clear alignment with the interests of shareholders. Indeed, the high levels of share ownership required of the Group Leadership Team, illustrate the Board's commitment to that alignment.

Nomination Committee
The Committee continues its work, having proper regard to the benefits of diversity, to ensure that the composition of the Board continues to be appropriate for the Company as it focuses on the delivery of its Drive for 2020 strategic objectives.

While the Committee primarily devotes its attention to Board succession, the Board has continued to focus on reviewing the quality of Executive management and the processes for finding and developing a diverse, mobile and international talent base. Additional resources have been made available to pursue this objective, with the implementation of an improved global talent management system.

Core values and behaviours

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

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

Board evaluation

It is essential that the Company has a fully engaged and committed Board with an appropriate mix of skills, experience and knowledge, which is capable of engaging in positive and constructive debate to meet such challenges. The Board re-engaged Lintstock to undertake the annual review of the Board in 2014.

The Company Secretary and I set the content for the evaluation with Lintstock and tailored the questionnaires used to the specific circumstances of Essentra. The process picked up on themes identified in the 2013 exercise and, with the launch of Drive for 2020, the key strategic issues facing the Company.

All Board members were requested to complete an online questionnaire addressing the performance of the Board and its Committees, the Chairman and the individual Directors. The anonymity of all respondents was ensured throughout the process in order to promote the open and candid exchange of views.

The review concluded that all members felt that the high performance of the Board continued to successfully drive the Company's growth, and provided a clear focus on the challenges facing the Board in its establishment of future strategic objectives and its oversight of their delivery.

Employee engagement

I visited a number of Essentra facilities overseas during the year, including operations in India and the US. I have also been able to meet with a number of management teams to discover first hand how the changes to the Company's organisational structure have been implemented and what effect they have had on the business. In addition, I was pleased to attend the official opening of our new purpose-built manufacturing facility in Newport, UK.

I am always greatly impressed by the hard work and enthusiasm of my colleagues wherever I travel in the world and would like to thank them for this commitment. I would also like to welcome to the Group all new employees from our recent acquisitions.

Board changes

With the appointment of two new Non-Executive Directors during 2013, the Board benefited from the experience of Lorraine Trainer and Peter Hill. Following her appointment as the Chairman of the Remuneration Committee, Lorraine led the development of a revised remuneration policy and the new LTIP rules which are being proposed at the 2015 AGM and undertook the appropriate detailed consultation of the shareholders.

I regret to report that Paul Dreschler will be leaving the Board after the 2015 AGM following nearly 10 years' service. Paul joined on the establishment of the Company in 2005, and served as the Senior Independent Non-Executive Director and Chairman of the Remuneration Committee until the AGM in 2014. I am grateful to Paul for his considerable contribution to the development of the Company for many years and valued support to me in my role as Chairman. As previously reported Terry Twigger, was appointed as the Senior Independent Non-Executive Director following the 2014 AGM.

Governance agenda

In summary, as the Company continues its strong growth, we have made excellent progress in response to the increasing demands of the governance agenda, both internally and externally. Good governance is a cornerstone of a successful company. Internal controls and reporting continue to be strengthened, in order to establish a framework of policies and processes and management systems to support its governance efforts which apply globally and are fully compatible with the delivery of long-term shareholder value.

JEFF HARRIS
Chairman
20 February 2015

CORPORATE GOVERNANCE FRAMEWORK

The Board
In fulfilling its role, the Board:

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

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

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

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

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

In fulfilling its role, the GMC:

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

The Group Leadership Team ("GLT") comprises the most senior managers from across the Group who were collectively charged with driving the achievement of Essentra's Vision 2015 strategy, and for the forthcoming year and beyond will work to deliver the Company's Drive for 2020 strategic objectives. The GLT plays a key role in reinforcing the behaviours that contribute to a robust governance culture across the Group.

CORPORATE GOVERNANCE REPORT

Board of Directors' meeting attendance
Board Chairman: Jeff Harris

Membership and attendance

Jeff Harris	6 (6)
Colin Day	6 (6)
Terry Twigger	6 (6)
Matthew Gregory	6 (6)
Peter Hill	5 (6)
Lorraine Trainer	6 (6)
Paul Drechsler	6 (6)

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

Peter Hill was unable to attend one of the Board meetings due to a long standing commitment existing prior to his joining.

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

During the year, Essentra was and continues to be subject to the UK Corporate Governance Code ("the Code") published by the Financial Reporting Council, a copy of which can be found on their website www.frc.org.uk. The edition of the Code published in September 2012 applied throughout the year ended 31 December 2014.

Essentra confirms that the Company complied with the Code throughout the year.

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

The Company's governance structure, based on the leadership principles of the Code, were reviewed during the year and, in seeking to continuously improve this structure, reviewed and updated its Compliance Framework within which the Group shall now operate.

The Board is collectively responsible for the long-term success of the Company, and its role is to provide entrepreneurial leadership within a framework of prudent and effective controls, which enables risk to be assessed and managed in the pursuit of the Company's strategic objectives.

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

Board composition and independence
As at the date of this report the Board has seven members, comprising a Non-Executive Chairman, two Executive Directors and four Non-Executive Directors. The names of the Directors serving at the end of 2014 and their biographical details are set out on pages 46 to 47. All Directors served throughout the year. Paul Drechsler stepped down as Senior Independent ("SI") Non-Executive Director and Chairman of the Remuneration Committee at the end of the 2014 Annual General Meeting ("AGM"), and will retire from the Board at the end of the 2015 AGM.

The Board believes that it and its Committees have the appropriate composition to discharge their respective duties effectively with the appropriate level of challenge and level of independence, and that the members of the Board in conjunction with the senior executive teams are well equipped to drive, and are capable of delivering, the Company's Drive for 2020 strategic objectives. The Board is of the view that it has a highly competent Chairman who, together with each of the other Non-Executive Directors, has considerable international experience at a senior level in the management of activities broadly similar to those carried out by Essentra and the material issues likely to arise for the Group.

The roles of the Chairman and the Chief Executive are separately held and are so defined as to ensure a clear separation of responsibilities. Details are available on the Company website www.essentra.com. The Chairman leads the Board and ensures its effectiveness, and the Chief Executive is responsible for the executive management and performance of Essentra's operations. Together with the primary responsibilities of the Senior Independent Non-Executive Director, the other Non-Executive Directors and the clear definition of reserved matters and delegated authorities, there is a system which exists of checks and balances in which no individual has unfettered decision-making power.

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

Chairman
> Leads the Board
> Ensures effective communication with shareholders
> Ensures effective communication flows between Directors
> Facilitates the effective communication of all Directors

Chief Executive

- Implements strategy
- Develops manageable goals and priorities
- Leads and motivates the management teams
- Develops proposals to present to the Board on all areas reserved for its judgement

While the Board maintains that for the year ended 31 December 2014 the Non-Executive Directors were each considered to be independent of management, under the Code Paul Drechsler is no longer considered to be independent.

In assessing independence, the Board considers that the Chairman and Non-Executive Directors are independent of management and free from business and other relationships which could interfere with the exercise of independent judgement now and in the future. The Board believes that any shareholdings of the Chairman and Non-Executive Directors serve to align their interests with those of the shareholders.

The Board considers that the Non-Executive Directors provide an independent view in Board discussions and in the development of the Company's strategy. Non-Executive Directors also ensure a sound basis for good corporate governance for the Company, challenging management's performance and, in conjunction with the Executive Directors, ensuring that rigorous financial controls and systems of risk management are maintained as appropriate to the needs of the businesses within Essentra.

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

Jeff Harris is currently appointed to the board of Synergy Health plc as a Non-Executive Director and as the Senior Independent Director. The Board considers that despite this appointment, the Chairman of the Board continues to be able to allocate sufficient time to the Company and to discharge his responsibilities effectively.

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

The Company's Articles of Association require that all new Directors seek election to the Board at the AGM following their appointment. In addition, the Board has agreed that, in compliance with the Code, all eligible Directors will put themselves forward for re-election on an annual basis. Following the Board performance evaluation undertaken during the financial year, the Board is satisfied that each of the Directors being put forward for re-election at the AGM continues to be effective and that their ongoing commitment to the role is undiminished.

The conduct of Board matters

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

- Strategy and resources
- Annual plan
- Treasury policies
- Major capital and operating expenditure proposals
- Major acquisitions and disposals
- Debt facilities
- Key Group policies
- Appointments to the Board
- Systems of internal control
- Dividend payments
- Categories of public announcements

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

During 2014, the Board was closely engaged in the detailed monitoring of performance and the actions necessary to maintain the balanced, profitable growth of the Company in accordance with its Vision 2015 objectives. It also remained focused on the longer-term strategic objectives which it has defined, and the appropriate management of particular risks impacting the Group within the risk attitude parameters which were defined by the Board during the year. The Board spent considerable time reviewing and discussing the new Drive for 2020 strategic objectives and is confident of attaining these new deliverables, details of which can be found on the Company's website at www.essentra.com.

Boards and Committees

During the year there were six scheduled Board meetings. In addition to the scheduled formal meetings, the Board met on a number of other occasions as required and, in particular, reviewed in detail the further development and delivery of the Group's strategy, and undertook a specific review of risk in consultation with an external consultant.

The Chairman and Chief Executive maintain regular contact with the Directors, and the Chairman also holds as appropriate, from time to time, informal discussions with Non-Executive Directors individually or collectively without any of the Executive Directors being present, to review performance, discuss succession issues, to monitor corporate control mechanisms and to discuss any other material matters relevant to the Board.

The Chairman, in conjunction with the Company Secretary & General Counsel, sets the programme for the Board during the year. The Board considers reports from the Chief Executive and the Group Finance Director covering operational, financial performance and other significant business issues. Board meetings are structured to allow open discussion, and all Directors participate in determining the Group's strategy and regularly reviewing the trading and financial performance of the Company.

Committees are a valuable part of the Company's corporate governance structure, and the Board looks to the Audit Committee in particular to undertake the majority of the work involved in monitoring and seeking assurance as to compliance with the controls within this framework. However, the Board as a whole maintains oversight of such important matters and after each Committee meeting, the Chairman of the Audit Committee reports on the matters which have been reviewed.

Other specific responsibilities are delegated to the Nomination and Remuneration Committees. These Committees report as appropriate to the Board. Each of the Committees has terms of reference approved by the Board, copies of which are available on the Company's website or on request from the Company Secretary & General Counsel.

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

During 2014 Essentra transitioned to a more matrix organisational structure, with the establishment of three geographical regions to supplement the existing divisional structure. The role of the regions is to drive in-market execution, with the newly created SBUs taking responsibility for those activities of a longer-term more strategic nature.

The Board was supported during the year by the GMC, which ensures a strong link between Essentra's overall corporate strategy and its implementation within an effective internal control environment.

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

The Chief Executive will continue to be supported by the GMC which will consist of senior executive management, and the regional and SBU heads. The GMC will continue to have delegated authority limits in accordance with clearly defined internal controls established by the Board.

Engagement with management

The Board receives detailed reports at each scheduled Board meeting on the operational and financial performance of the businesses from the Chief Executive and the Group Finance Director, together with regular updates on any material issues which may impact the Group.

The Board received detailed presentations from senior management across a range of businesses within the Company during the course of the year, in addition to reviewing strategic plans and budgets across the Company. The Board also considers reports from senior functional management about matters of material importance to the Company which arise from time to time.

There is a programme of meetings, both formal and informal, with members of the senior executive management and the Board has the opportunity to engage with local management during site visits. The Board derives a better understanding of the Company's operations and business model as a result of such contact.

Applying Essentra's Corporate Responsibility principles
The Chief Executive is the Director with primary responsibility for the implementation and integration of Essentra's Corporate Responsibility principles across the Company. During 2014 the Group Operations Director, supported by the Company Secretary & General Counsel, was responsible for co-ordinating the operation of detailed policies on health and safety, ethics and the environment which support Essentra's commitment to its Corporate Responsibility principles. Further details of these policies can be viewed via the Corporate Responsibility page on the Company's website at www.essentra.com.

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

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

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

All Directors have access to the advice and services of the Company Secretary & General Counsel, who is responsible to the Chairman for ensuring that Board procedures are complied with and that applicable rules and regulations are followed. During the year under review the Company Secretary & General Counsel's advice was sought in relation to share dealings. In the furtherance of their duties, there are agreed procedures for the Directors to take independent professional advice, if necessary, at the Company's expense. No Director took independent professional advice during the year.

Board Evaluation 2014
Following the Board review in 2013, Essentra retained the services of Lintstock to undertake a follow-up evaluation of the performance of the Board in 2014.

The first stage of the review involved Lintstock engaging with the Chairman and the Company Secretary to set the context for the evaluation, and to tailor the questionnaires used to the specific circumstances of Essentra. The process picked up on themes identified in the 2013 exercise, especially concerning the key strategic issues facing the Company.

All Board members were then requested to complete the questionnaire, which addressed the performance of the Board and its Committees, the Chairman and individual Directors. The anonymity of all respondents was ensured throughout the process in order to promote an open exchange of views.

Lintstock subsequently produced a report which addressed the following core areas of Board performance:

> Reviewing and continuing the evolution of the composition of the Board and its Committees, to match the growth of the Company and the development of its strategic objectives
> Ensuring the consistent delivery of a clear "tone from the top" to drive the development of Company culture
> Developing constructive and effective relationships in the Boardroom and with the senior management team, with appropriate levels of challenge
> Continuing the testing and development of the Company's strategy
> Managing risk effectively
> Planning for senior management succession, with appropriate talent development and performance evaluation programmes
> Focusing the Board agenda on key reviews and discussion, supported by the provision of high quality information and the availability of high quality resource and advice

In addition to these core topics, Lintstock also addressed a number of particular case study areas relating to Essentra's strategy, including the development of the commercial footprint of the Company, the effectiveness with which the Company reinvests in innovation and technical capability and the challenges associated with the transition to a matrix management structure.

The Lintstock review concluded that the high level of Board performance continued to improve, but identified a number of particular actions for the Board's consideration in response to the challenges arising from the growth objectives set out in the Drive for 2020 strategy. In particular, the Board is to further review its existing processes and practices, and the nature and extent of its interaction with the senior management team in seeking to maximise the value of its contribution to the delivery of the Company's strategic objectives. Increasing the focus on its oversight of succession planning and the development of talent is a key activity for the Board in 2015 and beyond.

It is envisaged that Lintstock will conduct an interview-driven evaluation next year, including input from the senior management team, in order to follow up on the issues raised in this year's process in greater depth. The review content for each subsequent evaluation is designed to build upon learning gained in the previous year, to ensure that the recommendations agreed in the review are implemented and that year-on-year progress is measured.

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

The Company also communicates regularly with its major institutional shareholders and ensures that all the Directors, including the Non-Executive Directors, have an understanding of the views and concerns of major shareholders, and are able to explain business developments and financial results as appropriate. The Chief Executive, Group Finance Director and Corporate Affairs Director have primary responsibility for investor relations. Presentations for analysts and institutional shareholders were held during the year and meetings were also held with key institutional investors to discuss strategy, financial performance and investment activities. Slide presentations are made immediately available after the full- and half-year results, and are also available on the Company's website to view and download.

All shareholders have the opportunity to meet any of the Directors of the Company should they so wish. Feedback from meetings with shareholders is provided to the Board so they are aware of any issues or concerns. Additionally, the Board uses the AGM as an occasion to communicate with all shareholders, including private investors, who are provided with the opportunity to question the Directors. At the AGM the level of proxy votes lodged on each resolution will be made available, both at the meeting and subsequently on the Company's website. Each substantially separate issue is presented as a separate resolution and the Chairmen of the Audit, Nomination and Remuneration Committees are available to answer questions from shareholders.

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

Financial reporting
The Directors have acknowledged, in the Statement of Directors' Responsibilities set out on page 91, their responsibility for preparing the financial statements of the Company and the Group. The Directors are responsible for preparing the Annual Report and Accounts, and they consider that the Annual Report and Accounts taken as a whole are fair, balanced and understandable. The external auditor has included, in the Independent Auditor's Report set out on pages 142 to 146, a statement about their reporting responsibilities.

The Directors are also responsible for the publication of Half Year Results, as required by the Disclosure and Transparency Rules of the Financial Services Authority. This provides a general description of the financial position and performance of the Company and the Group during the relevant period.

In November 2014, the Financial Conduct Authority announced that it was removing the requirement for companies to publish interim management statements. As a result, the Company will not continue with the previous process of publishing such statements.

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

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

Monitoring the effectiveness of the system has been delegated to the Audit Committee, which assesses the quality of the control environment when monitoring and reviewing the integrity of the Group's financial statements and any significant judgements that were made in their preparation. Essentra's internal controls are designed to safeguard the Company's assets, and to ensure the integrity and reliability of information used both within the businesses and for public announcements. The Board has overall responsibility for the Company's system of internal control and risk management and for reviewing the effectiveness of this system. Such a system can only be designed to 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.

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

> The Audit Committee meets regularly and reviews the effectiveness of the internal control environment of the Group

> The Audit Committee is supported by the Group Assurance function which undertakes extensive internal audit responsibilities across the Group

> Risk management reports are presented which detail an analysis of the key risks at a Group level, summarise developments potentially impacting the Group from a risk, governance or compliance perspective and propose actions for the Company in response to such developments

> The Board has the opportunity to review the internal control environment at local sites when Board meetings are held away from the Company's head office

> Every month each division submits detailed operating and financial reports covering all aspects of performance. These are reviewed within the Group's central finance function, and summary reports are communicated to the GMC and the Board

> Certificates are required from the businesses to confirm compliance with the Group's policies and procedures

> Self-certification is required from all businesses and divisions at both the half year and year end to confirm compliance with Group financial policies and procedures

Policies and procedures, which are subject to ongoing review and updated as required in response to strategic, operational, business, legal or regulatory developments, with the approval of the Board or its respective Committees as appropriate, are communicated across the Group. Essentra's internal controls are designed to ensure significant risks, investment decisions and management issues are identified, considered and escalated as necessary at the earliest opportunity. Regional Managing Directors and Presidents are responsible for ensuring the communication of and compliance with Essentra's internal controls across their respective regions.

Control of significant risks

The Board's responsibility for risk and risk management in Essentra encompasses:

> Determining the Company's approach to risk

> Setting and instilling the right culture throughout the Company

> Identifying the risks inherent in the Company's business model and strategy, including risks from external factors

> Monitoring the Company's exposure to risk and the key risks that could undermine its strategy, reputation or long-term viability

> Providing an effective oversight of the risk management processes in the Company

> Ensuring the Company has effective crisis management systems

A Group risk framework is in place which supports the Board in fulfilling these responsibilities and serves to reinforce the risk review processes embedded within the businesses.

The Audit Committee enhances the quality of the Board's oversight of the risk management process within Essentra but does not determine the Company's attitude and tolerance for risk.

In continuing to enhance and improve the risk management activities within the Company, from January 2014 the Board endorsed the formation of a new Operational Risk Management Committee which reports to the Audit Committee through the Group Head of Assurance, and an Executive Risk Committee which reports to the Board through the Chief Executive.

The respective risk committees meet on a regular basis during the year and report to the Board or Audit Committee, as appropriate, on the Company's identification and mitigation of risk within the parameters established by the Board.

The Board is of the view that a rigorous ongoing process for identifying, evaluating and managing significant risks faced by the Company was in place throughout 2014 and up to the date of approval of the 2014 Annual Report. This process has been reviewed by the Audit Committee and will be reviewed routinely, to ensure that the system of internal control and risk management remains fit for purpose.

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

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

The Company has an established process for the development of risk practices. Further to the setting of the risk attitude by the Board there is a more formal method of defining acceptable levels of risk within the organisation. The risk process has evolved and is validated through the preparation of risk registers which are used to assess risk tolerance, and the registers are reviewed and discussed by senior management prior to being put forward to the Audit Committee or Board.

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

The risk management technology platform introduced in the prior year has enhanced the reporting tools currently being used and allows the Company to improve risk management, develop risk strategies into risk mitigation and eliminate any lack of coverage. The platform allows real time reporting of risks from the operational businesses to the executive management.

Nomination Committee
Committee Chairman: Jeff Harris

Membership as at 31 December 2014 and attendance

Jeff Harris Non-Executive Chairman	4 (4)
Terry Twigger SI Non-Executive Director	4 (4)
Peter Hill Non-Executive Director	4 (4)
Lorraine Trainer Non-Executive Director	4 (4)

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

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

At the end of the year the Nomination Committee comprised Jeff Harris, who chairs the Committee, Peter Hill, Lorraine Trainer and Terry Twigger, the skills and experience of whom can be found on pages 46 to 47. The Chief Executive, Paul Drechsler and Group Human Resources Director attended by invitation as appropriate.

The Nomination Committee meets as required, and during 2014 it met four times.

The Nomination Committee is responsible for selecting and recommending candidates for appointment as Executive and Non-Executive Directors of the Company. In furtherance of these duties and when considering succession planning, the Nomination Committee looks at the balance, structure and composition of the Board and takes into account the future challenges and opportunities facing the Company.

Nomination Committee 2014 key activities

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

Considerations included the appointment of a new Non-Executive Director whose skills and experience would favourably enhance the current Board.

The successful applicants needed to exhibit independence of mind, integrity and courage to challenge constructively when appropriate. An external resource, JCA Group, was engaged to assess the applicants and make a proposal to the Nomination Committee during 2015.

There is no related party connection with JCA Group, other than the work carried out on an arms length basis.

The Nomination Committee, and the Board as a whole, supports the spirit of the recommendations set out in the Lord Davies Report "Women on Boards". Securing the right combination of skills, experience and expertise allows the Board to effectively lead the sustainable growth and success of the Company for the benefit of all stakeholders. The fundamental objective must be to ensure that the best people are appointed to do the best job for Essentra, taking into consideration other factors such as market and international experience and diversity of thought and background. Appointing people on merit without any form of discrimination is a key component of Essentra policies across all its international operations at all levels.

AUDIT COMMITTEE CHAIRMAN'S LETTER

Dear Shareholder,

As Chairman of the Essentra plc Audit Committee, I am pleased to present the 2014 Audit Committee Report to shareholders.

The report aims to provide you with the following information:

> How the Audit Committee operates and engages with the Company, including the Group Assurance function and the Executive Directors

> The key activities which were reviewed by the Audit Committee, including those items of regular annual review and other current areas of focus

> The discussions and actions undertaken, in conjunction with the external auditor, on any significant judgements and / or issues

> Details of the ongoing review of the external auditor and the amount of non-audit work undertaken

The Audit Committee continues to focus on effective governance as a key feature in the way Essentra manages its business risks and internal control procedures. This focus enables the Audit Committee to support the maintenance and continuing development of the control environment across the Company, to ensure the integrity of the financial information and that a fair, balanced and understandable view is provided to our shareholders.

With the agenda for the Audit Committee's consideration continuing to expand, and as the Company continues its growth, we are taking additional time to ensure that the Audit Committee has the opportunity and focus to fulfil its wide-ranging responsibilities diligently.

While the role and independence of the external auditor continues to be reviewed, the Audit Committee has reported to the Board that the re-appointment of KPMG LLP should be proposed at the forthcoming AGM, and I hope that you will support me in this resolution.

TERRY TWIGGER
Audit Committee Chairman
20 February 2015

REPORT OF THE AUDIT COMMITTEE

Audit Committee

Committee Chairman: Terry Twigger

Membership as at 31 December 2014 and attendance

Terry Twigger SI Non-Executive Director	4 (4)
Peter Hill Non-Executive Director	4 (4)
Lorraine Trainer Non-Executive Director	4 (4)

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

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

Other attendees

The external auditor, Chairman of the Board, Group Finance Director, Paul Drechsler, Group Head of Assurance and members of the GMC attended meetings by invitation, as appropriate. During the year, the Audit Committee met the external auditor, KPMG LLP, and the Group Head of Assurance without the Executive Directors being present.

Governance

All the Audit Committee members are independent Non-Executive Directors, and have financial and / or related business experience gained in senior positions in other large diverse organisations.

Terry Twigger has been the Chairman of the Audit Committee since 2009, and the Board is satisfied that Terry has recent and relevant financial experience, further details of which can be found on page 46.

The Audit Committee supports the Board and reports to it on a regular basis, certainly no less frequently than at every Board meeting following a meeting of the Audit Committee.

There is an annual cycle of items that are to be considered by the Audit Committee. The timetable of these items is scheduled in accordance with the requirements of the annual audit cycle and any other requirements of the Audit Committee. The responsibilities of the Audit Committee are defined in its terms of reference, which are reviewed annually, copies of which are available at www.essentra.com.

Significant financial judgements for 2014

Valuation of accounts receivable

The Group continues to have 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 may expose the Group to additional risks. Consequently the Audit Committee is required to review at least twice-yearly the valuation of such receivables and ensure the appropriateness of provisions held against the carrying value of accounts receivable, having regards to the age of creditworthiness of the customer.

There is a clear process and policy in place for the valuation of accounts receivable which is communicated to all Group finance teams. Along with the Group Assurance function, the Group Finance Director and Chief Executive review quarterly all receivable balances and provisions with the heads of the three regions.

During the year the Audit Committee reviewed the Company's policies and procedures associated with the valuation of receivables, particularly in relation to the process for the acceptance of credit risk and its management, and challenged the Group Finance Director on the appropriateness of provisions held by the Company against such risk.

As a result of the processes and reporting in place, the Audit Committee is satisfied that management is giving its full attention to all material outstanding receivables.

Tax contingencies

The Group is subject to a number of tax assessments which might represent potential future tax exposures, which arise in the ordinary course of business from tax authorities in a number of the jurisdictions in which the Group operates. The Group assesses all such exposures in the context of the tax laws of the countries in which it operates and, where applicable, makes provisions for any settlements which it considers appropriate.

The Audit Committee reviewed the central tax provisions created during the year and the effective tax rate, together with their corresponding assumptions. The Audit Committee questioned and challenged the Group Finance Director as to the Company's risk attitude in this area.

Having considered the explanations and rationale provided by the Company, and taking this into consideration along with the conclusion of the external auditor, the Audit Committee concluded that the contingencies were appropriate given the nature of the activity undertaken by the Group.

Exceptional costs

The presentation of certain items as exceptional requires judgement, and therefore each item under consideration must be assessed on a case-by-case basis. There are no specific rules on the definition and presentation of exceptional items. The Essentra Group has issued to its finance teams a policy detailing the treatment of such items which should be based on size, incidence and the intention to enable a proper understanding of the Company's financial information and performance.

The Audit Committee considered, on a regular basis, the value and treatment of the exceptional items, and the assumptions underlying this value.

The Company provided detailed analysis as to the reasons why these costs should be classified as exceptional and that they related to acquisitions, integrations, restructuring costs and other significant non-routine items, further details of which can be found in note 3 on page 115. The Audit Committee challenged the appropriateness of this classification to ensure the costs were truly exceptional and could not be considered to be recurring. The Audit Committee also challenged the Group Finance Director as to whether the amounts involved were sufficiently material to be considered exceptional.

Taking into consideration the accounting policy of the Company, the explanations given by the Group Finance Director and the views and conclusion of the external auditor, the Audit Committee remains comfortable with classification of these exceptional costs.

Valuation of warranty provision

The Group produces a wide range of products and operates manufacturing facilities in a number of countries. This could lead to quality issues arising, and so the Group needs to make a provision for returns under warranty.

This area was considered as a key source of audit focus, and the external auditor addressed the potential issue with the Audit Committee during the planning of the external audit process and scope. The external auditor provided a detailed report to the Audit Committee outlining the assumptions made and other bases of calculation for the valuation of the warranty provision. The Audit Committee evaluated the report of the external auditor, having regard also to the information and explanations provided by the Group Finance Director in the valuation of the provisions.

The Audit Committee concluded that it was satisfied with the assumptions made and the judgements applied.

Audit Committee 2014 key activities

Financial statements and reports

- Examined the 31 December 2013 Annual Report and Accounts and the 30 June 2014 Half Year Report. This involved reviewing, challenging and recommending for approval the going concern basis of preparation, the accounting policies and disclosures, the financial reporting issues and the assumptions and judgements made
- Reviewed in detail the key judgements of the Financial Statements and levels of disclosure
- Reviewed the effectiveness of the Group's internal controls and disclosures made in the Annual Report and financial statements
- Reviewed the judgements and assumptions used for segmental reporting following the adoption of the new organisational structure
- Implemented a recruitment policy with regard to persons previously employed by external auditors

Risk management and internal audit

> Reviewed and considered reports from the Group Head of Assurance, including any issues relating to internal controls and the status of actions taken in response to any identified concerns

> Oversaw the development of risk management practices through the Group Assurance function

> Assessed the areas of focus for internal audit and the adequacy of coverage, having regard to the potential risks impacting the Group

> Reviewed the output from the Group processes used to identify, evaluate and mitigate risk, and considered the key risks arising from the Company's activities and the response of senior management to those challenges

> Assessed the Company's response to cyber security and information technology risks

> Reviewed the adequacy of the Company's resources in relation to financial reporting, tax and treasury management requirements

> Oversaw compliance activities while monitoring the regulatory environment, and assessing / mitigating any impact to the business

> Reviewed the Company's whistleblowing processes and reports made during the year under its Right to Speak policy

The Audit Committee takes responsibility for reviewing the Group's internal controls through its engagement with the Group Assurance function. The Group Head of Assurance is responsible for providing assurances as to the adequacy of internal controls' function throughout the Company, and attends each Audit Committee meeting. Prior to the start of each year the Audit Committee agrees the annual internal audit plan, which is drawn up on a risk-based approach across a broad section of the Company's activities. Any significant findings from internal control audits undertaken during the year have been appropriately investigated, and necessary action taken to address and rectify any weaknesses that may have been identified.

With the strong growth and acquisition activity undertaken by the Company, and the expansion into new markets and geographies, the Audit Committee has sought assurance that the internal controls, together with risk management and compliance activities, have continued to develop in accordance with all relevant requirements, and that appropriate resource is being made available to respond to those demands.

During the year the Audit Committee continued to review the Company's cyber security and received a presentation from the newly appointed Chief Information Officer.

External auditor and non-audit work

> Reviewed and agreed the scope of the audit work to be undertaken by the external auditor

> Agreed the terms of engagement and fees to be paid to the external auditor for their audit of the 31 December 2014 financial statements

> Considered and planned with the external auditor transitional arrangements for the new audit partner to be introduced during 2015

> Received a report from the external auditor on its independence and objectivity including quality control procedures

> Reviewed the qualifications, expertise, resources and independence of the external auditor, and assessed their performance

> Reviewed proposals for the engagement of the external auditor for non-audit services, and confirmed that their independence was safeguarded

The internal procedures implemented by the Company to ensure the Board maintains overall control for all material strategic, financial, operational and compliance matters affecting the Company are included within the internal control section of this Report.

The Board establishes the standards and values that govern the Group and agrees the structure of the Group's internal controls.

Engagement of the external auditor

Although the external auditor has been in place since the Company's public listing in 2005, the external auditor periodically changes the audit partners at a Group, divisional and country level in accordance with professional and regulatory standards, in order to protect independence and objectivity and provide fresh challenge to the business. Such changes are carefully planned to ensure that the Group benefits from staff continuity without incurring undue risk of inefficiency.

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

As such, the Audit Committee has not considered it necessary this year to conduct a tender process for the appointment of its external auditor. Having carried out the review described above and having satisfied itself that the external auditor remains independent and effective, the Audit Committee has recommended to the Board that the external auditor be reappointed at the 2015 AGM.

The Audit Committee has been kept up-to-date with the development of new EU-wide regulations concerning audit tenure and the longevity of audit firm relationships with companies they audit.

KPMG has been in place as the Company's external auditor since inception of the business in 2005. Under EU transitional arrangements, the current intention is to initiate an audit re-tender no later than 2017. The Audit Committee will keep this tendering timeframe under review, and will use its regular reviews of external auditor effectiveness to assess whether an earlier date for tender would be appropriate.

There are no contractual obligations restricting the Audit Committee's choice of external auditor.

To fulfil its responsibility regarding the independence of the external auditor, the Audit Committee reviewed:

- Changes in senior audit personnel in the audit plan for the current year
- A report from the external auditor describing their arrangements to identify, report and manage any conflicts of interest
- The extent of non-audit services provided by the external auditor

To assess the effectiveness of the external auditor, the Audit Committee reviewed:

- The external auditor's fulfilment of the agreed audit plan and variations from it, and reports highlighting the major issues that arose during the course of the audit
- Feedback from the businesses evaluating the performance of each audit team

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

Non-audit services policy

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

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

Details of the fees paid to KPMG during the year can be found in note 3 to the financial statements on page 115.

REMUNERATION COMMITTEE CHAIRMAN'S LETTER

Dear Shareholder,

I am pleased to present my first remuneration report as Chairman of the Remuneration Committee.

As explained in the Strategic Report, Essentra delivered the ambitious targets set out in its Vision 2015 strategy, and is now moving into the next phase of development – Drive for 2020, the roadmap for the continued delivery of balanced, profitable growth. During the year, the Remuneration Committee reviewed the senior executive remuneration structure to ensure that it supports the strategic objectives of Drive for 2020. Following that review, we will be seeking shareholder approval for a revised Remuneration Policy Report at this year's AGM.

Drive for 2020 and the executive pay structure

The Remuneration Committee has structured the revised Remuneration Policy so that it supports the financial objectives and strategic priorities of Drive for 2020 in a manner that is aligned with shareholders' interests.

Supporting financial objectives

Our Drive for 2020 strategy seeks to create sustainable shareholder value through the delivery of balanced, profitable growth in our existing and future opportunity markets and technologies. The strategy also calls for strong conversion of profit into cash.

The design of the future incentive arrangements provides a balanced reward for delivery of these financial objectives:

- Annual bonus – rewards the delivery of performance annually, across a broad foundation of business fundamentals (revenue growth, operating profit growth and working capital performance), which should drive longer-term shareholder value creation
- Long-Term Incentive Plan ("LTIP") – rewards the delivery of longer-term shareholder value creation through the measures of Earnings per Share ("EPS") growth and relative Total Shareholder Return ("TSR")
- Performance targets will be set to ensure that maximum payouts under the incentive schemes are consistent with Drive for 2020, in particular the aspiration of doubling the size of the Company by 2020

Supporting strategic priorities

Our Drive for 2020 strategy requires the development of a focused and high performing executive team which continually seeks operational excellence and operates in a globally integrated manner. The pay structure will support these strategic priorities in the following ways:

- In order to allow the Executive Directors to be fully focused on the delivery of Drive for 2020, the Remuneration Committee has committed to fix their pay arrangements throughout the three-year period of the new Remuneration Policy (2015-2017). This will include a pre-determined salary structure with no annual reviews throughout this period
- A high performance culture will be emphasised by ensuring that variable pay forms a significant proportion of the total pay package for Executive Directors and senior executives
- Challenging performance targets will drive operational excellence throughout the senior executive team
- The LTIP award structure described below will help to establish a common culture throughout the senior executive team which focuses on the importance of shareholder value creation

Providing alignment with shareholders

Underlying Drive for 2020 is a focus on sustainable shareholder value creation. The pay structure will ensure that Executive Directors and other senior executives are aligned both with this concept and more broadly aligned with the interests of shareholders:

- Executive Directors and other senior executives will receive an award over a fixed number of LTIP shares in each of 2015, 2016 and 2017. This approach will provide direct alignment with the Drive for 2020 strategy of value creation, as executives will benefit along with shareholders if the share price rises (as their future LTIP awards will have a higher value) but will suffer along with shareholders if the share price falls (as their future LTIP awards will have a lower value)
- In order to ensure Executive Directors and other senior executives are aligned with shareholders, they are required to build up and retain a material holding of Company shares. For Colin Day and Matthew Gregory, this requirement is shares worth 300% and 200% of salary respectively, and both Executive Directors have built up shareholdings that are already in excess of their basic requirement
- We have strengthened the existing malus and clawback provisions within our incentive plans. This means that all elements of Executive Directors' variable pay are now covered by these provisions, and the range of circumstances in which the Remuneration Committee can apply malus or clawback has been widened

In summary, our Executive Directors' pay arrangements for the next three years will comprise the following elements:

Element of pay details		Performance Conditions (2015 awards)
Basic annual salary[1]	Colin Day £675,000 (fixed until 1 January 2018) Matthew Gregory £340,000 in 2015, £375,000 in 2016, £390,000 in 2017	n/a
Pension	Colin Day 25% of salary Matthew Gregory 20% of salary	n/a
Benefits	Private medical insurance, company car and / or allowance, life insurance cover	n/a
Annual bonus	Maximum potential of 150% of salary for Colin Day and 125% of salary for Matthew Gregory Half paid in cash and half deferred in shares under the Deferred Annual Share Bonus ("DASB") for three years Subject to malus and clawback provisions	Balanced growth (revenue and operating profit), working capital and personal objectives
LTIP	**2015 award** Colin Day –award of shares worth 300% of salary Matthew Gregory – award of shares worth 200% of his approximate average salary for the period 2015-2017 **2016 & 2017 awards**[2] Colin Day and Matthew Gregory receive an award over the same number of shares as they were granted in 2015 Subject to malus and clawback provisions	50% based on EPS growth, 50% based on relative TSR
Shareholding guidelines	Colin Day 300% of salary Matthew Gregory 200% of salary	n/a

1 As highlighted in previous Remuneration Reports, Matthew Gregory was brought onto the Board at a salary level that was set deliberately well below the market rate for an established finance director, with the intention that, subject to strong progression in the role, the Remuneration Committee would implement a series of phased salary increases to bring his salary to a more appropriate level. The Board has been pleased by the development of Matthew Gregory as Group Finance Director and these proposed increases, if implemented in full (which will be subject to continued strong performance), will bring his salary to a more appropriate level by 2017.

2 The flexibility to award up to a certain number of shares is limited in the LTIP rules to the 2016 and 2017 awards only. Any subsequent award would be limited under the rules to a maximum of shares worth 300% of salary. The Remuneration Committee does have the discretion, which it could elect to use in the event of an exceptional share price rise or other circumstances, to award the Executive Directors fewer LTIP shares in 2016 or 2017 than they were awarded in 2015.

We believe that these arrangements provide a transparent pay structure that supports the objectives and priorities of Drive for 2020, and aligns the interests of the Executive Directors and other senior executives with those of the shareholders.

We undertook a thorough consultation with our major shareholders, the Investment Association and Institutional Shareholder Services in relation to our proposed new Policy for Executive Directors. We were pleased with the positive feedback which we received during the consultation process.

Performance and reward in 2014

As set out in the Strategic Report, the year to 31 December 2014 saw strong growth in both revenue and operating profit. As a result of this performance, as well as achieving our working capital target, the Remuneration Committee determined that the annual bonus would be 60% of the maximum for both Colin Day and Matthew Gregory. Further details relating to the determination of the annual bonus outturn are in the Annual Report on Remuneration on pages 75 to 86.

In addition, as a result of three-year annualised EPS growth of 22.1% and strong relative TSR performance, the August 2011 LTIP award will vest in full in February 2015, and 85% of the April 2012 LTIP award is currently expected to vest in April 2015. More details are provided on page 79.

The rest of this Remuneration Report is split into two sections in line with legislative reporting regulations:

> The Remuneration Policy Report – contains details of the various components of our future pay structure. The Remuneration Policy Report will be subject to a binding shareholder vote at our 2015 AGM

> The Annual Report on Remuneration contains details of pay received by Directors in 2014, and also contains full details of how we intend to implement our pay policy during 2015. The Annual Report on Remuneration will be subject to an advisory vote at the 2015 AGM

Additionally, there will be a binding shareholder vote at the 2015 AGM to approve the introduction of our new Long-Term Incentive Plan ("LTIP 2015") which replaces our existing plan which expires later this year. The detailed terms of LTIP 2015 are set out in the accompanying Notice of Meeting for the 2015 AGM and key details of LTIP 2015, in so far as they affect the Executive Directors, are outlined in this Remuneration Report.

I hope you will find this Remuneration Report to be clear and helpful in understanding our remuneration practices, and that you will be supportive of the resolutions relating to remuneration at the AGM. As ever, the Remuneration Committee welcomes any questions or comments from shareholders.

LORRAINE TRAINER
Remuneration Committee Chairman
20 February 2015

REMUNERATION POLICY REPORT

This Remuneration Committee's Report to shareholders for the year ended 31 December 2014 sets out the policies under which the Executive and Non-Executive Directors are remunerated, and incorporates tables of information showing details of the remuneration and share interests of the Directors. The Remuneration Committee's Report, including the Remuneration Policy Report and the Annual Report on Remuneration, is intended to be in full compliance with the requirements of the Large and Medium-sized Companies and Groups (accounts and reports) Regulations 2013, the UK Corporate Governance Code 2008 (as amended) issued by the Financial Reporting Council and the Listing Rules.

The current Remuneration Policy Report was approved by shareholders at the 2014 AGM and can be found on the Company's website www.essentra.com.

As outlined in the Remuneration Committee Chairman's letter, the Remuneration Committee has reviewed the continued appropriateness of the current Remuneration Policy Report in the context of the Company's new corporate strategy, Drive for 2020. Following that review, shareholder approval will be sought at the 2015 AGM for the new Remuneration Policy Report set out below, which is intended to ensure our executive remuneration structure supports Drive for 2020. Subject to shareholder approval, the new Remuneration Policy Report will take effect immediately after the forthcoming 2015 AGM and apply to the financial year from 1 January 2015.

The key changes in the new Remuneration Policy Report from the current Remuneration Policy Report are:

- Throughout the three-year life of the new Remuneration Policy Report, the current Executive Directors' salaries will not be reviewed annually. Instead they will be set at the pre-determined levels set out in the policy table on page 68.
- The current Executive Directors will receive a fixed LTIP award in each of 2016 and 2017 over up to the same number of performance shares as awarded to them in 2015
- The potential circumstances in which malus and clawback can be applied to the annual bonus and LTIP 2015 have been extended, in line with best practice and the UK Corporate Governance Code 2014
- DASB and LTIP 2015 awards may accrue the value of dividends paid during the period between grant and vesting

This section of the Remuneration Committee Report will be subject to a binding shareholder vote at the 2015 AGM.

The Remuneration Committee determines and recommends to the Board the framework for the remuneration of the Executive Directors, the Company Secretary and the Chairman of the Board. The remuneration of the Non-Executive Directors is the responsibility of the Board as a whole and no Director is involved in determining or voting on their own remuneration.

The Chief Executive's remuneration proposals for the members of the Group Management Committee are reviewed by the Remuneration Committee, and recommendations as regards those proposals are made to the Board.

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

The Remuneration Committee reviews the risks surrounding the Company's existing remuneration policies on an annual basis, and has determined that there are no significant concerns with the structure or operation of the remuneration policy.

In determining the policy for the Executive Directors, the Remuneration Committee's objective is to ensure that those individuals are provided with appropriate incentives to encourage enhanced performance and to reward individual contributions to the success of the Company. The Remuneration Committee also intends for the remuneration structure to encourage Executive Directors to act in a fair and responsible manner, having regard to the long-term performance of the Company.

The Remuneration Committee's main responsibilities are to:

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

The Remuneration Committee's key objectives are to:

- Align senior executives' remuneration with the interests of shareholders and other stakeholders, particularly in the design of the performance-related elements of their remuneration packages
- Establish a competitive remuneration package attracting, retaining and motivating high quality executives
- Promote the achievement of both the Company's annual and longer-term strategic objectives, including Drive for 2020, by providing a remuneration package that contains appropriately stretching and motivating targets

Alignment with Company strategy

The Board as a whole establishes the remuneration policy, and considers the alignment of Company performance and the remuneration of its senior executives, including the Executive Directors, to be of the utmost importance. It believes that senior executives should be highly rewarded (on a market-competitive basis) for the delivery of stretching goals, but should also receive reduced rewards when the business does not perform to expectations. To achieve this alignment:

- Essentra's remuneration package is leveraged with a high percentage of pay "at risk" against the achievement of stretching goals
- One half of any bonus for Executive Directors is delivered in the form of Essentra shares which will vest after a three-year period
- Executive Directors and other senior executives will receive a fixed annual award of shares under the LTIP 2015 for the lifetime of this Remuneration Policy, so that they benefit if the share price rises but suffer, along with shareholders, if the share price falls
- Annual bonus and LTIP awards are principally determined by measures of the Company's financial performance
- Malus and clawback provisions apply to all elements of Executive Directors' variable pay

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

The structure:

- Reflects the Company's Drive for 2020 strategic objectives
- Ensures that incentive plan metrics and targets provide executive reward for delivering the business objectives, but do not encourage any unnecessary risk taking
- Rewards the delivery of performance annually, across a broad foundation of business fundamentals which should lead to growth in EPS, a key metric for shareholders
- Focuses rewards so they are delivered if the Company delivers financial growth in line with stretching targets
- Rewards executives if they deliver outstanding performance which creates significant and sustainable shareholder value
- Requires Essentra executives to hold significant shareholdings in the Company
- Rewards executives for organic and acquisition growth
- Incorporates malus and clawback provisions to safeguard shareholders' interests

Summary of components of Executive Directors' remuneration

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

Remuneration for Executive Directors is structured so that the variable performance-related pay element forms a significant portion of each package. The majority of total remuneration at the maximum performance level will derive from the Company's long-term incentive arrangements, which are aligned to Essentra's ambition under Drive for 2020 to create long-term shareholder value.

The table on pages 68 to 71 should be read in conjunction with the Remuneration Policy.

Purpose and link to strategy	Operation	Opportunity	Performance measures
Basic annual salary			
To reflect the particular skills and experience of an individual and to provide a competitive basic salary	For the duration of this Remuneration Policy, basic salaries of the current Executive Directors will be set at levels not exceeding those set out in this table. These salaries have been set by reference to a rounded assessment which considers: > The skills, performance and experience of the individual > Their roles and responsibilities > External market data	Colin Day: £675,000 (fixed until 1 January 2018) Matthew Gregory: > From 1 January 2015: £340,000 > From 1 January 2016: £375,000 > From 1 January 2017: £390,000	Not applicable
Annual bonus			
To incentivise the delivery of Company performance-related objectives, to aid retention and to align Directors' interests with those of the Company's shareholders	One half of the total annual bonus is paid in cash shortly after the announcement of the annual results. The other half is deferred into shares in the DASB, which will normally vest after three years subject to continued service Performance is assessed against measures and targets which are established on an annual basis by the Remuneration Committee. As performance increases so does the percentage payable up to the maximum The bonus is subject to malus and clawback provisions for a period of three years following the determination of the bonus. Circumstances in which these provisions could be applied by the Remuneration Committee are material misstatement in the Company's financial statements, error in assessing the performance conditions, serious misconduct by an individual or serious reputational damage to the Company or a relevant business unit An additional payment (in the form of cash or shares) may be made in respect of shares which vest under deferred awards to reflect the value of dividends which would have been paid on those shares during the vesting period (this payment may assume that dividends had been reinvested in Company shares on a cumulative basis)	Chief Executive – 150% of basic salary Group Finance Director – 125% of basic salary	The bonus will be based on performance assessed over one year using appropriate financial, strategic and individual performance measures The majority of the bonus will be determined by measure(s) of the Company's financial performance The remainder of the bonus will be based on financial, strategic or operational measures appropriate to the individual Director The selected measures for the next financial year are set out in the Annual Report on Remuneration on page 85

Purpose and link to strategy	Operation	Opportunity	Performance measures
Long-Term Incentive Plan 2015 ("LTIP 2015")			
To drive the long-term delivery of the Company's strategic objectives, with particular focus on the delivery of Drive for 2020, to aid retention and to align Directors' interests with those of the Company's shareholders	An annual award of performance share awards with a three-year performance and usually with a three year vesting period Awards are subject to malus and clawback provisions for a period of three years following the vesting of the awards. Circumstances in which these provisions could be applied by the Remuneration Committee are material misstatement in the Company's financial statements, error in assessing the performance conditions, serious misconduct by an individual or serious reputational damage to the Company or a relevant business unit An additional payment (in the form of cash or shares) may be made in respect of shares which vest under LTIP 2015 awards, to reflect the value of dividends which would have been paid on those shares during the vesting period (this payment may assume that dividends had been reinvested in Company shares on a cumulative basis)	An award to any Executive Director would be limited to a maximum of 300% of salary, with the exception that Colin Day and Matthew Gregory will receive a fixed award over up to the same number of performance shares in each of 2016 and 2017 as is awarded to them in 2015 The basis for the determination of the size of the 2015 award for each of Colin Day and Matthew Gregory, within the 300% of salary limit, is outlined in the Annual Report on Remuneration	Vesting will be subject to performance conditions, as determined by the Remuneration Committee on an annual basis. The performance conditions will usually consist of relative TSR performance and adjusted EPS performance, measured over a three-year period The Remuneration Committee may adjust the weightings of the performance conditions to include an additional or alternative performance measure which is aligned to the corporate strategy. 25% of each element vests at threshold performance, usually rising on a straight-line basis for performance up to the maximum level for full payment
Former plan Long-Term Incentive Plan B ("LTIP B")			
To drive the long-term delivery of the Company's strategic objectives, to aid retention and to align Directors' interests with those of the Company's shareholders	An annual award of performance share awards with a three-year performance and vesting period	No further awards will be granted to Executive Directors under this plan	Outstanding awards are subject to a combination of relative TSR performance and adjusted EPS performance, measured over a three-year period 25% of each element vests at threshold performance, rising on a straight-line basis for performance up to the maximum level for full payment

Purpose and link to strategy	Operation	Opportunity	Performance measures
All Employee Plans			
To create alignment of employees' interests with those of shareholders, and an awareness of the Company's share price performance	Under the UK Sharesave, employees (including Executive Directors) are invited to enter a savings contract of three years or five years, whereby the proceeds can be used towards the exercise of an option granted at the time they participate. The option price can be up to a 20% discount to the share price at the time invitations to participate are issued An equivalent US Plan is operated in a similar manner to the UK Sharesave, although with a two-year savings contract and an option price of up to a 15% discount	For the UK plan, shares worth up to the value of the savings an Executive Director agrees to make over the saving period at the previously agreed option price. The savings amount is subject to the HMRC limit, currently £500 per month The US Plan is limited to the monthly dollar equivalent of the UK Sharesave plan	No performance conditions apply to All Employee Plans
Pension			
To provide cost-effective long-term benefits comparable with similar roles in similar companies	A contribution to a defined contribution plan or paid as a cash supplement	Chief Executive – 25% of basic salary Group Finance Director – 20% of basic salary	Not applicable
Other benefits			
To provide cost-effective benefits comparable with similar roles in similar companies	Other benefits include medical expenses, life insurance, a company car and / or car allowance and fuel allowance The Remuneration Committee may vary these benefits from time to time to suit business needs, but they will be provided on broadly similar terms to those offered to other Group employees Executive Directors are entitled to reimbursement of reasonable expenses	There is no overall maximum, as the level of benefits depends on the annual cost of providing individual items in the relevant local market and the individual's specific role	Not applicable

Purpose and link to strategy	Operation	Opportunity	Performance measures
Shareholding requirement			
To align the interests of Executive Directors and shareholders, and to encourage a focus on long-term performance and risk management	These shareholding guidelines are to be built up over five years from date of appointment The Remuneration Committee will review progress towards the guidelines on an annual basis, and has the discretion to adjust the guidelines in what it feels are appropriate circumstances	The guideline minimum level is 300% of basic salary for the Chief Executive and 200% of basic salary for the Group Finance Director Non-Executive Directors are encouraged to hold a minimum of 7,500 shares	Not applicable
Non-Executive Directors			
To attract high-calibre Non-Executive Directors with the relevant experience and skills	The fee for the Chairman of the Board is determined by the Remuneration Committee, while the fees for Non-Executive Directors are determined by the Board as a whole A basic fee is payable to all Non-Executive Directors with supplementary fees for those with additional responsibilities, such as acting as Senior Independent Director or chairing a Board Committee Fees are reviewed on an annual basis with reference to market levels in companies of a comparable size and complexity, and taking account of the responsibilities and time commitment of each role No Non-Executive Director participates in the Group's incentive arrangements or pension plan, or receives any other benefits other than where travel to the Company's registered office is recognised as a taxable benefit, in which case a Non-Executive Director may receive the grossed-up costs of travel as a benefit Non-Executive Directors are entitled to reimbursement of reasonable expenses	Fees for the current year are stated in the Annual Report on Remuneration Fee increases may be greater than those of the wider workforce in any particular year, as they reflect changes to responsibilities and time commitments, and the periodic nature of any increases	Not applicable

Remuneration Committee discretion
The Remuneration Committee will operate the annual bonus plan and long-term incentive plans according to their respective rules, and will be consistent with normal market practice, the Listing Rules and HMRC rules where relevant, including flexibility in a number of regards. These include:

> When to make awards and payments

> How to determine the size of an award or a payment, or when and how much of an award should vest

> Who receives an award or payment

> How to deal with a change of control or restructuring of the Group

> Whether a participant is a good / bad leaver for incentive plan purposes, and whether and what proportion of awards vest and timing of delivery

> How and whether an award (or an award of shares outlined in this Remuneration Policy Report that is yet to be granted) may be adjusted in certain circumstances (eg, rights issues, corporate restructuring, events and special dividends)

> What the weighting, measures and targets should be for the annual bonus plan and LTIP from year to year

The Remuneration Committee also retains the ability within the policy to adjust the targets and / or set different measures and alter weightings for the annual bonus plan, and to adjust targets for the LTIP if events occur which cause it to determine that the conditions are unable to fulfil their original intended purpose.

The Remuneration Committee may make minor amendments to the policy as set out in this Remuneration Policy Report for regulatory, exchange control, tax or administrative purposes, or to take account of change in legislation without obtaining shareholder approval for that amendment.

Existing awards
The Remuneration Committee intends to honour any commitments entered into with current or former Directors on their original terms, including outstanding LTIP and DASB Plan awards which have been disclosed in previous remuneration reports and, where relevant, are consistent with a previous policy approved by shareholders. Any of these payments to former Directors will be set out in the Remuneration Committee Report as and when they occur.

The Remuneration Committee reserves the right to make any remuneration payments and payments for loss of office, notwithstanding that they are not in line with the policy set out above, where the terms of the payment were agreed at a time when the relevant individual was not a Director of the Company and, in the opinion of the Remuneration Committee, the payment was not in consideration for the individual becoming a Director of the Company.

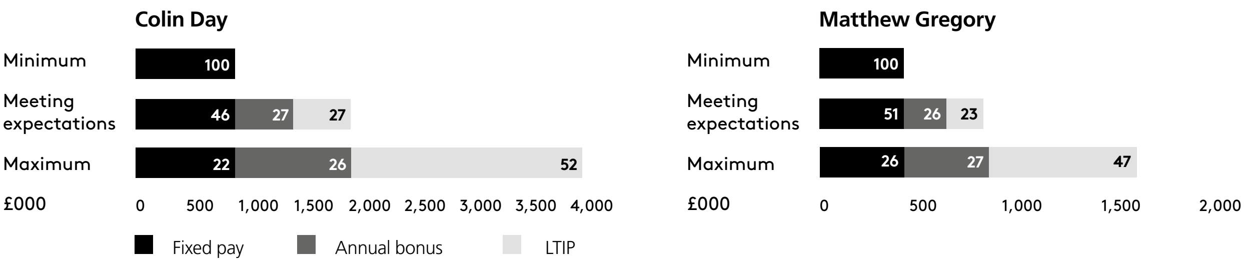
Choice of performance measures and approach to target setting
The Remuneration Committee sets performance metrics under both the annual bonus plan and LTIP which are clearly aligned to the Group's strategy and are part of its key performance indicators.

For the annual bonus plan and LTIP there is a strong focus on the financial objectives of Drive for 2020.

Personal objective performance measures within the annual bonus are also directly linked to key strategic objectives.

Targets are set at the start of each performance period by the Remuneration Committee taking into account relevant internal and external reference points, and are designed to be appropriately stretching.

Remuneration mix
The graph below demonstrates the potential remuneration mix for 2015 at below target, target and maximum for each of the Executive Directors.



Assumptions:
- Salary as at 1 January 2015: Colin Day £675,000 and Matthew Gregory £340,000
- Pension: Colin Day 25% of salary and Matthew Gregory 20% of salary
- Benefits: 2014 reported taxable benefits
- Bonus maximum of 150% of salary for Colin Day and 125% of salary for Matthew Gregory
- Assumes an LTIP award of 300% of salary for Colin Day and 200% of approximate average 2015-2017 salary for Matthew Gregory
- Target 50% of annual bonus maximum paid and 25% of LTIP award vests
- Maximum 100% of annual bonus maximum paid and 100% of LTIP award vests
- No share price growth or dividend accrual considered
- Sharesave awards have been ignored

New appointments

- Basic salary – will be set based on relevant market data, experience and skills of the individual, internal relativities across the Company and the individual's current basic salary
- Any annual increase in salary for a new appointment would be at the discretion of the Remuneration Committee, and would typically be broadly consistent with the average salary increase for UK employees. However, larger increases may be considered appropriate in certain circumstances. For example, where new appointees have initial basic salaries set below market rates, any shortfall will be managed with phased increases (which may be greater than those offered to the wider workforce) over a period of two to three years, subject to their development in the role
- Pension – a contribution to a defined contribution plan or a cash supplement may be offered, with the relevant maximum not exceeding that for the current Chief Executive as a percentage of salary
- Other benefits – as provided to current Executive Directors. Where necessary, the Remuneration Committee may approve the payment of relocation expenses to facilitate recruitment, and flexibility is retained by the Company to pay for legal fees and other costs incurred by the individual in relation to their appointment
- Bonus – the annual bonus described in the Remuneration Policy Report table on pages 68 to 71 will apply to a new appointee with the relevant maximum not exceeding that for the current Chief Executive, and, in the first year, being pro-rated to reflect the proportion of employment during the year. The Remuneration Committee may set different performance measures and targets to those of the other Executive Directors, depending on the timing and scope of any appointment. In order to facilitate recruitment, the Remuneration Committee may deem it necessary to guarantee a level of bonus, in compensation for any bonus forgone at a current employer. This guarantee will be limited to the bonus in relation to the first year of employment
- Share incentives – new appointees will be granted awards under the LTIP up to the limit described in the Remuneration Report Policy table. An award may be made shortly following a new appointment
- Buy-out awards – to potentially facilitate recruitment through the buy-out of existing awards and compensation arrangements from their current employer, the Remuneration Committee will retain the ability to make a one-off buy-out award

In doing so, the Remuneration Committee will take account of all relevant factors, including any performance conditions attached to incentive awards, the likelihood of those conditions being met, the proportion of the vesting / performance period remaining and the form of the award (eg, cash or shares). The overriding principle will be that any replacement buy-out award should be of comparable commercial value to the compensation which has been forfeited. Buy-out awards will be made using existing incentive arrangements where possible, but it may be necessary to use the exemption under Listing Rule 9.4.2. Shareholders will be informed of any such payments at the time of appointment.

- In the case of internal appointments, or appointments following the Company's acquisition of or merger with another company or business, any variable pay element or legacy arrangements in respect of the prior role would normally be allowed to pay out according to its terms, adjusted as relevant, to take into account the appointment
- For external and new internal appointments, the Remuneration Committee may set lower share ownership guidelines, or permit a longer period for them to be met
- Non-Executive Directors – in the event of the appointment of a new Non-Executive Director, remuneration arrangements will normally be in line with the structure set out in the Remuneration Policy Report table. In the event that a Non-Executive Director is required to temporarily take on the role of an Executive Director, their remuneration may include any of the elements listed in the Remuneration Policy Report table for Executive Directors

Service contracts and exit payments

- Service contracts normally continue until the Director's agreed retirement date or such other date as the parties agree
- The policy for executive service contracts is that notice periods will normally not exceed 12 months. Colin Day has a service contract dated 1 April 2011 and Matthew Gregory has a service contract dated 7 September 2012, both with a notice period of 12 months from either party. The service contracts for the Executive Directors are available for inspection by shareholders at each AGM and during normal business hours at the Company's registered office

The Remuneration Committee's policy in relation to termination of service contracts is to apply an appropriate level of mitigation, having regard to all of the circumstances of the individual, the termination of employment and to any legal advice received. The Company has the right to make a payment in lieu of notice (such payment being made based on salary and at the Remuneration Committee's discretion as to the value of benefits), and any such payment may be made in monthly instalments at the Company's discretion, with a requirement for the individual to make reasonable endeavours to find alternative employment and may be reduced to take into account any sums earned during the payment period by way of employment elsewhere

- There are no enhanced provisions on a change of control
- In certain circumstances, such as gross misconduct, the Company may terminate employment immediately without notice or payment
- In addition, any statutory entitlements or payments to settle or compromise claims in connection with a termination would be made as necessary
- The service contract for any new appointment would be on a similar basis to that described above
- The payment of any annual bonus will be at the Remuneration Committee's discretion, based on the individual circumstances and would be pro-rated for the period of service and subject to performance achievements, and may be paid entirely in cash
- Under the rules of the LTIP 2015 and LTIP B, outstanding awards may vest if a participant leaves for specified reasons, including injury, disability, ill health, death, retirement with the Company's agreement, redundancy, or the business or company in which the participant is employed ceasing to be part of the Group or on a change of control. In these circumstances a participant's award vests on an appropriate time pro rata basis (unless the Remuneration Committee decides it is inappropriate to do so), subject to the satisfaction of the relevant performance criteria at the normal vesting date with the balance of the award lapsing. The Remuneration Committee has discretion to determine that the performance period should end on the date of cessation of employment if it feels this is appropriate. If, however, the termination of employment is not for one of the specified reasons, and the Remuneration Committee does not exercise its discretion to allow an award to vest a participant's award lapses in full on date of cessation
- The DASB awards may vest if a participant leaves for specified reasons, including death, the business or company in which the participant is employed ceasing to be part of the Group, retirement with the agreement of the Company or at the discretion of the Board. DASBs will either vest on the normal vesting date or such earlier date as the Board determines

Non-Executive Directors
The Non-Executive Directors do not have service contracts and do not participate in any Company pension, share or incentive schemes. In accordance with best practice, letters of appointment have been issued for all Non-Executive Directors for an initial period of three years, but may be terminated by either party with three months' notice. No compensation is payable on termination, except for fees and expenses accrued to date. These letters are available for inspection by shareholders at each AGM and during normal business hours at the Company's registered office.

Differences in remuneration policy between Executive Directors and other employees
The Remuneration Committee is kept informed of pay and employment conditions in the wider Group and these are factored into deliberations when setting the remuneration policy for Executive Directors. The Group-wide salary increase budget and the proposed increase for UK-based employees, or employees of such other jurisdiction within which the Executive Directors operate or reside, is considered by the Remuneration Committee when determining any basic salary increase for Executive Directors.

As stated previously, the overall remuneration package for Executive Directors is structured so that the variable performance-related pay element forms a more significant portion compared to pay for other employees. This policy is to ensure there is a clear link between the individual and corporate performance achieved, the value this creates for shareholders and the overall reward to Executive Directors. The weighting of variable pay will vary throughout the Group based on the seniority of the individual, the role and specific responsibilities. While tailored annual bonuses are offered to a large number of employees, long-term incentives are targeted at more senior levels of management where they have the most influence on overall value creation.

How the views of employees are taken into account
The Company does not actively consult with employees on matters of executive remuneration. Given the diverse geographies and pay cultures in which the Group operates, the Remuneration Committee believes any consultation is unlikely to produce relevant or material feedback.

How the views of shareholders are taken into account
The Remuneration Committee has consulted with major shareholders and investor bodies in the past when material changes to the policy have been proposed, and this approach will continue in the future with the overall aim to maintain an open and transparent dialogue.

A thorough consultation process was undertaken with our major shareholders and representative bodies before this new Remuneration Policy Report was submitted for the approval of all shareholders.

External appointments
Essentra recognises its senior executives can benefit from serving in a personal capacity as non-executive directors of non-Essentra Group companies. It is, at the same time, conscious of the corporate governance recommendations that Executive Directors should take account of the time commitment required by a non-executive position. Executive Directors are permitted to accept non-executive directorships offered by listed companies and other organisations, which provide industry experience or public service. Such outside appointments are subject to prior Board approval, taking into account existing duties, potential conflicts of interest and time commitments outside of Essentra's responsibilities. Any fees earned from these roles may be retained by the Executive Director.

ANNUAL REPORT ON REMUNERATION

Remuneration Committee processes

The Remuneration Committee throughout the year consisted of Lorraine Trainer (appointed as Committee Chairman 29 April 2014), Peter Hill and Terry Twigger. Paul Drechsler stood down as Committee Chairman and as a member of the Remuneration Committee with effect from 29 April 2014.

This section of the Remuneration Report will be subject to an advisory vote at the 2015 AGM.

Membership as at 31 December 2014 and attendance

Lorraine Trainer Non-Executive Director	3 (3)
Terry Twigger SI Non-Executive Director	3 (3)
Peter Hill Non-Executive Director	3 (3)

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

Remuneration Committee 2014 key activities

> Approved the Remuneration Report for the Annual Report 2013

> Approved a revision of the UK Sharesave Scheme rules for proposing at the 2014 AGM

> Approved a new US Stock Purchase Plan for proposing at the 2014 AGM

> Reviewed and approved a UK Sharesave invitation for 2014

> Reviewed and approved a US Stock Purchase Plan invitation for 2014

> Approved the 2015 cash bonus payments, including the achievement of the 2014 personal objectives

> Approved the bonus rules and targets for 2014, including the personal objectives for the Group Management Committee

> Approved the LTIP B awards made in April 2014

> Monitored the Group Leadership Team's shareholding requirements

> Reviewed Executive Director and Company Secretary basic salaries for 2015

> Exercised discretion over good leaver terms for the Company's share incentive plans

> Reviewed the senior executive remuneration risk policy

> Reviewed the shareholder feedback of the 2013 Remuneration Report, including the 2014 AGM voting results

> Assessed the impact of Drive for 2020 on the remuneration structure for senior executives

> Reviewed the current LTIP award strategy taking into consideration the requirement that the rules needed to be approved by shareholders

Advice

During the year, the Chief Executive, Group Finance Director, Paul Drechsler and the Group Human Resources Director were invited by the Remuneration Committee to provide views and advice. In addition, with the approval of the Remuneration Committee, the Company received services and advice from the following independent and expert consultants:

> New Bridge Street, a part of Aon Hewitt, who are a member of the Remuneration Consultants Group and have signed up to its Code of Conduct, provided advice on the Company's long-term share incentive plans and on the remuneration of the Executive Directors and other senior executives within the Company. New Bridge Street provided no other services to the Company. Fees charged for the year under review were £59,000. Aon Hewitt also provided actuarial advice to the Company for the US pension scheme and are appointed as the Group's insurance broker

> Deloitte LLP, who are a member of the Remuneration Consultants Group and have signed up to its Code of Conduct, provided advice on the Company's long-term share incentive plan and basic salaries for Executive Directors. Fees charged for the year under review are £5,750. Other practices within Deloitte provided tax services to the Company during 2014

The Remuneration Committee continuously monitors the Company's relationship with independent advisers. The Company is comfortable that no conflicts of interest exist.

Total Single Remuneration Table for 2014 (audited)
The remuneration received by Executive Directors for the year ended 31 December 2014 (and the 31 December 2013 comparative) was as follows:

	Year	Salary and fees £000	Taxable benefits[1] £000	Cash in lieu of pension[2] £000	Bonus (cash and deferred shared)[3] £000	Long-Term Incentive Plan £000	Other[6] £000	Total £000
Executive Directors								
Colin Day	2014	618	27	155	557	2,827[4]	–	4,184
	2013	600	19	150	900	2,155[5]	–	3,824
Matthew Gregory	2014	300	15	60	225	537[4]	–	1,137
	2013	280	13	56	350	359[5]	61	1,119
Non-Executive Directors								
Jeff Harris	2014	190	–	–	–	–	–	190
	2013	178	–	–	–	–	–	178
Paul Drechsler	2014	55	–	–	–	–	–	55
	2013	61	–	–	–	–	–	61
Peter Hill	2014	50	–	–	–	–	–	50
	2013	23	–	–	–	–	–	23
Lorraine Trainer	2014	57	–	–	–	–	–	57
	2013	23	–	–	–	–	–	23
Terry Twigger	2014	64	–	–	–	–	–	64
	2013	56	–	–	–	–	–	56
Lars Emilson	2014	–	–	–	–	–	–	–
	2013	8	–	–	–	–	–	8

1 Taxable benefits comprises of a fully expensed car and / or cash allowance plus private medical insurance and life insurance cover
2 Colin Day receives a pension contribution of 25% of basic salary while Matthew Gregory receives a pension contribution of 15% of basic salary plus 5% paid into the Company Scheme by the Company
3 50% of the annual bonus is deferred into shares for a period of three years. Further details on the bonus relating to performance in 2014 are set out below
4 These values represent the estimated value of vesting of LTIP B awards whose performance conditions ended during 2014. The actual vesting date for these awards will be during 2015. Further details on these awards are set out below
5 The values on these awards have been restated to reflect the actual value at the date of vesting. For Colin Day's LTIP B award, this reflects a share price as at 20 April 2014 of £8.295 compared to the estimated £7.90 used in last year's table. For Matthew Gregory's LTIP A award this reflects a share price vesting on 28 February 2014 of £8.45 compared to an estimated value of £7.90 used in last year's report
6 Exercise of a five-year savings contract in the Company's Sharesave Scheme. The valuation is the difference between the exercise price and the option price on the date which they become exercisable

Outside appointments (unaudited)
Colin Day is a non-executive director of AMEC Foster Wheeler plc, FM Global and WPP Group plc, and received fees of £282,000 in respect of these directorships for the year ended 31 December 2014.

Pension schemes (audited)
Colin Day received a supplementary payment equal to 25% of basic salary to permit him to secure pension benefits, and is separately provided with life assurance cover with a benefit of four times basic salary.

Matthew Gregory received a supplementary payment equal to 20% of his basic salary to permit him to secure pension benefits. Matthew contributes 5% of his basic salary up to the scheme specific cap which the Company matches. The Company match is deducted from his supplementary payment. Matthew is a member of the Essentra Pension Plan – Defined Contribution section ("the DC plan"). The DC plan provides a death in service benefit of four times basic salary.

Annual bonus (audited)

For the year ended 31 December 2014, the performance measures for the Executive Directors were based upon balanced growth, working capital and personal objectives. Balanced growth combines revenue and operating profit performance measured via a balanced scorecard. There is no payout under the balanced growth measure if either operating profit growth or revenue growth fails to achieve a base level of performance.

Performance measure	Proportion of bonus determined by measure		Base performance	Target performance	Stretch performance	Actual performance	% of maximum bonus payable
Balanced growth	80%	Operating profit	10% growth	15.5% growth	18.5% growth	16.1% growth	40.0%
		Revenue	5% growth	15.5% growth	17.5% growth	14.2% growth	
			10% of bonus payable	*40% of bonus payable*	*80% of bonus payable*		
Working capital	10%	Based on the working capital ratio at the year-end				Maximum target achieved	10%
Personal objectives	10%	– Chief Executive: measures relating to the development of strategy, integration or acquisitions and the delivery of a new organisational structure – Group Finance Director: measures relating to cash performance, operation of the finance function and implementation of financial assessment processes				See footnote 2	10% 10%
						TOTAL	60.0% Chief Executive 60.0% Group Finance Director

[1] The targets relating to the working capital measure are regarded as commercially sensitive by the Board
[2] Following the year-end, the Remuneration Committee assessed performance against the personal objectives for each Director
For both Directors, the Remuneration Committee determined that the objectives had been fully satisfied and that the maximum portion of their bonus subject to these objectives should be paid. The targets relating to the personal objectives are regarded as commercially sensitive by the Board

Total bonuses awarded in respect of performance for the year ended 31 December 2014 were therefore:

Name of Director	Cash bonus £000	Deferred share bonus award £000	Total bonus £000
Colin Day	279	278	557 90.1% of salary out of 150.0%
Matthew Gregory	113	112	225 75.0% of salary out of 125.0%

The Remuneration Committee is satisfied that the level of bonus payable is reflective of the corporate and individual performance during the year.

Equity incentives (audited)

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

	Date of grant	At 1 Jan 2014	Awarded in year	Transferred in year	At 31 Dec 2014	Share price at date of award	Earliest vesting date	Expiry date
Colin Day								
LTIP Part B	20 April 2011	259,842	–	–	259,842	317.50p	20 April 2014[1]	19 April 2017
LTIP Part B	26 August 2011	80,929	–	–	80,929	339.80p	26 February 2015[1]	25 August 2017
LTIP Part B	27 April 2012	359,840	–	–	359,840	400.70p	27 April 2015	26 April 2018
LTIP Part B	21 March 2013	260,115	–	–	260,115	692.00p	21 March 2016	20 March 2019
LTIP Part B	24 February 2014	–	211,643		211,643	876.00p	24 February 2017	23 February 2020
DASB	24 February 2012	57,688	–	–	57,688	446.90p	1 March 2015	1 March 2015
DASB	21 March 2013	61,100	–	–	61,100	692.00p	1 March 2016	1 March 2016
DASB	24 February 2014	–	51,369	–	51,369	876.00p	1 March 2017	1 March 2017
Matthew Gregory								
LTIP Part B	26 August 2011	16,553	–	–	16,553	339.80p	26 February 2015[1]	25 August 2017
LTIP Part B	27 April 2012	67,021	–	–	67,021	400.70p	27 April 2015	26 April 2018
LTIP Part B	21 March 2013	80,924	–	–	80,924	692.00p	21 March 2016	20 March 2019
LTIP Part B	24 February 2014	–	68,493	–	68,493	876.00p	24 February 2017	23 February 2020
DASB	28 February 2011	10,143	–	10,143	–	299.10p	1 March 2014	1 March 2014
DASB	24 February 2012	13,425	–	–	13,425	446.90p	1 March 2015	1 March 2015
DASB	21 March 2013	13,450	–	–	13,450	692.00p	1 March 2016	1 March 2016
DASB	24 February 2014	–	19,977	–	19,977	876.00p	1 March 2017	1 March 2017

[1] Subject to the announcement of the Company's financial results for the previous year.

A total of 1,023,158 (2013: 1,191,953) share incentive awards under the LTIP Part B and the DASB were granted during the year ended 31 December 2014 to Executive Directors and other senior executives, including members of the GLT.

The middle market price of an ordinary share in the Company on 31 December 2014 was 732p. The middle market price of an ordinary share in the Company during the year ranged from 647p to 915p.

All LTIP B awards are subject half to a relative TSR performance condition and half to an adjusted EPS performance condition.

All relative TSR performance conditions are measured against the FTSE 250 (excluding investment trusts) index at the beginning of the performance period, over a three-year performance period from the date of grant. 12.5% of total awards will vest for a median performance, rising on a straight-line basis to 50% of total awards vesting for upper quartile performance.

For awards granted before 2012, the adjusted EPS performance targets for 12.5% of total awards vesting were RPI +3% pa, rising on a straight-line basis to 50% of total awards vesting for RPI +8% pa. For April 2012 awards, the EPS targets are 13% pa to 20% pa. For March 2013 awards, the targets are 8% pa to 15% pa and for February 2014 awards, the targets are 8.5% pa to 13.5% pa.

The table below sets out the potential vesting for these awards based on Essentra's TSR performance as at 31 December 2014. The actual level of vesting of these awards will depend on the Company's performance as at the end of the relevant performance period for each award and therefore may differ from that set out below.

Grant date	Vesting date	TSR performance	Indicative vesting
August 2011	February 2015	Upper quartile	100%[1]
April 2012	April 2015	Between the medium and upper quartile	85%[2]
March 2013	March 2016	Between median quartile and upper quartile	51%
February 2014	February 2017	n/a	n/a

LTIP awards included in the Total Single Remuneration Table (unaudited)
The LTIP B awards granted in August 2011 vested in August 2014, and were subject to relative TSR and adjusted EPS growth measures which ended (or were substantially complete) on 31 December 2014. The performance conditions and actual performance are summarised below:

Measure	Condition	Threshold	Maximum	Actual	Vesting
Relative TSR	TSR measured against the constituents of the FTSE 250 (excluding investment trusts) index over the three years from date of grant	Median rank for 12.5% of award	Upper quartile rank for 50% of award	TSR 135% Rank 18 out of 191 companies[1]	100%
EPS	Annualised adjusted EPS growth	RPI + 3% pa for 12.5% of award	RPI + 8% pa for 50% of award	22.1% pa	100%

The LTIP B awards granted in April 2012 will vest in April 2015, and are subject to relative TSR and adjusted EPS growth measures which ended (or were substantially complete) on 31 December 2014. The performance conditions and actual performance are summarised below:

Measure	Condition	Threshold	Maximum	Actual	Vesting
Relative TSR	TSR measured against the constituents of the FTSE 250 (excluding investment trusts) index over the three years from date of grant	Median rank for 12.5% of award	Upper quartile rank for 50% of award	TSR 81.43% Rank 67 out of 190 companies[2]	69.3%
EPS	Annualised adjusted EPS growth	3% pa for 12.5% of award	20% pa for 50% of award	22.1% pa	100%

[1] For TSR this is based on estimated performance to 31 December 2014 (final averaging period will be calculated over the two months to February 2015)
[2] For TSR this is based on estimated performance to 31 December 2014 (final averaging period will be calculated over the four months to April 2015)

The Remuneration Committee is satisfied that the level of vesting is a fair reflection of the performance of the business over the three-year performance period. The LTIP B awards which will vest to the Executive Directors during the year ended 31 December 2015 are summarised in the table below:

Executive	Number of awards granted	Vesting	Number of shares	Total £000
Colin Day (August 2011 award)	80,929	100%	80,929	£593,695
Colin Day (April 2012 award)	359,840	84.6% (estimate)	304,424	£2,233,259
				Total £2,826,954
Matthew Gregory (August 2011 award)	16,553	100%	16,553	£121,432
Matthew Gregory (April 2012 award)	67,021	84.6% (estimate)	56,699	£415,949
				Total £537,381

[2] The indicative value shown has been included in the total single figure for remuneration table based on the three month average share price to 31 December 2014 of 733.6p

Long-term incentive awards granted during the year
On 24 February 2014, the following LTIP B awards were made to Executive Directors:

Executive	Type of award	Number of awards granted	Basis of award	Share price on grant*	Face value*	Percentage which vests at threshold
Colin Day	Performance share	211,643	300% of salary	876.00p	£1,854,000	25%
Matthew Gregory	Performance share	68,493	200% of salary	876.00p	£600,000	25%

* Face value is based on the mid-market closing share price on the day prior to the date of grant

Awards are subject to performance conditions which are 50% dependent on relative TSR performance targets measured against the FTSE 250 (excluding investment trusts) index with a median to upper quartile ranking vesting schedule, and 50% dependent on adjusted EPS growth performance targets of 8.5% pa to 15.5% pa. Performance is measured over three years (to 31 December 2016 for the EPS Element of the awards and 23 February 2017 for the TSR element of the awards).

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

Colin Day joined the SAYE in 2012, contributing the statutory maximum monthly amount of £250. Matthew Gregory joined the current SAYE invitation in 2013, contributing the statutory maximum monthly amount of £250.

Details of the awards granted and outstanding under the LTIP Part A and the SAYE are as follows:

	Date of grant	At 1 Jan 2014	Granted in year	Exercised in year	At 31 Dec 2014	Exercise price	Share price at date of exercise	Earliest vesting date	Expiry date
Colin Day									
SAYE	1 May 2012	2,540	–	–	2,540	354.24p	–	1 May 2015	31 October 2015
Matthew Gregory									
LTIP Part A	8 September 2006	12,953	–	12,953[1]	–	254.75p	£8.81	8 September 2009	7 September 2016
	31 August 2007	29,288	–	29,288[2]	–	239.00p	£8.81	31 August 2010	30 August 2017
	1 September 2008	49,792	–	49,792[3]	–	180.75p	£7.82	1 September 2011	31 August 2018
	28 September 2009	54,933	–	54,933[4]	–	169.50p	£7.82	21 February 2013	27 September 2019
	31 August 2010	59,096	–	59,096[5]	–	236.90p	£7.82	28 February 2014	30 August 2020
SAYE	1 May 2013	3,030	–	–	3,030	495.00p	–	1 May 2018	31 October 2018

1 After funding the cost of this unapproved option 4,744 shares were retained
2 After funding the cost of this unapproved option 11,173 shares were retained
3 After funding the cost of this unapproved option 9,173 shares were retained and 10,186 shares were sold
4 After funding the cost of this unapproved option 11,653 shares were retained and 11,147 shares were sold
5 After funding the cost of this unapproved option 10,819 shares were retained and 11,009 shares were sold

Directors' shareholdings (audited)

The beneficial interests of the current Directors in office at 31 December 2014, and the date of this Report, in the issued ordinary share capital of the Company were as follows:

	Beneficially owned		% of salary held under shareholding guideline	LTIP B awards		LTIP A awards		DASB	SAYE	Total
	31 Dec 2013	31 Dec 2014		Unvested	Vested	Unvested	Vested	Unvested	Unvested	**31 Dec 2014**
Executive Directors										
Colin Day	259,684	265,851[1]	579%	912,527	259,842	–	–	170,157	2,540	**1,610,917**
Matthew Gregory	25,316	79,501	308%	232,991	–	–	–	46,852	3,030	**362,374**
Non-Executive Directors										
Jeff Harris	59,651	59,651								**59,651**
Paul Drechsler	18,519	18,519								**18,519**
Peter Hill	10,000	10,000								**10,000**
Lorraine Trainer	7,500	7,562								**7,562**
Terry Twigger	7,500	7,500								**7,500**

1 Salary used is the prevailing annual salary as at 31 December 2014
2 An additional 52,642 shares are also held by Colin Day's family members

The current shareholding guideline requires Colin Day to build up a shareholding worth 300% of salary and Matthew Gregory to build up a shareholdering worth 200% of salary. Both of the Executive Directors were compliant as at 31 December 2014.

The Executive Directors are regarded as being interested in 3,379,383 (2013: 2,484,586) ordinary shares in Essentra plc currently held by the Essentra Employee Benefit Trust ("EBT") as they are, together with other Essentra employees, potential beneficiaries of the EBT. These shares are held in order to satisfy employee entitlements relating to the Company's share plans.

As at 31 December 2014, potential and actual share issuance through employee related share plans totalled 2.85%, which is well below UK institutional shareholder limits of 10% of the Company's issued share capital.

Performance graph (unaudited)

The graph below represents the comparative TSR performance of the Company versus the FTSE 250 (excluding investment trusts) index for the last six years. This index has been selected as it is considered the most appropriate published general index in which the Company is a constituent.

Six-year Chief Executive table (unaudited)

	Mark Harper			Colin Day			
	2009	2010	1 Jan – 14 April 2011	April – 31 Dec 2011	2012	2013	2014
Total remuneration (£000)	1,038	2,932	1,715	1,046	1,570	3,824	4,184
Annual bonus (%)	20%	100%	100%	100%	100%	100%	60.0%
LTIP vesting (%)	73%	100%	100%	n/a	n/a	100%	87.5%[1]

[1] August 2011 award vested at 100% and April 2012 award is anticipated to vest at 84.6%

Mark Harper retired on 14 April 2011 and Colin Day was appointed as a Director on 1 April 2011.

The annual bonus and LTIP figures show the payout as a percentage of the maximum. Annual bonuses for 2011 were pro rated for both executives to reflect time served. Mark Harper's LTIP B award vested on the normal date, pro-rated for time and performance.

The value of Sharesave awards has been included in the total remuneration figure on the date they became exercisable.

Percentage increase in the remuneration of the Chief Executive Officer (unaudited)

	2014 £000	2013 £000	% change	% change UK GMC
– Salary	618	600	3%	4%
– Benefits	27	19	42%	–
– Bonus	557	900	(38)%	(38)%

The table above shows the percentage movement in the salary, benefits and annual bonus for the Chief Executive and members of the UK GMC between the current and previous financial year.

UK senior executives have been chosen as the most appropriate comparator group as they represent those employees eligible to participate in the same reward plans as the Chief Executive. Group-wide figures can be distorted by different reward practices in different geographies and movements in the number of employees.

Relative importance of spend on pay (unaudited)

(£m)	2014	2013	% change
Staff costs[1]	194.5	179.7	8.2
Distributions to shareholders	38.1	31.2	22.1
Revenue	865.7	798.1	8.5
Adjusted operating profit	142.5	130.4	9.3

[1] Staff costs are as per note 6 on page 117.

Implementation of Remuneration Policy for 2015 (unaudited)

Salary

Basic salary for each Executive Director is determined by the Remuneration Committee taking into account the roles, responsibilities, performance and experience of the individual.

As explained in the Remuneration Committee Chairman's Letter, in order to appropriately align the remuneration policy with Drive for 2020, it is the intention to set Executive Directors all elements of pay, including salaries for the three year period 2015-2017 at the pre-determined levels set out in the new Remuneration Policy Report (subject to approval of the new Remuneration Policy Report by shareholders at the AGM). For reference, the intended salaries for 2015 under this new policy are set out below.

(£m)	Colin Day	Matthew Gregory
Annual salary effective from 1 January 2015	£675,000[1]	£340,000[2]
Annual salary effective from 1 January 2014	£618,000	£300,000

[1] This salary is fixed until 1 January 2018

[2] As highlighted in previous Remuneration Reports, Matthew Gregory was brought onto the Board at a salary level that was set deliberately well below the market rate for an established finance director with the intention that, subject to strong progression in role, the Remuneration Committee would implement a series of phased salary increases to bring his salary to a more appropriate level. The Board has been pleased by the development of Matthew Gregory as Finance Director and these proposed increases, if implemented in full (which will be subject to continued strong performance), will bring his salary to a more appropriate level by 2017

Benefits

Executive Directors will be provided with the following benefits:

- Car, fuel and / or car allowance
- Private medical insurance with family level cover
- Life insurance cover of four times basic salary

Pension

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

Matthew Gregory will receive a defined contribution and / or supplementary payment of 20% of his basic salary to permit him to secure pension benefits.

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

Under the terms of the annual bonus arrangements for 2015, Colin Day is potentially entitled to a maximum bonus of up to 150% of basic salary. Matthew Gregory is potentially entitled to a maximum bonus of up to 125% of basic salary. Bonus payments are normally made one half in cash and one half in shares in the Company, the entitlement to such shares being deferred for three years, in accordance with the rules of the DASB.

For the year-ended 31 December 2015, the performance criteria will be as follows:

Performance criteria	Weighting (%)
Balanced growth (revenue and operating profit)	80
Working capital	10
Personal objectives	10

The Remuneration Committee believes that revenue, profit and working capital targets are commercially sensitive, although targets will be set so as to provide alignment with the goals of Drive for 2020. Therefore, the Remuneration Committee will not disclose the targets on a prospective basis. The targets and actual performance against them will be disclosed on a retrospective basis where possible.

In addition to the financial measures, the Remuneration Committee has also set the personal performance measures for Colin Day and Matthew Gregory, which are designed to deliver further progress by the Company towards the strategic objectives associated with its Drive for 2020 strategy.

The objectives set do not have a specific weighting applied to them but are considered as a whole by the Remuneration Committee.

From 2015, the Remuneration Committee has the discretion, within a three-year period after the determination of the bonus, to withhold or recover annual cash bonuses or DASB awards (via malus and clawback provisions) in specified circumstances. These circumstances will encompass if the original bonus was paid to a greater extent than it should have done due to a material misstatement in the Company's financial statements or due to an error in assessing the applicable performance conditions or if there has been serious misconduct by an individual or if there has been serious reputational damage to the Company or a relevant business unit.

Essentra Long Term Incentive Plan 2015 ("LTIP 2015")
The existing long-term incentive plan ("LTIP B") expires in 2015. Shareholder approval will therefore be sought at the 2015 AGM for a new LTIP ("LTIP 2015"). Full terms of LTIP 2015 are summarised in the Notice of Meeting for the AGM, and key details of LTIP 2015 in so far as they affect the Executive Directors are outlined below.

An award granted under LTIP 2015 will consist of a conditional right to receive shares in the Company, subject to satisfaction of performance conditions. The LTIP 2015 will usually permit annual awards over shares worth, at grant, 300% of salary. However, as outlined in the Remuneration Policy Report, the Remuneration Committee proposes to fix the size of grants to the current Chief Executive and Group Finance Director for the three-year period of the Policy (subject to shareholder approval of the Remuneration Policy Report). Awards under the Policy in 2015 will be as set out below:

- Colin Day will receive an award over shares worth, at grant, 300% of his 2015-2017 annual salary (£675,000)
- Matthew Gregory will receive an award over shares worth, at grant, 200% of his approximate average 2015-2017 salary (£370,000)

A share award under LTIP 2015 will not normally be exercisable before the third anniversary of its award and may only be exercised to the extent that the applicable performance conditions have been satisfied. The awards are structured as nil cost options. For employees based outside the US, the options remain capable of being exercised up to the sixth anniversary of grant. For employees based in the US, once the performance conditions have been satisfied the options must be exercised within 30 days of vesting.

For awards to be granted to the Executive Directors in 2015, one half of the awards will be subject to a TSR performance condition and one half of the awards will be subject to an adjusted EPS performance condition. The Remuneration Committee believes that these conditions provide appropriate alignment with the strategic priorities outlined in Drive for 2020.

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

The adjusted EPS performance condition for these awards requires the Company's EPS growth (adjusted to exclude items which did not reflect the Company's underlying financial performance and intangible amortisation) over three financial years to be in excess of 8% per annum for 12.5% of the total awards to vest. The proportion of the awards vesting will increase on a straight line basis, and for 50% of the total awards to vest the adjusted EPS growth must be in excess of 15% per annum. The 15% per annum upper target is consistent with the aspiration of Drive for 2020, namely to double the size of the Company by 2020.

It is the current intention of the Remuneration Committee that awards in 2016 and 2017 will also be subject to a combination of TSR and EPS performance measures, and that the EPS targets for 2016 and 2017 awards will remain broadly the same as the targets for the 2015 award. If any changes are required to measures or targets for future awards, we would consult in advance with our major shareholders.

Awards granted under the LTIP 2015 will be subject to malus and clawback provisions for a period of up to three years following the vesting date of the award. Potential circumstances in which the malus and clawback provisions may be applied are consistent with those applying to annual bonus awards as described above.

The fees for the Chairman are set by the Remuneration Committee, while fees for the Non-Executive Directors are determined by the Board as a whole.

Non-Executive Director fees

				Supplementary fee
	Chairman	Non-Executive Director	Senior Independent Non-Executive Director	Additional fee for chairing a Committee
Annual fee effective from 1 January 2015	£200,000	£52,000	£7,000	£11,000
Annual fee effective from 1 January 2014	£190,000	£50,000	£5,300	£10,560

Statement of shareholder voting

The results of shareholder voting in relation to the approval of the Directors' Remuneration Report at the 2014 AGM were as follows:

	Annual Report on Remuneration		Directors' Remuneration Policy Report	
	No. of votes	%	No. of votes	%
Votes cast in favour	184,299,986	97.90	188,335,089	96.74
Votes cast against	3,957,492	2.10	6,350,702	3.26
Total votes cast	188,257,478		194,685,791	
Abstentions	6,674,539	–	246,226	–

This Report of the Remuneration Committee, including both the Remuneration Policy Report and the Annual Report on Remuneration, has been approved by the Board.

By order of the Board

LORRAINE TRAINER
Remuneration Committee Chairman

OTHER STATUTORY INFORMATION

The Directors present their Report prepared in accordance with the Companies Act 2006 which requires the Company to provide a fair review of the business of the Group during the financial year ended 31 December 2014, and audited financial statements of the Company and its subsidiary undertakings for the year ended 31 December 2014.

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

Results and dividends

The profit on ordinary activities after taxation of the Group for the year ended 31 December 2014 was £71.8m (2013: £60.3m).

As at 20 February 2015 the Company has paid the following dividend in respect of the year ended 31 December 2014:

	Per share p	Total £m
Interim dividend paid 30 October 2014	5.7	13.3

The Directors recommend that a final dividend of 12.6p (2013: 10.6p) per share be paid, making a total dividend distribution for the year of 18.3p (2013: 15.4p).

The final dividend, subject to shareholder approval at the AGM, will be paid on 1 May 2015 to shareholders on the register on 27 March 2015.

Directors

As at 31 December 2014, the Board of Directors comprised:

Jeff Harris	Non-Executive Chairman
Colin Day	Chief Executive
Terry Twigger	SI Non-Executive Director
Matthew Gregory	Group Finance Director
Peter Hill	Non-Executive Director
Lorraine Trainer	Non-Executive Chairman
Paul Drechsler	Non-Executive Director

The Company is adopting the requirements of the UK Corporate Governance Code September 2012 in relation to Directors' appointments, and in particular the annual re-election of all Directors. Therefore, in accordance with provision B.7.1 of the UK Corporate Governance Code, all the Directors will retire at the AGM – save for Paul Drechsler – and being eligible will offer themselves up for re-election.

Paul Drechsler will not be standing for re-election after nearly 10 years serving on the Board.

None of the Non-Executive Directors have service contracts.

In accordance with the Company's Conflict of Interests policy, Directors are required to review their potential conflict of interests at least on an annual basis and to notify any changes to the Company Secretary & General Counsel as soon as possible. The current register was approved by the Board in October 2014 and no material conflicts of interest were identified during the year.

At no time during the year has any Director had any material interest in a contract with the Group, being a contract of significance in relation to the Group's business. A statement of Directors' interests in shares of the Company is on page 82.

Share capital

The issued share capital of the Company is shown in note 19 to the financial statements on page 130.

In November 2014 the Company conducted an equity placing of 23,659,761 new ordinary shares of 25p each at a price of 713.5p per share, raising gross proceeds of approximately £168.8m which funded the acquisition of Clondalkin Specialist Packaging Division.

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

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

- That certain restrictions may from time to time be imposed by laws and regulations (for example, insider trading laws)
- Whereby, pursuant to the Listing Rules of the Financial Conduct Authority, certain employees of the Company require approval of the Company to deal in the Company's ordinary shares

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

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

Substantial shareholders

At the close of business on 19 February 2015, the Company was advised of the following voting rights attaching to the Company's shares in accordance with the Disclosure and Transparency Rules:

	% of total voting rights
BlackRock Inc	13.78
Standard Life Investments (Holdings) Limited	6.03

Employees

As at 31 December 2014 the Company employed 6,388 people globally and 1,341 people in the UK. Information on the Group's policies on employee recruitment, engagement and the employment of disabled persons can be found in the Corporate Responsibility Statement on pages 40 to 41.

Political contributions

In line with Group policy the Company made no political contributions (2013: £nil).

Environmental

The disclosures concerning greenhouse gas emissions required by law are included in the Strategic Report on pages 42 to 43.

Directors' indemnities

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

Significant agreements

The Company has committed bank facilities consisting of two five-year multi-currency revolving credit facilities of £262.0m and €160.0m. Under the terms of these facilities, the banks can give notice to Essentra to repay outstanding amounts and cancel the commitments where there is a change of control of the Company.

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

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

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

Annual General Meeting

The AGM of the Company will be held at the Holiday Inn Hotel, 500 Saxon Gate West, Milton Keynes, Buckinghamshire, MK9 2HQ on Tuesday 23 April 2015 at 12 noon.

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

New Long-Term Incentive Plan

Resolution 13 will be proposed as an ordinary resolution to request that shareholders approve a new long-term incentive arrangement, the Essentra Long-Term Incentive Plan 2015 (the "LTIP 2015"). The LTIP 2015 has been based on and designed to replace the Essentra Long-Term Incentive Plan (the "Expired LTIP") that will be closed to further awards in May of this year upon the expiry of its 10-year life.

As per the Expired LTIP, Part A of the LTIP 2015 will provide flexibility for the grant of market value share option awards, and Part B of the LTIP 2015 flexibility for the grant of performance share awards.

In each case, awards under the LTIP 2015 ordinarily vest three years from grant, subject to the grantee's continued service and the extent to which performance conditions are met over the relevant three-year measurement period.

The Company's Executive Directors shall be ineligible for participation in Part A of the LTIP 2015.

Full details of the existing and proposed remuneration packages in place for the Executive Directors can be found in the Report of the Remuneration Committee set out on pages 66 to 86.

Authority to allot unissued shares

At the last AGM held in 2014, the Directors were granted authority to allot relevant securities up to a nominal amount of £19,643,829, which expires at the end of the forthcoming AGM.

At this year's AGM, shareholders will be asked to grant the Directors' authority to allot shares or grant rights to subscribe for or convert any security into shares: (i) up to an aggregate nominal amount of £21,725,697, representing approximately one-third of the Company's issued share capital, excluding treasury shares, at 20 February 2015 (such an amount to be reduced by the nominal amount allotted or granted under section (ii) below in excess of such sum); and (ii) comprising equity securities up to an aggregate nominal amount of £43,451,395, representing approximately two-thirds of the issued share capital, excluding treasury shares, at 20 February 2015 (such an amount to be reduced by any allotments or grants made under section (i) above) in connection with an offer by way of a rights issue.

The proposal conforms to the guidelines issued by the institutional investment protection bodies to ensure that existing shareholders' interests are safeguarded. The Directors have no present intention of exercising either of these authorities, which will expire at the end of next year's AGM (or, if earlier, the close of business on 22 June 2016) except in relation to share options.

Allotment of shares for cash

At the last AGM held in 2014, shareholders approved a special resolution to enable the Directors to allot shares for cash without first offering them to existing shareholders in proportion to their existing shareholdings. That approval expires at the end of the forthcoming AGM and resolution 15 in the Notice of AGM seeks to renew it.

The resolution authorises the Directors to allot or sell shares for cash without first offering them to existing shareholders in proportion to their existing shareholdings, up to an aggregate nominal amount of 5% of the issued share capital of the Company, including treasury shares, at 31 December 2014 (equivalent to 13,206,458 ordinary shares).

In respect of this aggregate nominal amount, the Directors confirm their intention to follow the provisions of the Pre-Emption Group's Statement of Principles regarding cumulative usage of authorities within a rolling three-year period where the Principles provide that usage in excess of 7.5% should not take place without prior consultation with shareholders.

This authority will expire at the conclusion of the following AGM or, if earlier, on 22 June 2016. The proposal conforms to the guidelines issued by the institutional investment protection bodies to ensure that existing shareholders' interests are safeguarded.

Purchase of own shares

At the last AGM held in 2014, shareholders approved a special resolution to enable the Company to purchase its own shares. That approval expires at the end of the forthcoming AGM.

At this year's AGM, the Directors consider it expedient to seek shareholders' approval to enable the Company to purchase, in the market, up to 10% of its issued share capital (excluding any treasury shares) for cancellation, or to be held in Treasury, such power to apply until the end of next year's AGM (or if earlier, 22 June 2016). In accordance with the requirements of the Listing Rules of the Financial Services Authority, the minimum price (exclusive of expenses) which may be paid for a share is its nominal value and the maximum price (exclusive of expenses) for shares which may be paid is the highest of: (i) an amount equal to 105% of the average market value for a share for the five business days immediately preceding the date of the purchase; and (ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venues where the purchase is carried out.

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

During the financial year ending 31 December 2014 1,855,216 ordinary shares were transferred out of Treasury by the Company to satisfy share options under the Company's SAYE / Sharesave and executive share incentive plans.

No dividends have been paid on shares while held in Treasury and no voting rights attach to the treasury shares.

Alteration of the Company's Articles of Association

Resolution 18 will be proposed as a Special Resolution and will be to request that shareholders approve that the Company's Articles of Association be amended to allow the Directors the flexibility to pay future dividends by any payment combination.

Auditor
The Auditor, KPMG LLP, is willing to continue in office. Separate resolutions will be put to the AGM to re-appoint the Auditor, and to authorise the Board to agree their remuneration.

Recommendation
The Directors believe that the resolutions in the Notice of Annual General Meeting are in the best interests of the Company and its shareholders as a whole, and unanimously recommend that shareholders vote in favour of each resolution.

Content included in the Strategic Report
The following content is included in the Strategic Report on pages 2 to 47; an indication of the likely future developments in the business of the Company; an indication of the activities of the Company in the field of research and development; and disclosure on the Company's policy as regards employment of disabled persons and employee involvement.

Derivatives
Information related to derivatives is included in the Accounting Policies on page 99 and in note 15.

Going concern statement
The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and accordingly have adopted the going concern basis in preparing the consolidated financial statements.

Further information regarding the financial position of the Group, its cash flows, liquidity position, and borrowing facilities are described in the Financial Review on pages 16 to 17. In addition, note 1 to the financial statements on pages 105 to 111 includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and exposures to credit, market and liquidity risk. Cash balances and borrowings are included in note 21 on page 131. This disclosure has been prepared in accordance the with Financial Reporting Council's Going Concern and Liquidity Risk: "Guide for Directors of UK Companies 2009."

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

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

The Strategic Report and Directors' Report, including the Report of the Remuneration Committee, were approved by the Board on 20 February 2015.

By order of the Board

JON GREEN
Company Secretary
20 February 2015

STATEMENT OF DIRECTORS' RESPONSIBILITIES

In respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Directors' Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law.

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

- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are reasonable and prudent
- State whether they have been prepared in accordance with IFRSs as adopted by the EU
- Prepare financial statements on a going concern basis, unless it is inappropriate to presume that the company will continue in business

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

Engaging professional accountants to compile the financial statements cannot be regarded as providing assurance on the adequacy of the Company's systems or on the incidence of fraud, non-compliance with laws and regulations or weaknesses in internal controls, and does not relieve the Directors of their responsibilities in this respect.

COLIN DAY
Chief Executive

MATTHEW GREGORY
Group Finance Director
20 February 2015

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2014

	Note	2014 £m	2013 £m
Revenue	2	**865.7**	798.1
Operating profit before intangible amortisation and exceptional operating items		**142.5**	130.4
Intangible amortisation	3	**(17.5)**	(14.2)
Exceptional operating items	3	**(16.2)**	(19.2)
Operating profit	2	**108.8**	97.0
Finance income	4	**1.4**	1.0
Finance expense	4	**(10.5)**	(11.6)
Profit before tax		**99.7**	86.4
Income tax expense	5	**(27.9)**	(26.1)
Profit for the year		**71.8**	60.3
Attributable to:			
Equity holders of Essentra plc		**71.0**	60.1
Non-controlling interests		**0.8**	0.2
Profit for the year		**71.8**	60.3
Earnings per share attributable to equity holders of Essentra plc:			
Basic	7	**30.0p**	26.3p
Diluted	7	**29.4p**	25.7p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Note	2014 £m	2013 £m
Profit for the year		**71.8**	60.3
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit pension schemes	18	**(15.8)**	11.2
Deferred tax credit / (charge) on remeasurement of defined benefit pension schemes	5,16	**5.0**	(3.1)
		(10.8)	8.1
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**	0.1
Effective portion of changes in fair value of cash flow hedges		**3.4**	(0.1)
Foreign exchange translation differences:			
Attributable to equity holders of Essentra plc:			
Arising on translation of foreign operations		**3.4**	(14.7)
Arising on effective net investment hedges		**(2.3)**	0.2
Income tax credit on effective net investment hedges	5	**0.5**	–
Attributable to non-controlling interests		**0.3**	(0.5)
		5.4	(15.0)
Other comprehensive income for the year, net of tax		**(5.4)**	(6.9)
Total comprehensive income		**66.4**	53.4
Attributable to:			
Equity holders of Essentra plc		**65.3**	53.7
Non-controlling interests		**1.1**	(0.3)
Total comprehensive income		**66.4**	53.4

CONSOLIDATED BALANCE SHEET

At 31 December 2014

	Note	31 December 2014 £m	31 December 2013 £m
Assets			
Property, plant and equipment	8	**230.5**	213.7
Intangible assets	9	**406.4**	396.7
Long-term receivables		**3.1**	–
Deferred tax assets	16	**11.8**	6.4
Retirement benefit assets	18	**20.1**	21.9
Total non-current assets		**671.9**	638.7
Inventories	10	**84.8**	75.5
Income tax receivable		**8.9**	4.0
Trade and other receivables	1,11	**165.4**	140.7
Derivative assets	1,15	**3.9**	0.2
Cash and cash equivalents	1,12	**46.0**	44.1
Total current assets		**309.0**	264.5
Total assets		**980.9**	903.2
Equity			
Issued share capital	19	**66.0**	60.1
Merger relief reserve	19	**298.1**	136.4
Capital redemption reserve		**0.1**	0.1
Other reserve	20	**(132.8)**	(132.8)
Cash flow hedging reserve		**3.4**	(0.1)
Translation reserve		**(8.5)**	(9.9)
Retained earnings	20	**366.5**	345.0
Attributable to equity holders of Essentra plc		**592.8**	398.8
Non-controlling interests		**5.0**	4.2
Total equity		**597.8**	403.0
Liabilities			
Interest bearing loans and borrowings	1,14	**104.2**	254.7
Retirement benefit obligations	18	**21.8**	11.3
Provisions	17	**3.4**	3.1
Other financial liabilities	1	**3.5**	5.4
Deferred tax liabilities	16	**54.7**	47.1
Total non-current liabilities		**187.6**	321.6
Interest bearing loans and borrowings	1,14	**5.8**	6.5
Derivative liabilities	1,15	**0.1**	0.3
Income tax payable		**28.6**	24.4
Trade and other payables	1,13	**156.8**	135.1
Provisions	17	**4.2**	12.3
Total current liabilities		**195.5**	178.6
Total liabilities		**383.1**	500.2
Total equity and liabilities		**980.9**	903.2

The consolidated financial statements on pages 92 to 135 were approved by the Board of Directors on 20 February 2015 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 2014

2014	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 2014	**60.1**	**136.4**	**0.1**	**(132.8)**	**(0.1)**	**(9.9)**	**345.0**	**4.2**	**403.0**
Profit for the year							**71.0**	**0.8**	**71.8**
Other comprehensive income					**3.5**	**1.6**	**(10.8)**	**0.3**	**(5.4)**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**3.5**	**1.6**	**60.2**	**1.1**	**66.4**
Issue of shares	**5.9**	**161.7**							**167.6**
Changes in non-controlling interests in subsidiaries								**(0.1)**	**(0.1)**
Transfer to loss on disposal of subsidiary						**(0.2)**			**(0.2)**
Purchase of employee trust shares							**(12.3)**		**(12.3)**
Share options exercised							**4.3**		**4.3**
Share option expense							**6.8**		**6.8**
Tax relating to share-based incentives							**0.6**		**0.6**
Dividends paid							**(38.1)**	**(0.2)**	**(38.3)**
At 31 December 2014	**66.0**	**298.1**	**0.1**	**(132.8)**	**3.4**	**(8.5)**	**366.5**	**5.0**	**597.8**

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	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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	Note	2014 £m	2013 £m
Operating activities			
Profit for the year		**71.8**	60.3
Adjustments for:			
Income tax expense		**27.9**	26.1
Net finance expense	4	**9.1**	10.6
Intangible amortisation	3,9	**17.5**	14.2
Exceptional operating items	3	**16.2**	19.2
Depreciation	3,8	**27.2**	26.7
Share option expense	18	**6.8**	5.1
Other movements		**(2.9)**	(1.8)
(Increase) / decrease in inventories		**(5.5)**	6.1
Increase in trade and other receivables		**(22.4)**	(23.3)
Increase in trade and other payables		**2.5**	11.9
Cash outflow in respect of exceptional operating items		**(6.9)**	(10.5)
Additional pension contributions		**(2.5)**	(6.1)
Movements in provisions		**(8.1)**	(10.8)
Cash inflow from operating activities		**130.7**	127.7
Income tax paid		**(20.5)**	(17.5)
Net cash inflow from operating activities		**110.2**	110.2
Investing activities			
Interest received		**0.3**	0.3
Acquisition of property, plant and equipment		**(38.1)**	(44.1)
Proceeds from sale of property, plant and equipment		**5.0**	0.4
Acquisition of businesses net of cash acquired	23	**(26.1)**	(188.9)
Net cash outflow from investing activities		**(58.9)**	(232.3)
Financing activities			
Interest paid		**(8.8)**	(9.6)
Dividends paid to equity holders		**(38.1)**	(31.2)
Dividends paid to non-controlling interests		**(0.2)**	(1.0)
Acquisition of non-controlling interests	25	**–**	(1.9)
Proceeds from equity issue	19	**167.6**	141.7
Proceeds from issue of shares to non-controlling interests		**–**	1.5
Repayments of short-term loans		**(3.8)**	–
Proceeds from short-term loans		**–**	0.2
Repayments of long-term loans		**(158.1)**	–
Proceeds from long-term loans		**–**	37.5
Purchase of employee trust shares		**(12.3)**	(16.3)
Proceeds from sale of employee trust shares		**4.3**	4.7
Net cash (outflow) / inflow from financing activities		**(49.4)**	125.6
Net increase in cash and cash equivalents	21	**1.9**	3.5
Net cash and cash equivalents at the beginning of the year		**44.1**	41.4
Net increase in cash and cash equivalents		**1.9**	3.5
Net effect of currency translation on cash and cash equivalents		**–**	(0.8)
Net cash and cash equivalents at the end of the year	1,12	**46.0**	44.1

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 International Financial Reporting Standards as issued by the International Accounting Standards Board, 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 136 to 141.

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.

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 adoption of these pronouncements did not have an impact on the Group in relation to measurement, recognition and presentation. The adoption of IFRS 12 has not resulted in any significant additional disclosures, as the Group does not have material non-controlling interests, significant restrictions on access to the assets of the subsidiaries, structured entities or unconsolidated subsidiaries. The effect of the Group's exit from the Filters Jordan business is included within disclosures of exceptional items.

Amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities* provide 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.

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.

Amendments to IAS 39 *Novation of Derivatives and Continuation of Hedge Accounting* provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required.

IFRIC 21 *Levies* clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs.

A. Basis of preparation continued

The following standards or interpretations have not yet been adopted by the Group. The Group is currently assessing the impact of IFRS 15 and IFRS 9, and does not currently expect the adoption of the other standards or interpretations to have a material impact on the consolidated results or financial position of the Group:

IFRS 15 *Revenue from Contracts with Customers* establishes a new five-step model that will apply to revenue arising from contracts with customers, and provides a more structured approach to measurement and recognition of revenue.

IFRS 9 *Financial Instruments* introduces new requirements for classification and measurement, impairment and hedge accounting, and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9.

Amendments to IAS 19 *Defined Benefit Plans: Employee Contributions* clarify that an entity is permitted to recognise employee contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service, if the amount of the contributions is independent of the number of years of service.

Amendments to IAS 1 *Disclosure Initiative* clarify that an entity should use professional judgement in determining what information should be disclosed in the financial statements, and the location and order of presentation in financial disclosures.

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 ("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 16 to 17. 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 UK Corporate Governance Code.

B. Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by Essentra. Control exists when Essentra is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. 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 other comprehensive income, as are exchange differences arising on related foreign currency borrowings and derivatives designated as net investment hedges, to the extent that they are effective. Other exchange differences are taken to the income statement. Differences arising prior to 1 January 2004 are included in retained earnings.

D. Financial instruments

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

Derivatives are measured initially at fair value. Subsequent 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.

E. Property, plant and equipment continued

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 one-off nature, these costs are generally presented within exceptional operating items.

(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 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.

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 2014 and 2013, 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.

U. One-off items in the consolidated income statement continued

(iii) Other exceptional items
In 2014, this represents loss on disposal of Filters Jordan and an adjustment on contingent deferred consideration in relation to the acquisition of Ulinco. 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.

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
Liabilities 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 2014, gross trade receivables were £151.8m (2013: £130.7m) of which £25.1m (2013: £19.4m) were past due but not impaired. The ageing analysis of trade receivables past due but not impaired is as follows:

	2014 £m	2013 £m
Up to 3 months	**25.1**	19.4

As at 31 December 2014, trade receivables of £6.3m (2013: £5.7m) were provided for as they were considered to be impaired. The ageing of the impaired receivables provided for is as follows:

	2014 £m	2013 £m
Up to 3 months	**1.6**	2.1
Over 3 months	**4.7**	3.6
	6.3	5.7

1. Financial risk management continued

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

	2014 £m	2013 £m
Beginning of year	**5.7**	4.9
Impaired receivables acquired	**0.5**	1.5
Impairment loss recognised	**2.8**	0.6
Release in the year	**(1.6)**	(0.4)
Utilisation	**(1.1)**	(0.9)
End of year	**6.3**	5.7

Derivative assets

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

Cash and cash equivalents

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

	2014						
	AAA £m	AA £m	A £m	BBB £m	BB £m	Not rated £m	Total £m
Derivative assets	**–**	**0.1**	**0.3**	**3.5**	**–**	**–**	**3.9**
Cash and cash equivalents	**–**	**2.6**	**13.9**	**27.5**	**1.0**	**1.0**	**46.0**
	–	**2.7**	**14.2**	**31.0**	**1.0**	**1.0**	**49.9**

	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

Essentra's maximum credit risk exposure is £209.4m (2013: £180.3m) and no collateral is held against this amount (2013: £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. Essentra's US dollar denominated assets were approximately 48% (2013: 45%) hedged by the US dollar denominated borrowings. At 31 December 2014, Essentra did not have any euro denominated borrowings as these were repaid with the proceeds from the share placing during the year. At 31 December 2013, Essentra's euro denominated assets were 82% hedged by its euro 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.

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 continue to be 100% effective.

						2014
	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)	**8.2**	**3.9**	**0.7**	**(0.7)**	**(3.5)**	**(6.7)**
Impact on equity – gain / (loss)	**46.2**	**21.9**	**4.2**	**(4.1)**	**(19.8)**	**(37.8)**

						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)

1. Financial risk management continued

b) Interest rate risk

During 2014, Essentra's strategy was 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. With effect from 1 January 2015, Essentra implemented a revised policy, which is to ensure that at least 30% of the total debt with maturities of more than one year is protected with fixed interest rates or approved interest rate derivatives.

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. At 31 December 2014, the Group had no significant floating rate debt and therefore has no significant sensitivity to interest rate movements. There is no impact on amounts recorded directly in other comprehensive income or equity.

						2014
	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)	–	–	–	–	–	–

						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)

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.

On 1 July 2014, Essentra plc refinanced its bank facilities, and replaced the existing £330m sterling and euro-denominated five-year revolving credit facilities with a new £390m five-year facility at more competitive terms.

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 £262m and €160m 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 July 2019. At 31 December 2014 the available bank facilities totalled £387.0m (2013: £322.0m) of which £nil (2013: £153.3m) was drawn down. In addition, uncommitted and overdraft facilities are maintained to provide short-term flexibility. During the year, Essentra issued a total of 23,659,761 new ordinary shares of 25p each at a price of 713.5p per share, raising gross proceeds of £168.8m, to fund the acquisition of the Specialist Packaging Division of Clondalkin Group (see note 23). During 2013, 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.

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

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

	2014 £m	2013 £m
Expiring after two years	**387.0**	168.7

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

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

							2014
	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	**5.3**	**5.3**	**5.5**	**5.0**	**0.1**	**0.2**	**0.2**
Loan Notes	**111.3**	**101.9**	**126.1**	**5.8**	**5.8**	**61.7**	**52.8**
Derivative liabilities	**0.1**	**0.1**	**0.1**	**0.1**	**–**	**–**	**–**
Trade and other payables	**96.7**	**96.7**	**96.7**	**96.7**	**–**	**–**	**–**
Finance lease liabilities	**2.8**	**2.8**	**3.1**	**1.0**	**0.8**	**0.7**	**0.6**
Other non-current financial liabilities							
– Deferred contingent consideration	**3.5**	**3.5**	**3.5**	**–**	**2.2**	**1.3**	**–**
	219.7	**210.3**	**235.0**	**108.6**	**8.9**	**63.9**	**53.6**

							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

Total trade and other payables carried at £156.8m (2013: £135.1m) include accruals and deferred income of £52.8m (2013: £34.2m) and other taxes and social security contributions of £7.3m (2013: £5.7m) 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.

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.

	2014				2013			
	Fair value £m	Loans and receivables £m	Amortised cost £m	Total carrying value £m	Fair value £m	Loans and receivables £m	Amortised cost £m	Total carrying value £m
Trade and other receivables	–	161.4	–	**161.4**	–	136.0	–	**136.0**
Cash and cash equivalents	–	46.0	–	**46.0**	–	44.1	–	**44.1**
Interest bearing loans and borrowings	–	–	(110.0)	**(110.0)**	–	–	(261.2)	**(261.2)**
Trade and other payables	–	–	(94.4)	**(94.4)**	–	–	(94.4)	**(94.4)**
Level 2 of fair value hierarchy								
Derivative assets	3.9	–	–	**3.9**	0.2	–	–	**0.2**
Derivative liabilities	(0.1)	–	–	**(0.1)**	(0.3)	–	–	**(0.3)**
Level 3 of fair value hierarchy								
Other non-current financial liabilities	(3.5)	–	–	**(3.5)**	(5.4)	–	–	**(5.4)**
Other current payables	(2.3)	–	–	**(2.3)**	(0.8)	–	–	**(0.8)**
	(2.0)	**207.4**	**(204.4)**	**1.0**	**(6.3)**	**180.1**	**(355.6)**	**(181.8)**

Total trade and other receivables carried at £168.5m (2013: £140.7m) include prepayments and accrued income of £7.1m (2013: £4.7m) 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 £5.8m relating to the acquisition of Mesan Kilit A.S. (2013: £6.2m relating to the acquisitions of Ulinco Components and Mesan Kilit A.S.). 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 £0.6m (2013: 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 £nil (2013: £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 £101.9m (2013: £95.5m). The Group estimates that the total fair value of the Loan Notes at 31 December 2014 is £111.3m (2013: £105.7m).

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 their 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 2014	**48.4**	**(2.4)**	**46.0**
At 31 December 2013	45.8	(1.7)	44.1

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 2014, Essentra's strategy, which was unchanged from 2013, was to maintain the medium-term net debt-to-EBITDA ratio in the range 1.0 to 2.5. The net debt-to-EBITDA ratio at 31 December 2014 was low due to the inclusion of proceeds from the issue of 23,659,761 shares during 2014, to fund the acquisition of Clondalkin SPD which was completed on 30 January 2015.

The net debt-to-EBITDA ratios at 31 December were:

	Note	2014 £m	2013 £m
Net debt excluding prepaid facility fees		**64.7**	218.6
Operating profit before intangible amortisation and exceptional operating items		**142.5**	130.4
Plus depreciation and other amounts written off property, plant and equipment	8	**27.2**	28.0
Plus share option expense	18	**6.8**	5.1
EBITDA		**176.5**	163.5
Net debt-to-EBITDA ratio		**0.37**	1.34

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.

	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
										2014
External revenue	243.4	89.7	215.5	291.4	25.7	–	–	865.7	–	865.7
Intersegment revenue	0.2	0.1	0.8	0.1	–	(1.2)	–	–	–	–
Total revenue	**243.6**	**89.8**	**216.3**	**291.5**	**25.7**	**(1.2)**	**–**	**865.7**	**–**	**865.7**
Operating profit/(loss) before intangible amortisation and exceptional operating items	58.9	15.8	38.3	43.9	1.6	–	(16.0)	142.5	–	142.5
Intangible amortisation	(6.6)	(2.1)	(8.8)	–	–	–	–	(17.5)	–	(17.5)
Exceptional operating items	(4.0)	(0.2)	(11.6)	(0.4)	–	–	–	(16.2)	–	(16.2)
Operating profit / (loss)	**48.3**	**13.5**	**17.9**	**43.5**	**1.6**	**–**	**(16.0)**	**108.8**	**–**	**108.8**
Segment assets	148.8	59.8	120.8	133.6	13.8	–	5.1	481.9	–	481.9
Intangible assets	156.3	46.2	197.5	–	6.4	–	–	406.4	–	406.4
Unallocated items	–	–	–	–	–	–	92.6	92.6	–	92.6
Total assets	**305.1**	**106.0**	**318.3**	**133.6**	**20.2**	**–**	**97.7**	**980.9**	**–**	**980.9**
Segment liabilities	44.4	10.7	41.8	38.8	2.7	–	27.0	165.4	2.5	167.9
Unallocated items	–	–	–	–	–	–	215.2	215.2	–	215.2
Total liabilities	**44.4**	**10.7**	**41.8**	**38.8**	**2.7**	**–**	**242.2**	**380.6**	**2.5**	**381.1**
Other segment items										
Capital expenditure	10.7	2.8	11.6	9.3	2.0	–	1.7	38.1	–	38.1
Depreciation	7.1	3.3	6.5	8.5	1.4	–	0.4	27.2	–	27.2
Average number of employees	1,697	557	1,517	1,732	214	–	109	5,826	–	5,826

[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 £9.1m (2013: £10.6m) and income tax expense of £27.9m (2013: £26.1m) 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 2014 or 2013. Analysed by destination, revenue to Europe and Africa is £438.6m (2013: £365.7m), revenue to Americas is £260.0m (2013: £240.6m) and revenue to Asia and Middle East is £167.1m (2013: £191.8m). Revenue to the UK is £118.6m (2013: £97.7m), with other significant countries being the USA with revenue of £213.5m (2013: £194.9m), China £40.8m (2012: £48.7m) and Germany £47.1m (2013: £41.9m). Non-current assets in the UK total £179.2m (2013: £242.6m), with the other significant location being the USA with £205.6m (2013: £198.7m).

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 (2013: net loss of £0.1m).

2. Segment analysis continued

	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
										2013
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	207.2	–	6.8	–	–	396.7	–	396.7
Unallocated items	–	–	–	–	–	–	76.6	76.6	–	76.6
Total assets	257.5	111.0	320.7	115.4	20.3	–	78.3	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	–	–	–	–	–	–	344.3	344.3	–	344.3
Total liabilities	39.6	10.5	40.5	39.7	2.5		365.1	497.9	2.3	500.2
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 and other services provided centrally to support the operating segments

3. Net operating expense

	2014 £m	2013 £m
Changes in inventories of finished goods and work-in-progress	**(2.7)**	5.0
Raw materials and consumables	**373.2**	336.1
Personnel expense (note 6)	**194.5**	179.7
Depreciation of property, plant and equipment (note 8)	**27.2**	26.7
Amortisation of intangible assets (note 9)	**17.5**	14.2
Exceptional operating items	**16.2**	19.2
Operating lease expense	**7.1**	6.7
Exchange differences recognised in profit or loss	**0.4**	0.3
Other operating expenses	**123.5**	113.2
Net operating expense	**756.9**	701.1

No income or expense (2013: £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 2014 and 2013, as defined by IAS 39, and therefore no hedge ineffectiveness has been recognised in net operating expense in 2014 (2013: £nil). Research and development expenses (including relevant staff costs) incurred during the year amounted to £7.3m (2013: £8.3m).

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

Exceptional operating items

	2014 £m	2013 £m
Acquisition fees[1]	**7.1**	4.7
Acquisition integration and restructuring costs[2]	**9.3**	12.6
Other[3]	**(0.2)**	1.9
	16.2	19.2

[1] Transaction costs incurred during the year primarily in respect of the acquisitions of Kelvindale, Abric and Clondalkin SPD (2013: Ulinco, Contego, Dakota and Mesan, as well as transactions that did not complete)
[2] Acquisition integration and restructuring costs incurred during the year associated with the acquisitions of Kelvindale, Contego, Dakota, Mesan and Abric (2013: Richco, Ulinco, Contego, Dakota and Mesan)
[3] Other exceptional items incurred during the year, which comprise £0.4m loss on disposal of Filters Jordan and a £0.6m credit adjustment for contingent deferred consideration in relation to the acquisition of Ulinco (2013: £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)
[4] The tax effect of the exceptional items is a credit of £0.9m (2013: £2.8m)

Auditor's remuneration

	2014 £m	2013 £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**	0.7
Tax compliance services	**0.2**	0.2
Other tax advisory services	**–**	–
Corporate finance services[2]	**0.1**	–
Other services[1,4]	**0.1**	0.1
Total fees[3]	**1.4**	1.3

[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 (2013: £0.1m) of the total non-audit fees were charged in the UK
[4] Fees of £15,335 (2013: £15,740) were paid in relation to the audit of the Essentra pension schemes

4. Net finance expense

	2014 £m	2013 £m
Finance income		
Bank deposits	**0.2**	0.2
Net interest on net pension scheme assets (note 18)	**1.2**	0.8
	1.4	1.0
Finance expense		
Interest on loans and overdrafts	**(8.4)**	(9.4)
Amortisation of bank facility fees	**(1.1)**	(1.0)
Other finance expense	**(0.4)**	(0.3)
Net interest on pension scheme liabilities (note 18)	**(0.6)**	(0.9)
	(10.5)	(11.6)
Net finance expense	**(9.1)**	(10.6)

5. Income tax expense

	2014 £m	2013 £m
Amounts charged / (credited) in the consolidated income statement		
Current tax	**26.3**	29.3
Prior years' tax	**1.0**	(0.6)
Double tax relief	**–**	–
Deferred tax (note 16)	**0.6**	(2.6)
Income tax expense	**27.9**	26.1
Amounts recognised in the consolidated statement of comprehensive income		
Deferred tax (credit) / charge on remeasurement of defined benefit pension schemes	**(5.0)**	3.1
Income tax credit on effective net investment hedges	**(0.5)**	–
Income tax (credit) / charge	**(5.5)**	3.1

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.

	2014 £m	2013 £m
Profit before income tax	**99.7**	86.4
Tax at weighted average (2014: 22.0%; 2013: 28.8%)	**21.9**	24.9
Effects of:		
Other permanent disallowable items	**1.4**	2.1
Overseas state and local tax	**0.8**	0.8
Unrelieved tax losses	**3.6**	1.3
Prior year adjustments	**0.4**	(2.1)
Other items	**(0.2)**	(0.9)
Income tax expense	**27.9**	26.1

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 £4.6m (2013: £0.7m). The UK corporate tax rate reduced from 23% to 21% on 1 April 2014 and a further reduction in the rate to 20% with effect from 1 April 2015 has been enacted. The impact of these enacted changes on deferred tax is not material.

6. Personnel expense

	2014 £m	2013 £m
Wages and salaries	**162.4**	151.0
Social security expense	**19.1**	18.0
Pension expense (note 18)	**6.2**	5.6
Share option expense (note 18)	**6.8**	5.1
	194.5	179.7

The Report of the Remuneration Committee on pages 66 to 86 sets out information on Directors' remuneration.

Key management remuneration

	2014 £m	2013 £m
Short-term employee benefits	**6.2**	4.9
Post-employment benefits	**0.6**	0.5
Share-based payments	**4.3**	3.1
	11.1	8.5

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

	2014 £m	2013 £m
Continuing operations		
Earnings attributable to equity holders of Essentra plc	**71.0**	60.1
Adjustments		
Intangible amortisation	**17.5**	14.2
Exceptional operating items	**16.2**	19.2
	33.7	33.4
Tax relief on adjustments	**(5.4)**	(6.8)
Adjusted earnings	**99.3**	86.7
Basic weighted average ordinary shares in issue (m)	**236.8**	228.2
Dilutive effect of employee share option plans (m)	**5.0**	6.1
Diluted weighted average ordinary shares (m)	**241.8**	234.3
Continuing operations		
Basic earnings per share	**30.0p**	26.3p
Adjustment	**11.9p**	11.7p
Basic adjusted earnings per share	**41.9p**	38.0p
Diluted earnings per share	**29.4p**	25.7p
Diluted adjusted earnings per share	**41.1p**	37.0p

As noted on page 13 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

				2014
	Land and buildings £m	Plant and machinery £m	Fixtures, fittings and equipment £m	Total £m
Cost				
Beginning of year	**92.3**	**317.9**	**51.8**	**462.0**
Acquisitions (note 23)	(1.9)	1.5	(0.2)	**3.6**
Additions	4.8	26.9	8.8	**40.5**
Disposals	(7.6)	(10.0)	(3.1)	**(20.7)**
Currency translation	0.4	1.3	0.1	**1.8**
End of year	**91.8**	**337.6**	**57.8**	**487.2**
Depreciation and impairment				
Beginning of year	**25.8**	**189.9**	**32.6**	**248.3**
Depreciation charge for the year	2.4	21.5	3.3	**27.2**
Disposals	(6.1)	(9.2)	(2.8)	**(18.1)**
Currency translation	(0.5)	(0.3)	0.1	**(0.7)**
End of year	**21.6**	**201.9**	**33.2**	**256.7**
Net book value at end of year	**70.2**	**135.7**	**24.6**	**230.5**

				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	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				
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

Included within land and buildings and plant and machinery are assets in the course of construction of £5.2m (2013: £2.6m) which were not depreciated during the year. The impairment charge recognised in the prior 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 £4.1m at 31 December 2014 (2013: £3.0m). The net book value of assets under finance leases amounted to £4.6m as at 31 December 2014 (2013: £4.2m).

9. Intangible assets

	Goodwill £m	Customer relationships £m	Other intangible assets £m	Total £m
				2014
Cost				
Beginning of year	**196.2**	**224.1**	**14.2**	**434.5**
Acquisitions (note 23)	16.2	11.7	–	**27.9**
Currency translation	(0.6)	(0.2)	0.8	**–**
End of year	**211.8**	**235.6**	**15.0**	**462.4**
Amortisation				
Beginning of year	**–**	**32.7**	**5.1**	**37.8**
Charge for the year	–	16.3	1.2	**17.5**
Currency translation	–	0.3	0.4	**0.7**
End of year	**–**	**49.3**	**6.7**	**56.0**
Net book value at end of year	**211.8**	**186.3**	**8.3**	**406.4**

	Goodwill £m	Customer relationships £m	Other intangible assets £m	Total £m
				2013
Cost				
Beginning of year	96.5	121.3	12.7	230.5
Acquisitions	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

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 15.0 years and 10.7 years (2013: 15.2 years and 14.4 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.

9. Intangible assets continued

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

	Goodwill	
Operating segment	2014 £m	2013 £m
Component & Protection Solutions	**69.2**	55.2
Porous Technologies	**25.6**	24.5
Packaging & Securing Solutions	**110.6**	109.7
Other – Extrusion	**6.4**	6.8
	211.8	196.2

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

		Customer relationships and other intangible assets	
Business	Operating segment	2014 £m	2013 £m
Components – Businesses of former Moss and Skiffy	Component & Protection Solutions	**14.2**	16.1
Components – Businesses of former Richco	Component & Protection Solutions	**33.9**	34.6
Components – Business of former Reid Supply	Component & Protection Solutions	**8.3**	8.9
Components – Business of former Mesan	Component & Protection Solutions	**16.9**	18.8
Components – Abric	Component & Protection Solutions	**10.4**	–
Porous St Charles	Porous Technologies	**4.8**	5.3
Porous Chicopee	Porous Technologies	**13.8**	14.1
Packaging	Packaging & Securing Solutions	**3.2**	3.7
Speciality Tapes	Packaging & Securing Solutions	**13.4**	14.0
Healthcare	Packaging & Securing Solutions	**69.1**	78.4
Multiple businesses	Multiple segments	**6.6**	6.6
		194.6	200.5

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 2014, which are disclosed in note 2, adjusted by targets set for revenue expansion and cost control and 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% (2013: 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 9.3% (2013: 8.6%) adjusted for the risk applicable to each operating segment. The pre-tax discount rates applied for each group of cash generating units to which significant goodwill is allocated are as follows: 16.7% (2013: 16.0%) for Component & Protection Solutions, 13.1% (2013: 12.5%) for Porous Technologies, 11.7% (2013: 11.2%) for Packaging & Securing Solutions and 11.7% (2013: 11.2%) 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 70%, reducing terminal growth rates by up to 4 percentage points or increasing pre-tax discount rates by up to 150 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.

10. Inventories

	2014 £m	2013 £m
Raw materials and consumables	**34.7**	30.0
Work-in-progress	**4.5**	5.4
Finished goods and goods held for resale	**45.6**	40.1
	84.8	75.5

The amount of inventories written down in 2014 was not material. During the prior 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

	2014 £m	2013 £m
Trade receivables	**145.5**	125.0
Other receivables	**12.8**	11.0
Prepayments and accrued income	**7.1**	4.7
	165.4	140.7

12. Cash and cash equivalents

	2014 £m	2013 £m
Bank balances	**26.5**	42.0
Short-term bank deposits and investments	**19.5**	2.1
Cash and cash equivalents in the statement of cash flows	**46.0**	44.1

13. Trade and other payables

	2014 £m	2013 £m
Trade payables	**77.3**	72.4
Other tax and social security contributions	**7.3**	5.7
Other payables	**19.4**	22.8
Accruals and deferred income	**52.8**	34.2
	156.8	135.1

14. Interest bearing loans and borrowings

	2014 £m	2013 £m
Non-current liabilities		
Unsecured bank loans	**0.4**	156.8
US Private Placement Loan Notes	**101.9**	95.5
Finance lease liabilities	**1.9**	2.4
	104.2	254.7
Current liabilities		
Unsecured bank loans	**4.9**	5.8
Finance lease liabilities	**0.9**	0.7
	5.8	6.5

14. Interest bearing loans and borrowings continued

At 31 December 2014, the Group had £nil (2013: £90.0m) and €nil (2013: €76.0m) of unsecured bank loans drawn in sterling and euros at floating rates of interest set by reference to LIBOR. Essentra's two $80m Loan Notes are at interest rate of 5.37% and 5.91% per annum respectively. At 31 December 2014, the unsecured bank loans were repaid with the proceeds from the share placing during the year.

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

	2014		2013	
	Carrying value £m	Nominal value £m	Carrying value £m	Nominal value £m
Sterling	1.2	1.2	91.3	91.6
US dollar	104.0	104.7	96.0	96.9
Euro	1.2	1.2	73.9	74.2
Other	3.6	3.6	–	–
	110.0	**110.7**	**261.2**	**262.7**

The amount in 'Other' relates mainly to the Abric operations acquired in 2014 (see note 23). The difference between the total nominal and carrying value of loans and borrowings relates to the amortised value of prepaid facility fees of £0.7m (2013: £1.5m).

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 2014				
Fair value derivatives				
Forward foreign exchange contracts	0.4	7.9	–	4.0
Cash flow hedges				
Forward foreign exchange contracts	3.5	194.7	(0.1)	27.4
	3.9	**202.6**	**(0.1)**	**31.4**

	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

15. Derivatives continued

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

Cash flow hedges are hedges of the currency and interest rate risk exposure to variability in cash flows. Of the balance at 31 December 2014, £2.9m relates to a cash flow hedge on the consideration for the acquisition of Clondalkin SPD, which completed on 30 January 2015 (see note 23). The other cash flow hedges relate to usual trading transactions in foreign currencies, and the related cash flows are expected to occur within nine months.

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.

Essentra had US dollar and euro denominated borrowings which it designated as hedges of its net investments in subsidiary undertakings. The exchange losses of £6.2m (2013: gains of £1.7m) on the US dollar borrowings and the gains of £3.9m (2013: losses of £1.5m) on the euro borrowings were recognised in other comprehensive income.

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:

	2014			2013		
	Assets £m	**Liabilities £m**	**Net £m**	**Assets £m**	**Liabilities £m**	**Net £m**
Property, plant and equipment	**(2.7)**	**16.2**	**13.5**	(2.2)	15.1	12.9
Intangible assets	**(0.5)**	**42.1**	**41.6**	(0.5)	45.5	45.0
Employee benefits	**(13.6)**	**4.6**	**(9.0)**	(12.0)	5.1	(6.9)
Other	**(10.8)**	**7.6**	**(3.2)**	(16.6)	6.3	(10.3)
Tax (assets) / liabilities	**(27.6)**	**70.5**	**42.9**	(31.3)	72.0	40.7
Set off of tax	**15.8**	**(15.8)**	**–**	24.9	(24.9)	–
Net tax (assets) / liabilities	**(11.8)**	**54.7**	**42.9**	(6.4)	47.1	40.7

Movements in the year:

	2014 £m	**2013 £m**
Beginning of year	**40.7**	15.2
Charge / (credit) to the income statement in respect of current year	**1.3**	(1.8)
Credit to the income statement in respect of prior years	**(0.7)**	(0.8)
(Credit) / charge to other comprehensive income on remeasurement of defined benefit pension schemes	**(5.0)**	3.1
Charge / (credit) to reserves on share-based incentives	**3.4**	(1.0)
Acquisitions	**2.8**	25.0
Currency translation	**0.4**	1.0
End of year	**42.9**	40.7

16. Deferred tax continued

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 £94.8m as at 31 December 2014 (2013: £97.4m), and the associated amount of unrecognised deferred tax is £9.1m (2013: £7.6m). Deferred tax assets of £0.2m (2013: £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 £30.9m (2013: £24.6m).

17. Provisions

				2014
	Discontinued £m	**Reorganisation £m**	**Other £m**	**Total £m**
Beginning of year	**2.3**	**3.6**	**9.5**	**15.4**
Provisions made during the year	–	2.9	0.2	**3.1**
Provisions released during the year	–	–	(2.3)	**(2.3)**
Utilised during the year	–	(5.9)	(2.6)	**(8.5)**
Transferred to accruals and other payables	–	–	(0.1)	**(0.1)**
Currency translation	0.2	(0.1)	(0.1)	**–**
End of year	**2.5**	**0.5**	**4.6**	**7.6**
Non-current	–	–	3.4	**3.4**
Current	2.5	0.5	1.2	**4.2**
	2.5	**0.5**	**4.6**	**7.6**

				2013
	Discontinued £m	**Reorganisation £m**	**Other £m**	**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	–	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 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.

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

	2014 £m	2013 £m
Amounts expensed against operating profit		
Defined contribution schemes	**4.9**	3.2
Defined benefit schemes – service cost	**2.2**	2.4
Defined benefit schemes – settlement gain	**(1.4)**	–
Other post-employment obligations	**0.5**	–
Total operating expense	**6.2**	5.6
Amounts included as finance (income) / expense		
Net interest on defined benefit scheme assets (note 4)	**(1.2)**	(0.8)
Net interest on defined benefit scheme liabilities (note 4)	**0.6**	0.9
Net finance (income)/expense	**(0.6)**	0.1
Amounts recognised in the consolidated statement of comprehensive income		
Return on defined benefit scheme assets excluding amounts in net finance income	**(16.7)**	(10.8)
Impact of changes in assumptions and experience to the present value of defined benefit scheme liabilities	**32.5**	(0.4)
Remeasurement of defined benefit schemes	**15.8**	(11.2)

During the year, an offer to settle the pension obligations was made by the US board of trustees to deferred members of the US pension schemes. A settlement gain has been recognised in profit or loss relating to those members who accepted the offer.

18. Employee benefits continued

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

	2014 Europe	2014 US	2013 Europe	2013 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%	3.00%	n/a	3.30%	n/a
at CPI capped at 5%	2.10%	n/a	2.40%	n/a
at CPI minimum 3%, capped at 5%	3.20%	n/a	3.30%	n/a
at CPI capped at 2.5%	1.70%	n/a	1.90%	n/a
Discount rate	3.70%	4.00%	4.50%	4.90%
Inflation rate	2.60%	n/a	2.90%	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:

	2014 Europe	2014 US	2013 Europe	2013 US
Male retiring today at age 65	**22.4**	**21.6**	22.3	19.3
Female retiring today at age 65	**24.7**	**23.8**	24.7	21.1
Male retiring in 20 years at age 65	**24.3**	**23.3**	24.2	19.3
Female retiring in 20 years at age 65	**26.6**	**25.5**	26.5	21.1

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:

		2014 Europe £m		2014 US £m	2014 Total £m
Equities	31%	62.6	61%	26.4	**89.0**
Corporate bonds	18%	35.3	36%	15.4	**50.7**
Government bonds	51%	103.8	0%	–	**103.8**
Other	0%	0.9	3%	1.2	**2.1**
Fair value of scheme assets		202.6		43.0	**245.6**
Present value of scheme liabilities		(182.5)		(62.6)	**(245.1)**
Net retirement benefit assets / (obligations)		**20.1**		**(19.6)**	**0.5**

					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

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 2014 is 20 years (2013: 20 years). The average expected duration of the Group's US defined benefit liability at 31 December 2014 is 13.3 years (2013: 12.3 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 2015, the Group expects to make defined benefit contributions of £1.5m to its European schemes and $3.1m to its US schemes.

Movement in fair value of post-employment obligations during the year

				2014				2013
	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	**226.6**	**(213.3)**	**(2.7)**	**10.6**	207.2	(211.1)	–	(3.9)
Service cost and administrative expense	**(0.8)**	**(1.4)**	**(0.5)**	**(2.7)**	(0.7)	(1.7)	–	(2.4)
Employer contributions	**4.3**	**0.1**	**0.8**	**5.2**	8.5	–	–	8.5
Employee contributions	**0.3**	**(0.3)**	**–**	**–**	0.4	(0.4)	–	–
Return on plan assets excluding amounts in net finance income	**16.7**	**–**	**–**	**16.7**	10.8	–	–	10.8
Actuarial (losses) / gains arising from change in financial assumptions	**–**	**(27.9)**	**–**	**(27.9)**	–	3.6	–	3.6
Actuarial losses arising from change in demographic assumptions	**–**	**(4.2)**	**–**	**(4.2)**	–	(2.6)	–	(2.6)
Actuarial losses arising from experience adjustment	**–**	**(0.4)**	**–**	**(0.4)**	–	(0.6)	–	(0.6)
Finance income / (expense)	**10.3**	**(9.7)**	**–**	**0.6**	9.2	(9.3)	–	(0.1)
Benefits paid	**(8.0)**	**8.0**	**–**	**–**	(7.3)	7.3	–	–
Settlements	**(6.4)**	**7.8**	**–**	**1.4**	–	–	–	–
Currency translation	**2.6**	**(3.8)**	**0.2**	**(1.0)**	(1.5)	1.5	–	–
Business combination	**–**	**–**	**–**	**–**	–	–	(1.1)	(1.1)
Other	**–**	**–**	**–**	**–**	–	–	(1.6)	(1.6)
End of year	**245.6**	**(245.1)**	**(2.2)**	**(1.7)**	226.6	(213.3)	(2.7)	10.6

18. Employee benefits continued

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 2014.

	Scheme liabilities			Annual service cost		
	Europe £m	US £m	Total £m	Europe £m	US £m	Total £m
0.5% decrease in the discount rate	(17.5)	(4.4)	**(21.9)**	(0.1)	(0.1)	**(0.2)**
1.0% increase in the rate of inflation	(13.1)	n/a	**(13.1)**	–	n/a	**–**
1.0% increase in rate of salary / pension increases	(6.8)	(0.4)	**(7.2)**	–	–	**–**
1 year increase in life expectancy	(4.7)	(1.7)	**(6.4)**	–	–	**–**
0.5% increase in the discount rate	15.3	3.9	**19.2**	0.1	0.1	**0.2**
1.0% decrease in rate of salary / pension increases	5.9	0.4	**6.3**	0.1	–	**0.1**
1.0% decrease in the rate of inflation	10.5	n/a	**10.5**	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 £6.8m (2013: £5.1m). Details of these plans are set out below:

Share options outstanding

												2014
	At 1 Jan 2014	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 2014	Weighted average exercise price	Exercisable at 31 Dec 2014	Weighted average exercise price
LTIP Part A	**4,348,939**	325.1p	358,711	485.8p	(335,307)	224.4p	(1,512,454)	224.4p	**2,859,889**	**428.6p**	**783,017**	**203.2**
LTIP Part B	**3,220,308**	–	873,135	–	(161,596)	–	(602,562)	–	**3,329,285**	**–**	**–**	**–**
DASB	**428,090**	–	150,023	–	(18,850)	–	(135,094)	–	**424,169**	**–**	**–**	**–**
SAYE 3 year plan	**726,847**	354.5p	256,447	545.2p	(102,860)	255.6p	(318,601)	255.6p	**561,833**	**533.8p**	**–**	**–**
SAYE 5 year plan	**299,060**	279.9p	114,794	469.5p	(41,186)	248.1p	(27,530)	248.1p	**345,138**	**399.8p**	**–**	**–**
US SAYE 2 year plan	**–**	–	52,134	716.1p	(166)	716.1p	–	–	**51,968**	**716.1p**	**–**	**–**
	9,023,244		**1,805,244**		**(659,965)**		**(2,596,241)**		**7,572,282**		**783,017**	

												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	

The exercise prices of options outstanding at the end of the year range from nil to 876.0p.

The weighted average share price at the date of exercise for options exercised during the year was 848.1p (2013: 712.5p). 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 2014	**182.8p**	**635.6p**	**814.0p**	**339.6p**	**267.6p**
Year ended 31 December 2013	141.4p	534.7p	625.9p	210.4p	261.0p

Fair value model inputs for share options awarded

					2014
	LTIP Part A	**LTIP Part B**	**DASB**	**SAYE 3 year plan**	**SAYE 5 year plan**
Weighted average fair value at grant	99.3p	470.5p	631.2p	196.1p	173.2p
Weighted average share price at grant	428.6p	615.6p	668.9p	699.2p	518.9p
Weighted average exercise price	428.6p	–	–	533.7p	399.8p
Weighted average volatility	33.6%	28.3%	27.2%	26.8p	32.6p
Weighted average dividend yield	2.80%	2.07%	2.02%	1.91%	2.54%
Weighted risk free rate	1.26%	0.76%	0.64%	0.93%	2.27%
Expected employee retention rates	89.9%	100.0%	100.0%	75.0%	75.0%
Expected term	3.29 years	3.01 years	3.00 years	3.00 years	5.00 years
Valuation model	Binomial	Monte Carlo	Binomial	Binomial	Binomial

					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

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.

					2014 and 2013
	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 66 to 86 .

19. Issued share capital

	2014 £m	2013 £m
Issued and fully paid ordinary shares of 25p (2013: 25p) each	**66.0**	60.1
Number of ordinary shares in issue		
Beginning of year	240,469,409	219,326,796
Issue of shares during the year	23,659,761	21,142,613
End of year	**264,129,170**	240,469,409

At 31 December 2014 the Company held 3,449,685 (2013: 5,305,790) of its own shares in treasury.

In 2014, to fund the acquisition of Clondalkin (see note 23), Essentra plc issued a total of 23,659,761 new ordinary shares of 25p each at a price of 713.5p per share, raising gross proceeds of £168.8m. Issue costs of £1.2m 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. As at 31 December 2014, the proceeds from the placing were used to repay the amounts drawn under the revolving credit facilities.

In 2013, to fund the acquisition of Contego, Essentra issued plc 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 £34.7m (2013: £30.4m).

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 66 to 86. The assets, liabilities and expenditure of the trust have been incorporated in these financial statements. At 31 December 2014 the trust held 3,379,383 (2013: 2,484,586) shares, upon which dividends have been waived, with an aggregate nominal value of £0.8m (2013: £0.6m) and market value of £24.7m (2013: £21.3m).

The Company holds 3,449,685 (2013: 5,305,790) ordinary shares with a nominal value of £0.9m (2013: £1.3m) in treasury. This represents 1.3% (2013: 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 2014 £m	Cash flow £m	Exchange movements £m	Non-cash movements £m	31 Dec 2014 £m
Cash at bank and in hand	42.0	(15.5)	–	–	**26.5**
Short-term bank deposits and investments	2.1	17.4	–	–	**19.5**
Cash and cash equivalents in the statement of cash flows	44.1	1.9	–	–	**46.0**
Debt due within one year	(6.5)	3.8	0.1	(3.2)	**(5.8)**
Debt due after one year	(254.7)	158.1	(4.0)	(1.7)	**(102.3)**
Net debt	(217.1)	163.8	(3.9)	(4.9)	**(62.1)**

The non-cash movements represent the amortisation of prepaid facility fees and the increase in net debt from loans acquired. The net debt amount presented above includes the effect of £1.9m prepaid facility fees on the Group's 5-year revolving credit facility, which are presented within long-term receivables.

	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 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:

	2014 £m	2013 £m
Payable within one year	**7.2**	7.0
Payable between one and five years	**19.2**	18.0
Payable after five years	**11.7**	11.4
	38.1	36.4

23. Acquisitions

2014 acquisitions: Abric
On 16 December 2014, Essentra acquired 100% of the share capital of the major operating subsidiaries of Abric Berhad ("Abric"). Abric is a global manufacturer and distributor of security sealing products and solutions for use in a diverse range of growing end-markets (including healthcare, manufacturing, energy, retail, transportation and automotive), and is reported under the Component & Protection Solutions division. The acquisition of Abric expanded the product range and customer base of the Component Distribution businesses and extended the division's geographical presence primarily in Asia Pacific.

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. The Group's revenue and operating profit before amortisation and exceptional items had the acquisition been completed on 1 January 2014 are currently being assessed, and therefore it is impracticable to disclose this information as at the date of these financial statements.

Related acquisition expenses of £1.5m were recognised in the income statement in exceptional operating items.

A summary of the acquisition of Abric is detailed below:

	Fair value of assets/(liabilities) acquired £m
Property, plant and equipment	4.2
Inventories	3.0
Receivables	3.3
Cash and cash equivalents	1.8
Deferred tax	(2.5)
Payables	(2.8)
Borrowings	(3.8)
	3.2
Customer relationships	10.4
Goodwill	11.9
Consideration	25.5
Satisfied by:	
Initial cash consideration	25.3
Deferred consideration	0.2
Cash consideration	25.3
Cash and cash equivalents acquired	(1.8)
Net cash flow in respect of the acquisition	**23.5**

Property, plant and equipment, inventories, receivables and payables were all reassessed to their fair value. The gross contractual amount receivable of the receivables was £3.7m.

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.

23. Acquisitions continued

2014 acquisitions: Kelvindale
On 12 May 2014, Essentra acquired 100% of the share capital of Kelvindale Products Pty Limited ("Kelvindale") for £2.6m (net of cash acquired). Kelvindale is a manufacturer and distributor of an extensive range of plastic protection and finishing products, and is reported under Component & Protection Solutions. The acquisition provides a compelling entry point for the Group into the Australian market. The amounts of assets and liabilities acquired were not material.

Relevant previous acquisitions
During 2014, Essentra reassessed the fair value adjustments made in respect of Contego Healthcare Limited ("Contego") which was acquired on 30 April 2013, and made changes to certain accruals, property, plant and equipment, and deferred tax assets. The impact on goodwill is an increase of £1.7m.

In addition, Essentra reassessed the fair value adjustments made in respect of Dakota and Mesan, which were also acquired in 2013. In respect of the acquisition of Dakota, some changes were made to certain accruals and adjustments to the fair value of receivables and inventories. These adjustments were insignificant individually and in aggregate.

2015 acquisitions: Clondalkin
On 30 January 2015, Essentra acquired the entire Specialist Packaging Division of Clondalkin Group ("Clondalkin SPD") from an affiliate of Warburg Pincus. Clondalkin is a global provider of speciality secondary packaging solutions for the pharmaceutical and health & personal care industries. With 24 facilities in North America and Europe, the acquisition of Clondalkin SPD significantly enhances Essentra's existing geographic presence in healthcare packaging and, through leveraging the combined footprint of both businesses, will allow the Group to further exploit both existing, and attractive new growth opportunities. Clondalkin SPD's product portfolio of folding carton, product literature and labels is complementary to the Group's current packaging and authentication capabilities, therefore broadening the range and innovation offered to customers.

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 purchase price allocations and fair value adjustments are in progress at the time of this report.

The consideration of £309.4m was funded in part by a placing of 23,659,761 new ordinary shares, and the balance is funded from existing bank facilities. As at 31 December 2014, the proceeds from the placing were used to repay the amounts drawn under the revolving credit facilities.

Related acquisition expenses of £5.3m were recognised in the income statement in exceptional operating items.

24. Dividends

	Per share		Total	
	2014 p	2013 p	2014 £m	2013 £m
2013 interim: paid 28 October 2013		4.8		11.2
2013 final: paid 2 May 2014		10.6		24.8
2014 interim: paid 30 October 2014	**5.7**		**13.3**	
2014 proposed final: payable 1 May 2015	**12.6**		**32.4**	
	18.3	15.4	**45.7**	36.0

25. Transactions with related parties

During 2014, the Filters business in Jordan was disposed of to the minority shareholder who was also a director of the business, for a consideration of US$50,000. A loss on disposal of £0.4m arose from the transaction. Other than this transaction and the compensation of key management (note 6), Essentra has not entered into any material transactions with related parties during 2014.

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, Essentra did not enter into any material transactions with related parties during the prior year.

26. 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, United Kingdom. The principal subsidiary undertakings of Essentra plc are listed in note 10 to the Essentra plc company financial statements.

27. 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:

	2014 £m	2013 £m
Operating profit	**108.8**	97.0
Intangible amortisation	**17.5**	14.2
Exceptional operating items	**16.2**	19.2
Adjusted operating profit	**142.5**	130.4
Depreciation	**27.2**	26.7
Share option expense	**6.8**	5.1
Other non-cash items	**(11.0)**	(6.0)
Working capital movements	**(25.4)**	(5.3)
Net capital expenditure	**(33.1)**	(43.7)
Operating cash inflow	**107.0**	107.2

28. Post balance sheet events

On 30 January 2015, Essentra acquired the entire Specialist Packaging Division of Clondalkin Group ("Clondalkin SPD") from an affiliate of Warburg Pincus. Further details are included in note 23.

29. Additional segmental analysis

With effect from 1 January 2015, Essentra has implemented a new organisation structure, comprising four strategic business units. Going forward, the Components, Speciality Tapes and Security businesses will form a strategic business unit named Distribution. The Pipe Protection Technologies, Porous Technologies and Extrusion businesses together will form Speciality Technologies. The packaging and authentication solutions businesses within the previous Packaging & Securing Solutions division and the Clondalkin SPD business acquired on 30 January 2015 (see note 23) will form Health & Personal Care Packaging. The existing Filter Products division will remain as a separate strategic business unit.

In conjunction with the structural change, with effect from 1 January 2015 Essentra has also implemented a revised methodology for allocation of certain functional costs such as finance, human resources, legal and IT, as well as costs relating to management of the strategic business units and regions.

2014 results under the new organisational structure are shown below:

	Distribution £m	Health & Personal Care Packaging £m	Filter Products £m	Specialist Technologies £m	Eliminations £m	Central Services £m	Total £m
External revenue	246.6	165.9	291.4	161.8	–	–	865.7
Intersegment revenue	0.3	0.5	0.1	0.3	(1.2)	–	–
Total revenue	246.9	166.4	291.5	162.1	(1.2)	–	**865.7**
Operating profit / (loss) before intangible amortisation and exceptional operating items	57.6	30.1	39.0	29.8	–	(14.0)	142.5
Intangible amortisation	(8.4)	(7.0)	–	(2.1)	–	–	(17.5)
Exceptional operating items	(4.0)	(11.6)	(0.4)	(0.2)	–	–	(16.2)
Operating profit / (loss)	**45.2**	**11.5**	**38.6**	**27.5**	–	**(14.0)**	**108.8**

ESSENTRA PLC COMPANY BALANCE SHEET

At 31 December 2014

	Note	2014 £m	2013 £m
Fixed assets			
Investment in subsidiary undertaking	2,10	**446.0**	439.2
Current assets			
Debtors	3	**69.2**	0.6
Current liabilities			
Creditors: amounts falling due within one year	4	**(1.0)**	(57.7)
Net current assets / (liabilities)		**68.2**	(57.1)
Non-current liabilities			
Creditors: amounts falling due after more than one year	5	**(101.9)**	(95.5)
Net assets		**412.3**	286.6
Capital and reserves			
Issued share capital	7	**66.0**	60.1
Merger relief reserve	7,8	**298.1**	136.4
Capital redemption reserve	8	**0.1**	0.1
Profit and loss account	8	**48.1**	90.0
Shareholders' funds: equity interests		**412.3**	286.6

The Company financial statements on pages 136 to 141 were approved by the Board of Directors on 20 February 2015 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 ("the Company") is exempt from the requirements to present its own profit and loss account.

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 (2013: £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 115.

The Directors' remuneration, which was paid by Essentra International Limited, is disclosed in the Report of the Remuneration Committee on pages 66 to 86.

2. Investments held as fixed assets

	Investment in subsidiary undertaking	
	2014 £m	**2013 £m**
Beginning of year	**439.2**	291.5
Additions	**6.8**	147.7
End of year	**446.0**	439.2

3. Debtors

	2014 £m	**2013 £m**
Amounts receivable from subsidiary undertakings	**68.5**	–
Corporate taxes	**0.7**	0.6
	69.2	0.6

4. Creditors: amounts falling due within one year

	2014 £m	**2013 £m**
Accruals and deferred income	**1.0**	1.0
Amounts payable to subsidiary undertakings	**–**	56.7
	1.0	57.7

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

	2014 £m	**2013 £m**
Loan Notes	**101.9**	95.5

6. Maturity of financial liabilities

	Non bank loans	
	2014 £m	**2013 £m**
Debt can be analysed as falling due:		
Between one and five years	**51.1**	47.9
More than five years	**50.8**	47.6
	101.9	95.5

7. Issued share capital

	2014 £m	2013 £m
Issued and fully paid ordinary shares of 25p (2013: 25p) each	**66.0**	60.1

Number of ordinary shares in issue		
Beginning of year	240,469,409	219,326,796
Issue of shares during the year	23,659,761	21,142,613
End of year	**264,129,170**	240,469,409

At 31 December 2014 the Company held 3,449,685 (2013: 5,305,790) of its own shares in treasury.

In 2014, Essentra plc issued a total of 23,659,761 new ordinary shares of 25p each at a price of 713.5p per share, raising gross proceeds of £168.8m. Issue costs of £1.2m 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.

In 2013, Essentra plc 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

	Merger relief reserve £m	Capital redemption reserve £m	Profit and loss account: Retained earnings £m	Profit and loss account: Own shares £m
1 January 2014	136.4	0.1	120.4	(30.4)
Loss for the year ended 31 December 2014			(2.6)	
Issue of shares	161.7			
Acquisition of employee benefit trust shares				(12.3)
Shares issued to satisfy employee share option exercises			(8.0)	8.0
Share options exercised			4.3	
Share-based payments			6.8	
Dividends paid			(38.1)	
31 December 2014	**298.1**	**0.1**	**82.8**	**(34.7)**

	Merger relief reserve £m	Capital redemption reserve £m	Profit and loss account: Retained earnings £m	Profit and loss account: 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)

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 £2.6m (2013: £2.0m).

Included in retained earnings are accumulated share-based payments of £29.3m (2013: £22.5m) 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 66 to 86 and also on pages 128 to 129.

9. Dividends

	Per share		Total	
	2014 p	2013 p	2014 £m	2013 £m
2013 interim: paid 28 October 2013		4.8		11.2
2013 final: paid 2 May 2014		10.6		24.8
2014 interim: paid 30 October 2014	**5.7**		**13.3**	
2014 proposed final: payable 1 May 2015	**12.6**		**32.4**	
	18.3	15.4	**45.7**	36.0

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 2014 set out on pages 92 to 141. 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 2014 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.

Identified Risk	Our Response
Warranty provisions	
Refer to page 60 (Report of the Audit Committee) of the 2014 Annual Report, page 104 (accounting policy) and page 124 (financial disclosures). The risk – Group produces a wide range of products and operates manufacturing facilities in a number of countries which results in them being subject to varying laws, regulation and consumer expectation. 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 under warranty. This risk increases for new products or specifications or divisions which may be subject to health and safety regulation. Measuring these provisions is a significant judgement and is inherently subjective.	In respect of warranty provisions, our procedures included critically assessing the methodology used for calculating the provision. This included assessing its appropriateness based on the historical accuracy of the methodology, comparing actual outcomes to provision levels from prior periods and challenging the approach taken on significant customer complaints outstanding at the year end. 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 considered the adequacy of the Group's disclosures in respect of warranty provisions.

Identified Risk	Our Response

Carrying amount of trade receivables

Refer to page 59 (Report of the Audit Committee) of the 2014 Annual Report, page 104 (accounting policy) and pages 105 and 106 (financial disclosures).

The risk – In most of its business lines, the Group has a large number of customers which in aggregate have significant outstanding balances. However, they do also face some customer concentration risk in the Filters and Pipe Protection businesses. Further, some of their customers operate in countries facing more difficult economic circumstances, which exposes the Group to additional bad debt risk.

Our audit procedures included testing the effectiveness of the Group's controls over the monitoring of receivables and over the collection process. We compared cash collections post year end to the Group's expectations at the balance sheet date and investigated any significant items that had not been collected. We assessed the reasonableness of the provision by comparing the ageing of the trade receivables between the current and prior period. For the outstanding amounts we considered the location of the customer and the externally available market data (such as GDP information) for that country to set an expectation of the level of provision required (taking changing economic conditions into account) and compared our expectation to the Group's provision. For significant overdue receivables we assessed available information for the rationale behind the non-payment, including checking whether the relevant customers have filed for bankruptcy, and considered the appropriateness of including these overdue receivables in the provision at year end. We have considered the adequacy of the Group's disclosures about the degree of estimation involved in arriving at the provision.

Taxation contingencies

Refer to page 59 (Report of the Audit Committee) of the 2014 Annual Report, page 104 (accounting policy) and page 116 (financial disclosures).

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 concentrates on due to the Group operating in a number of different tax jurisdictions and the complexities of transfer pricing and other international tax legislation.

In this area our audit procedures included an assessment of the Group's tax position on outstanding issues and correspondence with the relevant tax authorities. This included the use of our own international and local tax specialists to analyse correspondence and challenge the assumptions used to determine the requirement for any tax provisions. This assessment utilises the tax specialists' knowledge of international and local tax legislation and their past experience of the range of possible outcomes. We have 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 £7.2 million, determined with reference to a benchmark of Group profit before taxation of which it represents 7%.

We report to the audit committee any corrected or uncorrected identified misstatements exceeding £0.35 million, in addition to other identified misstatements that warranted reporting on qualitative grounds.

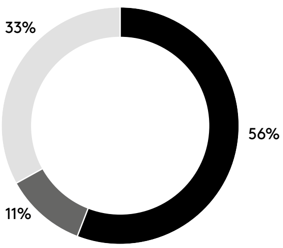
Audits for Group reporting purposes or specified audit procedures were performed by component auditors at the reporting components in the following countries:

Audits for Group reporting purposes	Specified risk-focussed audit procedures
United Kingdom (6 sites)	United States of America (3 sites)
Brazil (2 sites)	India (1 site)
Singapore (2 sites)	
Indonesia (1 site)	
Turkey (1 site)	
Thailand (1 site)	
Italy (1 sites)	
Hungary (1 site)	
United States of America (1 site)	
Germany (1 site)	
India (1 site)	

The components subject to specified risk-focussed audit procedures were not individually financially significant enough to require an audit for Group reporting purposes, but did present specific individual risks that needed to be addressed.

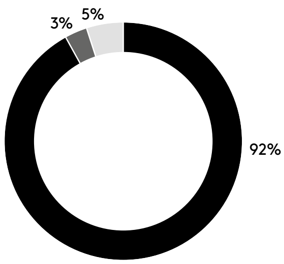
These Group procedures covered:

Group revenue



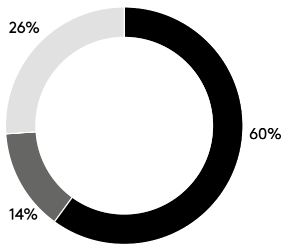
Audits for Group reporting purposes
Specified risk focussed audit procedures
Out of Scope

Group profit before taxation



Audits for Group reporting purposes
Specified risk focussed audit procedures
Out of Scope

Group net assets



Audits for Group reporting purposes
Specified risk focussed audit procedures
Out of Scope

The remaining 33% of Group revenue, 5% of Group profit before tax and 26% of Group net assets is represented by 91 components around the world. None of the 91 components represented more than 2.9% of total Group Revenue, 5% of Group profit before tax, or 2.9% of Group net assets. For these components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group audit team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group audit team approved the components' materiality, which ranged from £0.1m to £2.2m, having regard to the mix of size and risk profile of the Group across the components.

The Group audit team visited the following locations: United Kingdom and United States. Telephone meetings were also held with the component auditors at all locations and the Group audit team attended all component auditor's clearance meetings at the year end. At these visits and meetings, the findings reported to the Group audit team were discussed in more detail, and any further work required by the Group audit team was then performed by the component auditor.

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.

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 report 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 pages 90 of the 2014 Annual Report, in relation to going concern; and

> the part of the Corporate Governance Statement on pages 51 and 57 of the 2014 Annual Report relating to the company's compliance with the ten provisions of the 2012 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 91 of the 2014 Annual Report, 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/auditscopeukco2014a, 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 LLP, Statutory Auditor

Chartered Accountants
15 Canada Square
London
E14 5GL

20 February 2015

ADVISORS AND INVESTOR INFORMATION

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

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

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

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

Principal bankers
Bank Of America Merrill Lynch International Limited
2 King Edward Street, London EC1A 1HQ

Barclays Bank Plc
Ashton House, 497 Silbury Boulevard, Milton Keynes MK9 2LD

Citibank NA
Citigroup Centre, Canada Square, Canary Wharf, London E14 6LB

DBS Bank Ltd
4th Floor, Paternoster House, 65 St Pauls Churchyard, London EC4M 8AB

HSBC Bank Plc
Level 5, Metropolitan House, CBX3, 321 Avebury Boulevard, Milton Keynes MK29 2GA

ING Bank
60 London Wall, London EC2M 5TQ

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

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

Computershare also has an internet facility whereby shareholders in 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 Thursday 23 April 2015 at 12 noon.

Financial calendar 2015

Annual General Meeting	23 April 2015
Final Dividend	1 May 2015

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

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

Designed and produced by
Addison Group
www.addison-group.net

ESSENTRA

Essentra plc

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

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

www.essentra.com