ESSENTRA

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ESSENTRA

ANNUAL REPORT 2017

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.

Our aim is to make Essentra the best company it can be. To achieve this, we all need to bring our six principles to life in our work and to follow the three steps to long-term success.

CONTENTS

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BASIS OF PREPARATION

FY 2017 results at a glance

	FY 2017 £m	FY 2016 £m	% change Actual FX	% change Constant FX
Revenue	1,027	999	+3	-2
Adjusted operating profit	85	109	-22	-27
Adjusted pre-tax profit	74	96	-23	-28
Adjusted net income	59	77	-23	-29
Adjusted earnings per share	22.1p	29.2p	-24	-30
Dividend per share	20.7p	20.7p	–	n/a
Reported operating profit / (loss)	6	(50)	n/a	n/a
Reported pre-tax profit / (loss)	(5)	(63)	n/a	n/a
Reported net income / (loss) – total	116	(40)	n/a	n/a
Reported earnings / (loss) per share – total	43.7p	(15.4)p	n/a	n/a

The financial information in this FY 2017 Annual Report 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 121 to 128.

Basis of preparation

Continuing operations

Unless otherwise stated, the FY 2017 results and narrative contained in this Annual Report reflect the revenue and adjusted operating profit of the Essentra Group on a continuing basis (ie, excluding the Porous Technologies business which was divested on 6 March 2017).

Non-GAAP measures

Throughout this FY 2017 Annual Report, the following terms are used to describe Essentra's financial performance.

Constant 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 2017 ("FY 2017"), see the table below. Re-translating at FY 2017 average rates increases the prior year revenue and adjusted operating profit by £53.0m and £6.9m respectively.

Principal exchange rates	US$:£	€:£
Average		
FY 2017	**1.30**	**1.14**
FY 2016	**1.36**	**1.23**
Closing		
FY 2017	**1.35**	**1.13**
FY 2016	**1.24**	**1.17**

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 2017 results are adjusted for the divestment of the Bristol consumer packaging site on 5 June 2017.

Adjusted basis

The term "adjusted" excludes the impact of amortisation of acquired intangible assets and exceptional operating items, less any associated tax impact. In FY 2017, amortisation of acquired intangible assets was £22.9m (FY 2016: £30.2m), and there was an exceptional pre-tax charge of £56.2m (FY 2016: £128.5m) mainly relating to costs associated with the closure of the folding cartons facility at Newport, UK, the strategic review of the Company and the simplification of the organisational structure – including the departure of certain senior management – during the year.

Constant exchange, like-for-like and adjusted measures are provided to reflect the underlying performance of Essentra. For further details on the performance metrics used by Essentra, please refer to page 21.

Reconciliation of GAAP to non-GAAP measures

The following tables are presented by way of reconciling the metrics which management uses to evaluate the Essentra Group to GAAP measures.

Cash flow

Adjusted operating cash flow is presented to exclude the impact of tax, exceptional items, interest and other items not impacting operating profit. Net capital expenditure is included in this measure as management regards investment in operational assets as integral to the underlying cash generation capability of the Company.

Summary growth in revenue by division

% growth	Like-for-like	Acquisitions / disposals	Foreign exchange	Total reported
Component Solutions	8	–	5	13
Component Solutions ex-PPT*	3	–	5	8
Health & Personal Care Packaging	-8	-1	4	-5
Filter Products	-3	–	6	3
Total	-2	–	5	3

* Pipe Protection Technologies.

Net income

£m	FY 2017	FY 2016
Adjusted net income	**59.2**	**76.9**
Amortisation of acquired intangible assets	(22.9)	(30.2)
Exceptional operating items	(56.2)	(128.5)
Exceptional tax items	11.4	–
Tax on adjustments	14.0	30.8
Profit / (loss) after tax	**5.5**	**(51.0)**

Cash flow

£m	FY 2017	FY 2016
Operating profit – adjusted	**84.6**	**108.7**
Depreciation and amotisation of non-acquired intangible assets	36.3	31.1
Share option expense / other movements	(2.0)	(3.5)
Change in working capital	6.4	2.8
Net capital expenditure	(45.3)	(37.3)
Operating cash flow – adjusted	**80.0**	**101.8**
Tax	(11.2)	(17.1)
Cash spent on exceptional items	(17.1)	(8.3)
Pension obligations	0.1	1.1
Other	(0.6)	15.2
Add back: net capital expenditure	45.3	37.3
Net cash inflow from operating activities – continuing operations	**96.5**	**130.0**
Net cash (outflow) / inflow from operating activities – discontinued operations	(19.1)	23.0
Net cash inflow from operating activities – total Group	**77.4**	**153.0**
Operating cash flow – adjusted	**80.0**	**101.8**
Tax	(11.2)	(17.1)
Net interest paid	(12.5)	(11.3)
Pension obligations	0.1	1.1
Free cash flow – adjusted – continuing operations	**56.4**	**74.5**
Free cash flow – adjusted – discontinued operations	(7.6)	24.3
Free cash flow – adjusted – total Group	**48.8**	**98.8**

Divisional performance

The revenue and adjusted operating profit for each division is stated before the elimination of intersegment revenue and the cost of central services, as reconciled to the reported results set out in note 1 on pages 130 to 132.

ESSENTRA AT A GLANCE

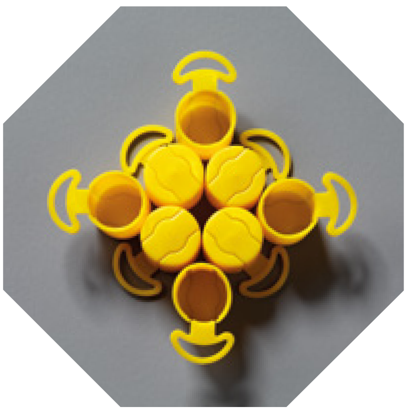
Component Solutions

The Components business is a global market leading manufacturer and distributor of 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 products 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 the oil & gas industry. Locations in four countries, combined with a wide distributor network, serve customers around the world.

The Extrusion business is a leading custom profile extruder located in the Netherlands which offers a complete design and production service. One of the first companies to extrude plastics in 1956, Essentra is now one of Europe's most advanced suppliers of co-extrusion and tri-extrusion to all branches of industry.

Page 26
For our operating review on Component Solutions



The Card Solutions business has access to a wide portfolio of products and services, including printers, software and consumables from leading manufacturers.

2017 summary

- Broad-based Components revenue growth across all geographic regions
- Increase in general protection caps and plugs and access solutions hardware
- Consolidation of south east Asia seals product range in Thailand and general expansion in Turkey
- Recovery in Pipe Protection Technologies, benefiting from positive developments in the oil & gas sector
- Moderate revenue decline in Extrusion, following two years of excellent growth
- Completion of the acquisition of Micro Plastics in Components

£343.1m
Revenue
(2016: £302.6m) +13.4%

£58.7m
Operating profit[1]
(2016: £54.4m) +7.9%

[1] Excluding amortisation of acquired intangible assets and exceptional operating items.

Page 32
For our operating review on Health & Personal Care Packaging

Health & Personal Care Packaging

The Health & Personal Care Packaging division is one of only two multi-continental suppliers of a full secondary packaging range to the health & personal care sectors, with 25 facilities across four geographic regions. The division's innovative products include cartons, leaflets, self-adhesive labels and printed foils used in blister packs, which help customers to meet the rapidly-changing requirements of these end-markets and can also be combined with Essentra's authentication solutions to help the fight against counterfeiting.

Essentra is globally recognised as the leading manufacturer and supplier of pressure-sensitive tear tapes – as well as a provider of other solutions such as bags, sacks and commercial print – which are largely used in the tobacco, food & drink and specialist packaging sectors. The business is also a leading manufacturer and distributor of adhesive-coated tape products for a wide range of industries and applications, in particular the point of purchase and white goods sectors.

Supported by an in-house design studio, R&D and multi-million pound print facilities, Essentra is positioned to deliver the very best in quality, service and reliability through its worldwide manufacturing and sales structure.

2017 summary

- Revenue decline owing to ongoing operational challenges at certain health & personal care sites, and temporary disruption in Puerto Rico post-hurricane Maria
- Progressive improvement in key service and quality metrics – and enhanced customer dialogue – further to senior management focus and remedial action
- Continued product pipeline development to meet industry trends and evolving legislative requirements
- Mixed performance in Tapes, with gains in the appliance and food segments being offset by weakness in the point of purchase and tobacco sectors
- Creation of a global health & personal care packaging organisation, to better serve customers with a consistent global value proposition
- Closure of loss-making Newport, UK IP5 folding cartons facility at year end, owing to significant ongoing structural issues

£409.5m

Revenue
(2016: £430.2m) -4.8%

£7.2m

Operating profit[1]
(2016: £34.5m) -79.1%

[1] Excluding amortisation of acquired intangible assets and exceptional operating items.

Filter Products

The Filter Products division is the only global independent cigarette filter supplier. The eight worldwide locations, including a dedicated Technology Centre supported by three regional development facilities, provide a flexible infrastructure strategically positioned to serve the tobacco sector. The business supplies a wide range of value-adding high quality innovative filters, packaging solutions to the roll-your-own segment and analytical laboratory services for ingredient measurement to the industry. Essentra's offering also includes e-cigarette and Heat Not Burn solutions to the rapidly evolving market for Next Generation Products.

Page 36
For our operating review on Filter Products

2017 summary

- Revenue impacted by lower pricing, owing to pass-through of raw material cost savings
- Further commercialisation of new special filters, notably capsule, smaller diameter and visually differentiated formats
- Successful transfer of a significant customer-specific product line from the US to Asia
- Good growth in China, supported by recent innovative product launches
- Expansion of capsule capability to meet demand in the growth markets of the Middle East and Asia
- Continued efficiency benefits from investment in high-speed, flexible combining equipment
- Attractive contract wins / renewals for Scientific Services laboratory

£277.5m

Revenue
(2016: £269.2m) +3.1%

£34.8m

Operating profit[1]
(2016: £37.5m) -7.2%

[1] Excluding amortisation of acquired intangible assets and exceptional operating items.

WHAT WE DO

The Essentra Group comprises nine businesses, serving multiple end-markets with a very broad and differentiated range of products and services.

Reflecting our strategic review, with effect from 1 January 2018 Essentra changed its structure and is now organised as three global divisions of Components, Packaging and Filters, with a fourth division – Specialist Components – comprising our six smaller businesses.

In order to create sustainable long-term value, our business model seeks to effectively and efficiently manage this portfolio of global leading, diverse activities, while adding further to this through a clearly articulated role for the Group underpinned by robust financial and capital allocation policies.

A portfolio of activities ...

Although our businesses produce a diverse range of products and serve a wide range of end-markets, nonetheless we share a number of capabilities and characteristics.

Focus on sizeable end-markets with growth opportunities

Essentra has a clear, data-driven strategy for each of its Components, Packaging and Filters global divisions, each of which operates in sizeable end-markets which present opportunities for future growth, and in which the Company is fundamentally well-positioned to drive long-term growth and margin expansion.

Develop long-standing blue chip customer relationships

Essentra develops and maintains 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. Essentra's manufacturing and distribution expertise adds value in response to customer demands, and its innovative capabilities drive the joint development of new products and services with key strategic partners.

Invest in innovation capability

The continued successful launch and commercialisation of new products and services is a key driver of Essentra's 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 the Company's competitive positions. Robust quality systems maintained to internationally accredited standards assist the fulfilment of customers' demands.

Global partner with local presence

Essentra has 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. The Company is focused on being a low-cost producer, to secure revenue growth at attractive margins and continuous improvement programmes – with tight cost control and productivity gains – serving to reduce conversion costs.

Efficient footprint and strong value proposition

Essentra has a well-invested and flexible international sourcing, supply chain and production infrastructure. This provides businesses across the Company with the opportunity to use the existing infrastructure and management to exploit new opportunities efficiently and cost-effectively. The Company's extensive 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.

... With shared business priorities ...

There is clear scope for the Group to add value through a defined role.

Portfolio management and strategic development

While each division is responsible for contributing to the successful delivery of Essentra's strategic and financial objectives, it is important that this is managed within an established and agreed framework which not only facilitates and challenges the next stage of corporate development, but also identifies and exploits any commercial synergies between the Essentra businesses.

Risk management

Effective management of risk and opportunity is essential to the protection of Essentra's reputation and the delivery 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.

Legal requirements and compliance

Essentra is committed to doing business the right way to continually earn the trust of its customers, other stakeholders and the wider marketplace, and 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. Essentra's Ethics Code helps to ensure that everyone working for or on behalf of the Company understands its expectations and conducts Essentra business in a way that is consistent with the Company's six principles and with its procedures.

Together with common sense, logic and good faith behaviour, Essentra's Ethics Code provides a framework and structure to guide employees in determining the correct course of action, and the Company's policies continue to promote fair and ethical dealings with customers and competitors as a matter of law and conscience.

Talent management

Essentra's greatest asset is its employees and, at all levels, we have a highly experienced and well-regarded team. Their skills and experience are essential to driving the innovation which enables the Company to provide added value to its customers, enhance supply chain logistics and reduce the environmental impact of its operations.

In creating a winning and engaged team, it is important that we have a world-class global talent management process and high performance ethos. We must also strive for excellence in health and safety and proactively manage learning and development, and our objective is to become exemplary with regard to diversity and inclusion.

Process alignment and sharing of best practice

Sharing certain facilities and functions – from Human Resources, Operations and Corporate Governance to Finance, IT and Commercial – allows us to develop and implement aligned processes and procedures, identify and fill skill gaps, share best practice across the Company and exploit our collective size, infrastructure, investment and capabilities.

... Sustainable, long-term value

A unified "whole"

Our respective businesses have secured leadership positions in the majority of the industries which they serve. Through harnessing this strength in diversity with a clearly defined and unifying role for the Group – all of which underpinned by clear financial and capital allocation policies, appropriately aligned to management incentives – we are well-placed to create sustainable long-term growth for our shareholders.

CHAIRMAN'S STATEMENT

Paul Lester, CBE
Chairman

In my first full year as Chairman, I am very pleased to report that 2017 saw stability being restored to Essentra after a year of challenge and change in 2016, with our new corporate strategy being unveiled by Chief Executive, Paul Forman, at the time of our HY 2017 results. The Board was extensively engaged in the strategy review process and fully supports the future direction set out by Paul, which provides the roadmap for future sustainable growth across the Group based on the highest standards of business ethics and best practice governance.

Board composition

As previously reported, Paul Forman joined the Board as Chief Executive with effect from 1 January 2017. Paul's proven track record of international experience at senior level – in particular in strategy and acquisitions – has already shown itself to be extremely relevant and beneficial in restoring widespread stability to Essentra. Paul has provided a clear and data-driven strategy which he and his team have developed and communicated, which will deliver sustainable, long-term shareholder value, excellent customer service and a motivated and engaged workforce.

In July, as the result of a robust selection process led by the Nomination Committee, my colleagues and I were delighted to welcome Mary Reilly and Ralf K. Wunderlich to the Board as independent Non-Executive Directors, both of whom have extensive international experience across a wide range of industries. Mary was a Partner at Deloitte LLP for more than 20 years and has served on a number of Boards in a non-executive capacity since 2000, while Ralf – who is currently based in Singapore – has an extensive knowledge of the packaging industry, and has lived and worked across three continents.

Separately, in December, Terry Twigger advised the Board that he will be retiring as a Director and from his current roles as Senior Independent Director ("SID") and Chairman of the Audit Committee, following the Company's 2018 Annual General Meting ("AGM"). Terry joined Essentra as a Non-Executive Director and Chairman of the Audit Committee in 2009, and was subsequently appointed as SID in 2014. On behalf of the Board, I would like to thank Terry for his dedication and significant commitment to Essentra during his nine-year tenure. He has been unfailing in his support and guidance throughout, and I and my fellow Board members will miss both his financial insight and wise counsel. We wish him all the very best for a long and healthy retirement.

My Board colleagues and I are very pleased that Tommy Breen, who joined the Board as a Non-Executive Director in 2015, will assume the role of SID following the 2018 AGM and will bring significant experience to the position. Replacing Terry as our new Audit Committee Chair will be Mary Reilly. With her extensive accounting, finance and international management background, we have no doubt that Mary will prove an excellent successor to Terry and build further on the important work of the Committee which he led with considerable skill and expertise. I would like to wish both Tommy and Mary every success in their new roles.

As previously advised, Peter Hill and Colin Day retired from the Board following the Company's 2017 AGM.

Strategic review

While there was significant focus on stabilising the Company during 2017 – not least those handful of manufacturing sites where we have previously experienced operational issues – at the same time, we simultaneously developed a clear and objective assessment of the various businesses within the Essentra organisation together with their future potential. We have only just started upon this path, but the review has confirmed that Essentra is a fundamentally strong organisation with many positive features to build upon.

Such a detailed evaluation of any business potentially results in tough decisions. This was indeed the case with our folding cartons site in Newport where, having given a number of strategic options careful consideration, the Board regrettably concluded that the proposal to close the facility was the most appropriate route given that it was not anticipated to make a realistic improvement to profitability in the near, or even long, term. The decision was in no way a reflection on the quality or dedication of our employees there, and my fellow Board colleagues and I would like to acknowledge the supportive and professional way in which they engaged in the consultation process.

In conjunction with the strategic review, the Board evaluated the appropriate deployment of capital in the business – including the amount which is returned to shareholders by way of dividends. While our financial Key Performance Indicators will focus on all value drivers, further to the strategy review there is a clear and increased emphasis on cash generation and returns. These financial and capital allocation priorities have been aligned to new metrics for both short and long-term management incentives, upon which we have already consulted with shareholders and are subject to approval at the 2018 AGM.

People and culture

Change for the better is still change, which can be disconcerting for those involved. Accordingly, on behalf of the Board, I would like to thank all our employees for their continued commitment to building a better Essentra together. We are proud of our international presence in 33 countries and we recognise the vital contribution which our people make. Indeed, during the course of the year, I had the pleasure of visiting a number of our facilities – from our head offices in Milton Keynes, UK and Chicago, US and our Health & Personal Care Packaging sites in Portsmouth, UK and Charlotte, US, to our Components European manufacturing hub in Kidlington, UK and our Filter Products joint venture in Dubai – and can testify to the skill, passion and hard work of our employees. In particular, my fellow Board members and I would like to pay tribute and give our sincere thanks to our 345 colleagues in Puerto Rico who, in the face of significant personal challenge following hurricane Maria, have shown incredible fortitude and dedication in attending work and supporting our customers, many of whom were facing similar hurricane-related issues.

Separately, I attended the leadership conference in June, during which the output of the strategic review was discussed at length with approximately 100 of our senior management team. The lively debate and contribution over the three-day offsite was hugely encouraging, as was the positive energy for change.

Consistent with Paul and the senior management team, the Board is committed to making Essentra a great place to work, where talent can thrive. We therefore whole-heartedly support his focus on building employee engagement and, in particular, on his priority of creating a safe, respectful and diverse environment for our people. While we are coming from a low base in certain aspects of morale and motivation following a challenging 2016, my Board colleagues and I are nevertheless encouraged by the improvement in engagement which has been reported in our 2017 surveys, and the focus which is being given to following up and implementing post-survey action plans in a timely manner.

The Board is committed to achieving and maintaining the highest standards of occupational health and safety and environmental protection, as well as making Essentra an exemplary workplace with regard to diversity and inclusion. Each Board member is required to visit one of the Essentra sites each year and to undertake a health and safety "walk" around the site to focus on these important matters. The Board thus fully endorses the priority which these critical workplace practices are now being given under Paul's stewardship, which is expanded upon in the Chief Executive's Review on pages 10 to 17.

A stronger company

Last year saw substantial change at Essentra, and restoring the Company to sustainable, profitable growth will take time. However, while there is much still to do, we made significant progress and widespread improvement during 2017 so we are already well underway.

PAUL LESTER, CBE
Chairman
2 March 2018

CHIEF EXECUTIVE'S REVIEW

Paul Forman
Chief Executive

Having been appointed as Chief Executive of Essentra on 1 January 2017, I am pleased to present my first Annual Review.

In summary, following a period of turbulence, we did much in 2017 to stabilise Essentra; this was not only with regard to our operational performance metrics, but also in terms of starting to win back lost credibility with our customers, improving engagement with our employees and creating a stable balance sheet supported by markedly improved cash flow control. At the same time, we have developed and articulated a sustainable, data-driven corporate strategy which will see the various activities which comprise the Essentra Group restored to profitable growth over the medium term behind a talented and engaged workforce. At the heart of this change programme is our people, where the establishment of an agreed set of principles and the absolute priority of health and safety have been critical developments in the culture of excellence which we are seeking to create and embed across Essentra.

There is clearly much for us all still to do, and this will take time; however, now a year into my tenure, I am encouraged by the progress we have made to date and by the positive energy for change across the organisation.

Financial performance

FY 2017 revenue decreased 2.3% (at constant exchange), with a like-for-like decline of 2.0%. The underlying result reflected an improved revenue trend in the second half of the year, with a continued strong result in Component Solutions and a material improvement in Filter Products offset by a decrease in Health & Personal Care Packaging. With a significantly positive foreign exchange benefit, together with a modest decline from change in scope owing to the divestment of the Bristol consumer packaging site in June 2017, total revenue increased 2.9% to £1,027.3m.

On an adjusted basis, operating profit was down 26.8% (at constant exchange) at £84.6m. The 280bps reduction in the margin (at constant exchange) to 8.2% was largely driven by Health & Personal Care Packaging – notably the profit drop-through from lower revenue, together with a material operating loss at our folding cartons site at Newport, UK and the impact of hurricane Maria on our facilities in Puerto Rico – as well as a less profitable revenue and segment mix in Tapes. There was a £2.1m decrease in our financing costs resulting from a lower average net debt position during the year and our tax rate was maintained at 20.0%, contributing to basic adjusted earnings per share (at constant exchange) reducing by 30.1% to 22.1p.

During the year, there was further investment in our footprint and equipment, with FY 2017 net capital expenditure of £45.3m: we also made good progress with regard to net working capital management, which supported a cash conversion ratio of 94.6%. As such, and boosted by net proceeds from the divestment of Porous Technologies of £210.8m, our financial ratios remain robust, with net debt to EBITDA of 1.7x and interest cover of 9.0x as at 31 December 2017. As a result, the Board is recommending a final dividend of 14.4p per share – implying a FY 2017 dividend of 20.7p per share, unchanged versus FY 2016.

My initial impressions

When I joined Essentra, it was clear that the Company had experienced a number of challenges. Most evident of these was the poorly executed integration of the Clondalkin Specialist Packaging Division ("SPD"), which resulted in certain material commercial and operational issues which were significantly weighing on the financial performance. Beyond this, however, were a number of other root causes: Essentra did not have a clearly defined corporate strategy; the "matrix" organisational structure was a source of confusion and a consequent lack of accountability; there was a conspicuous lack of rigorous and consistent process; and the IT infrastructure was fragmented and had been underinvested. Taking these issues together, it was unsurprising, therefore, that employee morale was very low and there had been an exodus of talent.

Notwithstanding these challenges, my initial view was that the Essentra Group is comprised of strategically attractive businesses, virtually all of which hold leadership or number two positions in their respective markets, and many of which have sustainable organic (and possibly acquisition) growth potential thanks to their strong competitive advantage and their loyal, blue chip customer base. Critically, I met many excellent and passionate colleagues, who believed in the fundamental strengths of Essentra and were enthused by the prospect for positive change. Accordingly, the issues to be overcome were predominantly self-inflicted – rather than end-market related – and there were solid foundations upon which to build.

"During 2017, we successfully restored stability across the organisation – from our people and customers to our processes and finances. A year into my tenure, my belief in a bright future for our Company is – if anything – even stronger than my initial view."

2017 – a year of stabilisation ...

While it was important to initiate the strategy development programme at the earliest opportunity, at the same time we needed to restore stability to the Company – from our people and customers to our processes and finances.

My priority as Chief Executive is to provide employees with a safe, respectful and diverse environment, where people want to come to work in the morning. In the first instance, therefore, it was imperative to start to rebuild our corporate culture, and to develop and communicate an agreed set of values – as well as where we aim to take the business and why – to ensure we are all clear as to how we should behave while in the workplace, as well as how we will together build Essentra into the best company it can be. Accordingly, we established our six principles and three steps to long-term success – being Stability, Strategy and Growth – which were rolled out across the business, supported by an extensive programme of video communication in all languages and townhall presentations. In addition, we needed an unambiguous organisational structure, which resulted in the disbanding of the previous Strategic Business Unit and regional matrix in favour of three global divisions, each with profit & loss accountability and clear lines of reporting and responsibility.

Following a period of significant footprint change, too often to the detriment of our commercial relationships, we undertook to stabilise our business and to regain revenue momentum behind a new set of customer retention initiatives. In the case of certain underperforming sites, this also entailed the injection of turnaround resource – both in terms of judicious financial investment and dedicated, experienced personnel. This significant focus and remedial action was particularly evident in Health & Personal Care Packaging, as we sought to arrest the significant rate of revenue and profit decline during the second half of 2016, especially at those sites impacted by the acquisition integration: we also moved rapidly to start to address systems challenges and simplify our infrastructure in IT, and changed the reporting line of the Chief Information Officer ("CIO") directly to me to reflect the critical importance of the task ahead.

While 2017 marks the outset of our three-step corporate change programme, nonetheless we made meaningful progress in driving widespread stability during the year: compared to a low point in H2 2016, our revenue trends have steadied; our key performance indicators (notably service and quality metrics) have increased demonstrably in all three divisions, which has helped to enhance the dialogue we are having with customers; we have delivered a number of successful commercial and operational initiatives; and our employee engagement surveys have shown excellent levels of participation, with improvement in all key areas (albeit from a low base, in some cases) versus 2016. Underpinning all of this is a robust balance sheet and a very good level of cash conversion in the business, and towards the end of the year we successfully refinanced our entire debt facilities to extend maturities at attractive rates – including the issue of US$75m of US Private Placement notes – to ensure stability in our finances over the medium to long term.

... and strategic development

Entailing eight different workstreams, the aim of our strategy review was to provide a well-defined and objective assessment of the current status and positioning of the various business activities within the Essentra organisation, together with their future potential. Presented to the financial markets at the time of our interim results on 28 July 2017, the output of this six-month review has been a clear corporate strategy (with options) which is aligned to a three-year plan, and provides a data-driven view of the areas which may require measured additional investment in capability / process and of how we intend to drive future growth. Ahead of our external presentation, however, I was pleased to have the opportunity to discuss the findings from the strategy review with our leadership teams from across Essentra at our global Management Conference in June. Involving a much wider group than has previously been so directly involved of almost 100 people, I greatly valued their contribution to our future, and they have collectively done a fantastic job of communicating our strategy to their respective organisations, to ensure that our employees fully understand the direction in which we are heading and the reasons why, and to solicit their comments and questions.

Overall, the strategy review confirmed my initial assessment; namely, that the nine businesses comprising the Essentra Group have strong and defensible strategic positions, with operating margins which can be sustained or – in the case of Health & Personal Care Packaging – improved to industry norms over the medium term. As part of the review, we also determined that with effect from 1 January 2018 – and to provide greater focus across the portfolio, we should be grouped into three global divisions of Components, Packaging and Filters, with the creation of a fourth Specialist Components division to separately manage our six smaller businesses. In addition, we clearly defined the role of the overall Group in driving value.

In order to support our stability and future growth agenda, we identified the need for an incremental £30m of investment over three years in key areas; of this, c. £10m is IT-related and approximately £20m is to drive an equipment upgrade programme in Packaging.

Components

Combining the expertise and credibility of a manufacturer with the service orientation of a distributor there are a number of factors which make the c. £8bn Bill of Materials "small components" market attractive to Essentra. Competitors – of which there are hundreds – are either distributors or niche manufacturers; it is difficult for new entrants to establish themselves in a meaningful way due to the high cost to produce moulds to manufacture standard parts across a very broad range of Stock Keeping Units ("SKUs"); Asia remains a large, growing and relatively underdeveloped region; and good margins are generally available – among other factors. Indeed, no major changes in market dynamics or customer needs are foreseen in the immediate future.

While there are opportunities for improvement – including cross-selling across product categories and the rate of new customer acquisition – the strategy for Components is essentially one of evolution from a strong and relatively unique proposition. However, over and above the scope to grow the division organically through expanding into faster-growing geographies and adjacent product ranges, there is also potential to achieve this through bolt-on transactions. Indeed, the acquisition of Micro Plastics – a leading provider of fasteners – at the end of the year, was a great example of the consolidation opportunities available to us; not only does Micro Plastics significantly enhance our offering in the US for one of our core product ranges and add custom injection moulding capability – as well as providing compelling cross-selling potential – it also extends our manufacturing footprint and gives us access to a number of high-growth end-markets in Mexico.

"Our strategic review has confirmed that the fundamental strengths exist across our businesses which we can build upon, and that previous challenges were caused by internal – not external – factors."

Packaging

As one of only two multi-continental suppliers of a full range of specialist secondary health & personal care packaging, Essentra is fundamentally well-positioned in an attractive sector: underlying markets are stable and growing; we have a predominantly blue chip customer base which represents a high barrier to entry and exhibits a clear pattern of "one stop shop" purchasing, and industry trends support continuing growth and scope for value-added opportunities.

However, as mentioned above, through the poor integration of the acquisition of Clondalkin SPD, we lost much of our market share (through a reduced "share of wallet") and customer trust over the course of 2016, further to which much of our recent focus has been on stabilising the business.

As part of the strategy review, and to create greater organisational clarity, we took the decision to carve out the tapes activities from the division and to run them as part of the newly-created Specialist Components division. In addition, low complexity packaging for consumer goods applications will be de-emphasised: notably, this unfortunately resulted in the closure of the financially and operationally-challenged Newport folding cartons site at the end of 2017, and thus the removal of c. £4.5m losses in FY 2018.

As we continue to stabilise our underlying health & personal care packaging activities, we are now starting to leverage our core capabilities to drive revenue growth through initiatives such as additional commercial programmes to materially increase customer share of wallet, developing a broader and deeper service proposition and expanding geographically with existing customers. At the same time, the delivery of short-term profit levers – including procurement and process improvement initiatives, as well as the benefit from incremental investment in upgraded, more efficient equipment – are expected to help the division to start to improve towards an industry-average operating margin.

Filters

While Essentra's addressed segments are fundamentally stable in an overall declining tobacco market – given our significant weighting towards special filters and Asia – there is scope to refine and distinguish the current proposition further, with the objective of both expanding the share of wallet with multi-nationals while simultaneously driving share among independent customers. In the case of the former, rebuilding global key account management and providing solutions in new geographic markets now demanding special filters should help us to strengthen and deepen customer relationships; regarding the latter, a more tailored offering and a better configuration of facilities can help to balance their demand for innovation with low-cost manufacturing.

Combined with further internal upgrading of our innovation capability to become a more commercially (rather than operationally) led business, and hence a more strategic partner, these initiatives – which are being led by our new divisional Managing Director, Kamal Taneja, who joined us in October – are aimed at improving customer and market visibility, and thereby dampening the historical volatility in the project pipeline.

Over and above optimising the existing business, we have identified three potential "game changers" and we are in the process of evaluating these further:

> **China** – the world's largest cigarette market (44% global volume) and currently served as an export market from our sites in Thailand and Indonesia. We are exploring a structural move into China, supported by our proven special filter capability, to capture the clear market trends toward premium and more international-style products

> **Greater outsourcing** – a 1% shift in the outsourced filter share represents a c. £50m revenue increase to third-party producers such as Essentra. With multi-national players continuing to pursue opportunities to rationalise their manufacturing footprint and to focus on core skills / improve asset utilisation, we are exploring the potential to help them simplify their supply chains through outsourcing a greater proportion of filter production

> **Next Generation Products ("NGP")** – currently a very small percentage of the overall tobacco market, however rapidly expanding as multi-nationals increasingly focus their innovation spend on both vaping (e-cigarette) and Heat Not Burn platforms. With a strong position in combustibles, and an expanding presence in both NGP segments, there is the possibility for us to grow in such emerging technologies

Given the early stage of evaluating each of these potential medium to long-term value-creating levers, these are not opportunities which we are assuming to be certain and we will update the financial markets accordingly as our analysis progresses.

Specialist Components

The newly-created Specialist Components division comprises Essentra's six smaller business activities, which have very limited synergy with their previous larger "host" divisions and with each other. However, in their respective niches, most have strong (or at least reasonable) positions and all have scope for organic growth. Accounting for FY 2017 revenue of c. £164m – and with a (potentially variable) high single-digit adjusted operating margin in aggregate – these activities comprise Extrusion, Pipe Protection Technologies, Tear Tapes, Speciality Tapes, Industrial Supply (the Maintenance, Repair & Overhaul ("MRO") industrial components business) and Card Solutions (Security).

We expect that this new organisational structure will facilitate faster, more nimble management, and that greater focus will enable more detailed strategic development: it will also give greater visibility on the performance of the three larger divisions. With effect from 1 January 2018, Tim Wilson joined Essentra as divisional President and – over and above maximising short-term tactical opportunities – his task over the next six months will be to work with each of the respective business heads to formulate a full range of longer-term strategies.

The role of Finance ...

As we have stabilised the Company, the Finance function has made a significant contribution in providing due control, discipline and balance sheet management, and will continue to do so as we seek to restore sustainable revenue growth and profitability to Essentra. In particular, the team has a critical role to play in terms of business partnering, as well as capturing the financial consequences of our corporate strategy and, hence, in informing the decision-making process – both in terms of medium-term planning and in-year budgeting.

Further to our review, we have revised our key financial performance indicators to focus on all value drivers, from both a profit & loss and balance sheet perspective. In the case of the former, operating profit growth and margin are now prioritised, while in the case of the latter there is an emphasis on working capital (measured as average working capital per month as a percentage of revenue), Property, Plant & Equipment and gearing: this translates into an increased focus on returns, both return on capital employed (ie, how we are using our balance sheet) and return on total invested capital (including accumulated goodwill etc from acquisition spend).

From a financial perspective, the output of our review is a clear – and significantly enhanced – focus on cash flow generation; indeed, notwithstanding the aforementioned incremental £30m capital expenditure, our objective is to improve our conversion ratio over the medium term, in particular through driving sustainable improvement in net working capital.

This focus on cash generation is evidenced in well-defined financial and capital allocation policies: these include a leverage target of between 1 – 2x net debt to EBITDA and a stretching internal return threshold for capital expenditure programmes, as well as a disciplined financial approach to acquisitions and a recognition of the importance of the dividend to shareholders while driving stability and growth. In addition, we have revised our management incentives to ensure due alignment, such that cash-related performance measures now account for 30% of the annual cash bonus and 20 - 40% of the Long-Term Incentive Programme.

... and of the wider "Group"

While there is limited synergy between our nine businesses in terms of end-markets and customers served, nonetheless there are a number of key aspects where "the Group" can add value. Indeed, over and above the role of Finance outlined above – together with Human Resources and Health and Safety (of which more below) – there are a number of other areas where a unifying central resource can significantly enhance the sum of our constituent parts and we are already making progress.

Not least among these is Corporate Governance and, consistent with the Board's ongoing commitment to promoting a strong culture of the highest standards of business ethics based on clear principles, we now have an externally benchmarked and supported route to upper quartile FTSE 250 performance by 2020. Together with the cultural change initiated during the year – which has seen a more committed "tone from the top" and the revision of a number of protocols – we have initiated a number of process improvements, including re-setting our risk management approach to develop consistent and relevant performance indicators, filling certain gaps in business continuity management and contract processes and revising our internal audit approach to add value and help drive positive change.

IT is also an area where we can benefit from an integrated approach, global infrastructure and co-ordinated activities. Indeed, the previous absence of corporate strategy, consistent standards and post-acquisition systems integration has resulted in a proliferation of platforms and installations relative to our site footprint, while historic under-investment means certain software is coming to the end of vendor support and we lack the necessary skills and number of resource for the relatively complex environment we have. The IT team, led by our new CIO, Richard Cammish, and supported by selective external expertise, has much to do to upgrade our capabilities – as well as to direct the continued investment being made to address the growing risks which all companies face in the cyber security domain – but is energised for change and the task in hand.

"While there is limited synergy between our businesses, we have clearly defined a role for "the Group" to add value across a number of enabling functions – from Corporate Governance, Finance and HR, to Operations, IT, HSE and Commercial."

Across our diverse businesses our manufacturing capability is a common theme and – having first started producing filters in the UK in the late 1940s – we have extensive expertise, from plastic injection moulding and extrusion to specialist printing / conversion and filtration technologies. In harnessing this significant capability, the Group has an important role to play in leveraging investment, sharing best practice to move our facilities to world class levels, taking advantage of common purchasing opportunities and standardising key processes where relevant. Alongside Operations, there are also opportunities to deliver critical process improvements, skill upgrades and cultural change in our Strategy & Commercial function, particularly with regard to driving corporate strategy, facilitating and challenging the next stage of divisional strategies and overseeing M&A activity and consistent post-merger integration protocols. As both areas will greatly benefit from central leadership and support, we have accordingly created two important Group Management Committee ("GMC") roles in Group Operations Director and Strategy & Commercial Director.

People

At all levels, our employees are a vital resource in the Company's pursuit of operational excellence and the provision of quality products and services to our customers. And, as Chief Executive, my priority is to provide a working environment which enables talent to flourish and where people believe they have the opportunity for career development.

Having introduced assessment-based Leadership Development Centres ("LDC") in 2014, a total of 171 colleagues across all geographical regions have now attended the two key development programmes globally. Essentra's LDC is not a traditional training programme; rather, it is designed to assess skills against defined Company leadership competencies which will be critical to our organisational success going forward. Together with their manager, the employee takes responsibility for using the output from the LDC to create a personal development plan with support from our Human Resources team. By being nominated to the LDC, employees have already delivered success consistently in their current role and demonstrated the potential for future advancement. As a result, the programme is designed to help employees fulfil their respective potential.

The Essentra Graduate Programme enjoyed further success in 2017. The two-year programme has provided a talent pipeline for a number of years and, in 2017, 25 people joined the scheme, which continues to expand its international reach. The 2017 intake will join the 19 graduates recruited in 2016, 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 job from day one. Separately, in October, the 2015 graduate intake – who, for the first time had the opportunity to undertake some of their training in Asia in Bangalore, India – completed their programme, with a number of successful presentations hosted in Milton Keynes. Representatives from senior management were invited to watch the graduate teams drawn from across functions and geographies present on topics focusing on "Millennial Employee Engagement at Essentra", "Should Essentra Improve its Employer Brand?" and "Knowledge Sharing: a Proposal for Implementation in Essentra Components".

Additionally, in April, we announced our first National Apprenticeship Progamme in the UK. The programme launched across our sites at Bradford, Kidlington, Kilmarnock, Newmarket, Newport, Nottingham and Portsmouth, providing 20 young apprentices the opportunity to learn skills in the printing, setting and finishing industries. Comprised of a selection of vocationally-recognised qualifications, as well as technical, functional and soft skills modules, the programme will take 36 months to complete and provide participants with a Level 3 apprenticeship. With the average age of employees at our manufacturing sites increasing, we believe that such an initiative is an excellent way of attracting new talent to our business – particularly in skilled operational roles – and to offer them a rewarding and varied career.

Since joining, I have had the pleasure of visiting all our manufacturing sites and speaking to thousands of my colleagues, and what has consistently struck me is the incredible team we have and the extent of their knowledge, skill, passion and dedication to Essentra. Nowhere is this more evident than at our sites in Puerto Rico, where hurricane Maria caused devastation beyond anything most of us can imagine. While our experienced local team was well prepared for the hurricane strike, nonetheless the response of our 345 employees at Manati and Guaynabo in reporting for work at a time when many of them were facing significant personal challenges was truly humbling, and the Board, GMC and I would like to pay tribute to their outstanding commitment to our business.

Further to the disbanding of the matrix structure in February 2017, in October we made further organisational changes in light of our strategic review. In particular, having restored stability to our activities, we created a global Health & Personal Care Packaging organisation – Essentra Packaging – with leadership under a single functional team. This has brought together our previous Europe & Asia and Americas regional organisations – which had been separately managed since February 2017 – and will allow us to serve our global customers better and with greater alignment, and to leverage our scale in innovation, best practice transfer and talent development. As a result, it will allow us to pursue a clear strategic direction with common purpose and to provide customers with a consistent global value proposition. Leading Essentra Packaging with effect from October is Iain Percival, who joined Essentra as Managing Director of the Europe & Asia business in March 2017; supporting Iain will be a number of senior global roles, which we have already made good progress in recruiting.

Following a year of challenge and change in 2016, we have much still to do to improve motivation and morale in certain parts of the organisation. This includes the Company being exemplary in all aspects of diversity and inclusion, and we have recently established a Steering Group to implement the agenda in these critical areas which form part of the cornerstone of our six principles. Accordingly, there is a significant role for our Group Human Resources team, from monitoring and reviewing the action plans from engagement surveys and further enhancing and managing our Learning & Development programmes, to continuing to lead the recruitment process for talent to fill skill gaps and benefiting from the addition of dedicated resource to expand our employee communications. Together with my GMC colleagues, I am committed to ensuring that Essentra is a great place to work, and to driving the engagement of our people from the lower quartile level which I inherited to our objective of upper quartile.

Health, safety and environment ("HSE")

Nobody involved with our operations should suffer injury or harm, and Essentra's commitment to achieving and maintaining the highest standards of occupational health and safety extends to our employees, temporary workers, contractors, customers, suppliers, visitors and members of the public alike. Our commitment also extends to our supply chain and to organisations working on our behalf, and we actively encourage our suppliers to operate in a similarly responsible manner.

Although we are still some way from the levels of excellence to which the Board and GMC are committed – and which are espoused in our updated Group HSE policy – we made progress in improving the HSE culture across the Group in 2017. Indeed, although the number of Lost Time Incidents only modestly decreased versus 2016, we saw a close to 20% reduction in days lost as a result of these incidents, indicating that the severity of the cases reported has notably lessened. In addition, we significantly invested in our global HSE capability during the year, to add resource and capability and to help identify and drive further improvements in performance and culture. This included the recruitment of a new Group HSE Director who – with his Global Safety Team, and with my and the GMC's unstinting support – will be responsible for ensuring that this critical area remains at the forefront of the Company's agenda, will take steps to reduce the number of accidents and incidents (with a goal of zero), will share learnings of safety investigations to prevent recurrence, and will encourage and facilitate employee participation and feedback to contribute to the high standards we have set ourselves. We will also expect employees to participate fully in the improvement of standards – not least site managers and supervisors – to ensure that healthy and safe working conditions are maintained within their sphere of influence at all times.

"Restoring Essentra to sustainable, profitable growth is not a rapid journey, and we clearly have a lot of work still to do. However, together we have made great progress and tangible improvement in 2017, so we are already well on our way."

As part of the cornerstone of our six principles, it is imperative that we give health and safety in the workplace our full focus and commitment, and I expect every one of us to participate fully in delivering our strategic and policy objectives in this area.

Essentra is additionally 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 careful stewardship of the environment is a duty we owe to our neighbours and to future generations, as well as a critical component of the international reputation and quality of Essentra's businesses.

All our principal manufacturing facilities hold the ISO 14001 environmental accreditation and, with the exception of recently acquired sites, they have also achieved the Occupational Health & Safety Management Systems OHSAS 18001. Many of our operations are additionally required to adhere to more stringent standards, notably those serving the automotive and health & personal care sectors. During the year, our Barcelona, Spain Components site was accredited to IATF 16949, an updated and improved certification which ensures the facility meets the rigorous processes required to sell components to the automotive industry. Separately, we received PS9000 certification across all our Health & Personal Care Packaging sites in the US and Puerto Rico, making Essentra the first manufacturer of secondary packaging in the region to secure this accreditation, and underscoring our commitment to Good Manufacturing Practice and "best in class" quality assurance to our pharmaceutical customers.

As part of our afore-mentioned updated HSE policy, we also committed to continuously improving our environmental performance. This includes preventing pollution and minimising emissions, discharges and disposals; reducing waste; specific energy consumption; and, where possible, conserving and recycling resources such as water – particularly in areas of scarcity. In addition, we have committed to actively engage with stakeholders to explore the opportunities offered by new technologies to improve our production processes and operations.

Summary

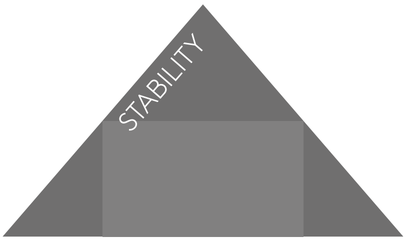
Our roadmap from Stability, through to Strategy and Growth will take two to three years and, given the scale of the task, we will need to prioritise our objectives and may need to evolve our thinking over time. However, the vast majority of what we need to do is in our own hands, and we are already well on our way to rebuilding the foundations from which we can restore sustainable growth in our fantastic Company. We underwent a great deal of change in 2017 – which I know can be both exciting and unsettling – and I would like to thank all our employees for their collective hard work and commitment in this respect as, together, we seek to build a better Essentra.

PAUL FORMAN
Chief Executive
2 March 2018

STRATEGY AND PROGRESS

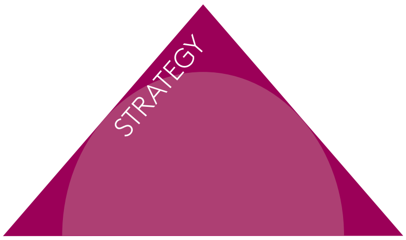
Our aim is to make Essentra the best company it can be. To achieve this, everyone in the business needs to bring our six principles to life in their work and to follow the three steps to long-term success of Stability, Strategy and Growth.

How we will achieve it



"The preparation"

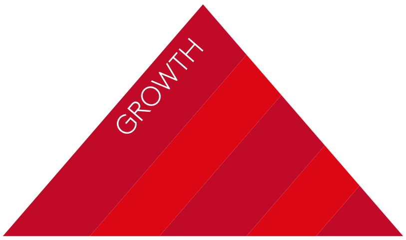
In order to restore – and maintain – sustainable growth to Essentra over the medium to long term, it is imperative that we have stable foundations upon which to build: in our people; our processes; our customers; and our finances.



"The map"

Our strategy provides a detailed roadmap of what each of our businesses will look like in three to five years, how we will get there, how we can be the best supplier we can to our customers and how we will protect our position. In delivering our strategic objectives, there is a well-defined role for the overall Group in driving value, not least with regard to corporate governance.

Underpinning our strategy are clear and robust financial and capital allocation policies, with an overall focus on cash generation and quality of earnings being aligned to management incentives.



"The journey"

As we progress, it is imperative that we remain stable while delivering growth – particularly to the extent that growth entails acquiring other businesses.

We also need to ensure that we have the necessary skills in place to deliver our strategy, as well as the appropriate financial profile to support the future development of the Group.

Strategic objectives	Progress in 2017	Priorities for 2018
GROWTH STRATEGY STABILITY	> Disbanded "matrix" organisation structure > Established and communicated our six principles > Undertook two employee engagement surveys, to identify key areas for improvement > Re-established HSE as a priority across the Group > Developed an externally benchmarked and supported route to "best in class" governance by 2020 > Reset risk management approach and revised internal audit structure, to drive process improvements and add greater value > Stabilised revenue trends in each division > Implemented new customer retention initiatives and significantly enhanced dialogue > Made progressive improvement in key service and quality metrics > Started to address IT systems challenges and simplify infrastructure > Completed disposal of Porous Technologies business > Successfully re-financed Group banking facilities	> Ensure action plans from 2017 engagement surveys are executed > Undertake annual Group-wide employee engagement survey > Improve internal communication through dedicated resource > Drive ongoing improvements in diversity and inclusion, based on Steering Group findings > Define and drive an excellence programme in HSE > Drive further governance improvements, consistent with agreed priorities and timeline > Fill gaps in business continuity management protocols and contracting processes > Implement findings from Voice of Customer surveys > Drive further operational stability initiatives > Implement priority IT technical and functional solutions, to drive progressive improvement > Continue to focus on cash generation
GROWTH STRATEGY STABILITY	> Developed and articulated a clear corporate strategy, aligned to a three-year plan for each of the larger three global divisions > Undertook detailed benchmarking exercise, and established clear financial and capital allocation policies > Invested in adding / upgrading equipment and skills > Identified certain key Operational and Commercial capability gaps, and appointed two GMC roles to lead and drive improvement > Made operational improvements at underperforming sites, to progress towards market acceptable service standards	> Establish and communicate strategy for each of the businesses in Specialist Components > Drive deeper customer relationships, and confirm and communicate new value propositions > Identify and develop value-adding innovation opportunities > Develop more structured sales management processes and enhance Key Account Management capability > Sharpen innovation focus and better manage new product pipeline

Strategic objectives	Progress in 2017	Priorities for 2018
GROWTH **STRATEGY** STABILITY	> Aligned management incentives with strategic Key Performance Indicators > Completed divestment of Bristol and closure of Newport cartons consumer packaging sites	> Complete basic Sales & Operations Planning roll-out and further upgrade processes > Continue to drive service improvements at underperforming sites > Implement lean manufacturing / continuous improvement tools across the Group > Continue to invest in upgrading equipment, especially in Packaging and IT
GROWTH STRATEGY STABILITY	> Completed acquisition of Micro Plastics in Components > Successfully filled a number of key roles needed for the successful delivery of our strategy	> Successfully integrate Micro Plastics > Evaluate and drive the three medium-term opportunities in Filters > Continue to grow and develop talent across Essentra > Identify further skill gaps, and attract appropriate talent to meet future strategic requirements > Focus on key business capabilities and continue to progress towards best-in-class levels > Continue to develop pipeline of potential bolt-on acquisition opportunities in Components > Facilitate and challenge the next stage of divisional strategies > Continue to provide Finance team support to deliver the strategy

Key Performance Indicators

The delivery of Essentra's strategic priorities is underpinned by a focus on Key Performance Indicators ("KPIs") which measure the Company's progress in the delivery of value. Further to the strategic review which took place during the year, these metrics have been duly amended from the prior year period to reflect an additional emphasis on profitability, cash flow generation and return on capital.

In addition, the definition of Net Working Capital Ratio has been revised, to be the average monthly net working capital (measured over 12 months) – as opposed to the balance as at year end – as a percentage of revenue.

With the exception of adjusted earnings per share and dividend per share, these indicators have been used as principal elements in assessing the long-term performance of the operating businesses.

Alignment of KPIs to management remuneration

◇ 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?
Like-for-like revenue growth[1]	Measures the ability of the Company to grow sales by operating in selected geographies and categories, and offering differentiated, cost-competitive products and services	**–2** Like-for-like revenue growth (%) (2016: –9%)
Adjusted operating profit[2] ◇	Measures the profitability of the Company	**85** Adjusted[2] operating profit (£m) (2016: £109m)
Adjusted earnings per share[2] O	Measures the benefits generated for shareholders from the Company's overall performance	**22.1** Adjusted earnings per share (p) (2016: 29.2p)
Net working capital[3] **ratio** ◇ Average net working capital[3] per month, as a % of revenue	Measures the ability of the Company to finance its expansion and release cash from working capital	**15.1** Net working capital ratio (%) (2016: 16.6%)
Adjusted operating cash flow[4] O	Measures the cash generation capability of the Company	**80** Adjusted operating cash flow (£m) (2016: £102m)
Cash conversion Adjusted operating cash flow[4] as a % of adjusted operating profit[2]	Measures how the Company converts its profit into cash / quality of the Company's earnings	**95** Adjusted cash conversion (%) (2016: 94%)
Dividend per share	Measures the amount of cash per share which the Company returns to shareholders	**20.7** Dividend per share (p) (2016: 20.7p)
Return on Capital Employed Adjusted operating profit[2] divided by (tangible fixed assets and net working capital)	Measures how effectively the Company uses its operational assets	**20.8** Return on Capital Employed (%) (2016: 25.8%)
Return on Invested Capital Adjusted operating profit[2] after tax / Capital Employed plus intangible assets	Measures the Company's ability to effectively deploy capital	**7.1** Return on Invested Capital (%) (2016: 8.8%)
Total shareholder return O 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	**19.4** Total shareholder return (%) (2016: –42.6%)

1 At constant exchange rates, excluding acquisitions and disposals.
2 At constant exchange rates, excluding the impact of amortisation of acquired intangible assets and exceptional operating items.
3 As defined in the Financial Review on page 22.
4 As defined in the Basis of Preparation on page 3.

FINANCIAL REVIEW

Stefan Schellinger
Group Finance Director

Trading performance

FY 2017 revenue increased 2.9% (decreased 2.3% at constant exchange) to £1,027.3m, with a like-for-like decline of 2.0%. While Component Solutions showed significant growth – driven by our Components and Pipe Protection Technologies businesses – this was more than offset by a decline in Health & Personal Care Packaging, and a like-for-like decrease in Filter Products mainly as a result of the pass-through of reduced raw material costs in the form of lower pricing.

On an adjusted basis, operating profit was down 22.2% (-26.8% at constant exchange) at £84.6m. The 270bps reduction in the margin (-280bps at constant exchange) to 8.2% largely arose in Health & Personal Care Packaging, owing to the profit drop-through from lower revenue, a material loss at our Newport folding cartons facility and the costs associated with disruption to the sites in Puerto Rico further to hurricane Maria – as well as a less profitable revenue and segment mix in Tapes.

Including amortisation of acquired intangible assets of £22.9m and an exceptional pre-tax charge of £56.2m – mainly relating to costs associated with the closure of our folding cartons site in Newport, the strategic review of the Company and the simplification of the organisational structure (including the departure of certain senior management during the year) – operating profit as reported was £5.5m (FY 2016: operating loss of £50m).

Net finance expense

Net finance expense was lower at £10.4m (2016: £12.5m). The net interest charge on net debt decreased to £8.4m (2016: £11.6m), the amortisation of bank facility fees was slightly higher at £1.0m (2016: £0.7m) and there was an IAS 19 pension net finance charge of £1.0m (2016: £0.2m).

Tax

The effective tax rate on underlying profit before exceptional items and tax was 20.0% (2016: 20.0%).

Net income

On an adjusted basis, net income of £59.2m was down 23.0% (-28.8% at constant exchange) and basic earnings per share declined by 24.4% (-30.1% at constant exchange) to 22.1p. Reflecting the post-tax profit and exceptional gain on sale relating to the Porous Technologies business which completed on 6 March 2017, on a total reported basis, net income of £115.8m and earnings per share of 43.7p, compared to a net loss of £39.6m and a loss per share of 15.4p in FY 2016.

Dividends

The Board of Directors recommends a final dividend of 14.4p per share (2016: 14.4p), taking the FY 2017 dividend to 20.7p per share (unchanged versus FY 2016).

Net working capital

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

Net working capital of £124.4m was £11.6m lower than the 31 December 2016 level of £136.0m, largely due to a reduction in accounts receivable. The average net working capital / revenue ratio decreased to 15.1% (2016: 16.3% at constant exchange).

Cash flow

Adjusted operating cash flow was lower at £80.0m (2016: £101.8m). This included an inflow of net working capital for the year of £6.4m (2016: inflow of £2.8m) and gross capital expenditure of £47.1m (2016: £46.7m), with net capital expenditure at £45.3m (2016: £37.3m). Net capital expenditure equated to 125% (2016: 120%) of the depreciation charge (including amortisation of non-acquired intangible assets) for the year of £36.3m (2016: £31.1m). Net interest paid was £12.5m (2016: £11.3m) and tax payments decreased by £5.9m to £11.2m (2016: £17.1m). The inflow in respect of pension obligations was £0.1m (2016: £1.1m).

Adjusted free cash flow of £56.4m compared to £74.5m in FY 2016.

Free cash flow reconciliation	£m
Adjusted operating profit	84.6
Non-cash / other items	34.3
Net working capital	6.4
Net capital expenditure	(45.3)
Adjusted operating cash flow	**80.0**
Tax paid	(11.2)
Net interest paid	(12.5)
Pension contributions	0.1
Adjusted free cash flow	**56.4**

Net debt

Net debt at the end of the period was £210.6m (31 December 2016: £379.3m), reflecting the proceeds from the sale of the Porous Technologies business and strong underlying cash flow generation.

The Company's financial ratios remain robust. The ratio of net debt to EBITDA as at 31 December 2017 was 1.7x (31 December 2016: 2.3x) and interest cover was 9.0x (31 December 2016: 9.0x). In November, the Group refinanced its existing bank revolving credit facility into a new £375m, five-year, multi-currency facility provided by a strong international banking group. In addition, we also successfully placed US$75m of loan notes spread over seven, 10 and 12-year maturities in the United States Private Placement market ("USPP notes").

"In 2017, we strengthened the balance sheet, generated a very good level of cash conversion and refinanced our entire debt facilities, helping to secure not only our current financial stability but also underpinning our medium to long-term position."

This refinancing optimises Essentra's financial position going forward, in terms of interest cost, sources of funding and maturities – as well as providing further headroom – thus underpinning the medium and long-term financial stability of the Company as we pursue our strategic objectives.

Balance sheet

As at the end of 2017, the Company had shareholders' funds attributable to Essentra equity holders of £612.3m (2016: £595.4m), an increase of 2.8%. Net debt was £210.6m (2016: £379.3m) and total capital employed in the business was £831.0m (2016: £982.0m).

This finances non-current assets of £868.1m (2016: £885.3m), of which £283.1m (2016: £285.9m) 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 £124.4m (2016: £136.0m), current provisions of £4.8m (2016: £1.2m) and long-term liabilities other than borrowings of £105.4m (2016: £105.4m).

Pensions

As at 31 December 2017, the Company's IAS 19 net pension liability was £13.4m (2016: £23.4m).

The role of Finance in the strategic process

Over and above the afore-mentioned refinancing of our facilities, the Finance workstream was a critical aspect of the strategic review which we undertook. The key objective of this was to define the financial architecture and potential of the Group based on the status quo, a detailed benchmarking exercise of Essentra's divisional performance versus its "peers" and an evaluation of the sustainable revenue growth and operating margin as a result of executing our key strategic initiatives. Further to this extensive exercise, we have a data-driven view of the financial consequences of our strategy and our financial potential, and are thus better positioned with regard to Group decision making – including capital allocation and portfolio management. Accordingly, we have not only been able to articulate an outlook for revenue growth and profitability for each of our larger three global divisions, we have also been able to formulate clear key performance indicators, and financial and capital allocation policies, to which management incentives will appropriately be aligned.

Treasury policies 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 2017, Essentra's US dollar-denominated assets were approximately 36% hedged by its US dollar-denominated borrowings, and its euro-denominated assets were approximately 65% hedged by its euro-denominated borrowings.

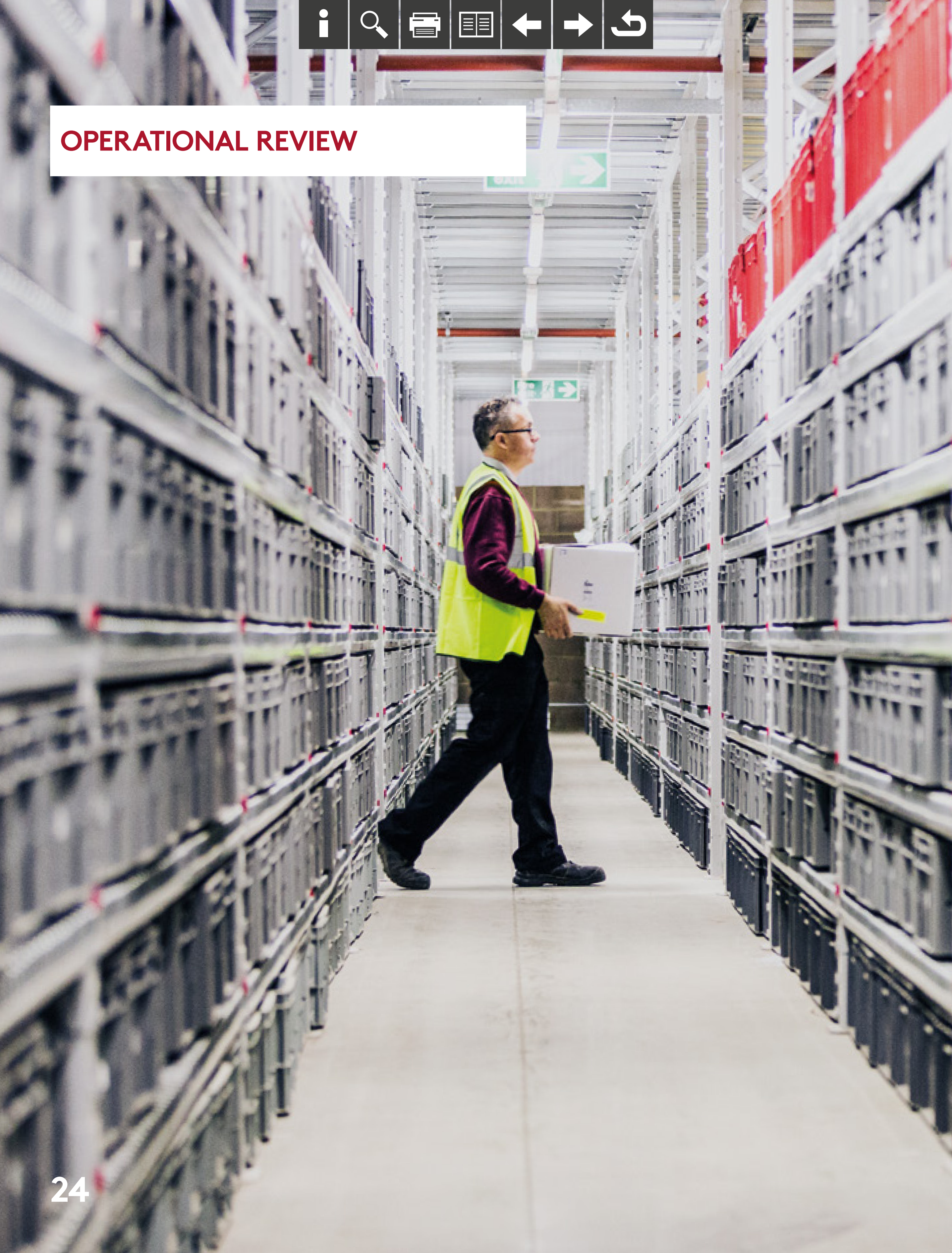
The majority of Essentra's transactions are carried out in the functional currencies of its operations, and so transaction exposure is limited. However, where they do occur, the Company's policy is to hedge the exposures as soon as they are committed using forward foreign exchange contracts.

Impact of US tax legislation

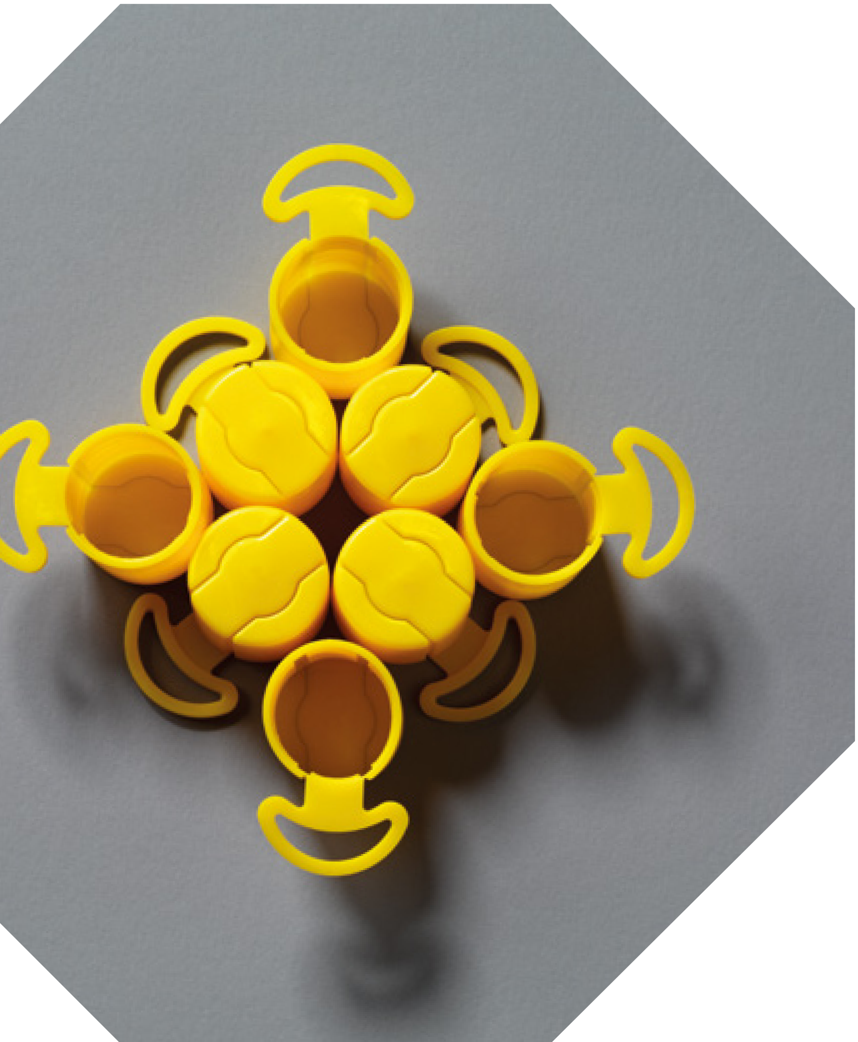
Essentra notes the enactment of the Tax Cuts and Jobs Act in the United States on 22 December 2017, which has reduced the statutory rate of US Federal corporate income tax to 21% with effect from 1 January 2018. While the full implications of this new US tax legislation on the Company are still being reviewed, Essentra estimates that the Group's effective tax rate for the year ending 31 December 2018 will only be marginally impacted by the enactment of this new Act.

STEFAN SCHELLINGER
Group Finance Director
2 March 2018

OPERATIONAL REVIEW



This Operational Review covers:



Scott Fawcett
Managing Director

Component Solutions

A leading global manufacturer and distributor of a comprehensive range of components, used in diverse industrial applications and end-markets.

£343.1m

Revenue
(2016: £302.6m) +13.4%

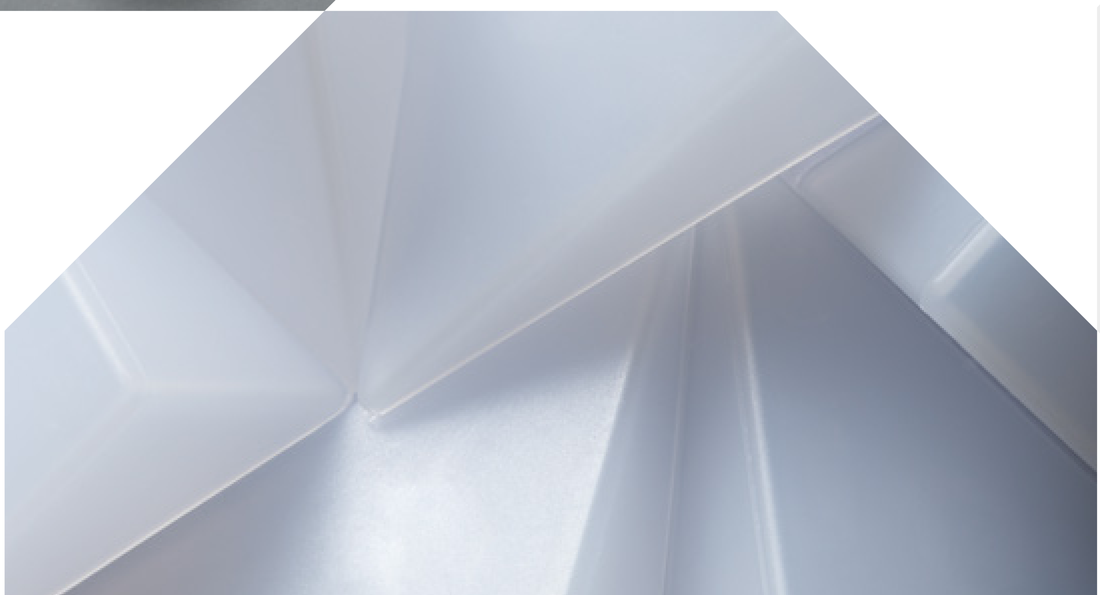
£58.7m

Operating profit[1]
(2016: £54.4m) +7.9%

17.1%

Operating margin[1]
(2016: 18.0%) -90bps

[1] Excluding amortisation of acquired intangible assets and exceptional operating items.



Who we are and what we do

The Components business is a global market-leading manufacturer and distributor of plastic injection moulded, vinyl dip moulded and metal items. Operating in 27 countries worldwide, 11 manufacturing facilities and 24 logistics centres serve more than 90,000 customers with a rapid supply of low cost but essential products for a variety of applications in industries such as equipment manufacturing, automotive, fabrication, electronics and construction.

The Pipe Protection Technologies ("PPT") business specialises in the manufacture of high-performance innovative products from commodity resins to engineering-grade thermoplastics and polymer alloys for use in the oil & gas industry. Locations in four countries, combined with a wide distributor network, serve customers around the world.

The Extrusion business is a leading custom profile extruder located in the Netherlands, which offers a complete design and production service. One of the first companies to extrude plastics in 1956, Essentra is now one of Europe's most advanced suppliers of co-extrusion and tri-extrusion to all branches of industry.

The Card Solutions business is a provider of ID card printers, systems and accessories to direct and trade customers, providing a broad product offering and competitive value.

How we do it

The objective of our Components business is to leverage its extensive customer base, 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 products and effective marketing, cross selling to existing customers, expanding our customer base and entering new geographic markets. We also see opportunities to grow through acquisition, where it can move our business into complementary product categories or end-markets, or further our geographic distribution capability.

As a global leading supplier to the oil & gas sectors, our PPT business provides the broadest range of custom thread and pipe protection products for a complete range of Oil Country Tubular Goods ("OCTG") tubulars, line pipe and drilling pipe applications. Our objective is to leverage our state-of-the-art manufacturing footprint headquarters in Houston, US, to meet global demand while ensuring adherence to the latest industry regulations.

Offering a full range of value-adding design and production services, Essentra Extrusion is well placed to provide purpose-developed products based on unique specifications. Our objective is to leverage our extensive in-house capabilities – including a laboratory, R&D department and tooling expertise – to partner with customers from the earliest stages of new product development and provide them with a compelling value proposition, no matter how complex the finished product.

The Card Solutions business has access to a wide 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.

How we performed in 2017

Financial performance

Revenue increased 13.4% (8.0% at constant exchange) to £343.1m, driven by growth in Components and recovery in Pipe Protection Technologies. Excluding PPT, revenue increased 8.5% (3.4% at constant exchange).

The result in Components was broad-based across geographic regions, with a continued strong performance in Continental Europe and Asia underpinned by a return to growth in the Americas and the UK, further to operational and commercial improvement initatives implemented in both markets. The increase in Europe was supported by further service improvements at our regional manufacturing hub in Kidlington, with better management of inventory levels helping to reduce overall net working capital. Trading in the Americas benefited from a more defined segmentation of the customer base and product offering – particularly in the Maintenance, Repair & Overhaul ("MRO") segment further to the roll-out of 4,000 new mechanical components towards the end of the prior year – while growth in Asia was driven by electronics and general industrial mid-sized customers.

Our general protection range of caps and plugs increased, with our access hardware offering also continuing to perform well; in addition, components aimed at the consumer electronics segment delivered a strong result in Asia. Further to the successful development of tooling, there was an encouraging revenue contribution in custom injection moulding, particularly in the automotives sector in both Europe and the US. Towards the end of the year, we also relaunched our catalogue in Europe, featuring c. 1,000 new products including electromechanical switches and cable management and access hardware solutions.

In December, we announced the acquisition of Micro Plastics, a leading manufacturer and distributor of nylon fasteners and other plastic components for a wide range of industrial end-markets – including general industrial, automotive and white goods. Based in Arkansas, US, the transaction not only expands one of our core product ranges and adds to our manufacturing capacity in the US, but also – with a facility in Monterrey – provides an entry platform for our Components business in the attractive Mexican market.

Like-for-like revenue in PPT increased 115.7% to £28.4m, notwithstanding temporary disruption to our Houston, US facility from Hurricane Harvey; this recovery (from a low base) was as a result of an uplift in the North American rig count, and the consequent impact on drilling activity and demand from the pipe mills, oil & gas service companies and pipe processors. Both our mid- and heavy-duty product ranges, including Tector Plus® and Titan®, performed particularly well as onshore drilling improved, although this was partially offset by the impact of lower investment in offshore explorations and production fields.

Revenue in Extrusion was moderately lower than the prior year. Continuing to benefit from its expertise in complex, technical profiles, the business saw further good growth for its plastic components used in the purification of drinking and processed water in both industrial and municipal installations, as well as in the construction industry for swimming pool covers; however, this was offset by a softer performance in extruded finishing parts used in the furniture sector.

Adjusted operating profit increased 7.9% (3.9% at constant exchange) to £58.7m, equating to a 90bps decline in the margin to 17.1% (-70bps at constant exchange): excluding PPT, adjusted operating profit declined 1.4% (-5.2% at constant exchange) to £56.1m, with a 180bps (-160bps at constant exchange) decrease in the margin to 17.8%. Further operating efficiency savings, together with a return to profitability in PPT, were offset by measured investment in Components to rebuild capability, together with a significant increase in raw material costs in early 2017 and a lower margin product mix in Extrusion.

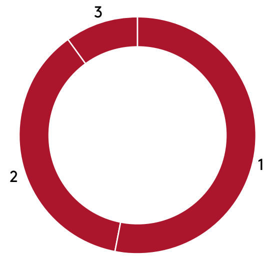
Operational developments

During the year, we undertook a number of operational initiatives across the division.

In Components, we further rationalised our footprint with the transfer of our seals activities from Ipoh, Malaysia to our facility at Rayong, Thailand, which is accredited to the stringent level of quality demanded by the automotive industry. As a result of this consolidation of our operational capabilities and resources, we will build scale in south east Asia, as well as helping our customers to simplify their own supply chains as all our seals products are now available to ship from a single location. In Turkey, we extended into a second facility, to accommodate the expansion of both our metal hardware and mainline plastics components offering, while new injection moulding equipment with reduced set-up time was installed at both Kidlington and our Americas regional manufacturing hub in Erie, US.

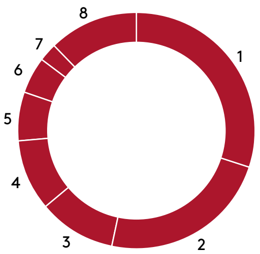
Revenue by destination

	(%)
1 Europe & Africa	53.3
2 Americas	36.9
3 Asia including Middle East	9.8



Revenue by end-market

	(%)
1 Electronics	30.1
2 Fabrication machinery	23.2
3 Automotive	10.6
4 Oil & gas	9.7
5 Paper, board & point of purchase	6.6
6 Construction	5.0
7 Hydraulics / pneumatics	2.6
8 Other	12.2



Following the previous addition of robotics and automated parts handling systems to our presses at Houston, we further invested in our PPT manufacturing platform at this flagship site in additional automation and laboratory capabilities. There was also significant investment in three large tonnage injection moulding machines in Veracruz, Mexico, which has improved both our capacity and our abilities.

2018 key initiatives

- Introduce further new products in Components, to reinforce strengths in core offering and expand "one stop shop" ranges
- Successfully integrate Micro Plastics and leverage cross-selling opportunities
- Reorient marketing, digital and sales efforts to drive new customer acquisition
- Expand our China footprint through the creation of a south China facility
- Continue to focus on improvements to the customer experience in order to improve Net Promoter Score
- Ongoing focus on high performance material formulations that improve PPT product performance and decrease part weights
- Development of a complete line of high performance tooling, to support strategic growth in premium high thread protection products for the oil & gas industry
- Continued expansion of manufacturing automation in Houston and capacity at Veracruz
- Investment in an additional extrusion line, to support growth opportunities for swimming pool covers

Components

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 Bill of Materials "small components" market at c. £8bn, with growth in line with Industrial Production.

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 parts and equipment from a range of standard components. This approach provides them with flexibility, and the ability to move quickly to 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 components 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 are increasingly facing regulatory guidelines in terms of the specification of the components they use.

Weight reduction
Increasing focus on fuel efficiency in the automotives industry is resulting in weight reduction targets and a trend of replacing metal components with plastic.

Growing functionality
Increased product sophistication, particularly in the automotives and white goods sectors, is resulting in growing demand for cable management solutions.

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 medical devices and aerospace
- 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 further growth opportunities

How we have done
Reduction from 99K to 94K, as we focus on mid-sized customers

NET PROMOTER SCORE

Why we measure it
Reflects our customers' overall satisfaction with our products and service, as well as loyalty to our brand

How we have done
Increased from 25 to 31 on a global basis

ON TIME IN FULL

Why we measure it
Demonstrates the ability to meet delivery demands

How we have done
90.4% compares to 89.8% in 2016

LOST TIME INCIDENTS

Why we measure it
Measures the opportunity cost of incidents in the workplace

How we have done
Decreased to 8 from 10 in 2016

Pipe protection Technologies

Market trends

The global oil & gas market is prone to volatility in supply, with the consequent fluctuations in energy prices having an impact on the level of drilling activity and rig count.

Evolving oil & gas production techniques
Over the cycle, the significant increase in shale gas and oil will result in the development of more efficient drilling rigs and the adoption of new technologies, which benefit suppliers with the ability to invest in supporting industry growth.

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, customers are increasingly facing regulatory guidelines in terms of the specification of the components they use.

Cost
Continued customer focus on their cost base benefits suppliers with a broad product offering across price points and the ability to invest in more efficient equipment and manufacturing processes.

Key new product opportunities
> Continue to invest in state-of-the-art manufacturing capability and further capacity, to meet industry demands

> Launch products which are compliant with new industry standards

> Leverage new product development expertise, to provide customers with the most comprehensive and cost-competitive range

What we measure

SALES PER MACHINE HOUR

Why we measure it
Indicative of business mix and productivity

How we have done
A 30% increase in sales per machine hour, reflecting the recovery in the oil & gas industry during 2017

NEW CUSTOMERS ADDED

Why we measure it
Reflects our ability to successfully target new growth opportunities

How we have done
62 compares to 137 in 2016

ON TIME IN FULL

Why we measure it
Demonstrates the ability to meet delivery demands

How we have done
86.2% compares to 88.9% in 2016

LOST TIME INCIDENTS

Why we measure it
Measures the opportunity cost of incidents in the workplace

How we have done
0 lost time incidents compares to 2 in 2016

Extrusion

Market trends

Management estimates the global addressable market for extruded plastic products at around €400m, increasing broadly in line with GDP. The underlying growth rates and key trends vary depending on the end-market served and the respective solution being provided.

Increased demand for fully-engineered and rapid solutions
Customers are increasingly seeking more sophisticated and bespoke solutions to their needs, which typically require more value-added equipment and a more technically-educated workforce. In addition, with solutions required ever more rapidly, the ability to provide prototype tooling (for example, through the use of 3D printing), as well as to integrate the design and manufacturing process, is becoming more important.

Practicality and reliability
In many end-markets, particularly in construction and furniture, the use of plastic is increasingly displacing more traditional materials (such as wood and metal) in a wide variety of applications – from finishing to protection, and for interiors and exteriors alike.

Regulatory requirements and sustainability
As regulation evolves and sustainability concerns increase, so there is a growing demand for products which use more environmentally-friendly, non-PVC raw materials.

Consumer behaviour
The continued increase in online shopping is reducing traditional retail shelf space, while a growing cruise ship market is driving demand for waste water solutions.

Cost
Continued customer focus on profitability and competition from low cost economies benefits suppliers with a broad product offering across price points and the ability to invest in more efficient equipment and manufacturing processes.

Key new product opportunities
> Continue to invest in high value-added tooling and design capabilities, to meet demand for technical and efficient high-end profile solutions and reduce lead times

> Actively outsource tools where appropriate, to provide greater capacity flexibility

> Investigate alternative suppliers and / or raw materials to meet regulatory / sustainability requirements and customer need

What we measure

NEW CUSTOMERS WON FROM MADE QUOTES

Why we measure it
Demonstrates the ability to translate quotes into revenue-generating opportunities

How we have done
12% compares to 17% in 2016

WASTE

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

How we have done
15.7% compares to 15.6% in 2016

ON TIME IN FULL

Why we measure it
Demonstrates the ability to meet delivery demands

How we have done
91.0%, showing an improving trend in this first year of measurement

LOST TIME INCIDENTS

Why we measure it
Measures the opportunity cost of incidents in the workplace

How we have done
1 lost time incident compares to 3 in 2016

Iain Percival
Managing Director

Health & Personal Care Packaging

A leading global provider of specialist packaging and authentication solutions to a diversified blue chip customer base.

£409.5m
Revenue
(2016: £430.2m) -4.8%

£7.2m
Operating profit[1]
(2016: £34.5m) -79.1%

1.8%
Operating margin[1]
(2016: 8.0%) -620bps

[1] Excluding amortisation of acquired intangible assets and exceptional operating items.

Who we are and what we do

Essentra is one of only two multi-continental suppliers of a full secondary packaging range to the health & personal care sectors. The division's innovative products include cartons, leaflets, self-adhesive labels and printed foils used in blister packs, which help customers to meet the rapidly-changing requirements of these end-markets and can also be combined with Essentra's authentication solutions o help the fight against counterfeiting.

Our products and technologies – which also include pressure-sensitive tear tapes – can combine to provide a value-adding, multi-functional product choice for our customers. Accordingly, our range of solutions helps to ensure that the consumer does not get frustrated by opening packs, and receives products that have been protected in transit, have not been tampered with and can be confirmed as genuine.

The business is also a leading manufacturer and distributor of adhesive-coated tape products for a wide range of industries and applications, in particular the point of purchase and white goods sectors.

Supported by an in-house design studio – The Design Hub – R&D and multi-million pound print facilities, Essentra is positioned to deliver the very best in quality, service and reliability through its worldwide manufacturing and sales structure.

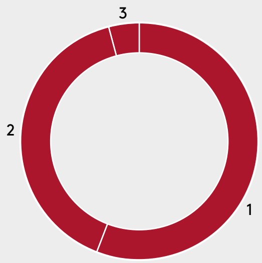
How we do it

Our objective is to understand our customers' needs and business challenges, and then to collaborate closely with them using our product, process and services know-how, capabilities and resources to deliver successful and value-creating solutions. We seek to leverage our international footprint to provide market-leading quality and service on a global basis, and to add value to both customers and consumers.

Operating from 25 manufacturing sites across four geographic regions, Essentra is a leading global supplier of a broad suite of innovative specialist secondary packaging and authentication solutions to meet the rapidly changing requirements of the health & personal care markets. Working in effective partnership with customers and strategic suppliers, Essentra is committed to quality, flexibility

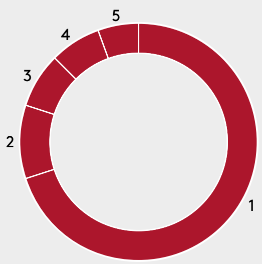
Revenue by destination (%)

1 Europe & Africa	56.0
2 Americas	40.1
3 Asia including Middle East	3.9



Revenue by end-market (%)

1 Health & personal care	70.0
2 Food & beverage	10.1
3 Tobacco	7.5
4 Paper, board & point of purchase	7.0
5 Other	5.4



and creativity, and is well placed to meet the exacting needs of an international customer base.

Essentra is also globally recognised as the leading manufacturer and supplier of pressure-sensitive tear tapes – as well as a provider of other solutions such as bags, sacks and commercial print – which are largely used in the tobacco, food & drink and specialist packaging sectors.

Serving a broad range of end-markets, Essentra has expertise in coating multiple adhesive systems in numerous technologies. With close to 3,000 adhesive products available for same-day shipping, Essentra's 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.

How we performed in 2017

Financial performance

Revenue decreased 4.8% (-9.0% at constant exchange) to £409.5m. Excluding the divestment of the Bristol consumer packaging facility on 5 June 2017, like-for-like revenue reduced 8.5%.

As expected, the performance in health & personal care continued to deteriorate, largely owing to legacy operational issues at certain integration sites in the UK and US which had a disproportionate impact on the result. Specifically, the structural and operational challenges at our folding cartons facility ("IP5") in Newport were such that a proposal to cease production was confirmed, and the facility was closed at the end of the year. Indeed, notwithstanding the significant improvement efforts of the site management team and employees, IP5 generated a FY 2017 adjusted[1] operating loss of £4.5m on revenue of £12.2m, and was not anticipated to make a realistic improvement to profitability in the near, or even long, term.

In the autumn, hurricane activity impacted our sites in Largo, US and – more severely – at Guaynabo and Manati in Puerto Rico. While all our employees were fortunately safely accounted for and the facilities were left fundamentally intact, our Puerto Rico operations were significantly affected by the infrastructure and supply chain issues which ensued and a reduced level of demand from customers, who themselves faced similar post-hurricane Maria challenges. Although normal output levels were fully restored by the end of the year, management estimates the FY 2017 revenue and adjusted operating profit impact of hurricane activity (ie, including Largo) at £2.5 – 3.0m and £1.5 – 2.0m respectively, net of any recovery from insurance. However, beyond the afore-mentioned issues, the focus and remedial action of the senior management team on the integration challenges of the prior year led to a reduction in the rate of revenue decline in FY 2017 when compared to H2 2016, and key service and quality metrics improved progressively during the year in both the US and Europe. These demonstrable and consistent improvements have been noted by customers, and have facilitated a significantly enhanced dialogue about how we can collaborate to help them meet a range of needs and business objectives.

This enhanced customer sentiment was reinforced by encouraging new business wins during 2017, as well as certain multi-year, multi-product global framework agreements with international blue chip healthcare companies which were renewed towards the end of the year. In addition, our range of "freshness" labels – which can be tailored to meet specific requirements, and help to keep a product as fresh as possible for as long as possible – continued to perform well, with growth underpinned by further demand from an existing customer.

The result in Tapes reflected gains in the appliance sector for speciality tapes and in the food segment for tear tapes, being offset respectively by softness in point of purchase and continued weakness in tobacco.

While the focus in 2017 was on stabilising the division and restoring a platform from which to grow, nonetheless we continued to develop our product pipeline to ensure that customers are well-positioned to meet such industry trends as patient adherence and evolving legislative requirements regarding the tracking, tracing and authenticating of products through the supply chain. Accordingly, we further commercialised our serialised carton and label offering, as well as our large format literature and range of fibre-tear, void-release and frangible labels which allow consumers to easily identify if packaging has been interfered with.

Following its establishment in 2016, we leveraged the capabilities of our Design Hub service in providing customers with value-added solutions – from offering a fast turnaround of digital samples and mock-ups to delivering stand-out packaging which helps them to differentiate their products on-shelf. In particular, through combining structural and creative packaging design with the technical expertise of our product development teams, we were pleased to work with an international pharmaceutical customer in the successful redesign of their range of folding cartons.

Customers also responded positively to our intention to focus on specialist secondary packaging for the health & personal care sectors, as stated in our strategic review. Reinforcing our commitment to these end-markets, in October we created a global divisional organisation with leadership under a single functional team, which will allow us to serve our multi-national customers better and with greater alignment, and to leverage our scale in innovation, best practice transfer and talent development. As a result, we will be even better positioned to pursue a clear strategic direction with common purpose, and to provide our customers with a consistent global value proposition.

Indicative of our strategic focus on the health & personal care sectors, during the year we divested our consumer packaging site in Bristol which manufactured printed paper bags and associated packaging solutions for the bakery and food service sectors. In addition, the closure of our IP5 site – given its significant weighting towards folding cartons for the consumer goods industry – will not only remove significant financial and operational challenges, but will also further focus our manufacturing footprint on those end-markets where we can add greatest value with our specialist secondary packaging solutions.

Adjusted operating profit decreased 79.1% (-80.2% at constant exchange) to £7.2m, equating to a margin of 1.8%. The 620bps decline in the margin (-630bps at constant exchange) was due to the volume gearing effect of revenue decline, the afore-mentioned ongoing losses at the IP5 site and disruption in Puerto Rico, together with a less profitable revenue and segment mix in Tapes.

Operational developments

In 2017, there was substantial investment to rebuild operational capability across the division, both to help unblock production "bottlenecks" and to support growth opportunities. New gluing lines were installed at our cartons sites in Charlotte, US and Barcelona, Spain, with an upgraded press at Moorestown, US allowing more rapid changeover times and superior colour management and vision control. Large format folding equipment for literature production was also added in Greensboro and Indianapolis, US, Manati, Puerto Rico and Wolfen, Germany, while enhanced digital capability at Glasnevin, Ireland helped the facility to secure new cartons business with a clinical trials customer for 2018. In addition, the introduction of standardised colour management technology at site level helped to underpin the improvements in quality metrics made during the year and represent a substantial upgrade to our capability in this respect. Indeed, the significant focus on operational efficiency in general during the year resulted in the establishment of a wide range of process competencies – from quality and Sales & Operations Planning to procurement and waste reduction – has helped to stabilise the division and to provide solid foundations from which to build in the future.

Notwithstanding this investment, our strategy review identified the need for incremental capital expenditure of £20m over three years, to improve the division's capabilities and to support our future growth agenda. This upgrade programme to more modern equipment should not only continue to improve our productivity, service and quality, but also help us to drive profitability back towards an industry average level over the medium term – consistent with our strategic objective.

2018 key initiatives

> Continue to improve – and maintain – customer service and quality to "best in class" levels

> Grow market share through regaining "share of wallet", and continue to build global Key Account Management to increase customer relevance

> Implement Voice of Customer survey findings, reflecting the demands for greater innovation, closer supply chain efficiency collaboration and supporting the trend to multi-product suppliers

> Deliver creativity in market-led product development (eg, patient adherence) and further leverage in-house design expertise

> Implement supporting initiatives in procurement, plant optimisation and process stability to deliver cost benefits

> Identify growth opportunities in tear tape, to help mitigate continued softness in the tobacco segment

> Continue to grow industrial applications for speciality tapes

Market trends

Management estimates the value of the global addressable market for secondary health & personal care packaging at c. £15bn, growing at a low to mid single-digit level depending on the geographic region served.

In Tapes, management estimates that speciality tapes are modestly increasing at c. 2%, while a declining market for tear tapes to the tobacco industry in developed economies is being partially mitigated by rapid growth in the paper & board segment for online shopping use.

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.

Brand and identity protection and verification
Brand owners have a continued need to protect their assets from counterfeiters, and to reassure consumers that the product they are purchasing is genuine and has not been interfered with.

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

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 features.

There is also a clear pattern of "one stop shopping" by health & personal care customers, benefiting suppliers with a breadth of product offering.

Customer risk management
As customers globalise their own activities, they are seeking strategic multi-continental partners who can grow with them and hence reduce their supply chain risk.

Key account management
As global customers seek to simplify their respective supply chains, they are increasingly seeking suppliers who can meet their requirements across multiple jurisdictions.

Emerging segments and technologies
As the pharmaceutical and health & personal care sectors continue to evolve, so new segments emerge – eg, biopharma, cosmaceuticals – with specific packaging requirements.

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

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

Industry specification
As the industrial and retail sectors continue to evolve, there is a growing interest in replacing traditional fastening solutions with high quality, efficient, lighter-weight alternatives.

Key new product opportunities
> Investment in technology, to develop novel, value-added packaging and brand protection solutions, in particular to meet legislative and regulatory changes

> Investment in equipment and digital capability, to meet the growing demand for smaller batch manufacturing

> Creative and secure design solutions to provide enhanced communication and authentication opportunities

> Functional packaging benefits, such as opening, closing and tamper-evidence

> Eco-friendly packaging solutions, such as closing and resealing

> Replacement of traditional fastening solutions (eg, nails, screws) with adhesive tapes in industrial and retail applications

What we measure

ON TIME IN FULL

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

How we have done
96.0% compares to 91.4% in 2016

CUSTOMER COMPLAINTS

Why we measure it
Drives performance of quality systems and performance delivery

How we have done
A 28.7% decrease in customer complaints versus 2016

LOST TIME INCIDENTS

Why we measure it
Measures the opportunity cost of incidents in the workplace

How we have done
53 lost time incidents compares to 45 in 2016

Kamal Taneja
Managing Director

Filter Products

The only global independent provider and related solutions to the tobacco industry.

£277.5m
Revenue
(2016: £269.2m) +3.1%

£34.8m
Operating profit[1]
(2016: £37.5m) -7.2%

12.5%
Operating margin[1]
(2016: 13.9%) -140bps

[1] Excluding amortisation of acquired intangible assets and exceptional operating items.

Who we are and what we do

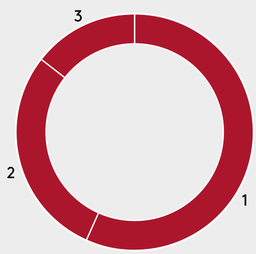
Our Filter Products business is the only global independent supplier of filters. Not only do we manufacture standard filters, but as the leading supplier of special filters we also provide innovative solutions that meet the consumer-driven demands of the tobacco industry against a backdrop of ongoing legislative changes. In addition, our offering extends into nicotine delivery devices, where we have a number of fully-functional and packaged e-cigarette products as well as solutions for the Heat Not Burn segment, which draw upon the broad range of technologies which the Essentra Group can deliver.

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 including 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 multi-national customers. Additionally, we offer a full bespoke range for the design, packing and packaging of filters of roll-your-own brands, providing an efficient and cost-effective solution to delivering retail-ready products to the market.

We supply over 500 product specifications to c. 250 customers, including all the multi-national tobacco companies. We have seven manufacturing facilities in seven countries, supported by a dedicated research facility and three regional development centres.

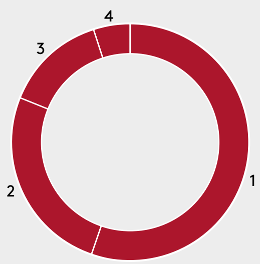
Revenue by destination

	(%)
1 Asia including Middle East	56.8
2 Europe & Africa	28.9
3 Americas	14.3



Revenue by segment

	(%)
1 Other special (including capsules)	55.7
2 Monoacetate	26.7
3 Carbon	12.8
4 Flavour	4.8



How we do it

Innovation is at the heart of our Filter Products 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 future growth of our business, 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 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 2017

Financial performance
Revenue increased 3.1% (-3.4% at constant exchange) to £277.5m. Underlying volumes were modestly below FY 2016 and pricing declined owing to the pass-through of lower raw material costs; however, this was offset by the positive mix effect of a strong result in capsules and growth in flavoured filters, particularly in the second half of the year.

While the nature of outsourcing in the tobacco industry implies a certain degree of volatility in our pipeline, nonetheless the acknowledged capabilities of our business – in terms of delivering value-added filters which meet the evolving requirements of our customers – continued to be successfully commercialised during the year. Joint development initiatives with multi-national customers for higher value capsule products were particularly successful, as well as innovative variants of our Combined Performance Superior™ filter, which combine a high level of visual differentiation with enhanced efficiency. Following a weaker performance in FY 2016 owing to softer underlying market conditions, our business in China rebounded strongly, supported by recent Superslim and shaped filter launches to meet the growing consumer trend for smaller diameter and increasingly complex formats. Overall, therefore, we maintained our track record of supporting customers in the development of bespoke solutions tailored to their specific needs as they seek to respond to global market trends.

In FY 2017, our Scientific Services laboratory continued to leverage its extensive experience and expanded portfolio of accredited testing methods for both traditional tobacco and non-tobacco products, to ensure the delivery of high-quality analysis which remains at the forefront of industry trends and evolving regulatory requirements.

Beyond traditional tobacco products, we continued to develop our NGP capabilities during the year. While these remained a very modest contributor to divisional revenue in FY 2017, nonetheless we have product offerings in both e-cigarettes (which are located at our Greensboro, US site) as well as Heat Not Burn (where we are already a provider of filters to one of the multi-nationals), and we believe that we are well-positioned to support our customers as these nascent segments continue to rapidly evolve.

Adjusted operating profit decreased 7.2% (-12.6% at constant exchange) to £34.8m, and the margin declined by 140bps (-140bps at constant exchange) to 12.5%. Further efficiency improvements and productivity gains were offset by the impact of modestly lower volume, and a timing effect relating to the pass-through of acetate tow material costs in the first half of the year.

Operational developments
In order to ensure that we maintain a flexible and competitive global manufacturing base, we benefited from a number of operational initiatives in FY 2017.

The previously-communicated transfer of a certain line of business to Asia from the US was successfully completed, further to which our Greensboro site was "right-sized" not only to maintain its capability in traditional tobacco filters but also to become the production hub for our e-cigarette offering. In addition, following the transfer of our European activity from Jarrow, UK in 2016, quality and service metrics significantly improved in Hungary, with a new development centre also being established to serve customers in the region.

Continuing to respond to customer requirements, additional capacity for capsule filters was added in Indonesia, Thailand and Dubai, to ensure that we remain at the forefront of these innovative segments in the growth markets of Asia and the Middle East, with additional technical and development capability also being extended in the region.

2018 key initiatives
> Evaluate the three potential "game changers" highlighted in the strategy review; namely, China, further outsourcing and NGPs

> Continue to align geographic footprint with market shift in production volume

> Continue to invest in advanced filter capability to support further growth

> Improve value proposition in more competitive mature tobacco markets

> Maintain focus on delivering further productivity and quality improvements

> Drive further benefits from investment in high-speed, more flexible filter manufacturing equipment

Market trends

The global tobacco market is valued at c. US$750bn, with a c. 2% cigarette retail volume decline.

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 and Heat Not Burn devices, 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.

"Beyond tobacco" products
The market for products beyond traditional cigarettes continues to evolve rapidly. There is increased interest in other nicotine delivery mechanisms – such as Heat Not Burn and e-cigarettes, both of which are reportedly delivering rapid growth (albeit from a low base) and which are forecast to continue doing so.

East versus west
Accounting for approximately 70% of total world cigarette volume, the growth markets of Asia dominate the global tobacco industry and are forecast to be flat while western regions continue to decline.

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 / Superslims, 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
- Adjacent sectors, such as Heat Not Burn products and e-cigarettes

What we measure

ON TIME IN FULL

Why we measure it
Demonstrates the ability to meet delivery demands

How we have done
95.2% compares to 92.7% in 2016

QUALITY COMPLAINTS PER BILLION RODS

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

How we have done
A 41% reduction in complaints per billion rods versus 2016

WASTE

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

How we have done
6.0%, a decrease from 6.4% in 2016

LOST TIME INCIDENTS

Why we measure it
Measures the opportunity cost of incidents in the workplace

How we have done
Decreased to 7 from 9 in 2016

MANAGEMENT OF PRINCIPAL RISKS

Risk management approach

2017 was a year of strategic review for Essentra, but it was also a year when restoring stability to the business was fundamental to securing the opportunities to exploit future growth prospects. The Principal Risk section of the 2016 Annual Report included commentary on the failure of the Company to manage risks relating to the Packaging division during 2016, which led to a decline in overall financial performance. The 2016 Annual Report also highlighted that the Company had recognised the need to undertake a review of its existing risk management structure and processes in order to deliver improvements in the identification, assessment and mitigation of risk.

In addition to the strategic objectives for the respective businesses, the Chief Executive has set the objective for the Company to continue to improve its overall governance, to ensure alignment with FTSE 250 top quartile best practice by 2020 and to underpin the successful delivery of strategic growth and business performance. During 2017, the Company has developed a well-defined governance improvement plan, facilitated in part in conjunction with specialist external professional review and expertise. The Governance Improvement Programme includes a number of specific initiatives designed to deliver more effective governance, driven by the adoption of risk management (enterprise risk and business continuity) internal audit, and compliance programmes in line with best practice.

Recommendations from an external review of risk management processes are being addressed to deliver improvements in the identification, assessment and mitigation of risk, and a refreshed risk appetite statement is being implemented. The Chief Executive is sponsoring these improvements which are being led by the Company Secretary & General Counsel. The changes are being implemented with the full endorsement of the Board, and the Company is increasing its internal resources as part of a new Legal, Risk & Governance team to support the delivery of the Governance Improvement Programme. The Board and the Audit Committee receive regular reports on the progress of the Governance Improvement Programme, and are fully engaged with and committed to its successful delivery.

The Group Management Committee ("GMC") has, following the completion of the strategic review, undertaken a number of formal risk identification, prioritisation and mitigation workshops in 2017. In addition, the Board has also conducted a fundamental review and discussion of the outputs from the work undertaken by the GMC.

The senior leadership teams of the Packaging, Components and Filters divisions, and certain enabling functions have also undertaken detailed risk management discussions in the context of the implementation of the outputs from the strategy review. Risk mitigation activities are being incorporated into strategy implementation plans, and regular risk discussions will be part of leadership meetings of all the divisions and enabling functions to embed risk management into business as usual activities.

In order to further strengthen the leadership, oversight and governance of risk management, the annual cycle of Board agenda activities has been updated to facilitate additional risk reviews, while the Audit Committee focuses on ensuring that the new risk management processes are being effectively embedded across the businesses. In addition, a new Group Risk Committee ("GRC") chaired by the Chief Executive has been constituted. The first meetings of the new GRC took place in January and February 2018, and further meetings will take place on at least a quarterly basis. The Board will receive regular reporting from the Chief Executive in his capacity as GRC Chairman to enable the Board to challenge and review the GRC's views on the Principal Risks and emerging risks, as an important part of fulfilling its responsibilities to determine the nature and extent of the risks the Company is willing to take in meeting its new strategic objectives. The Chairman of the Board and the Audit Committee Chairman receive copies of the minutes of each meeting. The Audit Committee will engage directly with individual enabling functions and divisional businesses, including deep dive reviews, as part of fulfilling its oversight responsibilities on the risk management processes.

The Principal Risks set out below reflect the key risks and uncertainties facing the business following the updates to the strategy and the structure of the Essentra Group. As a result, the Principal Risks are a combination of new and previously disclosed risks. The updated risk management practices have facilitated a better articulation of the nature and characteristics of the major risks and an enhanced focus on effective mitigation. The development of key risk indicators during 2018 will further enable the consistent, diligent and effective monitoring and management of the risks impacting the Company.

The diagram over represents the Company's risk management framework under the refreshed structure, along with the phases of implementation.

The Company has considered the risks it is facing under the following four risk category headings and has identified 13 Principal Risks.

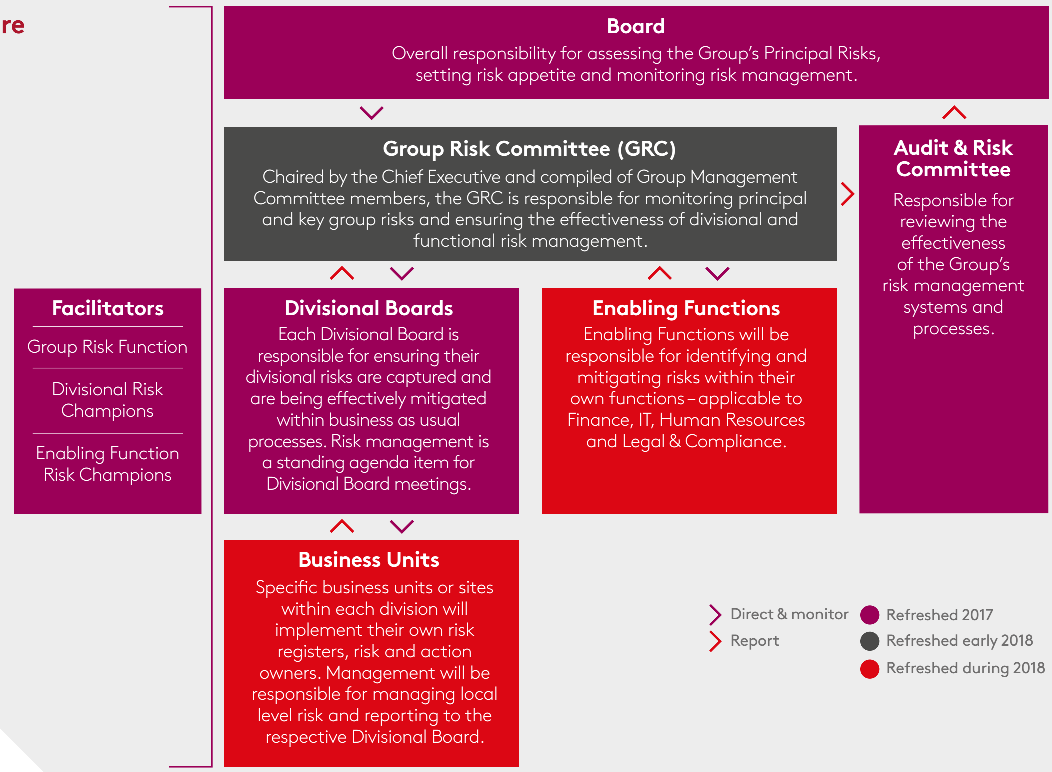
1. Strategic – Internal risks that may impede achievement of strategic goals.

2. External – Risks relating to the macroeconomic climate, political events, competitive pressures or regulatory issues.

3. Operational – Risks that could impact day-to-day operations and prevent business as usual activities.

4. Disruptive – Risks that could impact the business model or viability of the Company. Although key disruptive risks have been identified and mitigated by the Company, none of them are considered to be Principal Risks currently.

Structure



The Principal Risks detailed over are graded for likelihood and impact on a gross basis (ie, without accounting for existing mitigation), and are not presented in any priority. The Board believes that the Principal Risks are specific to Essentra and reflect the risk profile of the Company at the current time.

The continued evolution and embedding of improved risk management activities, cascading down from the Board through the respective divisions and enabling functions, will further align risk management with the delivery of strategic objectives in line with the defined risk appetite.

The Board has reassessed the risk appetite in the context of the newly defined strategy for the Company and will keep this under ongoing review.

In addition to the Principal Risk, other key or emerging risks have been identified and are being monitored by the Company. The materiality of those other key or emerging risks as a whole is not sufficient for them to be considered as a Principal Risk, but the development of mitigation actions in response to such risks will form an important part of the divisional and functional risk reporting to the GRC and Board.

Strategic Risks

	Description	Mitigation
Failure to Achieve Acceptable Returns from the Packaging Division **Likelihood:** Low **Impact:** High **Change in risk level:** New **Ownership:** Packaging division MD **Categorisation:** Company Specific	The Packing division failed to perform as expected in 2016. A number of strategic initiatives have been undertaken to address this in 2017; however, there remains a risk that such initiatives fail to address performance issues and allow the division to provide an acceptable return. This includes winning profitable new business, realising expected cost savings or initiatives taking longer or costing more than anticipated. Although a Principal Risk relating to the decline of the Packaging division was reported in 2016, this risk is considered to be a new risk where the division has stabilised, and therefore risk focus is now on ensuring the steps that have been taken are effective and allow the division to provide an acceptable return.	The Packaging division has been a key area of focus for the Company in 2017 and a number of changes have been made to address performance, including: > Creation of a new globally managed Packaging division, replacing the previous Americas and Europe & Asia regional structure and other organisational complexity > New leadership including divisional Managing Director and other senior appointments. The Chief Executive has also focused significantly on the Packaging division in 2017 and will continue to do so in 2018 > A new Packaging division strategy has been developed, communicated and rolled out. This includes initiatives such as the closure of the Newport cartons production facility, the carve-out of the Tapes business into the new Specialist Components division, equipment upgrades, improving operational stability and customer delivery, and growing existing customer relationships and developing new opportunities

Strategic Risks

	Description	Mitigation
Tobacco Industry Dynamics **Likelihood:** High **Impact:** High **Change in risk level:** No change **Ownership:** Filters division MD **Categorisation:** Company Specific	The business of the Filters division relates to the supply of filter products and packaging solutions to manufacturers in the tobacco industry. Changes in the traditional tobacco market have strategic ramifications for Essentra, presenting both potential risks and future opportunities. While the Company has a strong market position in its key existing addressable segments, the future growth opportunities for the Company and its financial performance may be affected by market dynamics within the industry and the structural shift away from traditional tobacco products into Next Generation Products and overall declining market growth. Essentra's competitive position cannot be sustained unless it manages and adapts its operational capacity and innovation capabilities in line with key market trends, including global consumption shift from western to eastern markets, customers' self-manufacture and demand volatility, increasing commercial pressures, special filters and New-Generation Product developments and evolving legislation. Tobacco-related litigation could also adversely affect Essentra, although there is no history of the Company being involved in such a claim.	Essentra is seeking to mitigate the risk associated with changes in the tobacco market dynamics, and the overall decline in market growth for traditional tobacco products, by focusing on activities with longer-term viability and exploiting potential growth opportunities emerging from the latest market trends. > Increased segmentation and prioritisation based on customer categorisation and filter differentiation > Further upgrading of innovation capabilities and development of project partnering with key customers > Enhanced focus on Key Account Management, leading to better market visibility and building further enhanced relationships > Developing a more commercially-led focus while maintaining operational excellence and responsiveness to customer demands > Exploring possible medium to long term value creation levers: 1. Investing to establish a permanent presence in the highly attractive Chinese market 2. Delivering new solutions and business models to respond to evolving outsourcing equirements of multi-national customers 3. Developing Next Generation Products, possibly in partnership with third parties

Strategic Risks

	Description	Mitigation
Customer Service Quality and On Time in Full ("OTIF") delivery **Likelihood:** Low **Impact:** High **Change in risk level:** New **Ownership:** Group Operations Director **Categorisation:** Company Specific	The Group's success is dependent on its ability to provide its customers with quality customer service and on time and in full product delivery. The customer base is diverse, ranging from an individual who may order low cost parts from our Components business to multi-national blue chip companies that rely on products from our Packaging and Filters divisions. If the Group is unable to deliver excellence consistently and meet all expectations, then it is likely to lose business and profit to competitors. This is a newly identified Principal Risk. While it has high importance across the Company, it is fundamental that this risk is managed within the Packaging division which will be reliant on rebuilding customer goodwill lost in 2016 and 2017.	> Improvements in operational performance have been a key focus of the business in 2017. As well as safety metrics, quality and delivery performance metrics are tracked and discussed on a daily basis at site level, as well as on a weekly and monthly basis (within divisions) and on a monthly basis at the GMC, in order to identify: a) issues that require intervention; and b) ongoing opportunities for improvement. The Board also receives a quarterly report on operational metrics. > In 2017, all divisions recorded improvements in OTIF (delivery performance) and reductions in both the number of quality complaints received and the incident rate for quality complaints (ie, number of complaints per number of orders / production volume). > The improved performance has enhanced the satisfaction of key customers.

External Risks

	Description	Mitigation
Regulatory – Governance **Likelihood:** Low **Impact:** High **Change in risk level:** Same **Ownership:** Company Secretary & General Counsel **Categorisation:** Industry General	The Group operates internationally and with a diverse supplier and customer base. As a consequence it is required to comply with multiple areas of regulation and good practice for areas such as Anti-Trust, Anti-Bribery, Sanctions and General Data Protection Regulation ("GDPR") (from May 2018). Such compliance and good practice is resource intensive and processes and controls must reach 8,000 plus employees in 30+ countries, some of which are higher risk territories. Failure to comply with regulation could result in significant fines, costs and reputational damage to the Group. The level of the risk has remained the same as there have been no material changes in levels of regulation from a Company perspective, albeit that the GDPR deadline is imminent.	The Group uses a range of controls to manage regulatory risk including: > A "tone from the top" from the Board and GMC on the importance of ethics and compliance > New internal resource and investment to drive better governance practices > Group compliance policies and guidance materials > Communication and training platforms and programmes > A Right to Speak process, in which the Chief Executive, Company Secretary & General Counsel and Group Human Resources Director are key stakeholders > A third party risk management process and platform > Working closely with external partners to monitor the regulatory environment > Identification and management of regulatory risks via the enterprise risk management process > Roll out of GDPR compliance programmes
Regulatory – Products **Likelihood:** Low **Impact:** High **Change in risk level:** Same **Ownership:** Company Secretary & General Counsel **Categorisation:** Company Specific	The Group manufactures multiple products, such as filters, pharmaceutical packaging, plastic components and oil & gas pipe protection products that are subject to product regulation. The Group must therefore constantly monitor and comply with such product regulations, as a breach could have a significant financial and reputational impact. The level of the risk has remained the same as there have been no material changes in levels of regulation or business operations to affect this from the Company's perspective, although the use of certain materials such as plastics may lead to some additional reputational risk.	The Group uses a range of controls to manage regulatory risk relating to the products that it manufactures and distributes, including: > A "tone from the top" from the Board and GMC on the importance of ethics, compliance and strong governance > New internal resource and investment to drive better governance practices > Group compliance policies, processes and guidance materials > Communication and training platforms and programmes > Specialist external support

External Risks

	Description	Mitigation
Cyber Attack **Likelihood:** Medium **Impact:** High **Change in risk level:** Increased **Ownership:** Chief Information Officer **Categorisation:** Industry General	The Company is dependent on it's IT systems for day-to-day operations. Should the Group become affected by a general global cyber incident or be specifically targeted by a criminal network, this could potentially lead to suspension of some operations, regulatory breaches and fines, reputational damage, loss of customer and employee information and loss of customer confidence. Although there are no indicators to suggest that the risk of a cyber attack on the Company is higher, the risk has generally increased given the higher volume of global cyber incidents in 2017.	The Company employs multiple layers of cyber security threat defences from endpoint protection, encryption of data, identity-based access control, network firewalls, web and email content protection to ongoing vulnerability and penetration testing across critical corporate and online services. As part of the technology transformation programme, the cyber security project is enhancing capability across people, process and technology to ensure Essentra is in-step with the increased risk associated with cyber attack.
Brexit **Likelihood:** High **Impact:** High **Change in risk level:** New **Ownership:** Group Operations Director, Group Finance Director, Group Human Resources Director **Categorisation:** Industry General	Brexit could impact the Company in a number of ways, for example: > A material element of the operations of the Components division involves manufacturing products in the UK and distributing them into the EU. Should trade tariffs and / or a customs border be imposed this could lead to increased costs and complexity within the division's existing business model. > The Company has multiple manufacturing sites in the UK. Should trade tariffs or a customs border be imposed, this could restrict the supply chain opportunities available to these sites. > Depending on the outcome of negotiations, Brexit could increase the cost of, or restrict funding for, the Group's current and future investment plans. Brexit has previously been identified as a key but not Principal Risk to the Company. As UK / EU negotiations continue, the Company has determined that it should now be managed, mitigated and monitored as a Principal Risk.	During 2017 and the early part of 2018, the Company conducted a thorough review of Brexit risks, including understanding Essentra's exposure. This included consultation with external experts and used third party support. Coming out of this review, a range of potential mitigation options were identified, which the Company is now in the process of reviewing. These include: > Potential changes to the European asset and manufacturing footprint to optimise material flows > Optimisation of product manufacturing locations versus customer locations > Seeking alternative raw material supply sources to minimise cross-border flows > Seeking "Approved Economic Operator" status to minimise inspection delays

Operational Risks

	Description	Mitigation
Operational Resilience – Natural Catastrophes and Fire **Likelihood:** Low **Impact:** High **Change in risk level:** Same **Ownership:** Group Operations Director **Categorisation:** Industry General	The Group has some single manufacturing site dependencies for the production of specific products and meeting particular customer requirements. All of these sites are subject to fire risk and some of them, are in locations that are more prone to natural catastrophes such as hurricanes, floods, storms or earthquakes. The Group experienced both employee impact and operational disruption as a result of such events in 2017 at sites in Puerto Rico and Houston, US. Should further events occur, this could impact production capability and fixed assets, supply chain management, customer relationships, reputation, revenue and profit. Such events will continue to be a threat to the normal operation of the Company, and consequently the level of the risk remains the same.	The Group has reviewed and refreshed its business continuity planning processes in 2017, working closely with external parties. Enhanced processes are being adopted across the business, and are targeted at higher risk sites and processes and ensuring that robust continuity plans and site improvements are in place. Aligned to this, there is increased focus on IT infrastructure. Such plans are to be kept under constant review and tested periodically. Other mitigating factors that the Group has in place are: > Operating within a flexible global infrastructure > Developing multi-site capabilities and manufacturing flexibility > Installing fire and other risk prevention systems > Assessing and managing operational risks via the enterprise risk management process > Maintaining a comprehensive insurance programme
Product Quality, Liability and Contamination **Likelihood:** Medium **Impact:** High **Change in risk level:** New **Ownership:** Group Operations Director **Categorisation:** Industry General	The Company manufactures a range of products for a wide range of customers, some of which provide significant proportion of Group and / or divisional revenues. Should the Company fail to provide adequate quality consistently in its products, there is a risk of loss of customers and / or failure to win profitable new business. Similarly, there is a risk that some manufactured products that reach consumers, such as filters, labels or component parts could become contaminated or cause an accident for which the Company is liable. Should this occur, this could lead to significant fines and / or reputational damage. Product Quality, Liability & Contamination has been elevated to a Principal Risk to the Company, and incorporates any potential tobacco-related or Next Generation Products litigation.	In addition to the ongoing tracking of quality metrics mentioned above, the Group is also undertaking a review of its quality management processes to ensure they are fit-for-purpose, to minimise the risk of contamination or product quality issues. This review includes support from external experts in some cases, along with alignment of quality processes and standards across geographies and within divisions, to ensure a single consistent global process for customers in multiple jurisdictions. Divisional capital expenditure plans also include, where appropriate, additional spend on inspection equipment (eg sensors, cameras) to improve in-line inspection and further reduce the likelihood of product quality issues. The Company continues to assess potential exposures to litigation arising from tobacco-related or Next Generation Products, and seeks to manage the supply, packaging and labelling of such products accordingly.

Operational Risks

	Description	Mitigation
Internal Business Processes **Likelihood:** Medium **Impact:** Medium **Change in risk level:** New **Ownership:** Divisions and Enabling Functions **Categorisation:** Company Specific	A number of the issues that have previously impacted the Company were due to weaknesses in internal business processes and controls. Examples of this include inadequate acquisition integration, failure to document or to update operational processes or define business process ownership, poor planning and project execution and lack of effective training and development. The Company has acknowledged and begun to review these weaknesses in 2017, and they will remain a risk while they are being addressed. Internal Business Processes have been identified as a new Principal Risk to the Company.	The scope, key questions to be addressed and outcomes of the strategy review were set out in detail in the 2017 strategic review. The outputs from strategy work streams are being implemented across all four divisions with the support of the Enabling Functions. The activities will result in the implementation of clear business strategies supported by better internal business processes and improved risk mitigation, through consistent adherence to business processes and cultural change. Development of the Company's IT capabilities will support the improvement in Internal Business Processes. The benefits of these changes and the investments being made, including the addition of new internal resources, are expected to support stabilisation and growth of the Company in 2018.
Safety (including Regulatory) **Likelihood:** Low **Impact:** High **Change in risk level:** New **Ownership:** Chief Executive **Categorisation:** Industry General	Safety is of the highest priority for the Company. Essentra has 49 manufacturing facilities across the world, along with many non-manufacturing sites and internationally mobile employees. Manufacturing can be inherently risky given the use of industrial machinery and high speed manufacturing processes. In addition, the Company must comply with the requirements of multiple jurisdictions concerning safety regulation. Should an injury or fatality affect any of our employees or visitors, or should there be any breach of safety regulation resulting in prosecution, we could anticipate considerable reputational damage as well as potentially significant financial costs. Following the risk reviews during 2017, the Company has reaffirmed its commitment to treat Safety as an absolute priority and this is reflected through its elevation to one of the Principal Risks to the Company.	Throughout 2017, the "tone from the top" on safety has been reinforced throughout Essentra. Management teams have been instructed to give a higher priority to establishing and reinforcing the management systems employed throughout the Company, and key Health, Safety and Environment senior appointments have been made, including a new Group HSE Director reporting to the Chief Executive. During 2017, a programme was developed which will ensure that every Company site has a comprehensive and robust approach to the identification, prioritisation and remediation of risks and hazards. Delivery of this programme will continue through 2018 and is supported by central resources who provide training, support and expertise. The scope of this programme has now been broadened to encompass all Essentra sites during 2018.

Operational Risks

	Description	Mitigation
Supply Chain Single Point of Failure **Likelihood:** Medium **Impact:** Medium **Change in risk level:** New **Ownership:** Group Operations Director **Categorisation:** Company Specific	The Company's supply chain is reliant on raw materials and goods being delivered in full and on time to its manufacturing sites from various international sources and suppliers. In some cases, the Company is reliant on a limited number of suppliers or a single supplier for a key raw material. In the case of supplier failure, significant input cost increases or transportation / infrastructure disruption, could have a material impact on the profitability of the Company. Similarly, the Company is reliant on certain sites and their equipment in some cases to manufacture specific products. Should such machinery not be able to operate for an extended period of time this could also have a material profit impact. Supply Chain Single Point of Failure has been identified as a new Principal Risk to the Company, and the risk incorporates Raw Material Supply which was previously identified as a Principal Risk.	The Company increased focus in this area in 2017, including working on business continuity planning with external parties, as noted above. This focus will continue in 2018. A comprehensive supply chain assessment will be completed in 2018, which will focus on > Identification of investment requirements including additional IT capabilities > Identification of alternative sources of supply for key raw materials, where necessary and feasible > Ensuring comprehensive maintenance plans are in place for key manufacturing equipment, and / or alternative manufacturing routes are identified > Identifying alternative logistics routings, where necessary and feasible The implementation of the Company's new business continuity planning process will continue in 2018, ensuring any specific areas of concern are properly mitigated.
IT Systems – Stability & Reliability **Likelihood:** High **Impact:** Medium **Change in risk level:** Same **Ownership:** Chief Information Officer **Categorisation:** Company Specific	The Company is dependent on a wide range of IT systems for its day-to-day operations. In some cases, mainly due to a lack of historic investment, IT systems are relatively old, have not been updated and may lack both external and internal support. This can lead to IT systems being unreliable or having poor functionality to support everyday operations which creates risk of material impact to customers and employees, ultimately impacting profitability and reputation. The level of risk is considered to be the same as reported in 2016, albeit a number of initiatives will be completed in 2018 which are anticipated to reduce the risk over time.	The Company began an investment programme in Q4 2017 to upgrade and reconfigure the internal infrastructure across all divisions and key sites. The focus has been to reduce, and ultimately eliminate, the number of unplanned outages caused by systems failure and avoid any disruption to business operations. Core networks and data communications are being upgraded and scaled to accommodate the forecasted increase in data flows. This includes internal data flows in our core supply chain and finance systems and external flows to the internet, to streamline our digital interactions with customers and cloud-based services. A three-year IT strategy is being developed to address the current challenges and the proposed investment to support the necessary improvements, and will be subject to detailed review during H1 2018.

CORPORATE RESPONSIBILITY

At Essentra, we are committed to doing business the right way to continually earn the trust of our customers, our other stakeholders and the wider marketplace. As we follow the three steps to long-term success of Stability, Strategy and Growth, our six principles should direct each of us in how we behave at all times in the workplace.

Responsible business practice must be at the heart of what we do, and we recognise the significance and importance of being a responsible corporate citizen wherever we carry out business. In pursuing our corporate strategy, our objective is to adopt business practices that are economically, socially and environmentally sustainable, and to promote these to our stakeholders in order to strengthen relationships, share knowledge and encourage best practice.

Accordingly, we aim to identify and prioritise those corporate responsibility issues which are material to our business and to our stakeholders – whether specific to a particular country or location, or applicable globally – and to respond to them in an appropriate and robust manner. In so doing, our risk management processes consider the potential impact of corporate responsibility issues on Essentra's performance; our investment decisions include due evaluation of the potential consequences for our stakeholders and the environment; and our policies promote fair and ethical dealings as a matter of law and conscience.

Essentra's Ethics Code helps to ensure that everyone working for or on behalf of the Company understands our expectations and conducts Essentra business in a way that is consistent with our six principles and our procedures. Each of us is expected to understand and embrace the principles of our Ethics Code and: act responsibly, honestly and with integrity; show respect, and treat others fairly and with dignity; conduct our activities based on the highest ethical standards; and ensure our business practices comply with all legal or regulatory requirements. Reinforcing this commitment to best practice governance – and to ensure alignment with our six principles – we revised our Ethics Code and Right to Speak protocols during the year, with extensive employee training undertaken across the organisation.

Essentra's six principles, which describe the way we work, can be found on the Company's website www.essentraplc.com.

Priorities / goals	How do we manage it?
Achieve the highest standards of health and safety	> Regular review of the Group's Health and Safety strategy > Identify and understand the health and safety risks of our activities > Establish Group minimum expectations for the management of health and safety > Understand current health and safety performance, and establish Group expectations for improvements and results > Encourage employee participation in developing and driving health and safety improvement initiatives > Gain OHSAS 18001 accreditation at all manufacturing sites
Ensure that Essentra fulfils its commitment to being a great place to work	> Undertake employee engagement surveys on at least an annual basis > Ensure robust follow-up procedures to engagement survey findings > Carry out regular site-level visits by the Chief Executive and senior divisional management > Regularly communicate with employees in an appropriate local language forum > Provide appropriate learning and development opportunities at all levels > Encourage constructive, open and honest dialogue across the organisation
Ensure the highest standards of business integrity and conduct	> Embed and embody Essentra's six principles > Establish clear policies and guidance > Secure employee awareness and engagement > Continue to promote the Right to Speak policy > Regular review of adherence with policies and guidance by Group Assurance
No significant adverse impact to the local environment and commitment to achieving the highest standards of environmental performance	> Regular review of the Group's Environmental strategy > Identify and understand the environmental aspects and impacts associated with our activities > Establish Group minimum expectations for environmental management > Understand current environmental performance, and establish Group expectations for improvements and results > Implement initiatives to reduce waste and increase recycling

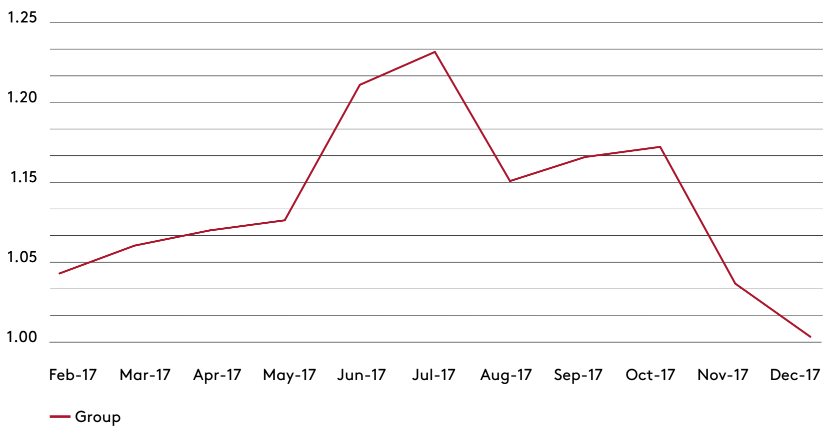
How did we do?	How will we do it?
> Completed an annual review of the Group Health, Safety and Environmental strategy, with the revised version formally approved by Board > Maintained programme of OHSAS 18001 certification	> Continue to focus on health, safety and environmental strategy > Maintain robust management systems, standards and processes > Pursue accredited OHSAS 18001 certification for selected manufacturing facilities > Develop and embed Group-wide minimum standards for the identification and control of health and safety risks > Continue to drive culture and employee engagement through employee consultation forums, communication programmes and training > Increase emphasis on sharing good practice and disseminating lessons identified from incidents
> Carried out a "pulse" and full annual employee engagement survey > Established site level forum groups and clear action plans to follow through engagement survey findings > Improved internal communication through greater Chief Executive and senior management involvement > Established Diversity & Inclusion Steering Group > Increased participation in Graduate Development Programme and Leadership Development Centres > Launched first National Apprenticeship Programme in the UK	> Undertake annual employee engagement surveys and act upon feedback > Enhance internal communication following appointment of dedicated Group Communications Director and launch of intranet > Continue to focus on regular employee dialogue with the Chief Executive and divisional management > Evaluate findings from Diversity & Inclusion Steering Group and act upon as appropriate > Continue to expand geographic reach of Leadership Development Centres and Graduate Development Programme > Further develop apprenticeship initiatives
> Developed and communicated Essentra's six principles, which describe the way we work > Established a new Legal, Risk & Governance function, led by the Company Secretary & General Counsel > Updated policies to reflect Essentra's six principles and three long-term steps to success > Updated Essentra's Ethics Code and Right to Speak materials and undertook employee training > Continued communication of core policies through e-Learning and reviews in Essentra Group System > Continued to promote compliance systems	> Respond to new risks and requirements > Provide further training > Drive employee responsibility and cultural change > Investigate complaints
> Completed an annual review of the Group Health, Safety and Environmental strategy, with the revised version formally approved by Board > Maintained programme of ISO 14001 certification > Broadened programme of ISO 50001 certification	> Continue to focus on health, safety and environmental strategy > Maintain robust management systems, standards and processes > Pursue accredited ISO 14001 and ISO 50001 certification for selected manufacturing facilities > Develop and embed Group-wide minimum standards for the identification and control of risks and environmental impacts

We are proud to be listed in the FTSE4Good index which measures the performance of companies against globally recognised corporate responsibility standards, and improves transparency for investors where corporate responsibility issues are an influencing factor in their decision-making process.

Health and safety ("HSE")

Our overriding commitment in the workplace continues to be the health, safety and welfare of our employees and all those who visit Essentra's operations, as well as those who carry out work on our behalf. 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. As per our Health & Safety policy, we aim to continually reduce the number of accidents and incidents, with a goal of zero.

Lost-Time Incident Incidence Rate (per 200,000 hours) 12 month rolling average



In light of our commitment to achieving and maintaining the highest standards of occupational health and safety, and to ensure that HSE remains at the forefront of our thinking – as led by our Chief Executive, Paul Forman – during the year we launched an Essentra-wide Assurance Programme ("EAP"), to ensure that the foundations are in place to sustainably improve safety. This initiative will ensure that: every task has a risk assessment and standard work document / safe operating procedure; all employees have access to our incident and near-miss reporting programme; and appropriate training and competency standards will progressively be implemented across all sites.

We continue to use an in-house self-assessment programme to monitor the maturity of local site-based HSE management arrangements.

Underpinning this increased focus was a significant investment in Essentra's HSE capability during 2017, which has resulted in additional resources in each of our businesses – including newly-appointed Group and divisional Health, Safety & Environment Directors – to help identify and further drive improvements in performance and culture.

Although the number of Lost Time Incidents was only slightly reduced versus 2016, the number of days lost as a result of these incidents showed a marked decline (from 1,834 to 1,490) – suggesting that severity of injury declined during the year – and with a Lost Time Incident Frequency Rate (per 200,000 hours worked) of 1.004, this places Essentra as "average" for manufacturing companies.

In 2017, we also standardised our incident reporting and investigation guidance, to ensure a clear process flow across the organisation – from injured / reporting person and first aider through immediate supervisor to site / production Manager and facility HSE lead. In addition, we undertook a number of specific HSE improvement projects – from machine guarding to "hand safe" programmes – with a focus on the most frequently observed types of incident.

We manage occupational health by identifying key risk activities, undertaking health assessments and, where appropriate, implementing health surveillance programmes. We continue to drive the Occupational Health & Safety Management Systems ("OHSAS") 18001 standard into our manufacturing sites and, at the end of 2017, 48% of our principal manufacturing facilities had achieved accreditation.

Details of Essentra's health and safety policy and accident performance data can be viewed on the Company's website www.essentraplc.com.

Employees

We are committed to ensuring that Essentra is a great place to work and to growing our business through positive teamwork. We recognise that an engaged and motivated workforce is key to the delivery of excellence in everything we do and, in return for the dedication and expertise of our employees, providing them with a safe, respectful and diverse working environment in which talent can flourish is the foundation of the six principles which were developed and rolled out during the year – and is Paul Forman's stated priority as Chief Executive.

Accordingly, our objective is to drive employee engagement to upper quartile levels and – as a critical enabler of that improvement – to enhance communication and feedback across the organisation. Following a challenging year in 2016 – which had seen a clear deterioration in motivation and morale – in 2017 we undertook two engagement surveys, with an excellent 89% response rate to the more comprehensive annual survey. While we have seen an improvement in many areas, nonetheless the overall engagement score is still below the norm for a company of our size and stature, and we are committed to responding to the findings and to taking action to tackle the issues raised through local focus groups and established action plans.

We are equally focused on providing a respectful and diverse working environment, as we believe that this ensures we attract and retain the best talent from the widest pool; creating a diverse and inclusive culture also has a proven positive impact on employee engagement and business performance. We do not tolerate harassment in any form and are committed to equal opportunities at work; employees should not engage in or support discrimination based on race, colour, language, caste, national or ethnic origin, indigenous status, sexual orientation, religion, disability, gender, marital status, union membership, political affiliation or age.

However, one of the key findings from our latest engagement survey is that not enough employees believe that diverse perspectives are valued at Essentra, and we have recently established a Diversity & Inclusion Steering Group to address these concerns to ensure that we make meaningful and consistent improvement towards our objective of being exemplary in this regard.

The gender of Essentra's employees as at 31 December 2017 was:

	Male	Female
Non-Executive Directors	4	2
Executive Directors	2	0
Senior Managers	77	13
All employees	5,451	2,832

Our guiding principle is to provide all employees with the opportunity to develop and advance – subject to personal performance and business objectives – and to remunerate fairly with respect to skills, performance, competitors and local market conditions. This includes giving full and fair consideration to employment applications by disabled people. In the event of employees becoming disabled, we make every effort to ensure that the training, career development and promotion opportunities available are as far as possible identical to those of non-disabled employees.

Our employees are vital in ensuring that we provide quality products and services to our customers and operate our business activities effectively and efficiently, Indeed, their talent and commitment drive the innovation which allows Essentra to provide added value to our customers, enhance supply chain logistics with our suppliers and reduce the environmental impact of operations.

Nowhere was this more evident during the year than at our two Health & Personal Care Packaging sites at Guaynabo and Manati in Puerto Rico following the devastating impact of hurricane Maria, who continued to report for work and provide excellent support to our customers despite facing significant personal challenges. Our employees in the US were also instrumental in providing support to their Puerto Rican colleagues, both in terms of helping to co-ordinate the relief supplies which we shipped directly to the facilities, as well as assisting with the manufacture of customer orders where they exceeded local capacity at the time. Over and above our immediate relief effort, however, it was clear that there was a longer-term impact to address – that of damage to homes, cars and belongings. For this reason, we set up a fund – The Essentra 2017 Hurricane Relief Fund – to provide our employees with financial assistance in rebuilding their lives, so that those people who were impacted are able to apply for an amount of money to support them. The fund is being managed by a team who will review each application on a case by case basis, to ensure that the money reaches those of our colleagues who need it.

In order to deliver our strategic objectives – both now and in the future – we need to be able to attract, retain and motivate employees with the necessary skills and talent across the Company. Over and above driving excellence in health and safety, our Group Human Resources ("HR") team is responsible for overseeing and co-ordinating the key strategic aspects of recruitment, training and development, to ensure that we have a consistent approach across the Company. In order to continually improve our talent pool at all levels of the organisation, we run a number of very successful training initiatives – from our Leadership Development Centres to our Graduate Development Programme – which continue to expand their international reach: we also offer a number of different apprenticeship opportunities across our Components and Packaging sites in the UK.

Our Group team is supported by a regional and local network of HR colleagues, who have an understanding of the local culture and accepted practices in the countries in which we operate, and help to ensure that we have the necessary structures in place to enable best practice people management at all our locations.

We operate in 33 countries, and we comply fully with all appropriate legislation in these jurisdictions. Throughout our international operations we support human rights – as set down by the United National Declaration and its applicable International Labour Organisation conventions – through our employment policies, our supply chain and the responsible provision of our products and services. This commitment includes a mandatory requirement on all our sites to avoid the employment of children, as well as a commitment to the prevention of slavery and human trafficking: this is set out in our Modern Slavery Statement which can be viewed on the Company's website www.essentraplc.com. Our operations based in India, Indonesia and Thailand are additionally accredited to SA 8000 which details fundamental principles of human rights.

Community

We are proud of our international footprint and of being part of the communities in which we operate, and it is important to us that we play a key role in local society – not least because that is where our employees come from.

Our 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, we aim to support the creation of prosperous, educated, sustainable and healthy communities in the countries and localities in which we operate. In attempting to bring benefits back to those communities whose support provides a basis for our success, we have focused on education and enterprise, health and welfare and the environment, with support driven at a local, rather than a corporate level. Our approach is to support and enhance employee efforts in their respective communities through applying Essentra's resources, and there are many local programmes across the Company which involve significant employee engagement through direct involvement or secondment. We are looking to further enhance such relationships with local people, business partners and community groups, not only to meet our wider corporate responsibility objectives but also to improve local relationships and build employee pride in the communities where they live and work.

Marketplace

Our business reputation, together with the trust and confidence of the people we do business with, is one of our most valuable assets. The Essentra Ethics Code applies to all our businesses around the world, and to everyone who represents, or acts on behalf of, the Company and helps them to understand their role in upholding our principles, procedures and policies. Whether on our own behalf, or through our relationships with third parties, we are committed to free and fair competition, plus the prohibition of bribery and political donations, as well as to honest and fair dealings with suppliers, customers and local and national authorities. In particular, we seek to confirm that our suppliers protect the welfare of their own workers and employment conditions, to ensure that overall working environments within the Essentra supply chain meet or exceed internationally recognised standards.

Ethics and compliance

Everyone in the Essentra team shares the responsibility for developing and maintaining a working environment that we can be proud of. The cornerstones of this are founded on everyone acting with openness, honesty and integrity, treating others with respect and being accountable for doing what they say they will, and speaking up if they feel this is not happening.

Essentra's Ethics Code is our framework to assist in making ethical decisions, and is supported by further policies and guidance notes. These governance materials are approved by the Board and distributed globally in all relevant languages, and are intended to promote the positive, diverse culture and safe and respectful working environment which is espoused by our six principles. None of these documents can address every issue that an Essentra employee may face in the performance of their duties: however, together with common sense, logic and good faith behaviour, our Ethics Code provides a structure to guide each of us in determining the correct course of action. While Essentra's Company Secretarial department is accountable for promoting, monitoring and enforcing our Ethics Code, responsibility for following the Ethics Code and for upholding Essentra's overall integrity and reputation – both globally and locally – rests with each employee individually.

Consistent with our commitment to operating with integrity and to dealing fairly with all our stakeholders at all times, Essentra adopts a zero tolerance approach to bribery and corruption through our Anti-Bribery and Anti-Corruption ("ABC") policies. This extends to all business dealings and transactions in which the Company is involved, and includes prohibiting political donations, offering or receiving inappropriate gifts and making facilitation payments: we also expect the same standards to apply to any third parties providing services on our behalf. All employees are required to read our policies relating to Conflicts of Interest and Gifts & Entertainments, which are reviewed on an annual basis and where their compliance is recorded either digitally or manually.

Given the number of jurisdictions in which we do business, Essentra has adopted a Third Party Due Diligence policy. The objective of this policy is to ensure that appropriate risk-based reviews are undertaken and the Company is protected from unmitigated risk, with a clear and legitimate business reason for every third-party relationship. The expectations and guidance detailed in this policy are supplementary to our existing know your customer, procurement or other third-party engagement processes which we have in place, including financial controls and quality management requirements.

We are all required to review and confirm our acceptance of critical Group policies, with the majority of employees being required to review and accept all of the Group's policies. These additional Group policies and guidance are intended to cover the operational and commercial risks identified within the divisions on a range of material issues – including environmental sustainability, modern slavery, human rights, and anti-bribery and anti-corruption – and we require those relevant colleagues to read and certify their compliance with these policies, either digitally or manually.

Our Essentra Compliance and Ethics programme delivers the appropriate training required by legislation and regulation, with a focus on communicating major compliance events. For example, this includes requiring employees to inform their line managers of any change in circumstances – such as any conflict of interest or outside business interest – a significant deterioration in the health and safety of their working environment or their ability to protect Essentra's assets. Employees' understanding of these policies is supported by an e-Learning training programme and, where applicable, we hold classroom-style training sessions, with all divisions being required to identify what are the most prevalent risks to their respective activities – taking into consideration the markets into which they do business.

In all cases, acceptance of our policies is reviewed by the Group Assurance team as part of their normal internal audit processes, with the activity metrics of the Compliance and Ethics programme also being conveyed – as required – to the Audit Committee. Accordingly, the Audit Committee is able to address any specific risk areas within the organisation, further to which Group Assurance then conducts appropriate follow-up audits after any confirmed compliance incidents.

Our Right to Speak policy and process is in place to enable any employee to report any circumstances where they genuinely and reasonably believe that the standards of the Ethics Code, or the Company's wider policies and guidance notes, are not being upheld. We are committed to ensuring that employees feel able to raise any such concerns openly in good faith, without fear of victimisation or retaliation and with the support of the Company. Employees can access the Ethics Reporting Line via essentra.ethicspoint.com to report any concerns on a confidential basis, or use the confidential individual helpline telephone numbers which are displayed at each business location.

As part of our Governance Improvement Program implemented during 2017, a new Compliance Strategy has been developed and 2018 will see further initiatives, with improvements in compliance and ethics risk assessment processes to better identify and mitigate. The testing of the effectiveness of our existing controls will continue along with the continued evolution of KPIs to support these initiatives, and to include metrics on training, culture, effectiveness and investigations.

Environment

Consistent with our increased focus on all aspects of HSE – and our objective of continual improvement – our approach to managing environmental impacts during the year focused on:

> Implementing and maintaining environmental and energy management systems certified by accredited bodies to ISO 14001 and ISO 50001 standard, in all in-scope facilities
> Measuring and monitoring energy and water consumption, and any associated emissions to air and water, and setting targets to improve performance
> Conducting environmental impact assessments and developing site management plans
> Providing training to employees on ways to reduce their environmental impact
> Engaging with customers and suppliers to identify opportunities to reduce environmental footprint across the supply chain
> Providing facilities to segregate and reuse or recycle production waste

In the UK, our sites comply with the Carbon Reduction Commitment ("CRC") legislation and we continue to apply the principles of the CRC to our operations worldwide.

To date, all our principal manufacturing facilities apply an Environmental Management Systems ("EMS") based on the ISO 14001 standard. During 2017, we implemented an Energy Management System to the ISO 50001 standard across a selection of manufacturing facilities; at the end of 2017, 15% of these sites had achieved external third-party accreditation. As identified last year, following a review of the benefits of external certification schemes, it was decided to develop and standardise central management of our Energy Management and our intention remains to pursue a Group certification programme during 2018.

The following core measures of our environmental impacts are measured and monitored across the whole Group:

> 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

We continuously seek ways to improve our utilisation of natural resources. In particular, a process of continuous improvement is applied by our Filter Products' research and development facilities in the UK, Asia and the US to innovate in the use of renewable resources and recyclable, biodegradable products.

Tonnes of CO_2e (gross)

	Year ended 31 Dec 2017	Year ended 31 Dec 2016	% change from 2016
Scope 1	**10,111**	10,479	-3.51%
Scope 2	**87,051**	95,748	-9.08%
Total gross emissions	**97,162**	106,227	-8.53%
Total carbon emissions per £m revenue	**94.57**	96.23	-1.73%

The following assumptions, methodology, definitions and data validation processes have been used to report the Group's key environmental performance indicators in 2017. 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 "CO_2 Emissions from Fuel Combustion (2016 edition)", published by the International Energy Agency, has been used for converting gross emissions
> **Intensity metric** – Total carbon emissions per £m of revenue are used to calculate the Company's intensity metric

The absolute reduction in Scope 1 and 2 emissions has been influenced by certain site closures and divestments during the year which, while not sufficiently material to warrant re-stating previous years' environmental data, have nonetheless contributed towards the net reduction in emissions for the Group as a whole. This effect is also reflected in the reduction in revenues, being the measure we have historically used to calculate an intensity ratio. As a result, our emissions per £m have decreased by 1.73%.

Water

	Year ended 31 Dec 2017	Year ended 31 Dec 2016	% change from 2016
Total water consumption (m^3)	**256,142**	315,822	-18.90%
m^3 per £million revenue	**249.3**	286.1	-12.86%

The effect of the change in business mix outlined above has been even more pronounced in the water consumption data. However, the amount of water being consumed is comparatively low, and it is no longer considered a material component of Essentra's environmental footprint. There is very little process water used in any of our operations, and the figures reported mainly comprise the water used for cleaning, sanitation and hygiene – none of which are considered appropriate areas for targeted reductions. Following a review during 2017, it has therefore been decided that this measure will no longer form part of our environmental targets.

Waste

	Year ended 31 Dec 2017	Year ended 31 Dec 2016	% change from 2016
General waste sent to landfill (tonnes)	**5,928**	6,530	-9.22%
Factory waste sent to recycling (tonnes)	**19,753**	23,020	-14.19%
Incinerated waste (tonnes)	**1,590**	1,704	-6.69%
Hazardous / special waste sent to special disposal (tonnes)	**462**	726	-36.36%

The above figures for waste do not include a one-off exceptional figure of 2,801 tonnes of general waste from our Newport facility. This was mainly hardcore and rubble from various construction projects associated with the closure of the site, and as such has been excluded from the data table.

Given the diversity and scale of Essentra's international operations, the use of energy and raw materials has both environmental and commercial importance. Local management drives environmental performance in accordance with Group policy (copies of which can be found at www.essentraplc.com) and local legislation.

DIRECTORS' REPORT

This Directors' Report contains:

GROUP MANAGEMENT COMMITTEE

Executive Board Directors

Paul Forman
Chief Executive

Stefan Schellinger
Group Finance Director

Divisional Managing Directors

Scott Fawcett
Managing Director, Essentra Components

Iain Percival
Managing Director, Essentra Packaging

Kamal Taneja
Managing Director, Essentra Filters

Tim Wilson
President, Essentra Specialist Components

Enabling Function Directors

Richard Cammish
Chief Information Officer

Kathrina FitzGerald
Strategy & Commercial Director

Jon Green
Company Secretary & General Counsel

Gavin Leathem
Group Human Resources Director

Nick Pennell
Group Operations Director

Paul Forman
Chief Executive

Paul's biographical details can be found on page 63.

Stefan Schellinger
Group Finance Director

Stefan's biographical details can be found on page 63.

Richard Cammish
Chief Information Officer

Richard Cammish joined Essentra as Chief Information Officer in 2017, prior to which he was Group Chief Information Officer for Coats plc. During a 25-year career, Richard has gained extensive IT and digital experience at a range of large multi-national companies in increasingly senior roles at global, regional and local country level, as well as through running start-up businesses and as a management consultant.

Scott Fawcett
Managing Director, Essentra Components

Scott Fawcett joined Essentra in 2010 as Managing Director of the European Components business, and was appointed Divisional Managing Director 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.

Kathrina FitzGerald
Strategy & Commercial Director

Kathrina FitzGerald was appointed as Strategy & Commercial Director in January 2018. Prior to joining Essentra, Kathrina worked with DMGT plc – a portfolio of information and media businesses – where she held a number of increasingly senior roles during her ten-year tenure, including Business Development Director, Managing Director of DMGT International and Director of Strategy and Development. Kathrina started her career at JP Morgan, where she spent seven years in investment banking.

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.

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.

Nick Pennell
Group Operations Director

Nick Pennell joined Essentra as Group Operations Director in 2017, prior to which he was Chairman of Lavery / Pennell and a Partner at Booz Allen Hamilton / Booz & Co. in the UK and China. Nick has extensive experience of performance improvement, operational and strategy development projects gained across the industrial and energy sectors, and in many geographies. He has also held operational and corporate strategy roles at Bass Brewers and at Shell.

Iain Percival
Managing Director, Essentra Packaging

Iain Percival joined Essentra as Managing Director, Essentra Packaging in 2017, before which he was Divisional CEO, Beverage Cans Europe for Rexam plc. Prior to this, Iain held a number of increasingly senior roles at Rexam plc, Toyota Motor – Europe Manufacturing and Dowty Group, and has extensive experience in category management, manufacturing and supply chain optimisation.

Kamal Taneja
Managing Director, Essentra Filters

Kamal Taneja joined Essentra as Managing Director, Essentra Filters in 2017 from Amcor Tobacco Packaging, where he worked as Vice President and General Manager, based in Singapore. Prior to this, Kamal held increasingly senior roles at Ingersoll Rand and Trane, and has extensive marketing, commercial, operational and supply chain optimisation experience throughout the Asia Pacific region.

Tim Wilson
President, Essentra Specialist Components

Tim Wilson was appointed as President, Essentra Specialist Components in January 2018, prior to which he was President and Chief Executive Officer of Arnold Magnetic Technologies, a leading global manufacturer of engineered magnetic solutions. After an early career in Operations roles, Tim held increasingly senior positions with ENI (a division of Emerson Electrics) and Videojet (a division of Danaher Corporation), and has extensive international manufacturing and commercial experience.

BOARD OF DIRECTORS

Paul Lester, CBE
Non-Executive Chairman

Paul Forman
Chief Executive

Terry Twigger
Senior Independent Director

Stefan Schellinger
Group Finance Director

Tommy Breen
Non-Executive Director

Lorraine Trainer
Non-Executive Director

Mary Reilly
Non-Executive Director

Ralf K. Wunderlich
Non-Executive Director

Paul Lester, CBE N

Non-Executive Chairman

Appointed to the Board: December 2015

Skills and experience: Paul is currently Non-Executive Chairman of Forterra plc – the leading UK producer of manufactured masonry products – McCarthy & Stone plc – the UK's leading retirement housebuilder – and Knight Square Holdings – the property services business. Paul brings a wealth of experience to Essentra, gained in increasingly senior operational and strategic executive roles, and has also served on a number of Boards in a non-executive capacity for more than 20 years.

Other appointments: Non-Executive Chairman of Forterra plc, McCarthy & Stone plc and Knight Square Holdings.

Past appointments: Chairman of John Laing Infrastructure Fund, Greenergy and Parabis Group, Chief Executive of VT Group plc and Graseby plc, Group Managing Director of Balfour Betty plc, President of the Society of Maritime industries, the BSA and the Engineering Employers Federation.

Paul Forman N

Chief Executive

Appointed to the Board: January 2017

Skills and experience: Prior to joining Essentra, Paul was Group Chief Executive of Coats Group plc – the world's leading industrial thread manufacturer – for seven years, where he oversaw company rationalisation as well as growth through acquisition, instigated and delivered a clear vision and corporate strategy, drove material improvements in financial performance and built the momentum to position the business as an innovative and global industry leader.

Before assuming the role of Group Chief Executive, Paul held a number of increasingly senior operational and strategic positions at a variety of companies, and has a proven track record of international manufacturing experience at the highest level.

Other appointments: Non-Executive Director of Tate & Lyle plc.

Past appointments: Group Chief Executive of Coats Group plc and Low & Bonar PLC, Non-Executive Director of Brammer plc.

Terry Twigger A R N

Senior Independent 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 PLC.

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.

Stefan Schellinger

Group Finance Director

Appointed to the Board: October 2015

Skills and experience: Stefan joined Essentra in 2013, and prior to being appointed to his current position in 2015, he 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 activity. Before joining Essentra, Stefan was Finance Director – Emerging Markets at Gilbarco Veeder Root (a division of the Danaher Corporation) from 2011, having initially joined the Danaher Corporation as Director, Corporate Development – Europe in 2005. Stefan gained extensive investment banking experience as a Vice President at JP Morgan, having started his career in accountancy at Arthur Andersen.

Tommy Breen A R N

Non-Executive Director

Appointed to the Board: April 2015

Skills and experience: Prior to his recent retirement, Tommy was Chief Executive of DCC plc, an international sales, marketing, distribution and business support services group, headquartered in Dublin and with operations in 13 countries. Tommy brings significant experience to Essentra, in particular of growing diverse businesses both organically and via acquisition during his 30-year career with DCC.

Past appointments: Chief Executive of DCC plc.

Lorraine Trainer R A N

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, Senior Independent Director and Chairman of the Remuneration Committee of Jupiter Fund Management plc, Non-Executive Director of Sonae – SGPS, S.A.

Past appointments: Non-Executive Director of Aegis Group plc and Colt Group S.A.

Mary Reilly A R N

Non-Executive Director

Appointed to the Board: July 2017

Skills and experience: Mary is currently a Non-Executive Director of global media internet company Travelzoo – a US-listed publisher of travel entertainment and local offers – Ferrexpo plc – an iron ore mining company – Mitie Group plc – a facilities management company – Saranac Partners – a wealth management partnership – and the Department of Transport in the UK. Mary brings a wealth of accounting, finance and international management experience to Essentra, having previously been a Partner of Deloitte LLP for more than twenty years, as well as serving on a number of Boards in a non-executive capacity since 2000.

Other appointments: Non-Executive Director and Chair of the Audit Committee of Travelzoo and of Ferrexpo plc. Non-Executive Director of Mitie Group plc and Non-Executive Director and Chair of the Oversight Committee of Saranac Partners. Non-Executive Director and Chair of the Audit & Risk Committee of the Department of Transport.

Past appointments: Non-Executive Director of Cape plc, London 2012, the London Development Agency, Woodford Investment Managers, Crown Agents Ltd and Crown Agents Bank Ltd.

Ralf K. Wunderlich A R N

Non-Executive Director

Appointed to the Board: July 2017

Skills and experience: Based in Singapore, Ralf is currently a senior adviser to private equity firms and an independent consultant. He was previously President and Managing Director of Amcor Flexibles – Asia Pacific and a member of the Global Group Executive Team of Amcor, the world leader in packaging with operations in approximately 40 countries and revenue of approximately US$10bn. Ralf brings extensive international experience in the packaging industry to Essentra, gained over many years and through living and working across three continents.

Other appointments: Non-Executive Director of AptarGroup, Inc.

Past appointments: Non-Executive Director of AMVIG.

Committee membership key

- A Audit Committee
- N Nomination Committee
- R Remuneration Committee
- ◯ Committee Chairman

CHAIRMAN'S CORPORATE GOVERNANCE STATEMENT

Paul Lester, CBE
Chairman

I strongly believe that good governance is a cornerstone of a successful company, and is founded on the principles and behaviours established and demonstrated by the Board. Accordingly, in line with the core elements of the UK Corporate Governance Code (the "Code"), the Company has committed to a fully-fledged Governance Improvement Programme which will establish or restore clear leadership, effectiveness and accountability at the respective Board, Committee and Executive Management levels to drive better governance practices. As a Board we have established a clear commitment to ensuring the Company operates more effectively and efficiently as a result of better planning, improved process, more focused reviews and higher quality reporting, to deliver material performance improvements and the cultural change necessary for sustainable future growth.

Ensuring that the principles of the other Code elements of Executive Remuneration and Stakeholder Management are adhered to are other important considerations in ensuring shareholder trust in the Company, and these are discussed in more detail in the Remuneration Committee Chairman's Letter on pages 81 to 85.

Board evaluation

As the Company continues to develop, one of the greatest challenges facing the Board is to ensure that we have in place the right people, culture and process to exploit fully the opportunities available to Essentra, and to manage effectively the risks to which the organisation is exposed. Accordingly, it is essential that the Company has a fully engaged and committed Board with an appropriate mix of skills, experience and knowledge that is capable of engaging in positive and constructive debate to meet these challenges. Having committed to look afresh at the composition of the Board in 2017, I believe that the changes which have taken place during the year have fulfilled our objectives of increasing both diversity and international experience relevant to the Company and introducing valuable new perspective.

At the beginning of the year, the Company re-engaged Lintstock, an independent third party, to oversee and co-ordinate a Board evaluation. The evaluation focused particularly on the ways in which the Board can maximise its impact in support of Paul and the senior management team behind the new strategy and a reinvigorated and engaging culture. Following the evaluation, an appropriate action plan has been formulated and agreed to deliver further improvements in the leadership and effectiveness of the Board and progress against this plan is being reviewed on a regular basis. Particular actions which the Board took during 2017 to address some of the challenges which had been experienced in 2016 included:

> **Board dynamics** – improving the interaction, engagement and communication between the Board and management teams

> **Board oversight** – ensuring a clear cycle of agenda items, to facilitate appropriate steering and supervising focus on key issues

> **Board support** – improving the quality, content and timeliness of materials submitted to the Board

Summary

As the Company seeks to move towards an integrated, co-ordinated and effective governance model appropriate for Essentra's purposes, it is anticipated that the focus will evolve in nature and extent as current activities identify additional risks or process gaps which require attention.

Under the direction of the Chief Executive – and in support of the Company's strategy – we are collectively committed to driving significant improvements in our governance practices to secure stability, provide a solid foundation for future sustainable growth, restore stakeholder confidence and make Essentra the best company it can be. The Board will continue to focus on delivering further governance improvements at all levels of the organisation, to ensure that the fundamental behaviours and processes necessary to deliver good governance across Essentra are appropriately in place, and to rigorously pursue and achieve its objective of establishing FTSE 250 upper quartile best practice governance by 2020.

During 2017 the Company has identified the processes and procedures to be put in place to improve it's corporate governance structure. The next 12 months will see the implementation of these processes and practices, with increased emphasis and focus on the management of risk and the embedding of appropriate risk-based assurance throughout Essentra.

With the Board having effectively energised the corporate governance structure, the challenge during 2018 will be to drive these changes and culture throughout the organisation. However, with effective and appropriate investment in people, time and resources, my Board colleagues and I are convinced that the benefits of the change programme are already evident across the Company.

PAUL LESTER, CBE
Chairman
2 March 2018

CORPORATE GOVERNANCE FRAMEWORK

Our Governance Improvement Programme is designed to ensure that there is an effective corporate governance framework, supported by robust processes, procedures and controls, which by 2020, is aligned with FTSE 250 upper quartile best practice.

Board effectiveness

A high performing Board is a fundamental component of any effective corporate governance framework, with continuous improvement in the contribution of the Board being driven by a programme of actions arising from a thorough, independent Board evaluation process each year.

In 2017, the Company engaged Lintstock Ltd to facilitate an interview-driven review of the performance of the Board and each of its Committees.

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 survey content to the Company's specific circumstances. Board members were then requested to complete an online questionnaire addressing the performance of the Board, its Committees and the Chairman, as well as their own individual contribution to the Board.

Lintstock subsequently conducted interviews with the Board members, enabling them to expand on their responses to the questionnaire. The anonymity of all respondents was ensured throughout the process, in order to promote the open and frank exchange of views.

Lintstock presented their report during a meeting of the Board, addressing the following areas:

- The current composition of the Board, and any particular considerations relevant to any potential new Director appointments
- The management of Board and Committee meetings, including the quality of the Board and Committee meeting packs
- The Board's relationships with, and exposure to, management both inside and outside the boardroom
- The Board's understanding of the component parts of the business, as well as the Board's oversight of strategy, major projects and the main risks facing the business
- The delegation of authority from the Board to senior management, alongside the Board's oversight of the performance of management
- The identification of the priorities for the new Chief Executive, as well as the priorities for improving the Board's performance over the coming year
- The performance of each of the Board Committees in fulfilling their mandates

Further to the completion of the questionnaires, an action plan was drawn up which was and continues to be regularly reviewed for progress at scheduled Board meetings. The priority items to address were identified as:

- **Board dynamics** – increasing the Board's engagement, support and ability to challenge the senior management team
- **Board oversight** – ensuring clear agendas and annual cycle of reviews to facilitate appropriate steering and supervising focus on key issues
- **Board support** – improving quality, content and timeliness of materials submitted to Board

Essentra has engaged Lintstock to conduct a follow-up review in early 2018, in order to review the progress made since this initial exercise. The findings of the detailed review will be presented to the Board by Lintstock.

The Board

The Board's role is to provide leadership to the Company and to be responsible to the shareholders for the long-term success of the Company.

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 the Company's 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

Some matters are reserved exclusively for decision by the Board, while others are delegated to the Board Committees as follows:

The Audit Committee supports the Board and is responsible for: monitoring the integrity of the Company's Financial Statements; reviewing, challenging and approving its accounting policies; and scrutinising the effectiveness of the internal and external auditors and the Company's internal control and risk management systems.

The Remuneration Committee is established by the Board and is responsible for setting a remuneration policy for Directors and senior executives, which should be designed to promote the long-term success of the Company, taking into consideration shareholders and other stakeholders. The Remuneration Committee should determine an appropriate balance between fixed and performance-related and immediate and deferred remuneration. The Remuneration Committee is also responsible for setting the fees of the Chairman.

The Nomination Committee is responsible for regularly reviewing the structure, size and composition of the Board for any changes that it considers to be appropriate. The Nomination Committee will lead the process for board appointments and make recommendations to the Board. In selecting and recommending candidates for appointment, the Nomination Committee should evaluate the balance of skills, experience, independence knowledge and diversity on the Board and the future challenges and opportunities facing the Company.

The terms of reference for each of the Audit, Remuneration and Nomination Committee can be found on the Company's website www.essentraplc.com or on request from the Company Secretary & General Counsel.

The Group Management Committee ("GMC") provides general executive management of Essentra within agreed delegated authority limits determined by the Board of Directors. Specifically, the GMC will support the Chief Executive in reinforcing Essentra's six principles.

The Group Risk Committee ("GRC") is responsible for monitoring principal and key group risks, and ensuring the effectiveness of divisional and functional risk management. Further details of the Company's risk management framework can be found on page 40.

Divisional Boards operate within a mandated agenda, which includes, health and safety, governance, strategy and performance.

CORPORATE GOVERNANCE REPORT

Board membership and meeting attendance

As at the date of this report, the Board has eight members, comprising a Non-Executive Chairman, two Executive Directors and five Non-Executive Directors. The names of the Directors serving during the year and at the date of this report are set out below.

	Meetings during the year
Paul Lester Non-Executive Chairman	8 (8)
Paul Forman Chief Executive appointed 1 January 2017	8 (8)
Terry Twigger Senior Independent Director	8 (8)
Stefan Schellinger Group Finance Director	8 (8)
Tommy Breen Non-Executive Director	7 (8)
Mary Reilly Non-Executive Director appointed 1 July 2017	4 (4)
Lorraine Trainer Non-Executive Director	8 (8)
Ralf K. Wunderlich Non-Executive Director appointed 1 July 2017	4 (4)
Colin Day Executive Director retired 20 April 2017	0 (2)
Peter Hill Non-Executive Director retired 20 April 2017	2 (2)

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

Tommy Breen was unable to attend one of the meetings due to a long-standing prior commitment.

Colin Day remained as a Director of the Company until after the AGM in April 2017, although he retired as Chief Executive on 1 January 2017. Colin was available to support the Board during this period, but he did not attend the Board meetings given the appointment of Paul Forman as the new Chief Executive.

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") 2016 published by the Financial Reporting Council ("FRC"), a copy of which can be found on its website www.frc.org.uk.

The Board has reviewed its operations and governance framework and confirms that, as at the date of this report, the Company has complied with the provisions set out in the Code.

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

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 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 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.

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 Director ("SID"), 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.

Chairman

- Leads the Board
- Ensures effective communication with shareholders
- Ensures effective communication flows between Directors and executive management
- Facilitates the effective communication of all Directors
- Responsible for effective corporate governance

Chief Executive

- Implements the strategy which has been set by the Board
- 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

Senior Independent Director ("SID")

> Provides a "sounding board" for the Chairman

> Serves as an intermediary for the other Directors when necessary

> Acts as an alternative point of contact for shareholders where contact through the normal channels of Chairman, or other Executive Directors has failed to resolve any concerns, or for which such contact is inappropriate

> Leads the annual assessment of the effectiveness of the Chairman

Non-Executive Directors

> Provide constructive challenge to executive management

> Bring experience and objectivity to the Board's discussions and decision-making

> Monitor the delivery of the Group's strategy against the governance, risk and control framework established by the Board

> Are responsible for evaluating the performance of the Chairman, led by the SID

Company Secretary

> Maintains a record of attendance at Board meetings and Committee meeting

> Is responsible for ensuring good information flows to the Board and its Committees, and between senior management and the Non-Executive Directors

> Advises the Board on all regulatory and corporate governance matters

> Assists the Chairman in ensuring that the Directors have suitably tailored and detailed induction and ongoing training and professional development programmes

The Board maintains that, for the year ended 31 December 2017, the Non-Executive Directors were each considered to be independent. In making this assessment of 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 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 aware of current external commitments for all of the Non-Executive Directors, who are also required to discuss any additional external appointments with the Chairman prior to their acceptance, in addition, the time commitments of the Chairman are the subject of review by the SID, in conjunction with the other Non-Executive Directors.

While there were no material changes to the time commitment of the Chairman during the year, the Board took note of Paul Lester's appointment as Chairman of McCarthy & Stone plc at its AGM on 24 January 2018. The Board has considered Paul Lester's commitment of time to the Company in light of this and other external positions, and concluded that he would continue to be able to fully satisfy his obligations to Essentra. In considering the Chairman's continued time commitments to the Company, the Non-Executive Directors also viewed positively his exemplary attendance record at Essentra, ensuring that he was able to attend 100% of Board and Committee meetings throughout the year. The Board expects this attendance record to continue going forward, and Paul Lester has given assurances to this end of his continued commitments to the Company, in line with expectations outlined in his Letter of Appointment.

Regarding the time commitments of Tommy Breen, it is noted that he retired as the Chief Executive of DCC plc and therefore will have sufficient time for the Senior Independent Director role which he will be undertaking with effect from the 2018 AGM.

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

Executive Directors may accept outside appointments, provided that such appointments do not in any way prejudice the ability to perform their duties on behalf of Essentra.

Paul Forman, Chief Executive, currently holds one external non-executive position, and the Board is of the view that this is not detrimental to the performance of his duties given the time requirements involved.

Colin Day was an Executive Director until April 2017, during which time he held three external non-executive positions.

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 compliance with the Code, all eligible Directors will put themselves forward for re-election on an annual basis. The Board is satisfied that each of the Directors being put forward for re-election continues to be effective and that their ongoing commitment to the role is undiminished.

The conduct of Board matters
In managing the affairs of the Company, the Board's agenda is set by the Chairman, in conjunction with the Company Secretary & General Counsel, and deals with an adopted schedule of reserved matters which are to be reviewed annually including:

> Strategy and resources
> Annual planning
> 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
> Risk appetite
> Health and safety

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

During the year, there were eight scheduled Board meetings. In addition to these scheduled formal meetings, the Board met on a number of other occasions as required, and, in particular, the Directors met to review and agree the strategy on two separate occasions.

In conjunction with the continuous review of the strategy and monitoring the progress in stabilising the Company, the Board evaluated the appropriate deployment of capital in the business, including the development of the dividend policy along with a clear and increased emphasis on cash generation and returns necessary to ensure the long-term growth and success of the Company.

At each meeting the Board considers reports from the Chief Executive and the Group Finance Director covering operational, financial performance and other significant business matters together with regular updates on any material issues which may impact the Group. Board meetings are structured to allow open discussion.

Other noteworthy matters considered by the Board in 2017 include:

> Review of the Governance Improvement Programme
> Agreement to the disposal of the Porous Technologies businesses
> Agreement to the disposal of the packaging business based in Bristol
> Revised strategy and resourcing for Health & Safety
> Agreement to the closure of the Newport cartons facility
> Review of the new Group organisation structure
> Revision of Human Resources strategy, including engagement, succession and diversity
> Consideration of Brexit implications
> Approval of the Company's trading statements, full year and half year results and quarterly trading statements
> Refinancing of the Company's debt facilities
> Approval of a revised Code of Ethics and Right to Speak policy

With the recent changes to the Board, and particularly the appointment of the Chairman, there has been improved communication between the Chairman and the Non-Executive Directors, including meetings between the Chairman and the Non-Executive Directors without the Executive Directors present. Led by the Senior Independent Director, the Non-Executive Directors also met without the Chairman present to appraise his performance. Regular contact is also maintained with the Chief Executive. Further to the formal Board meetings there is an enhanced programme of meetings, both formal and informal, in line with recommendations of the Board evaluation action plan, with members of the senior executive management.

During the year, as part of the Company's Governance Improvement Programme and in conjunction with the externally facilitated Board evaluation conducted by Lintstock, the Board undertook a review of its meeting processes. This included the provision of meeting papers, annual schedule of agenda items and the future calendar of meetings, and should enable the Board to improve its ability to operate more effectively. In 2017 the Board held one of its meetings at a UK facility and it is intended that further locations will host meetings during 2018, so that the Board has the opportunity to engage with local management and derive a better understanding of the Company's operations and business model.

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 as appropriate, within delegated authority limits and in accordance with clearly defined systems of internal control.

In support of the operational reports provided during the year, the Board received detailed presentations from senior management across a range of businesses within the Company, and considered reports from enabling functional management about matters of material importance to the Company which arose from time to time.

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 GMC consists of the Chief Executive, Group Finance Director, Divisional Managing Directors or Presidents and the respective heads of the enabling Group functions. Full details of the membership of the GMC can be found on pages 60 to 61.

As part of the Governance Improvement Programme Essentra has established that, in order to continue to implement effective corporate governance within the Group, the GMC needs to drive new working practices and behaviours through the establishment of clearly defined annual agendas for reporting, reviewing and decision making.

The Board 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 structure. 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.

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 2017, the Group Human Resources 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 in the Corporate Responsibility statement on pages 50 to 57 and on the Company's website www.essentraplc.com.

Diversity

Essentra is focused on providing a safe, respectful and diverse working environment.

The Company's new six principles, which were communicated during 2017 (details of which can be found at www.essentraplc.com), include specific reference to the importance of diversity in supporting the Company's stability, strategy and growth objectives. Essentra has begun a Diversity & Inclusion programme, with some externally facilitated support, to ensure behaviours fully reflect the principles of diversity and inclusion across the Company, and it is intended to develop a specific policy as part of that programme. Indeed, one of the key findings from the 2017 employee engagement survey was the importance of ensuring that diverse perspectives are valued within the Company, and Essentra is committed to establishing an inclusive culture where diversity is embraced by everyone and makes Essentra a rewarding and successful place to work.

Conflict of interests

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. During the year, the Conflict of Interests policy, which governs the responsibilities of Directors in such situations, was reviewed. The decision to authorise a conflict of interest can only be made by non-conflicted Directors (ie, 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 issues may arise. The Conflict of Interests register and the schedule of Directors' Interests is reviewed at each Board meeting. 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.

During the year, two new Non-Executive Directors were appointed. A comprehensive induction programme was embarked upon which has involved them visiting a number of sites, both in the UK and overseas. There have also been a number of meetings held with the senior management team, in order to gain a better understanding, of the Group and the key challenges surrounding its future strategic objectives. One of the new Non-Executive Directors, Ralf K. Wunderlich, undertook additional training to reinforce the key considerations that a Non-Executive Director should be aware of in relation to the role and responsibilities for a UK public limited company.

All Directors have access to the advice and services of the Company Secretary & General Counsel, and for the year under review, his 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.

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 public announcements, the corporate website and other published material.

All shareholders can meet any of the Directors of the Company should they so wish. In particular, the SID is available to shareholders should they have concerns or wish to share their views. Feedback from meetings with shareholders is provided to the Board so they are aware of any issues or concerns, and ensures that the Board has a balanced view from the major investors. 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 is 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 Company also communicates regularly with its major institutional shareholders and ensures that all the Directors, including the Non-Executive Directors, understand the views and concerns of major shareholders, and can explain business developments and financial results as appropriate. The Chief Executive, Group Finance Director and Investor Relations Director have primary responsibility for investor relations. Presentations for analysts and shareholders were held during the year, and meetings were also undertaken 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. The Company ensures that any price-sensitive information is released to all shareholders at the same time, in accordance with regulatory requirements.

Board roles

The SID, 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.

Terry will retire as a Director following the 2018 AGM. Tommy Breen will be appointed as the SID from that date subject to his re-election as a Director at the 2018 AGM.

Financial reporting

The Directors have acknowledged, in the Statement of Directors' Responsibilities set out on page 112, 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 a statement about their reporting responsibilities in the Independent Auditor's Report, set out on pages 182 to 190.

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

Directors' and Officers' insurance

In accordance with the Company's Articles of Association, and to the extent permitted by the laws of England and Wales, the Directors are granted an indemnity from the Company in respect of those liabilities incurred as a result of their office. During the year, the Deed of Indemnity was reviewed and updated to take into consideration current best practice and changes to the applicable legislation since the Deed was originally drafted. In respect of those matters for which the Directors may not be indemnified, the Company maintained a Directors' and Officers' Liability Insurance policy throughout the year. It is anticipated this policy will be renewed. Neither the Company's indemnity, nor the insurance provides cover, to the extent that a Director is proven to have acted dishonestly or fraudulently.

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.

Overseeing 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.

In order to strengthen the Company's internal control systems, and in accordance with the implementation of the Governance Improvement Programme a number of actions have been put in place which should serve to ensure a clear focus by the executive management team on the key requirements for effective internal control and appropriate reporting and monitoring.

The Audit Committee takes responsibility for reviewing the Essentra internal controls through its engagement with the Group Assurance function. While Essentra has a well-established internal audit function, potential opportunities for improvements in its effectiveness to drive a high quality internal control system, to deliver value to the respective businesses and to support change management were identified.

The Audit Committee is committed to a prioritised and structured programme to drive improvements in the effectiveness of the internal audit function through better engagement with the businesses and further reduce the risk of error, fraud or poor practice. Template agendas for Divisional Boards have been implemented which ensures that a structured and detailed approach is adopted in reviewing governance, strategy and performance reviews. It is anticipated that this should deliver greater visibility on potential internal control concerns or process gaps and drive appropriate executive and management responses on a risk-based approach.

The following enables the Board to review the effectiveness of the system of internal control:

- The Audit Committee meets regularly and reports to the Board, no less frequently than at every Board meeting following an Audit Committee meeting
- The terms of reference provide a framework for the Audit Committee to review and oversee the quality, integrity, appropriateness and effectiveness of the Group's internal control framework
- 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 (including financial) and procedures at both the half year and year end

Policies and procedure – 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. The improvement initiatives for 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. Divisional Managing Directors and Presidents are responsible for ensuring the communication of, and compliance with, Essentra's internal controls across their respective businesses.

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 appropriate 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

There is a Group risk framework in place to support the Board in fulfilling these responsibilities and to ensure that risk review processes are embedded within the business. Further details of the Company's risk management framework and activities during 2017 are provided on pages 40 to 49.

NOMINATION COMMITTEE REPORT

Nomination Committee

Committee Chairman: Paul Lester

Membership and attendance during the year

	Meetings during the year
Paul Lester Non-Executive Chairman	4 (4)
Terry Twigger Senior Independent Director	4 (4)
Tommy Breen Non-Executive Director	4 (4)
Mary Reilly Non-Executive Director	1 (1)
Lorraine Trainer Non-Executive Director	4 (4)
Peter Hill Non-Executive Director	1 (1)

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.

Following a review of the Nomination Committee's terms of reference, the membership requirements were revised. Membership of the Nomination Committee can now comprise a majority of independent Non-Executive Directors. The Chief Executive, Paul Forman, was appointed as a member effective 15 December 2017.

Terry Twigger will be retiring as a Director after the 2018 AGM along with his membership of the Nomination Committee, and Ralf K. Wunderlich has been appointed to the Nomination Committee with effect from 1 March 2018.

Other attendees

During 2017, the Chief Executive and the Group Human Resources Director attended by invitation as appropriate.

The Nomination Committee is responsible for regularly reviewing the structure, size and composition of the Board for any changes that it considers to be appropriate. The Nomination Committee leads the process for board, appointments and makes recommendations to the Board. In selecting and recommending candidates for appointment, the Nomination Committee evaluates the balance of skills, experience, independence knowledge and diversity on the Board, taking into account the future challenges and opportunities facing the Company.

During the year, the Nomination Committee met four times to discuss general succession planning for the Board and the appointment of the new Non-Executive Directors.

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 its international operations at all levels.

Nomination Committee 2017 key activities

> Reviewed the composition and structure of the Company's Board and the Committees

> Reviewed the succession planning for the Board and senior executives, and in doing so considered diversity, experience, knowledge and skills

> Reviewed the capabilities of external consultants to assist the Committee in the search for, and evaluation and appointment of, new individuals to the Board and its Committees

> Developed, in conjunction with external consultation, the key requirements for the new appointments to the Board, and assessed the capabilities of potential candidates

> Made recommendations to the Board for the appointment of Ralf K. Wunderlich and Mary Reilly as new Non-Executive Directors

> Agreed the appointment of Tommy Breen as the Senior Independent Director, following the retirement of Terry Twigger at the 2018 AGM

> Agreed the appointment of Mary Reilly as the Chairman of the Audit Committee following the retirement of Terry Twigger at the 2018 AGM

> Reviewed and agreed revised Terms of Reference for the Nomination Committee

> Agreed the appointment of Paul Forman as a member of the Nomination Committee

The Nomination Committee was satisfied that the appointment of Ralf K. Wunderlich and Mary Reilly will provide the Board and the Group with the necessary skills and current experience relevant to the activities of the Company and its future development. The biographies of Ralf and Mary are available on page 63.

Korn Ferry and Ridgeway Partners were engaged to assist the Nomination Committee in the potential recruitment of additional Non-Executive Directors as part of the succession planning activities.

There is no related party connection with Korn Ferry or Ridgeway Partners, and the assignments were undertaken on an arm's length basis.

AUDIT COMMITTEE CHAIRMAN'S LETTER

Terry Twigger
Audit Committee Chairman

Dear Shareholder,

As Chairman of the Essentra plc Audit Committee, I am pleased to present the 2017 Audit Committee Report to shareholders, and to be able to confirm, on behalf of the Board, that the Annual Report is fair, balanced and understandable.

The report aims to provide the following information:

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

> 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 accounting judgements and / or financial reporting issues

> Details of the ongoing review of the External Auditor and the amount of non-audit work undertaken

The arrival of Paul Forman as Chief Executive at the beginning of 2017, after a period of financial performance challenges for the Company, provided the stimulus for a reassessment of the overall corporate governance practices across the Group.

The work of the Audit Committee during the year has continued to focus on the integrity of the financial reporting and monitoring the relationship with PwC following their formal appointment as the Company's External Auditor at the AGM in April 2017. In addition, with Paul's commitment to the Governance Improvement Programme designed to deliver FTSE 250 top quartile best practice governance by 2020, the Audit Committee has spent considerable time assessing the nature and extent of the internal control environment and engaging with specialist external resource in conjunction with the Company, to assess opportunities to improve the effectiveness of the existing risk management, internal audit and compliance practices.

With the creation of a new Legal, Risk & Governance function, headed by the Company Secretary & General Counsel and the addition of new resource, the Company has begun to implement a number of improvement initiatives in a prioritised and structured manner agreed by the Board, and that programme will continue throughout 2018 and beyond into 2020. In accordance with of reference and having regard to the continued evolution of the improvement programme in response to the demands of the Board. The Audit Committee has engaged extensively in the review and assessment of potential improvement opportunities and overseen the implementation of a number of changes to policy, processes and practice.

During the year, the key projects in which the Audit Committee has participated include:

> An independent assessment of the Company's internal audit processes and capability was undertaken by specialist external resource. The review was focused on identifying potential improvements to the existing management framework and resourcing practices and priorities, in order to drive better engagement with the businesses and effectively support the governance improvement initiatives. The Company is continuing to work with specialist external resource in the delivery of an internal audit capability aligned with best practice risk assurance by 2020, while the Audit Committee maintains its focus on the robustness of the internal control environment through the activities of the internal audit team.

> A comprehensive review by an expert external risk consultant, assessing the nature and extent of the risk management practices within the Company. As a result of that review, the Company has implemented new policies and management frameworks for the better identification, assessment and mitigation of enterprise and business continuity risks. Further details can be found on page 40 in the Management of Principle Risks Report. During 2018, the Audit Committee will be carefully reviewing the consistent implementation of the changes which have been agreed, and ensuring that the new frameworks and processes are providing the anticipated improvements in the quality and effectiveness of the Company's risk management practices.

- An independent assessment on the effectiveness of Essentra's data management and security processes, and the new practices and procedures required in preparation for the new EU General Data Protection Regulations which come into effect in May 2018. The Company is undertaking a number of actions in response to the findings and recommendations of that report, and the Audit Committee has continued to track progress with the implementation programme.
- A comprehensive review of the Company's insurance programme coverage and associated management practices and processes, to assess the quality of the coverage and compliance with fair presentation, disclosure and reporting requirements, to ensure the effectiveness of the coverage available in response to any claims. The review was undertaken by Mactavish, and the Company is undertaking a number of activities in response to their recommendations and will continue to work with Mactavish during 2018.

I believe that the Audit Committee comprises the necessary experience, expertise and financial understanding to continue to effectively fulfil its responsibilities and to continue to input significantly into the various improvement initiatives. I am confident that Mary Reilly, who has already made a significant impact as a member of the Audit Committee since her appointment in July and is succeeding me as Chairman, will bring new and additional experience and a fresh perspective and approach, which will provide a valuable addition to the capabilities of the Audit Committee and assist the Company considerably in the successful delivery of its 2020 governance objectives. A key activity for the Audit Committee in 2018 will be to review the progress of the implementation activities and to assess the effectiveness of the improvements being made.

In order for the Audit Committee to provide positive assurance to the Board, that the Annual Report, when taken as a whole, is fair, balanced and understandable – and also provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy – the following processes and controls were followed during the year:

- An annual update is made to the Audit Committee on the fair, balanced and understandable requirement, including early notification of the matters under consideration for inclusion or otherwise in the narrative reporting of the 2017 full year results. The Audit Committee undertakes a similar assessment at the half year, to ensure a consistent and diligent approach to the requirement covering the year
- An experienced core team, with expertise covering financial reporting and regulatory compliance, is responsible for the co-ordination of content submission and verification, and ensuring that there is a detailed review and challenge of the reporting
- Senior management confirms that the content regarding their respective area of responsibility is considered to be fair, balanced and understandable

The diligent adherence to these comprehensive processes, as overseen by the Audit Committee, provide assurance to the Board that the statement required by the 2016 UK Corporate Governance Code can be given.

As previously reported, following a tender process completed during 2016, PriceWaterhouseCoopers ("PwC") were formally appointed as the external auditor following the 2017 AGM. The transition from KPMG has been completed in a seamless way, and PwC have performed very well during their first year. I am sure that they will continue to work effectively with Mary and the rest of the Audit Committee in the future.

I would like to thank KPMG for their approach and assistance in ensuring the smooth transition and for their work as external auditor since 2005.

This is my final report as Chairman of the Audit Committee, and I would like to thank the members and the Board as a whole for their work and support during my tenure at Essentra, and to wish them and the Company as a whole every success for the future.

TERRY TWIGGER
Audit Committee Chairman
2 March 2018

REPORT OF THE AUDIT COMMITTEE

Audit Committee

Committee Chairman: Terry Twigger

Membership and attendance during the year

	Meetings during the year
Terry Twigger Chairman	4 (4)
Mary Reilly Non-Executive Director	2 (2)
Tommy Breen Non-Executive Director	4 (4)
Lorraine Trainer Non-Executive Director	4 (4)
Peter Hill Non-Executive Director	1 (1)

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, Group Financial Controller, 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 (up to April 2017) and PricewaterhouseCoopers ("PwC") (appointed after the 2017 AGM), and the Group Head of Assurance without the Executive Directors being present.

During the course of the year, the Audit Committee also received presentations from Ernst & Young, KPMG LLP, the Group Head of Tax and the Group Chief Information Officer.

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.

Terry Twigger is retiring from the Board and as Chairman of the Audit Committee after the 2018 AGM. Mary Reilly will be replacing Terry as the Chairman and is currently working with him to ensure a smooth transition of the role. Further details of Mary's qualifications can be found on page 63.

As a whole the Audit Committee believe that its members are competent in the business sectors within which the Essentra Group operates.

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

During early 2017, the Company engaged Lintstock Ltd to facilitate an interview-driven review of the performance of the Audit Committee, in conjunction with a full review of the Board and the other Board Committees. The particular focus for the Committees was to ensure that the meeting mandates were fully addressed. Recommendations concerning the performance of the meetings were made and an action plan put in place to address these points.

There is an annual cycle of items considered by the Audit Committee. These items are scheduled in accordance with the requirements of the external audit cycle and any other requirements of the Audit Committee's responsibilities, as detailed in its terms of reference. The annual agenda was reviewed during the year as part of the ongoing Governance Improvement Programme and as part of the transition to a new Audit Committee Chairman to ensure that it remains appropriate.

The current terms of reference for the Audit Committee are available at www.essentraplc.com. A substantive review of the terms of reference is to be carried out after the conclusion of the FRC review of the UK Corporate Governance Code, to ensure alignment with best practice in the context of Essentra.

The terms of reference provide a framework for the Audit Committee's work during the year, to review and oversee the quality, integrity, appropriateness and effectiveness of the Group including:

- Financial statements and external financial reporting
- Significant financial judgements
- Tax activities
- Compliance programme
- Cyber security response
- Relationship with, and performance of the external auditor
- System of internal control

- Internal audit function
- Risk management processes and practices

Financial Statements and External Financial Reporting
As part of recommending for approval the 31 December 2017 Annual Report and Accounts and the 30 June 2017 Half Year Report, the Audit Committee reviewed, examined and challenged the Group Finance Director and External Auditor on their respective assessments including, in particular; going concern basis of preparation; accounting policies and disclosures, any financial reporting issues; significant financial judgements made (see below) and levels of disclosure to ensure that the reports are fair, balanced and understandable.

Additionally the Audit Committee reviewed the contents and suitability of the Long-Term Viability Statement was reviewed in-depth and the Audit Committee challenged the risk scenarios and potential impacts outlined by the Company prior to confirming its support and approval of the statement.

The Audit Committee was presented with information and advice regarding new IFRS pronouncements that would be applicable to Essentra for the 2017 financial period and reviewed plans for the implementation, in future years, of IFRS 15 *Revenue from Contracts with Customers*, IFRS16 *Leases* and IFRS9 *Financial Instruments: Recognition and Measurement*.

Significant financial judgements
Tax liabilities
The Group is, from time to time, subject to tax assessments that may 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 Group operates in a number of tax jurisdictions, and recognises tax based on interpretation of local laws and regulations which are sometimes uncertain. Where the amount of tax payable is uncertain, the Directors are required to exercise significant judgment in determining the appropriate amount to provide in respect of potential tax exposures and uncertain tax positions. The Audit Committee challenged the nature and extent of the tax provisioning of the Company and saught assurance that the Company was working diligently to resolve outstanding liabilities in an appropriate fashion.

Uncertain tax positions continue to be a focus of the full year work. There is a focus on the uncertainty over the Group's transfer pricing position and deductibility of interest as a result of US debt financing and tax positions in respect of the Porous Technologies disposal.

The Audit Committee reviewed the tax liabilities which existed at the start of the year, and those created during the year and the effective tax rate – together with their corresponding assumptions. The Audit Committee questioned and challenged the Group Finance Director and Group Head of Tax as to the Company's risk attitude in this area.

Upon consideration of the Company's explanations and the External Auditor's conclusions, the Audit Committee was satisfied that the tax liabilities were appropriate, and that the Group's tax disclosures were adequate given the nature of the Group's activities.

Revenue recognition
There are a large number of sales transactions that are incurred across the Group. Given the risk that revenue may be recognised in the incorrect period over reporting dates, the Group needs to ensure that there are effective controls regarding the recording of sales transactions.

Revenue recognition continued to be a key area of audit focus, and the external auditor addressed the potential issue with the Audit Committee during the planning and scoping of the external audit process.

Goodwill and intangible assets
As required by IAS 36, the Company undertakes an assessment of the carrying value of intangible assets on an annual basis, or more frequently if there is an indication of impairment. The details of the work carried out and the results are in note 8 of the Notes to the Financial Statements.

In the prior year, an impairment loss of £123.9m was recognised against the Packaging division (formerly Health & Personal Care Packaging ("H&PCP") division), and further potential impairment risk was assessed in the H&PCP division based on the underlying trading performance of particular components and the closure of the Newport folding cartons site in the UK. The assumptions for 2018 and beyond (such as the annual growth rate and the terminal growth rate) are based on the 2018 annual plan and management's best estimates of the performance in subsequent years. The impairment reviews performed by management contain a number of significant judgements and estimates including revenue growth, profit margins and discount rates. A change in these assumptions can result in a material change in the valuation of the assets and a further impairment charge.

The Audit Committee evaluated and challenged the methodology of the impairment review and the assumptions on which it was based, including the financial plans approved by the Board. Taking into account the external auditor's review, the Audit Committee is satisfied that the impairment assessment is appropriately carried out.

Exceptional items
The Financial Statements include certain items which are disclosed as exceptional. The nature of these exceptional items is explained within the Group accounting policy, and includes transaction costs and gains or losses relating to acquisitions and disposals of businesses, acquisition integration and restructuring costs, and other items such as impairment losses.

Following an extensive review, the Audit Committee is satisfied that the Group's definition of exceptional items remains clear and that appropriate level of disclosure is included.

The definition remains consistent with the prior year, and in the current year the Audit Committee has been involved in assessing the appropriateness of items presented within exceptional items including impairment and restructuring activities on the basis that they are one-off material items which are presented separately to allow a better understanding of the Group's ongoing activities. Further details can be found in note 2.

Tax activities
The Group Head of Tax presented to the Audit Committee a report detailing the Company's tax strategy, governance, planning and attitude to tax risk. The presentation set out the key activities that the tax department was engaged upon regarding the management of these tax-related matters, and the nature and extent of the tax provisions maintained by the Company. The Audit Committee considered these activities in conjunction with advice from the Group Finance Director, and was satisfied with the approach being taken by the Company.

Compliance programme
The Audit Committee continued its regular review of the Group's compliance activities and received regular presentations from the Company Secretary & General Counsel, including the recommendation, for approval by the Board, a revised Ethics Code and Right to Speak policy. At each meeting, reports are presented detailing any claims made under the Company's independent Right to Speak process.

The Audit Committee noted the continued investment being made by the Company in systems designed to better facilitate compliance policy management and training across the Group, and to deliver due diligence processes to assist in the management of third-party risk while monitoring any developments in the regulatory environment and assessing any impact to the Company.

The Audit Committee has overseen the Company's proposals for the future delivery of further improved compliance practices, with a new Group Risk & Compliance Manager assuming responsibility for the strategic development of the compliance programme into 2018 and beyond, and additional support to better enable the delivery of the programme in response to key compliance risks.

Cyber security
Cyber security risk remains an important matter for constant monitoring. During the course of the year, the Audit Committee further assessed the Company's programme to respond to potential threats to the integrity of its IT systems through a presentation provided by the Chief Information Officer.

External Auditor
During the year the Audit Committee:

> Reviewed and agreed the scope and strategic nature of the audit work to be undertaken

> Agreed the terms of engagement and fees to be paid to the External Auditor

> Reviewed the qualifications, expertise, resources and independence of the External Auditor and assessed its performance

> Reviewed proposals for the engagement of the External Auditor for non-audit services and confirmed that their independence was safeguarded

> Reviewed the level of non-audit work being carried out by the External Auditor and other external audit assignment providers

Assessment of the External Auditor
The Audit Committee is provided with reports, reviews, information and advice throughout the year, as set out in the terms of the External Auditor's engagement. Performance is formally assessed by the Audit Committee in conjunction with the GMC and the Audit Committee remains satisfied that the External Auditor is effective and provided appropriate independent challenge to the Company's management. In making this assessment, the Audit Committee had due regard to their expertise, resourcing and independence.

Independence of the External Auditor
In order to fulfil its responsibility, the Audit Committee reviewed a report from the External Auditor describing the arrangements to identify, report and manage any conflicts of interest, and reviewed and considered the extent of non-audit services provided by the External Auditor.

Effectiveness of the External Auditor
The Audit Committee reviewed the External Auditor's fulfilment of the agreed audit plan and variations therefrom; reports highlighting the major issues that arose during the course of the audit; and feedback from the businesses, evaluating the performance of each audit team.

Engagement of the External Auditor
The External Auditor is engaged to express an audit opinion on the truth and fairness of the Financial Statements. The audit includes the review and testing of the system of internal financial controls and the data contained in the Financial Statements to the extent necessary.

As reported last year, and in line with the changes made to the UK Corporate Governance Code in 2012 (which recommended that the external audit is put out to tender at least every ten years), PwC were selected as the Company's External Auditor for the year ending 31 December 2017 and were duly appointed at the 2017 AGM.

In order to protect independence and objectivity and provide fresh challenge to the business, the External Auditor periodically changes the audit partners at a Group, divisional and country level, in accordance with professional and regulatory standards. Such changes are carefully planned to ensure that the Group benefits from staff continuity without incurring undue risk of inefficiency.

The External Auditor is required to rotate the lead partner every five years, and such changes will be carefully planned to ensure business continuity without undue risk or inefficiency. The current audit partner is Nicholas Stevenson.

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. The Company will continue to consider on a regular basis any potential benefits from tendering the audit process having regard, in particular, to the importance of audit quality or the continued independence of the External Auditor. There are no contractual obligations in place that restrict the Company's choice of statutory auditor.

Non-audit services policy
The Audit Committee believes that it is important to maintain the objectivity and independence of the External Auditor by minimising its involvement in projects of a non-audit nature. 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, tax services (outside the EU) and other services. The Audit Committee reviewed and agreed a new policy reflecting best practice 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 Audit Committee Chairman is authorised by the Company to engage the External Auditor on non-audit related work where the fees per project are not considered to be significant, provided that the annual aggregate of non-audit related fees shall not to exceed 70% of the average of the fees paid in the last three consecutive financial years, without the approval of the Committee. The External Auditor may not be engaged to provide a non-audit service when the objectives of the service would be regarded by a reasonable and informed third party as conflicting with the objectives of the external audit.

Details of the fees paid to KPMG to April 2017, and afterwards PwC up until 31 December 2017, can be found in note 2 to the Financial Statements on pages 132 to 134, which includes fees paid to the External Auditor and its network firms for audit services, audit-related services and non-audit services.

Internal control and internal audit
The Audit Committee reviewed the effectiveness of the Group's internal controls and disclosures made in the Annual Report and Financial Statements, and 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 throughout the Company and attends each Audit Committee meeting, presenting regular reports which included the consideration of any issues relating to the status of internal controls and potential risks, and assessed the progress of actions in response to any identified concerns.

The Audit Committee agreed the annual internal audit plan, which is drawn up by the Group Head of Assurance on a risk-based approach across a broad section of the Company's activities. The Audit Committee reviewed any significant findings from internal control audits undertaken during the year, to ensure they are appropriately investigated, and necessary actions have been taken to address and rectify any weaknesses identified.

In preparation for their audit activities, the new External Auditor carried out a review of the Company's existing IT systems and concluded that, in keeping with the practice adopted by the previous External Auditor, the external audit approach would continue to be a fully substantive one, with a greater focus on detailed sample testing rather than full reliance on automated processes and controls.

The impact of these findings means that there are some additional risks the business faces. The findings across applications supports the current IT strategy already instigated to improve the IT control environment.

Having regard to the findings of the internal control audits presented during the year, the report of the external specialist resource and the report of the External Auditor, the Audit Committee was satisfied that the Company maintains an appropriate and effective control system.

As reported in last year's Report of the Audit Committee, while Essentra has a well-established internal audit function, potential opportunities for improvements to deliver additional value to the respective businesses and to support change management were identified. Specialist external resource was engaged to conduct a comprehensive review of the internal audit function, in order to benchmark Essentra against best practice and to recommend potential improvements to deliver a capability aligned with FTSE 250 upper quartile best practice.

The Audit Committee prioritised the development of a structured programme to drive the implementation of the effective recommendations and improvements identified by specialist external resource. As detailed in the Audit Committee Chairman's Letter on pages 74 to 75, the best practice objective endorsed by the Audit Committee during 2017 envisages the development of the existing internal audit function into an integrated risk assurance capability by 2020.

Risk management processes and practices
In addition to the work on internal audit, the Audit Committee reviewed the effectiveness of the Company's risk management activities as assessed by expert external consultant.

The Audit Committee's discussions and considerations on risk extended beyond enterprise risk into business continuity management, as the Company assessed the quality of its existing practices. A new policy and framework for the effective management of business continuity management risk was endorsed by the Audit Committee, and it is anticipated that during the course of 2018 it will assess the outputs from the testing of newly-developed business continuity plans. Further details on the risk management initiatives reviewed by the Audit Committee can be found on pages 40 to 49 in the Management of Principal Risks Report.

REMUNERATION COMMITTEE CHAIRMAN'S LETTER

Lorraine Trainer
Remuneration Committee Chairman

Dear Shareholder,

As Chairman of the Remuneration Committee I am pleased to present our Remuneration Report for the financial year ended 31 December 2017.

Key principles

There are three key principles that have underpinned our approach this year:

> **Linking reward to the new strategy**
The Remuneration Committee agreed with the Chief Executive to emphasise the incentive system to support the stability agenda and strategy development. This will include recognising the importance of cash in the early stages of the recovery and use the reward policy to reinforce the cultural shift to achieve this. We also discussed the importance of a capital return measure which we heard from shareholders was important to them. This now forms part of our new policy and is already reflected in the Company's Key Performance Indicators on pages 20 to 21 and is most likely to be implemented in the 2019 Long Term Incentive Plan ("LTIP").

> **Ensuring targets are appropriately stretching**
We recognise past outcomes have demonstrated that Essentra's policy delivers a wide range of outcomes linked to performance and we want to continue this policy. We believe we have set stretching targets which will drive the recovery in the life of the policy.

> **Ensuring we have the right reward tools to support Paul Forman in attracting and developing the team around him**
The Remuneration Committee has worked with the Chief Executive in ensuring he is able to attract talent into the business. In addition, the bonus structure for the Executives covers c. 180 managers, not just the Executive Directors, thus enabling the Chief Executive to focus his senior team on achieving the right outcomes in driving the recovery. The personal objectives for the senior management throughout the Company were focused on delivering the outcomes that supported stability and strategy development.

Summary of key points

2017 saw widespread stability restored to Essentra and the development of a new strategy for the Company. The remuneration outcomes for the year reflect the performance of the Company during this period;

> Our new Chief Executive, Paul Forman, was appointed in January 2017 on a salary of £625,000 per annum

> Paul Forman has chosen not to take a salary increase with effect from 1 April 2018. The salary increase that had been recommended to the Board by the Remuneration Committee was in line with the average increase provided to the wider UK workforce

> The single figure for Paul Forman as Chief Executive for 2017 is £1,267,000. This is the first year for which Paul Forman was Chief Executive and as a result no long-term incentives vested in the year

> The annual bonus outcomes for 2017 were for the Chief Executive 48% of maximum and for the Group Finance Director 41% of maximum. The levels of bonuses reflect the restoration of stability, the development of the new strategy and the performance of Essentra during the year

> No LTIP awards vested in the year in line with three-year performance

> Our proposed new Remuneration Policy is straightforward and updated. It will be put to our shareholders for their approval at the AGM in April 2018

Rewarding performance in 2017

Following a challenging year in 2016, 2017 saw widespread stability restored to Essentra – as well as the development and communication of a new strategy for the Company – as set out in the Chief Executive's Review on pages 10 to 17.

The Remuneration Committee set stretching targets for the year based on the key performance indicators for the Company. The management of cash is vital to delivering our new strategy, and the Net Working Capital target set for the year was exceeded. Notwithstanding the significant progress made during 2017, the targets for Adjusted Operating Profit and Adjusted Net Income for the 2017 annual bonus were not achieved. This was largely due to a shortfall in Health & Personal Care Packaging, owing to the profit drop-through impact from lower revenue, a material operating loss at our Newport cartons facility, and the impact of hurricane Maria on our two sites in Puerto Rico – together with a less profitable revenue and segment mix in Tapes. The Remuneration Committee believes that the overall annual bonus outcomes for the Executive Directors shown below are a balanced reflection of what has been achieved in 2017.

The performance targets for the 2015 to 2017 LTIP awards were not met and these awards lapsed in full.

More information on the financial and operating performance of Essentra in 2017 is set out on pages 22 to 39 in the Strategic Report.

2017 annual bonus outturn

KPIs	Threshold	Target	Maximum	Actual	Bonus payout (% of max)
Adjusted Operating Profit (25% of maximum)[1]	95.1	100.1	105.1	83.7	0%
Adjusted Net Income (25% of maximum)[1]	67.2	70.7	74.2	60.2	0%
Net Working Capital (30% of maximum)[2]	+50 bps	16.5%	-50bps	-130 bps	30%
Personal objectives (20% of maximum)	Details of performance against pre-set personal objectives are set out on page 99. Following assessment by the Remuneration Committee, the Chief Executive and Group Finance Director received 18% and 11% of their respective maximum bonuses in relation to these objectives.				
Bonus award to Chief Executive: 48% of maximum					
Bonus award to the Group Finance Director: 41% of maximum					

[1] Based on internal forecast at constant exchange rates.
[2] Average Net Working Capital as a percentage of sales.

One half of the bonuses earned will be deferred and payable in Essentra shares which will vest after three years in 2021. Full details are set out on page 99.

Aligning pay and strategy – 2018 Remuneration Policy and shareholder approval
The current Directors' Remuneration Policy Report was approved by our shareholders at the AGM in 2015. We are required by law to put a new Policy to our shareholders for approval three years later at the 2018 AGM.

> **Strategy alignment**
> Since his appointment in January 2017, Paul Forman has completed a full strategic review of the Company. The results of that review were set out during our Capital Markets Day on 28 July 2017. The strategy review emphasised that Essentra's future success will be driven by a focus on restoring stability and delivering consistent growth in a sustainable and profitable manner. The clear priorities of our new strategy are reflected in our straightforward updated Remuneration Policy.

> **Shareholder consultation**
> We have proactively engaged with our major shareholders and proxy voting agencies on the updated Remuneration Policy prior to publication.

> **Summary of key changes**
> The key proposed changes in our updated Policy are summarised below with full details set out on pages 86 to 96. These changes bring our Policy in line with current mainstream market practice and are consistent with our new corporate strategy.

Policy change	Rationale for change and implementation in 2018
Amended approach to LTIP awards	Annual LTIP awards will be calculated as a percentage of salary. This will replace the non-market standard feature of the 2015 Policy Report whereby the former Chief Executive and Group Finance Director received an award over a fixed number of LTIP shares each year.
Extended LTIP release date	LTIP awards granted to Executive Directors will be released five years after grant. Performance will be measured over an initial three-year period and then there will be a new additional two-year holding period.
Amended LTIP performance conditions	LTIP awards may be subject to a combination of relative Total Shareholder Return ("TSR"), Earnings Per Share ("EPS"), cumulative adjusted operating cash flow and a capital return measure. The addition of cash flow and capital return as potential measures reflect our evolving strategic priorities and feedback from our shareholders. After careful consideration the Remuneration Committee has decided that 2018 LTIP awards will be subject to a combination of relative TSR, EPS and cash flow measures. The Remuneration Committee will most likely introduce a capital return measure for LTIP awards to be made in 2019 and subsequent years. In the interests of simplicity, we would try to have no more than three measures in any one award.
Amended approach to salary reviews	Executive Director salaries will be reviewed on an annual basis in April each year. This will replace the current, non-market standard approach whereby the former Chief Executive's and Group Finance Director's salaries were fixed throughout the Policy period.
Reduced future pension provision	The revised Policy Report includes a commitment to reduce the maximum level of pension provision for any future Executive Director appointments to 20% of salary compared to the current 25% of salary maximum.
Amended minimum shareholding guideline	Executive Directors will be expected to build up a minimum shareholding worth 200% of salary over six years. This is consistent with the Remuneration Committee's assessment of a reasonable period over which the Executive Directors should be expected to reach the guideline target, given the level of annual LTIP awards that will be made. This is a reduction from the previous shareholder requirements and reflects the relatively recent appointments of the Chief Executive and Group Finance Director. Since Paul Forman's appointment he has invested personally in the Company and has already made good progress in building his personal shareholding in Essentra.

2017 LTIP award

As outlined in our 2016 Remuneration Report, we delayed the granting of LTIP awards in 2017 until after the completion of our new Chief Executive's strategic review. This was to ensure that the awards would be appropriately aligned with our revised strategy and the updated Policy described above.

- As disclosed in the 2016 Remuneration Report, our new Chief Executive received a 2017 LTIP award over shares of 200% of salary (which is lower than the 300% of salary LTIP award made each year to our former Chief Executive). He also received a one-off recruitment award of shares of 100% of salary to compensate him for incentives forgone when he left his previous employer. The Group Finance Director received a 2017 LTIP award over shares of 150% of salary. Granting an LTIP award at a level linked to his salary, rather than as a fixed number of shares, represents a change from the approach envisaged in our 2016 Remuneration Report but is consistent with our updated Policy and the approach we adopted for 2017 LTIP awards throughout the Company.
- Given the importance of the generation of cash in the successful execution of our new strategy, LTIP awards granted in 2017 are partially subject to an adjusted operating cash flow measure in addition to the previous relative TSR and EPS measures.
- Anticipating our updated Policy from 2018, the 2017 LTIP awards granted to the Chief Executive and the Group Finance Director are subject to a three-year performance period, plus an additional two-year holding period.

Full details of these awards are shown on pages 100 to 101.

2018 pay decisions

The annual base salaries of the Executive Directors will be reviewed now in April each year. The Chief Executive, chose not to take the recommended salary increase with effect from 1 April 2018. The salary increase that had been recommended to the Board by the Remuneration Committee for both Executive Directors was in line with the average increase provided to the wider UK workforce. The salary of the Group Finance Director will increase by £9,700 from April 2018 to £369,700 pa.

The structure of the 2018 annual bonus plan and 2018 LTIP awards for Executive Directors will be broadly unchanged from 2017 although the Remuneration Committee has decided to drop Adjusted Net Income as a separate measure in the bonus plan, in order to simplify and focus our approach. Adjusted Operating Profit will therefore now account for 50% of the 2018 annual bonus opportunity.

The LTIP award for the Chief Executive will be 200% of salary and the LTIP award for the Group Finance Director will be 150% of salary (as applied at the start of the last Policy period in 2015).

In summary, the pay arrangements for the Executive Directors for 2018 will comprise the following elements;

	Details	Performance conditions
Base salary	Chief Executive £625,000, with no increase in April 2018, at the request of the Chief Executive. Group Finance Director £369,700, after an increase of 2.7% effective 1 April 2018.	n/a
Pension allowance	Chief Executive 25% of salary; Group Finance Director 20% of salary.	n/a
Benefits	Car or cash allowance, plus private medical insurance and life insurance cover.	n/a
Annual bonus opportunity for 2018	Maximum opportunity – Chief Executive 150% of salary; Group Finance Director 125% of salary. Half of any bonus is deferred in shares for three years.	Adjusted Operating Profit (50%) Net Working Capital (30%) Personal Objectives (20%)
LTIP awards to be made in 2018	Chief Executive to receive award over shares worth 200% of salary; Group Finance Director to receive award over shares worth 150% of salary. Awards will be subject to three-year performance period and an additional two-year holding period.	EPS growth (33.33%) Relative TSR (33.33%) Cash flow (33.33%)

Committee membership

I would like to thank my colleagues on the Remuneration Committee for their work this year. Terry Twigger will be retiring as a Director from Essentra following the 2018 AGM and as such will be relinquishing his appointment on the Remuneration Committee, and I would like to thank him for his contribution over the years. I am delighted that Ralf K. Wunderlich was appointed to the Remuneration Committee effective from 1 March 2018.

Conclusion

I hope you will find this 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
2 March 2018

REMUNERATION POLICY REPORT

Our Directors' Remuneration Policy Report ("the Policy Report") sets out the policies under which the Executive and Non-Executive Directors are remunerated. The Policy Report is designed to be in full compliance with the requirements of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, the UK Corporate Governance Code as issued by the Financial Reporting Council and the Listing Rules.

The current Policy Report was approved by shareholders at the 2015 AGM and, therefore, an updated Policy Report is required by law to be approved by shareholders at the 19 April 2018 AGM. The current Policy Report can be found in full in the Essentra Annual Report 2014, a copy of which can be obtained from the Company's registered office or downloaded from www.essentraplc.com.

As outlined in the Remuneration Committee Chair's letter, the Remuneration Committee has reviewed the continued appropriateness of the current Policy Report in the context of the Company's corporate strategy following the appointment of Paul Forman as Chief Executive. Following that review, shareholder approval will be sought at the 19 April 2018 AGM for the updated Policy Report set out below. Subject to shareholder approval, the updated Policy Report will take effect immediately after the 19 April 2018 AGM and will apply to the 2018 financial year.

The key changes in the updated Policy Report are outlined in the Remuneration Committee Chairman's Letter. The updated Policy Report also contains a number of minor clarificatory changes and, where relevant, updated terminology to reflect our current strategic priorities.

Remuneration Policy Report

This section of the Remuneration Report will be subject to a binding shareholder vote at the 2018 AGM.

Overview

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

The Chief Executive's remuneration proposals for the other members of the Group Management Committee ("GMC") 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 places significant focus on and spends considerable time reviewing 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.

The Remuneration Committee's main responsibilities are to:

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

In determining the policy for the Executive Directors, the Remuneration Committee's key objectives are to:

- Ensure that senior executives' remuneration is designed so as to attract, retain and motivate high quality executives in a manner that aligns their remuneration with the interests of shareholders and other stakeholders, particularly in the design of the performance-related elements of their remuneration packages and their shareholding guidelines
- Promote the achievement of both the Company's annual and longer-term strategic objectives. The Remuneration Committee 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
- Encourage Executive Directors to act in a fair and responsible manner without unnecessary risk taking having regard to the long-term performance of the Company

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 ("ESG") responsibilities.

Summary of components of Executive Directors' remuneration

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

Remuneration for Executive Directors is structured so that the variable performance-related pay element forms a significant portion of each package. The majority of total remuneration at the maximum performance level will derive from the Company's long-term incentive arrangements. All incentives are designed to be aligned to delivery of Essentra's strategic priorities.

Policy table

Purpose and link to strategy	Operation	Opportunity	Performance measures
Basic salary			
To reflect the particular skills and experience of an individual and to provide a competitive basic salary.	Generally reviewed annually with any increase normally taking effect from 1 April although the Remuneration Committee may award increases at other times of the year if it considers it appropriate. The review takes into consideration a number of factors, including (but not limited to): > The individual Director's role, experience and performance > Business performance > Pay and conditions elsewhere in the Group > Market data for comparable roles in appropriate pay comparators	No absolute maximum has been set for Executive Director base salaries. Any annual increase in salaries is at the discretion of the Committee taking into account the factors stated in this table and the following principles: > Salaries would typically be increased at a rate consistent with the average salary increase (in percentage of salary terms) for permanent UK employees. > Larger increases may be considered appropriate in certain circumstances (including, but not limited to, a change in an individual's responsibilities or in the scale of their role or in the size and complexity of the Group). > Larger increases may also be considered appropriate if a Director has been initially appointed to the Board at a lower than typical salary.	Not applicable.

Policy table

Purpose and link to strategy	Operation	Opportunity	Performance measures
Annual bonus			
To ensure the delivery of Company performance-related objectives, and 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 Deferred Annual Share Bonus ("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. Other Executive Directors – 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 normally 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 below in the Annual Report on Remuneration on page 105. No more than 20% of each financial measure will vest at threshold performance.

Policy table

Purpose and link to strategy	Operation	Opportunity	Performance measures
Long-Term Incentive Plan ("LTIP")			
To drive the long-term delivery of the Company's strategic objectives, aid retention and to align Directors' interests with those of the Company's shareholders.	An annual award of performance share awards usually with a three-year performance and additional two-year holding 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 awards to reflect the value of dividends which would have been paid on those shares during the period up to the release of the shares (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.	Vesting will be subject to performance conditions as determined by the Remuneration Committee on an annual basis. The performance conditions will usually be some combination of relative TSR, adjusted EPS, adjusted cumulative operating cash flow and a capital return measure although the Remuneration Committee will retain discretion to include alternative performance measures which are aligned to the corporate strategy. The Remuneration Committee may adjust the weightings of the performance conditions for each award although usually each condition would have a weighting in the range of 20% – 40% of the award. Performance will usually be measured over a three-year period. Up to 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. Below threshold performance, that element of the award will not vest.

Policy table

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 on the share price at the time invitations to participate are issued. An equivalent US Plan is operated in a similar manner to the UK plan.	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 and an option price of up to a 15% discount.	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.	Any future Executive Director appointment will have a maximum pension provision of 20% of salary. The current Executive Directors have pension provision of 25% of salary (Chief Executive) and 20% of salary (Group Finance Director).	Not applicable.
Other benefits			
To provide cost-effective benefits comparable with similar roles in similar companies.	Other benefits include medical expenses, life insurance, and a company car or cash 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.

Policy table

Purpose and link to strategy	Operation	Opportunity	Performance measures
Shareholding requirement			
To align the interests of Executive Directors and shareholders, encourage a focus on long-term performance and risk management.	These shareholding guidelines are to be built up over six 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 for Executive Directors is 200% of salary. 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.	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 periodically 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. A resolution to amend the Company's Articles of Association for aggregate annual fees for "Non-Executive Directors" fees to be increased to £1,000,000 will be proposed at the 2018 AGM.	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 Policy 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 Remuneration 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 Remuneration Policy set out in this Remuneration Policy Report (for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without obtaining shareholder approval for that amendment.

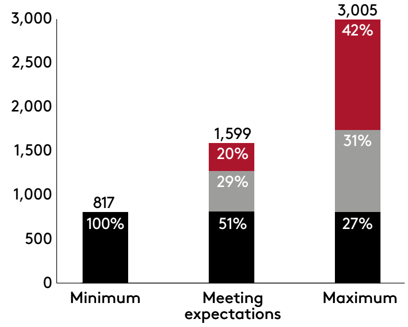
Existing awards
The Remuneration Committee reserves the right to make any remuneration payments and / or payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the Remuneration Policy 2015 (set out above) where the terms of the payment were agreed: (i) before the 2015 AGM (the date the Company's first shareholder-approved Directors' Remuneration Policy came into effect); (ii) before the Remuneration Policy set out above came into effect, provided that the terms of the payment were consistent with the shareholder approved Directors' Remuneration Policy in force at the time they were agreed; or (iii) 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. For these purposes "payments" includes the Remuneration Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are "agreed" at the time the award is granted.

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 usually part of its Key Performance Indicators ("KPIs"). Personal objective performance measures within the annual bonus are also directly linked to key strategic objectives.

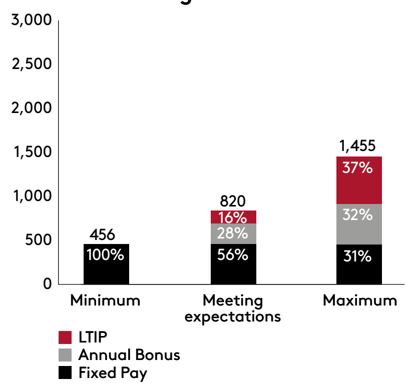
Targets are set at the start of each performance period by the Remuneration Committee taking into account relevant internal and external reference points and are designed to be appropriately stretching.

Remuneration mix
The graph below demonstrates the potential remuneration mix for both of the Executive Directors in 2018 in three theoretical scenarios: minimum, meeting expectations and maximum.

Paul Forman



Stefan Schellinger



Assumptions:
> Salary: received during 2018: Paul Forman £625,000; Stefan Schellinger £360,000 to 31 March 2018 and £369,700 thereafter.
> Pension: Paul Forman 25% of salary; Stefan Schellinger 20% of salary.
> Benefits: 2017 reported taxable benefits.
> Bonus maximum of 150% of salary for Paul Forman and 125% of salary for Stefan Schellinger.
> LTIP award of 200% of salary for Paul Forman and 150% of salary for Stefan Schellinger.
> Meeting expectations scenario assumptions – 50% of annual bonus maximum paid and 25% of LTIP award vests.
> Maximum scenario assumptions – 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 the maximum in the Policy Table.

> **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 for 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 page 89 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. In the first year, the Remuneration Committee may set different performance measures and targets for the bonus 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 compensate for any bonus forgone when the individual leaves their previous employer.

> **Share incentives**

New appointees will be granted awards under the LTIP up to the limit described in the Policy Table. An award may be made shortly following a new appointment. In the first year, the Remuneration Committee may set different performance measures and targets for the LTIP to those of the other Executive Directors, depending on the timing and scope of any appointment.

> **Buy-out awards**

To potentially facilitate the 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 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 Policy Table for Non-Executive Directors. 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 Policy 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. Paul Forman has a service contract dated 2 January 2017 and Stefan Schellinger has a service contract dated 8 October 2015, 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.
- The Remuneration Committee reserves the right to make any other payments in connection with a Director's cessation of office or employment where the payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of a compromise or settlement of any claim arising in connection with the cessation of a Director's office or employment. Any such payments may include, but are not limited to, paying any fees for outplacement assistance and / or the Director's legal and / or professional advice fees in connection with his cessation of office or employment.
- 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 usually be pro-rated for the period of service and may be paid entirely in cash. In determining the level of bonus to be paid, the Remuneration Committee may, at its discretion, take into account performance up to the date of cessation or over the financial year as a whole based on appropriate performance measures as determined by the Remuneration Committee.
- Under the rules of the LTIP, 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. DASB awards will either vest on the normal vesting date or at the point of the participant leaving date if deemed a good leaver by the Remuneration Committee.

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.

Relationship between remuneration of Executive Directors and other employees
The Remuneration Committee is kept informed of pay and employment conditions in the wider Group and this is 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. The Essentra Annual Management Bonus Plan also provides a consistent approach for the Executive Directors and Managers within Essentra by aligning the same performance conditions for their bonus plans.

The Board are awaiting the finalised views of the Corporate Governance Code to consider the most appropriate future approach to employee consultation on remuneration decisions. Essentra currently manages a number of employee forums including the European Information and Consultation forum, Diversity & Inclusion Steering Group and employee engagement focus groups.

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 updated 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

Committee Chair: Lorraine Trainer

Committee membership and meeting attendance	
Lorraine Trainer Non-Executive Director	4 (4)
Tommy Breen Non-Executive Director	4 (4)
Terry Twigger SI Non-Executive Director	4 (4)
Mary Reilly Non-Executive Director	2 (2)
Peter Hill Non-Executive Director	2 (2)

Peter Hill stepped down as a Non-Executive Director on 20 April 2017 at the AGM. Mary Reilly joined as a Non-Executive Director on 1 July 2017.

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

Other attendees

During the year, the Chairman, Chief Executive, Group Finance Director, Group Human Resources Director and Director of Compensation and Benefits were invited by the Remuneration Committee to provide views and advice. Ralf K. Wunderlich also attended as an observer. None were present during discussions regarding their own remuneration.

In addition, services and advice were received from the following independent and expert consultants:

> Deloitte LLP, who are a member of the Remuneration Consultants Group and have signed up to its Code of Conduct, provided advice to the Remuneration Committee on the Company's incentive plans, and on the remuneration of the Executive Directors and other senior executives within the Company. Fees charged for the year under review are £81,450 Deloitte also provided other remuneration and tax services to the Company during 2017.

> 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 including the calculation of the TSR LTIP performance measure. Fees charged for the year under review were £16,880. Aon Hewitt also provided actuarial advice to the Company for its US pension scheme and are appointed as the Group's insurance broker.

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

Remuneration Committee 2017 key activities

> Reviewed and approved transactional bonus arrangements for specific employees and Group Management Committee

> Reviewed the 2017 Bonus Plan and the metrics for the Group Management Committee, ensuring targets are appropriately stretching

> Reviewed and confirmed the departure terms, particularly non-payment of any bonus relating to 2016 for Colin Day

> Reviewed salary proposal for Group Management Committee members and agreed 2017 bonus proposal for Group Management Committee as recommended by the Board

> Reviewed and confirmed performance targets for LTIPs which vested during 2017

> Approval of the Remuneration Report for inclusion in the 2017 Annual Report

> Approved 2017 UK and US SAYE invitations

> Exercised discretion over Dividend Roll Up for Good Leaver incentive awards

> Approval of Good Leaver recommendations

> Reviewed AGM voting results on remuneration related resolutions

> Consultation with shareholders regarding 2017 LTIP proposals

> Approved revised performance targets for 2017 LTIP award ensuring they are appropriately stretching

> Reviewed the changes to the Remuneration Policy to be put forward for approval at the 2018 AGM

> Implemented shareholder consultation with regard to the new Remuneration Policy

> Approval of revised Terms of Reference for the Remuneration Committee

> Approved Chief Executive and Group Finance Director 2018 Bonus rules

> Reviewed current Group Management Committee share ownership and approved new Group Management Committee and Executive Directors share ownership guidelines

This section of the Remuneration Report will be subject to an advisory vote at the 2018 AGM.

Total Single Remuneration Table for 2017 (audited)

The remuneration received by Executive Directors for the year ended 31 December 2017 (and the 31 December 2016 comparative) was as follows:

	Year	Salary and fees for the year or from date of appointment £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 £000	Total £000
Executive Directors								
Paul Forman	2017	625	36	156	450	–	–	1,267
	2016	–	–	–	–	–	–	–
Stefan Schellinger	2017	360	15	72	186	–[4]	–	633
	2016	360	14	72	–	–	–	446
Colin Day[9]	2017	225	11	56	–	–[4]	–	292
	2016	675	32	169	–	–	–	876
Non-Executive Directors								
Paul Lester	2017	250	–	–	–	–	–	250
	2016[8]	215	–	–	–	–	–	215
Tommy Breen	2017	52	–	–	–	–	–	52
	2016	52	–	–	–	–	–	52
Lorraine Trainer	2017	63	–	–	–	–	–	63
	2016	63	–	–	–	–	–	63
Terry Twigger	2017	70	–	–	–	–	–	70
	2016	70	–	–	–	–	–	70
Mary Reilly[6]	2017	26	–	–	–	–	–	26
	2016	–	–	–	–	–	–	–
Ralf K. Wunderlich[7]	2017	26	–	–	–	–	–	26
	2016	–	–	–	–	–	–	–
Peter Hill[5]	2017	17	–	–	–	–	–	17
	2016	52	–	–	–	–	–	52

1 Taxable benefits comprise a fully expensed car and / or cash allowance plus private medical insurance and life insurance cover.
2 Paul Forman and Colin Day received a pension contribution of 25% of basic salary while Stefan Schellinger received a pension contribution of 20% of basic salary (inclusive of 5% of salary paid into the Company scheme by the Company).
3 50% of any annual bonus is deferred into shares for a period of three years. There was no bonus in relation to the performance in 2016.
4 The performance conditions for the 2015 LTIP B were not met.
5 Peter Hill stepped down as a Non-Executive Director on the 20 April 2017.
6 Mary Reilly was appointed as a Non-Executive Director on the 1 July 2017.
7 Ralf K. Wunderlich was appointed as a Non-Executive Director on the 1 July 2017.
8 Non-Executive fees paid from date of appointment.
9 The figures shown here relate to the period until 20 April 2017 when Colin Day retired from the Board and ceased employment with the Company. Subsequent to this, Mr Day received a contractual payment in lieu of notice of £599,911 for the remainder of his notice period (based on salary and the value of benefits) plus a payment in respect of accrued holiday of £54,519. His outstanding DASB / SAYE awards vested / became exercisable upon retirement and his outstanding LTIP awards were time pro-rated and remain subject to three-year performance conditions. Full details of these termination arrangements are on page 79 of the 2016 Annual Report.

Outside appointments (unaudited)
Colin Day held the following Non-Executive Director appointments as at his retirement on 20 April 2017; AMEC Foster Wheeler plc, Meggitt PLC and FM Global. Colin Day received fees of £306,425 in respect of these directorships.

Paul Forman held a Non-Executive Director appointment during the year ended 31 December 2017 for Tate & Lyle Plc. Paul received fees of £65,950 in respect of this directorship.

Annual bonus (audited)
Under the terms of the annual bonus arrangements for 2017, Paul Forman was potentially entitled to a maximum bonus of up to 150% of basic salary and Stefan Schellinger was 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 2017, the performance measures for the Executive Directors were based upon Adjusted Operating Profit and Adjusted Net Income, Net Working Capital and personal objectives.

Performance measure	Proportion of bonus determined by measure		Base performance	Target performance	Stretch performance	Actual performance	% of maximum bonus payable
Adjusted Operating Profit	25%		95.1	100.1	105.1	83.7[1]	0%
Adjusted Net Income	25%		67.2	70.7	74.2	60.2[1]	
			0% of bonus payable	25% of bonus payable	50% of bonus payable		
Net Working Capital	30%		+50 bps	16.5%	-50 bps	-130bps[2]	30%
Personal objectives	20%	Chief Executive: > Strong performance in strategic review 5/5 > Improved external communication of business strategy 5/5 > Improvement in customer sentiment and employee engagement 4/5 > Good progress in the consistent implementation of health & safety standards globally and significant reduction in lost days 4/5 > Total 18/20					18%
		Group Finance Director: > Strong performance in developing an integrated financial model for the Group 5/5 > Improved communication of the external business strategy 5/5 > Progress against other objectives was more limited 1/10 > Total 11/20					11%
Total							Chief Executive 48%
Total							Group Finance Director 41%

1 Based on internal forecast at constant exchange rates.
2 Net Working Capital as % of external sales.

Equity incentives (audited)

Details of the awards granted and outstanding during the year to the Executive Directors under the LTIP Part B, LTIP 2015 and DASB are as follows:

	Date of grant	At 1 Jan 2017	Awarded in year	Transferred in year	Lapsed	At 31 Dec 2017	Share price at date of grant	Earliest vesting date	Expiry date
Paul Forman									
LTIP 2015	08-Sept-17	–	387,076	–	–	387,076	529.00p	08-Sept-20	07-Sept-23
Stefan Schellinger[1]									
LTIP Part B	29-Apr-13	19,752	–	–	–	19,752	706.00p	29-Apr-16	28-Apr-19
LTIP Part B	24-Feb-14	45,662	–	–	45,662	–	876.00p	24-Feb-17	23-Feb-20
LTIP 2015	30-Apr-15	36,158	–	–	–	36,158	950.50p	30-Apr-18	29-Apr-21
LTIP 2015	23-Feb-16	74,222	–	–	–	74,222	828.50p	23-Feb-19	22-Feb-22
LTIP 2015	08-Sep-17	–	111,478	–		111,478	529.00p	08-Sept-20	07-Sept-23
DASB	24-Feb-14	5,279	–	5,279	–	–	876.00p	01-Mar-17	01-Mar-17
DASB	01-Apr-15	3,872	–	–	–	3,872	993.50p	01-Mar-18	01-Mar-18
DASB	01-Mar-16	3,792	–	–	–	3,792	828.50p	01-Mar-19	01-Mar-19
Colin Day									
LTIP Part B	21-Mar-13	130,057	–	130,057	–	–	692.00p	21-Mar-16	20-Mar-19
LTIP Part B	24-Feb-14	211,643	–	–	211,643	–	876.00p	24-Feb-17	23-Feb-20
LTIP 2015	30-Apr-15	203,109	–	–	69,432	133,677	950.50p	30-Apr-18	29-Apr-21
LTIP 2015	23-Feb-16	203,109	–	–	124,791	78,318	828.50p	23-Feb-19	22-Feb-22
DASB	24-Feb-14	51,369	–	51,369	–	–	876.00p	01-Mar-17	01-Mar-17
DASB	01-Apr-15	26,926	–	26,296	–	–	993.50p	01-Mar-18	01-Mar-18
DASB	01-Mar-16	18,820	–	18,820	–	–	828.50p	01-Mar-19	01-Mar-19

[1] Stefan Schellinger's outstanding LTIP B, LTIP 2015 and DASB awards granted in 2013, 2014 and 2015 were all granted when he was a member of the Group Management Committee and before he was appointed as an Executive Director.

A total of 981,251 (2016: 894,904) share incentive awards under the LTIP 2015 and the DASB were granted during the year ended 31 December 2017 to Executive Directors and other senior executives on the Group Management Committee.

LTIP awards included in the Total Single Remuneration Table (audited)

All LTIP awards (except for 2017) are subject half to a relative TSR performance condition and half to an adjusted EPS performance condition.

The 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. 25% of the TSR element of the awards vests if Essentra is median ranked, increasing to 100% vesting if Essentra is upper quartile ranked.

The adjusted EPS performance targets for April 2015 and April 2016 awards are 8.0% pa to 15.0% pa. 25% of the EPS element of the awards vests for achieving the lower target, increasing to 100% vesting for achieving the higher target.

For the 2017 LTIP awards granted to the Executive Directors in 2017, one third of the awards is subject to a TSR performance condition as stated above, one third is subject to an cumulative adjusted operating cash flow threshold of £226m, to a maximum cumulative adjusted operating cash flow of £276m and one third of the awards is subject to an adjusted EPS performance condition, with an adjusted EPS 2019 threshold of 27.4p to a maximum of 32.0p.

The performance outturn for the LTIP awards included in the 2017 Total Single Remuneration Table is summarised below.

The LTIP B awards granted to Stefan Schellinger in April 2015 will vest in April 2018. The EPS performance period for these awards is complete. The TSR performance period will end in April 2018 so the figures below are estimates as at 31 December 2017.

Performance condition	Condition definition	Threshold	Maximum	Actual outturn	Vesting
Relative TSR (50% of the total award)	TSR measured against the constituents of the FTSE 250 (excluding investment trusts) index over the three years from date of grant	If median rank is achieved, 25% of the TSR element vests	If upper quartile rank is achieved 100% of the TSR element vests	-46% Rank 163 out of 183 companies	0%
EPS (50% of the total award)	Annualised adjusted EPS growth	8.0% pa for 25% of the EPS element to vest	15.0% pa for 100% of the EPS element to vest	-18.07%	0%

Subject to confirmation of the TSR outcome when the performance period ends in April 2018 it is anticipated that the outturn of the performance conditions for the LTIP grant will result in no LTIP vesting during 2018.

LTIP awards granted during the year (audited)

The following LTIP awards were granted to Executive Directors on 8 September 2017.

Executive	Type of award	Number of awards granted	Share price used to determine award	Face value[1]	Percentage which vests at threshold
Paul Forman	Performance share	387,076[2]	£5.29	£2,047,632	25%
Stefan Schellinger	Performance share	111,478	£5.29	£589,719	25%

1 Face value is based on the mid-market closing share price on the day of grant 8 September 2017. In order to maintain a consistent approach with both our existing and proposed new 2018 Policy, the number of shares to be awarded was determined by the closing share price on the date the Company released it's 2016 year-end results (17 February 2017). This was in line with the previously communicated position not to grant awards until after the Company's strategic review.

2 This award included shares worth 100% of salary as a one off compensatory award.

Save As You Earn scheme (audited)

The Company also operates a Save As You Earn share option scheme ("SAYE"). Details of the awards granted and outstanding under the SAYE are as follows:

	Date of grant	At 1 Jan 2017	Granted in year	Lapsed	At 31 Dec 2017	Exercise price	Share price at date of exercise	Earliest vesting date	Expiry date
Paul Forman									
–	–	–	–	–	–	–	–	–	–
Stefan Schellinger[1]									
5-year SAYE[2]	01-May-14	2,139	–	2,139	–	701.0p	–	01-Jun-19	01-Dec-19
3-year SAYE[2]	01-May-15	1,168	–	1,168	–	770.4p	–	01-May-18	01-Nov-18
3-year SAYE	01-May-17	–	4,186	–	4,186	430.0p	–	01-May-20	01-Nov-20
Colin Day									
3-year SAYE[2]	01-May-15	2,336	–	2,336	–	770.4p	–	01-Jun-18	01-Dec-18

1 May 2014 and May 2015 SAYE options were granted when Stefan Schellinger was a member of the Group Management Committee.
2 The SAYE plan details and balances as at 1 January 2017 have been restated.

The middle market price of an ordinary share in the Company on 31 December 2017 was £5.30. The middle market price of an ordinary share in the Company during the year ranged from £4.09 to £5.82.

Directors' shareholdings (audited)

The beneficial interests of the current Directors in office at 31 December 2017, in the issued ordinary share capital of the Company were as follows:

There have been no changes in the Directors' interests since 31 December 2017 and the date of this Report.

	Beneficially owned		LTIP B / LTIP 2017 awards		DASB	SAYE
	31 Dec 2016*	31 Dec 2017	Vested	Unvested	Unvested	Unvested
Executive Directors						
Paul Forman	–	120,000	–	387,076	–	–
Stefan Schellinger	–	2,792	19,753	221,858	7,664	4,186
Non-Executive Directors						
Paul Lester	7,500	7,500	–	–	–	–
Tommy Breen	–	10,000	–	–	–	–
Lorraine Trainer	7,942	8,247	–	–	–	–
Terry Twigger	7,500	7,500	–	–	–	–
Ralf K. Wunderlich	42,300	52,300	–	–	–	–
Mary Reilly	–	–	–	–	–	–

* Or date of appointment.

Salary used is the prevailing annual salary as at 31 December 2017.

Paul Forman and Stefan Schellinger are required to build up a shareholding worth 200% of salary from the date of appointment. Beneficially owned shares do not include unvested LTIP awards which do not count towards the limit and share options will only count once they have been exercised. Current holdings as a percentage of salary are 101% for Paul Forman and 33% for Stefan Schellinger.

The Executive Directors are regarded as being interested in 1,509,936 (2016: 1,517,883) 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.

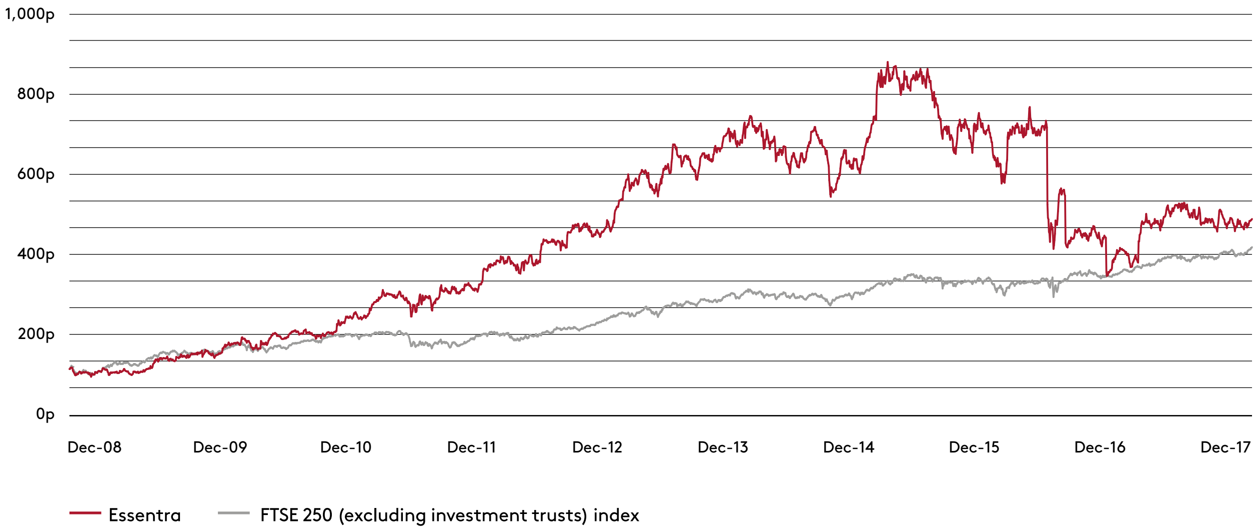
These shares are held in order to satisfy employee entitlements relating to the Company's share plans.

As at 31 December 2017, potential and actual share issuance through employee related share plans totalled 1.89%, 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 nine years. This index has been selected as it is considered the most appropriate published general index in which the Company is a constituent.

Essentra's total shareholder return compared against total shareholder return of the FTSE 250 (excluding investment trusts) index over nine-year period



Nine-year Chief Executive table (unaudited)

	Mark Harper				Colin Day					Paul Forman
	2009	2010	1 Jan – 14 April 2011	April – 31 Dec 2011	2012	2013	2014	2015	2016	2017
Total remuneration (£000)	1,038	2,932	1,715	1,046	1,570	3,824	5,661	2,281	876	1,267
Annual bonus (%)	20%	100%	100%	100%	100%	100%	60%	46.2%	0%	48%
LTIP vesting (%)	73%	100%	100%	n/a	n/a	100%	100%	50%	0%	0%

Mark Harper retired on 14 April 2011 and Colin Day was appointed as a Director on 1 April 2011. Colin Day retired as Chief Executive on 31 December 2016 and Paul Forman was appointed as Chief Executive on 1 January 2017.

The annual bonus and LTIP figures show the payout as a percentage of the maximum.

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

	2017[1] £000	2016[2] £000	% change	% change UK Group Management Committee
Salary	**625**	675	-7.4%	–
Benefits	**36**	32	12.5%	–
Bonus	**450**	–	100	100

1 2017 relates to the remuneration of Paul Forman.
2 2016 relates to the remuneration of Colin Day.

The table above shows the percentage movement in the salary, benefits and annual bonus for the Chief Executive and members of the UK Group Management Committee 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)

	2017 £m	2016 £m	% change
Staff costs[1]	**277.5**	272.7	1.7
Distributions to shareholders	**54.1**	54.0	0.3
Revenue – total	**1,043.0**	1,103.7	-5.5
Adjusted operating profit – total	**87.4**	131.9	-33.7

1 Staff costs are as per note 5 on page 136.

Implementation of Remuneration Policy for 2018 (unaudited)

Salary

Basic salary for each Executive Director is determined by the Remuneration Committee, taking into account the roles, responsibilities, performance experience of the individual and market movement. Salaries are reviewed in April each year and the budgeted pay increase for UK employees in 2018 is 2.7%.

Paul Forman has declined a pay increase for 2018 and therefore his basic salary will not increase.

Stefan Schellinger's salary for 2018 will increase by £9,700 to £369,700. This is the first pay increase since Stefan's appointment in 2015.

	Paul Forman	Stefan Schellinger
Annual salary effective from 1 April 2018	£625,000	£369,700
Annual salary effective from 1 April 2017	£625,000	£360,000

Benefits

Executive Directors are provided with the following benefits:

> Car, fuel or car allowance

> Private medical insurance with family level cover

> Life insurance cover of four times basic salary

Pension

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

Stefan Schellinger will receive a 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 with the Company's short-term strategy, while remaining within the appropriate risk profile.

Under the terms of the annual bonus arrangements for 2018, Paul Forman is potentially entitled to a maximum bonus of up to 150% of basic salary and Stefan Schellinger 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.

It is an important principle of Essentra's pay philosophy that the structure of pay should complement and support business strategy. The Remuneration Committee has determined the performance measures for 2018 incentive plan that are consistent with current strategic priorities as shown below:

Performance criteria	Weighting (%)
Adjusted Operating Profit	50.0
Net Working Capital	30.0
Personal objectives	20.0

The Remuneration Committee believes that Adjusted Operating Profit and Net Working Capital targets are commercially sensitive, and will not disclose the targets on a prospective basis. The targets and actual performance against them will be disclosed on a retrospective basis in the 2018 Remuneration Report.

In addition to the financial measures, the Remuneration Committee has also set personal performance targets for Paul Forman and Stefan Schellinger, which are designed to deliver progress by the Company towards its strategic objectives.

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 through malus and clawback provisions in specified circumstances. These circumstances take into account where 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 LTIP

An award granted under LTIP consists of a conditional right to receive shares in the Company, subject to satisfaction of performance conditions.

The following LTIP awards are intended to be granted to Executive Directors during 2018.

	Paul Forman	**Stefan Schellinger**
The award to be granted in April 2018 as annual award	200%	150%

A share award under LTIP will not normally be exercisable before the third anniversary of its award and an additional two-year holding period, 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 awards to be granted to the Executive Directors in 2018, one third of the awards will be subject to a TSR performance condition, one third will be subject to cash flow and one third 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. In particular there will be a greater emphasis on balance sheet management. 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. 25% of the TSR element vests for median performance, increasing on a straight-line basis to 100% vesting for upper quartile performance or above.

The Remuneration Committee's determination of the targets for TSR, EPS and Cumulative Adjusted Operating Cash Flow performance measures are as follows:

	Performance Conditions (25% vests at threshold; 100% vests at maximum)
Relative TSR	Relative to FTSE 250 (excluding investment trusts) Threshold is median; maximum is upper quartile
Adjusted EPS 2018 - 2020	Threshold is 6%; maximum is 15%.
Cumulative Adjusted Operating Cash Flow	Threshold is £252m; maximum is £292m.

Awards granted under the LTIP 2015 are 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.

Non-Executive Director fees

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.

	Chairman	Non-Executive Director	Senior Independent Non-Executive Director	Additional fee for chairing a Committee
Annual fee effective from 1 January 2018	250,000	52,000	7,000	11,000
Annual fee effective from 1 January 2017	250,000	52,000	7,000	11,000

Statement of shareholder voting (unaudited)

The results of shareholder voting in relation to the approval of the Directors' Remuneration Report at the 2017 AGM were as follows:

Annual Report on Remuneration	No. of votes	%
Votes cast in favour	209,563,401	93.53
Votes cast against	14,386,865	6.42
Total votes cast	223,950,266	
Abstentions	856,281	

This Report of the Remuneration Committee has been approved by the Board.

By order of the Board

LORRAINE TRAINER
Remuneration Committee Chair
2 March 2018

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 2017, and audited Financial Statements of the Company and its subsidiary undertakings for the year ended 31 December 2017.

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

The Directors' Report comprises pages 60 to 113, and the sections of the Annual Report incorporated by reference are as set out below:

In accordance with the UK Financial Conduct Authority's Listing Rules (LR 9.8.4C), the information to be included in the Annual Report and Accounts, where applicable, under LR 9.8.4 is set out in the Directors' Report.

Results and dividends

The profit on ordinary activities after taxation of the total Group for the year ended 31 December 2017 was £115.8m (2016: loss £39.6m).

The profit on ordinary activities after taxation of the continuing operations for the year ended 31 December 2017 was £5.5m (2016: loss £51.0m).

As at 2 March 2018, the Company has paid the following dividend in respect of the year ended 31 December 2017:

	Per share p	Total £m
Interim dividend paid 30 October 2017	6.3	16.5

The Directors recommend that a final dividend of 14.4p (2016: 14.4p) per share be paid, making a total dividend distribution for the year of 20.7p (2016: 20.7p).

The final dividend, subject to shareholder approval at the AGM, will be paid on 1 May 2018 to shareholders on the register on 16 March 2018.

Directors

As at 31 December 2017, the Board of Directors comprised:

Paul Lester	Non-Executive Chairman
Paul Forman	Chief Executive
Terry Twigger	Senior Independent Director
Stefan Schellinger	Group Finance Director
Tommy Breen	Non-Executive Director
Mary Reilly	Non-Executive Director
Lorraine Trainer	Non-Executive Director
Ralf K. Wunderlich	Non-Executive Director

The Company is adopting the requirements of the UK Corporate Governance Code in relation to Directors' appointments, and in particular the annual re-election of all Directors.

Mary Reilly and Ralf K. Wunderlich were appointed as Non-Executive Directors on 1 July 2017 and will be putting themselves forward for election at the 2018 AGM, having been appointed since the 2017 AGM.

Terry Twigger will be retiring as a Non-Executive Director following the 2018 AGM and therefore will not be standing for re-election.

Except for the above, in accordance with provision B.7.1 of the UK Corporate Governance Code, all the Directors previously elected at an AGM, and being eligible, will offer themselves up for re-election.

None of the Non-Executive Directors have service contracts.

In accordance with the Company's Conflict of Interests policy, Directors are required to review their potential conflict of interests at least on an annual basis and to notify any changes to the Company Secretary & General Counsel as soon as possible. During 2017 the current register was approved at each Board meeting 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 102.

Share capital

The issued share capital of the Company is shown in note 19 to the Financial Statements on page 163.

On 31 December 2017, there were 264,129,170 ordinary shares of 25p each in issue. There were 1,170,925 ordinary shares of 25p each held in treasury. 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 2 March 2018, 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
Prudential plc	5.86
Invesco	5.10
Heronbridge Investment Management LLP	5.09
Standard Life Investments (Holdings) Limited	4.82
Kames Capital	2.99

Employees

As at 31 December 2017, the Company employed 8,283 people globally and 1,219 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 page 53.

Political contributions

In line with Group policy, the Company made no political contributions (2016: £nil).

Environmental

The disclosures concerning greenhouse gas emissions required by law are included in the Corporate Responsibility statement on page 56.

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 dated November 2017 consisting of two five-year multi-currency revolving credit facilities of £285m and €100.8m. 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 2020 and a further note purchase agreement dated 29 November 2017 relating to a total of US$75.0m senior notes due between 29 November 2024 and 29 November 2029, 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 Hilton London Paddington, 146 Praed Street, London, W2 1EE on 19 April 2018 at 12 noon.

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

Authority to allot unissued shares

At the 2017 AGM, the Directors were granted authority to allot relevant securities up to a nominal amount of £21,907,373, 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 £21,913,187 representing approximately one-third of the Company's issued share capital, excluding treasury shares, at 2 March 2018 (such an amount to be reduced by the nominal amount allotted or granted under section (ii) below in excess of such sum); and (iii) comprising equity securities up to an aggregate nominal amount of £43,826,374 representing approximately two-thirds of the issued share capital, excluding treasury shares, at 2 March 2018 (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 19 June 2019) except in relation to share options.

Allotment of shares for cash
At the 2017 AGM, 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 resolutions 15 and 16 in the Notice of AGM seeks to renew it.

As per previous years, the Company seeks a resolution which authorises disapplication of pre-emption rights in respect of up to an aggregate nominal amount of £3,286,978 (representing 13,147,912 ordinary shares). This aggregate nominal amount represents approximately 5% of the issued ordinary share capital of the Company (excluding treasury shares).

In addition to the above Resolution, the Company seeks a Resolution which authorises disapplication of pre-emption rights in respect of up to an aggregate nominal amount of £3,286,978 (representing 13,147,912 ordinary shares) in connection with acquisitions and other capital investments as contemplated by the Pre-Emption Group's Statement of Principles. This aggregate nominal amount represents an additional 5% of the issued ordinary share capital of the Company (excluding treasury shares).

These authorities will expire at the conclusion of the following AGM or, if earlier, on 19 June 2019. 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 2017 AGM, 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, 19 June 2019). 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 2017, 116,027 ordinary shares were transferred out of Treasury by the Company to satisfy share options under the Company's 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.

Changes to aggregate annual limit of Director fees as set out in the Articles of Association
Article 86 of the Company's Articles of Association limits the aggregate total fees which may be paid to Directors to £500,000 per annum, or such higher amount as may be decided by ordinary resolution of the Company. At this year's AGM, shareholders will be asked to approve an increase to the level of this limit to £1,000,000 per annum in aggregate. This limit will cover the total annual fees paid to the Chairman and the Non-Executive Directors.

The Directors believe it is desirable to increase this limit to provide flexibility for any future increases in Director's fees to attract the best Board members available. The increase would also provide flexibility for any increase in the number of Directors, thereby facilitating the effective review and management of the composition of the Board. Any remuneration policy as may be approved by the shareholders from time to time will continue to apply. If this increase is approved, the Directors would not anticipate needing to propose any further change for a number of years.

External Auditor
PricewaterhouseCoopers have expressed their willingness to continue to be appointed as External Auditor of the Company. Upon the recommendation of the Audit Committee, resolutions to appoint them as External Auditor and to authorise the Directors to determine their remuneration will be proposed at the AGM.

Recommendation
The Directors believe that the resolutions in the Notice of Annual General Meeting are in the best interests of the Company and its shareholders as a whole, and unanimously recommend that shareholders vote in favour of each resolution.

Derivatives
Information related to derivatives is included in the Accounting Policies on page 124 and in note 14.

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.

Information regarding the financial position of the Group, its cash flows, liquidity position, and borrowing facilities are described in the Financial Review on pages 22 to 23. In addition, note 18 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. Essentra is primarily funded by a series of US Private Placement Loan notes from various financial institutions. An $80m Loan note which was repaid in April 2017 was refinanced in November 2017 with three new Loan notes totalling $75m and the new Revolving Credit Facility of £375.0m. At 31 December 2017 available bank facilities totalled £374.2m (2016: £414.2m). The US Private Placement notes have original maturities ranging from seven and twelve years and the Revolving Credit Facility matures in November 2022.

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 18, 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.

Viability statement

In accordance with provision C.2.2 of the Corporate Governance Code, the Directors have assessed the longer-term viability of the Group over the period to December 2020.

The assessment has been based on the Group's strategy and implementation programme, balance sheet and financing position, and the potential impact of the key risks and uncertainties described above. The Group strategy has been translated into a three-year strategic plan comprising a one-year detailed budget and a financial forecast for the following two years. The plan will be subject to annual updates by management and review by the Board. As a consequence, the Directors have chosen a three-year time horizon for the Longer-Term Viability Statement ("LTVS") as being an appropriate time frame for assessing the viability of the company. However, the Directors have also given due consideration to any potential risks beyond this time horizon In order to support the assessment of the viability, the Directors have considered the following realistic and plausible scenarios:

Scenario 1
Brexit (middle scenario)
Packaging under performance by 10 - 15%
National catastrophic event

Scenario 2
Brexit (severe scenario)
Packaging under performance by 10 - 15%
Supply chain single point failure – Nottingham Tapes

Scenario 3
Brexit (middle scenario)
Cyber event
Supply chain single point failure – Nottingham Tapes

In addition to the modelling of the three scenarios, the Directors have also added a further stress test of the most severe scenario by aggregating the three scenarios.

In modelling the scenarios, the Directors have assumed that the individual risks are independent and there is therefore a very remote probability that the three risks in each scenario would all crystallise in the time period considered.

In making the assessment, the Directors have made a number of assumptions and considerations:

- Capital markets and bank funding will continue to be available over the period
- In the event of a major risk crystallising, the Company would take corrective capital action to preserve the cash resources of the firm
- Management would be in a position to implement effective mitigation action to reduce the impact a potential risk event

Based on the modelling undertaken, the Directors have a reasonable expectation that the Group will be able to continue in operational existence and meet its liabilities as they fall due over the period of the assessment.

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 they 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 2 March 2018.

By order of the Board

JON GREEN
Company Secretary
2 March 2018

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have prepared the Group Financial Statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and Parent Company Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). In preparing the Group Financial Statements, the Directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board ("IASB"). Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of the profit or loss of the Group and Parent Company for that period. In preparing the Financial Statements, the Directors are required to:

> Select suitable accounting policies and then apply them consistently

> State whether applicable IFRS as adopted by the European Union and IFRS issued by IASB have been followed for the Group Financial Statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the Company Financial Statements, subject to any material departures disclosed and explained in the Financial Statements

> Make judgements and accounting estimates that are reasonable and prudent

> Prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group and Parent Company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Parent Company and enable them to ensure that the Financial Statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation.

The Directors are also responsible for safeguarding the assets of the Group and Parent Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Parent Company's website. Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and Parent Company's performance, business model and strategy.

Each of the Directors, whose names and functions are listed in Other Statutory Information confirm that, to the best of their knowledge:

> The Parent Company Financial Statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the Company

> The Group Financial Statements, which have been prepared in accordance with IFRSs as adopted by the European Union – Dual IFRS (European Union and IASB), give a true and fair view of the assets, liabilities, financial position and profit of the Group

> The Directors' Report includes a fair review of the development and performance of the business and the position of the Group and Parent Company, together with a description of the principal risks and uncertainties that it faces

PAUL FORMAN
Chief Executive

STEFAN SCHELLINGER
Group Finance Director
2 March 2018

FINANCIAL STATEMENTS

These Financial Statements contain:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2017

	note	2017 £m	2016 £m
Revenue	1	**1,027.3**	998.5
Operating profit before intangible amortisation and exceptional operating items		**84.6**	108.7
Amortisation of acquired intangible assets		**(22.9)**	(30.2)
Exceptional operating items	2,23	**(56.2)**	(128.5)
Operating profit / (loss)		**5.5**	(50.0)
Finance income	3	**0.8**	2.1
Finance expense	3	**(11.2)**	(14.6)
Loss before tax		**(4.9)**	(62.5)
Income tax credit	4,23	**10.4**	11.5
Profit / (loss) from continuing operations		**5.5**	(51.0)
Profit from discontinued operations	23	**110.3**	11.4
Profit / (loss) for the year		**115.8**	(39.6)
Attributable to:			
Equity holders of Essentra plc		**114.3**	(40.3)
Non-controlling interests		**1.5**	0.7
Profit / (loss) for the year		**115.8**	(39.6)
Earnings / (loss) per share attributable to equity holders of Essentra plc:			
Basic	6	**43.7p**	(15.4)p
Diluted	6	**43.4p**	(15.4)p
Earnings / (loss) per share from continuing operations attributable to equity holders of Essentra plc:			
Basic	6	**1.5p**	(19.8)p
Diluted	6	**1.5p**	(19.8)p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	note	2017 £m	2016 £m
Profit / (loss) for the year		**115.8**	(39.6)
Other comprehensive income / (loss):			
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit pension schemes	17	**8.3**	(16.8)
Deferred tax (expense) / credit on remeasurement of defined benefit pension schemes	4,15	**(2.8)**	5.0
		5.5	(11.8)
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		**(0.6)**	–
Effective portion of changes in fair value of cash flow hedges		**0.6**	(0.3)
Foreign exchange translation differences:			
Attributable to equity holders of Essentra plc:			
Arising on translation of foreign operations		**(51.6)**	145.9
Arising on effective net investment hedges		**1.7**	(56.9)
Income tax (expense) / credit	4	**(0.2)**	1.0
Attributable to non-controlling interests		**(0.5)**	1.1
		(50.6)	90.8
Other comprehensive (loss) / income for the year, net of tax		**(45.1)**	79.0
Total comprehensive income		**70.7**	39.4
Attributable to:			
Equity holders of Essentra plc		**69.7**	37.6
Non-controlling interests		**1.0**	1.8
Total comprehensive income		**70.7**	39.4

CONSOLIDATED BALANCE SHEET

At 31 December 2017

	note	31 December 2017 £m	31 December 2016 £m
Assets			
Property, plant and equipment	7	**283.1**	285.9
Intangible assets	8	**547.7**	581.7
Long-term receivables		**8.6**	3.5
Deferred tax assets	15	**10.4**	2.6
Retirement benefit assets	17	**18.3**	11.6
Total non-current assets		**868.1**	885.3
Inventories	9	**114.3**	115.1
Income tax receivable		**3.9**	7.5
Trade and other receivables	10,18	**201.0**	218.4
Derivative assets	14,18	**0.4**	1.2
Cash and cash equivalents	11,18	**52.0**	54.0
Total current assets		**371.6**	396.2
Assets in disposal group held for sale	23	**–**	130.7
Total assets		**1,239.7**	1,412.2
Equity			
Issued share capital	19	**66.0**	66.0
Merger relief reserve		**298.1**	298.1
Capital redemption reserve		**0.1**	0.1
Other reserve	20	**(132.8)**	(132.8)
Cash flow hedging reserve		**(0.3)**	(0.3)
Translation reserve		**18.5**	68.6
Retained earnings	20	**362.7**	295.7
Attributable to equity holders of Essentra plc		**612.3**	595.4
Non-controlling interests		**8.1**	7.3
Total equity		**620.4**	602.7
Liabilities			
Interest bearing loans and borrowings	13,18	**267.1**	374.9
Retirement benefit obligations	17	**31.7**	34.7
Provisions	16	**20.0**	4.9
Other financial liabilities	18	**3.7**	–
Deferred tax liabilities	15	**50.0**	65.8
Total non-current liabilities		**372.5**	480.3
Interest bearing loans and borrowings	13,18	**0.5**	65.1
Derivative liabilities	14,18	**0.9**	1.7
Income tax payable		**43.1**	24.4
Trade and other payables	12,18	**197.5**	204.3
Provisions	16	**4.8**	1.2
Total current liabilities		**246.8**	296.7
Liabilities in disposal group held for sale	23	**–**	32.5
Total liabilities		**619.3**	809.5
Total equity and liabilities		**1,239.7**	1,412.2

The consolidated Financial Statements on pages 116 to 169 were approved by the Board of Directors on 2 March 2018 and were signed on its behalf by:

Paul Forman
Chief Executive

Stefan Schellinger
Group Finance Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

2017	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 2017	66.0	298.1	0.1	(132.8)	(0.3)	68.6	295.7	7.3	602.7
Profit for the year							114.3	1.5	115.8
Other comprehensive loss					–	(50.1)	5.5	(0.5)	(45.1)
Total comprehensive income for the year	–	–	–	–	–	(50.1)	119.8	1.0	70.7
Share options exercised							0.3	–	0.3
Share option expense							1.3	–	1.3
Tax relating to share-based incentives							(0.3)	–	(0.3)
Dividends paid							(54.1)	(0.2)	(54.3)
At 31 December 2017	66.0	298.1	0.1	(132.8)	(0.3)	18.5	362.7	8.1	620.4

2016	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 2016	66.0	298.1	0.1	(132.8)	–	(21.4)	399.5	5.7	615.2
(Loss) / profit for the year							(40.3)	0.7	(39.6)
Other comprehensive income					(0.3)	90.0	(11.8)	1.1	79.0
Total comprehensive income for the year	–	–	–	–	(0.3)	90.0	(52.1)	1.8	39.4
Share options exercised							2.3	–	2.3
Share option expense							2.0	–	2.0
Tax relating to share-based incentives							(2.0)	–	(2.0)
Dividends paid							(54.0)	(0.2)	(54.2)
At 31 December 2016	66.0	298.1	0.1	(132.8)	(0.3)	68.6	295.7	7.3	602.7

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	note	2017 £m	2016 £m
Operating activities			
Profit / (loss) for the year		**115.8**	(39.6)
Adjustments for:			
Income tax expense / (credit)	4	**14.5**	(7.6)
Net finance expense	3	**10.4**	12.5
Intangible amortisation	2,8	**23.9**	33.4
Exceptional operating items	2	**(76.2)**	133.7
Depreciation	2,7	**35.3**	34.3
Share option expense	5, 17	**0.7**	2.0
Hedging activities and other movements		**(1.6)**	13.3
(Increase) / decrease in inventories		**(2.4)**	10.9
Decrease in trade and other receivables		**15.5**	36.9
Decrease in trade and other payables		**(7.5)**	(46.1)
Cash outflow in respect of exceptional operating items		**(28.9)**	(10.6)
Adjustment for pension contributions		**(0.1)**	0.8
Movements in provisions		**(1.6)**	(3.5)
Cash inflow from operating activities		**97.8**	170.4
Income tax paid		**(20.4)**	(17.4)
Net cash inflow from operating activities		**77.4**	153.0
Investing activities			
Interest received		**0.5**	0.7
Acquisition of property, plant and equipment		**(47.2)**	(42.8)
Proceeds from sale of property, plant and equipment		**1.8**	8.4
Payments for intangible assets		**(0.2)**	(3.9)
Acquisition of businesses net of cash acquired	23	**(15.4)**	(0.1)
Proceeds from sale of businesses net of cash disposed	23	**210.8**	–
Net cash inflow / (outflow) from investing activities		**150.3**	(37.7)
Financing activities			
Interest paid		**(13.0)**	(12.0)
Dividends paid to equity holders		**(54.1)**	(54.0)
Dividends paid to non-controlling interests		**(0.2)**	(0.2)
Repayments of short-term loans		**(64.6)**	–
Repayments of long-term loans		**(305.6)**	(298.6)
Proceeds from long-term loans		**201.8**	274.0
Proceeds from sale of employee trust shares		**0.3**	2.3
Net cash outflow from financing activities		**(235.4)**	(88.5)
Net (decrease) / increase in cash and cash equivalents	21	**(7.7)**	26.8

Net cash and cash equivalents at the beginning of the year		**60.7**	30.2
Net (decrease) / increase in cash and cash equivalents		**(7.7)**	26.8
Net effect of currency translation on cash and cash equivalents		**(1.0)**	3.7
Net cash and cash equivalents at the end of the year	11,18	**52.0**	60.7

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 Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101"); these are presented on pages 170 to 181.

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.

For the purposes of these Financial Statements "Essentra" or "the Group" means Essentra plc ("the Company") and its subsidiaries.

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.

On 25 August 2016, Essentra entered into a sale and purchase agreement with Filtration Group to dispose of the Group's entire operations in Porous Technologies. The transaction completed in March 2017. The results of the Porous Technologies business are presented as results from a discontinued operation in the income statement. The assets and liabilities of Porous Technologies have also been presented as held for sale on the balance sheet as at 31 December 2016.

The accounting policies used in the preparation of these Financial Statements are detailed below. These policies have been consistently applied to all periods presented.

Information regarding the financial position of the Group, its cash flows, liquidity position, and borrowing facilities are described in the Financial Review on pages 22 to 23. In addition, note 18 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.

Essentra is primarily funded by a series of US Private Placement Loan notes from various financial institutions. An $80m Loan note which was repaid in April 2017 was refinanced in November 2017 with three new Loan notes totalling $75m. A Revolving Credit Facility of £375m was made available upon completion of the November 2017 Loan note issuance. At 31 December 2017 available bank facilities totalled £374.2m (2016: £414.2m). The US Private Placement notes have original maturities ranging from seven and 12 years and the Revolving Credit Facility matures in November 2022.

The Directors have prepared plans and forecasts for a period of at least 12 months from the date of signing these Financial Statements. Based on these, and taking into consideration the risks detailed in note 18, 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.

Changes in accounting policies

In the current financial year, Essentra adopted the following pronouncements:

> Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses*: these amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value.

> Amendments to IAS 7 *Disclosure Initiative* require disclosure of information about changes in liabilities arising from financing activities, including cash flows and non-cash changes. As Essentra provides disclosure on reconciliation of individual elements of net debt, these amendments did not have a significant impact.

The adoption of these amendments did not have an impact on the Group in relation to measurement, recognition and presentation. Other than these, the accounting policies and presentation in this set of Financial Statements are consistent with those applied in the prior years.

The following standards or interpretations have not yet been adopted by the Group.

a. Basis of preparation continued

IFRS 15 Revenue from Contracts with Customers

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. The review of the impact of IFRS 15 requires an assessment of each revenue stream and review of contracts and / or supply agreements in place with our customers in order to establish and confirm the full impact of adopting this standard.

Based on the review and assessment undertaken, management conclude that the new standard will not have a material impact on revenue recognition for the Group, given the nature of products and services offered by the Group.

Information on the nature of revenue recognition within each division is outlined below, with key areas highlighted where the adoption of IFRS 15 will have an impact on the current accounting policies. Further information about these individual divisions can be found on pages 4 to 5 ("Essentra at a Glance").

> **Component Solutions**
> Within our Component Solutions division, we supply over 90,000 customers across the globe with more than 30,000 products. The majority of sales are for the supply of standard Essentra parts available from stock that are sold on standard terms.

> **Health & Personal Care Packaging**
> In the Health & Personal Care Packaging division, Essentra generally manufactures customer specific products. There is no significant impact on the recognition of revenue on these products.

> **Filter Products**
> Within the Filter Products division, Essentra primarily manufactures customer specific products for the tobacco industry. There is no significant impact on the recognition of revenue on these products.

The following areas were specifically considered by the Group:

> Revenue will continue to be recognised net of any trade discount or rebate schemes and any anticipated warranty liabilities, there is no material change under the new standard to the calculation of liabilities arising from rebate schemes or product warranties.

> In a small number of instances, Essentra provides services to the customers in addition to the supply of goods. Where previously revenue was only recognised on the supply of goods under IFRS 15, an element of revenue will be attributed to the additional services provided where these are distinct from the goods being supplied. The total value of revenue attributable to such services is not significant.

> The incremental costs of obtaining a contract will be recognised as an asset if the Group expect to recover those costs. These costs were not significant in the past, and are not expected to be significant.

> Where a customer has committed to purchase goods in advance of production, revenue may be recognised on production rather than on transfer of control to the customer. Such arrangements are rare and insignificant to the total Group revenue.

The individual and aggregate impact of the above is not material to the Group.

IFRS 9 *Financial Instruments*

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. The amendment to IFRS 9 is effective from 1 January 2018 and will be adopted by the Group in the accounting year beginning 1 January 2018.

Based on an analysis of the Group's financial assets and financial liabilities as at 31 December 2017 and on the basis of facts and circumstances that exist at that date, the Directors of the Company have assessed the impact of IFRS 9 to the Group's consolidated Financial Statements as follows:

Classification and measurement: IFRS 9 contains three principal classification categories for financial assets which are amortised cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale financial assets.

At 31 December 2017, the Group has no financial assets designated as held-to-maturity or available-for-sale. The Group has £251.1m of loans and receivables which have been reviewed against the requirements of IFRS 9 and will continue to be disclosed as amortised cost items following the implementation of IFRS 9. Based on its assessment, the Group does not believe that the new classification requirements will lead to a change in accounting treatment.

a. Basis of preparation continued

Impairment – Financial assets were assessed for impairment using the IAS 39 incurred loss model as at 31 December 2017. IFRS 9 replaces this with the expected credit loss model which requires expected credit losses and changes to expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. Financial assets measured at amortised cost or FVOCI will be subject to the impairment provisions of IFRS 9. The Group intends to apply the simplified model to recognise lifetime expected credit losses for its trade receivables and other receivables, including those due in greater than 12 months, by making an accounting policy election. The implementation of the expected credit loss model will lead to earlier and increased recognition of credit losses as the Group will no longer need to wait until a receivable is past due before recognising a provision. Additionally, the recognition of losses based on forward-looking estimates reflecting current and forecast conditions may lead to greater volatility in credit loss provisions. The quantitative impact of the implementation will be disclosed in the 2018 Financial Statements, with a reconciliation between the closing IAS 39 and opening IFRS 9 loss provision, and this is not assessed to be material.

Hedging – the new hedge accounting requirements of IFRS 9 will align hedge accounting relationships with the Group's risk management objectives and strategy and lead to the application of a more qualitative and forward-looking approach to assessing hedge effectiveness. The Group uses derivatives to manage currency and interest rate risk arising from underlying business activities. The Group has confirmed that its current hedge relationships will continue to qualify as accounting hedges upon the adoption of IFRS 9. The types of hedge accounting relationships that the Group currently designates meet the requirements of IFRS 9 and are aligned with the Group's risk management strategy and objective. Consistent with the Group's current hedge accounting policy, the Directors do not intend to exclude the forward element of foreign currency forward contracts from designated hedging relationships. Therefore the Directors conclude that the application of the IFRS 9 hedge accounting requirements will not have a material impact on the Group's consolidated Financial Statements.

The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will therefore be recognised in retained earnings and reserves as at 1 January 2018.

IFRS 16 *Leases*

IFRS 16 *Leases* which is effective from 1 January 2019, eliminates the classification of leases as either operating leases or finance leases and introduces a single lessee accounting model under which a lessee is required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value, and depreciation of lease assets separately from interest on lease liabilities in the income statement. The Group is currently assessing the impact of IFRS 16.

Other standards and interpretations

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

Narrow-scope amendments to IFRS 2 *Share-based Payment – Classification and Measurement of Share-based Payment Transactions* provide guidance on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, share-based payment transactions with a net settlement feature for withholding tax obligations and modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

IFRIC 22 *Foreign Currency Transactions and Advance Considerations* addresses the exchange rates to be used for advance consideration paid or received in a foreign currency.

IFRIC 23 *Uncertainty over Income Tax Treatments* addresses how to reflect uncertainty in accounting for income taxes, providing guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances.

Amendments to IAS 40 *Transfer of Investment Property* clarify the accounting requirements on transfers to or from investment property.

Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement* specify that in the event of a plan amendment, curtailment or settlement during a reporting period, an entity is required to use updated information to determine current service cost and net interest for the period following such an event.

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 consolidated 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 14 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 other comprehensive income are included in the initial carrying value of the asset.

(iii) Hedges of net investment in foreign operations

The gain or loss on an instrument used to hedge a net investment in a foreign operation that is deemed effective is recognised in other comprehensive income. Any ineffective portion is recognised in the income statement.

e. Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Previously revalued properties were treated as being held at deemed cost upon transition to adopted IFRS.

Where parts of an item of property, plant and equipment or other assets have different useful lives, they are accounted for as separate items. The carrying values of property, plant and equipment and other assets are periodically reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

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. Other intangible assets which are not acquired through a business combination ("non-acquired intangible assets") are recognised at cost 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, and amortised 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 is tested annually.

An impairment loss is recognised whenever the carrying amount of a non-financial asset or the cash generating unit to which it belongs 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
Trade receivables are initially recognised at fair value and subsequently measured at amortised cost, which is generally equivalent to recognition at nominal value less impairment loss.

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 or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year using the applicable 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 the applicable 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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against liabilities and when they relate to income taxes levied by the same tax authority and the Group intends to settle its current tax assets and liabilities on a net basis.

p. Revenue
Revenue from the sale of goods is recognised in the income statement net of expected returns when the significant risks and rewards of ownership have been transferred to the customer. Revenue is measured at the fair value of consideration receivable.

A significant proportion of the Group's businesses sell goods on an ex-works basis, where the Group as a 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 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 date 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. Exceptional 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 clearer understanding of the results from the ongoing operations. These items exclude amortisation of acquired intangible assets which are also presented separately in the income statement.

(i) Transaction costs relating to acquisitions and disposals of businesses

In 2017 and 2016, Essentra incurred one-off costs (such as professional fees) as a result of acquisitions including transactions that did not complete in 2016 (refer to note 23). In addition, costs incurred in 2017 and 2016 in relation to the disposal of Porous Technologies (which are presented as discontinued operations) are also included in this category within discontinued operations (refer to note 23).

(ii) Acquisition integration and restructuring costs

Costs relating to the integration of acquired businesses and restructuring associated with acquisitions.

(iii) Other exceptional items

In 2017, this represented costs arising from the closure of the folded cartons facilities at Newport and amounts in respect of the strategic review undertaken during the period associated reorganisation costs, and an adjustment on contingent deferred considerations on a prior acquisition.

In 2016, this represented impairment loss on certain assets of the Health & Personal Care Packaging Strategic Business Unit, further costs arising from the closure of the Filter Products site in Jarrow, offset by the net release of property provisions on disposal of properties, and an adjustment on contingent deferred considerations on a prior acquisition.

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).

aa. Assets and disposal groups held for sale and discontinued operations
Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use. Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held-for-sale and subsequent gains and losses on remeasurement are recognised in profit or loss.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations;
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the income statement.

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.

ACCOUNTING ESTIMATES

(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 17). 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-employment costs and liabilities, as detailed in note 17.

(ii) Business combinations and 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 and judgements such as customer attrition, cash flow generation from the existing relationships with customers and returns on other assets. 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. Judgement is also required in identifying the events which indicate potential impairment, and in assessing fair value of individual assets when allocating an impairment loss in a cash-generating unit or groups of cash-generating units. The Group performs various sensitivity analyses in respect of the tests for impairment, as detailed in note 8.

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

Judgement may also be required in determining the fair value of other assets acquired and liabilities (including contingent liabilities) assumed.

(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. Where management conclude that a tax position is uncertain, a current tax liability is held for anticipated taxes that are considered probable based on the information available. Key judgement areas for the Group include the pricing of intercompany goods and services as well as the tax consequences arising from restructuring operations.

Included in the tax payable is a liability of £18.9m (2016: £15.1m) for transfer pricing matters and £19.0m (2016: £10.6m) for other uncertain tax positions. The movement is due to adjustments for current year transactions, including the disposal of Porous Technologies, foreign exchange movements, expiry of statute of limitations following the passage of time and agreement reached with tax authorities on previous matters.

The group is aware of the European Commission press release on 26 October 2017 where the Commission opened an in-depth investigation into the UK's finance company partial exemption from controlled foreign company rules to determine whether EU state aid rules have been breached. Management do not consider it probable that an outflow of cost will arise to the group as a consequence of this and so no current or deferred tax liability is held. Management consider it impracticable to calculate the potential contingent liability since there is too much uncertainty regarding how the process may conclude. Management will monitor the progress of this investigation.

Management may engage with professional advisors in making their assessment and, if appropriate, will liaise with the relevant taxation authorities to resolve the matter. The tax liability is reassessed in each period to reflect management's best estimate in light of information available. If the final outcome of these matters differs to the liability held in the Financial Statements, the difference may impact the income tax expense / (credit) in the year the matter is concluded.

ACCOUNTING JUDGEMENTS

(i) Exceptional items

Judgement is required to determine whether items should be included within exceptional operating items by virtue of their size or incidence. Details of the items categorised as exceptional are disclosed in note 2.

NOTES

1. 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 Solutions consists of the Components business, the Extrusion business, the Pipe Protection Technologies business and the Security business. The Components business is a global market leading manufacturer and distributor of plastic injection moulded, vinyl dip moulded, and metal items. The Extrusion business is a leading custom profile extruder located in the Netherlands which offers a complete design and production service. 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 the oil & gas industry. The Card Solutions 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.

Health & Personal Care Packaging consists of the Health & Personal Care Packaging business and the Speciality Tapes business. Health & Personal Care Packaging is a leading global provider of packaging and authentication solutions to a diversified blue chip customer base in the health & personal care, consumer and specialist packaging sectors, and to the paper and board industries. The Speciality Tapes business has expertise in coating multiple adhesive systems in numerous technologies.

The **Filter Products** business is the only global independent provider of filters and related solutions to the tobacco industry, and supplies not only standard filters but also special variants which provide innovative solutions that meet the consumer-driven demands of the sector against a backdrop of ongoing legislative changes.

Discontinued operations represent the Porous Technologies business, a leading developer and manufacturer of innovative custom fluid-handling components used in a variety of end-markets, engineered from a portfolio of technologies that included bonded and non-woven fibre, polyurethane foam and porous plastics. The Porous Technologies business was disposed of on 6 March 2017 and the results are presented as results from discontinued operations in both the current and prior period. The assets and liabilities of Porous Technologies have also been presented as held for sale on the balance sheet at 31 December 2016. No finance income or expense related to discontinued operations, and the income tax expense related to discontinued operations amounted to £24.9m (2016: £3.9m).

The adjusted operating profit / (loss) presented for each operating segment includes the effect of allocation of certain functional costs such as finance, human resources, legal and IT, as well as costs relating to management of the divisions on an internal management methodology.

Therefore for continuing operations, the adjusted operating profit presented below of £84.9m (2016: £110.4m) differs from the amount presented as operating profit before intangible amortisation and exceptional operating items of £84.6m (2016: £108.7m) as a result of costs allocated to Porous Technologies of £0.3m (2016: £1.7m) under the internal management methodology.

With effect from 1 January 2018, a new organisation structure has been implemented, comprising four different divisions (see note 28 for further details).

1. Segment analysis continued

	Component Solutions £m	Health & Personal Care Packaging £m	Filter Products £m	Eliminations £m	Central Services[1] £m	Total Continuing Operations £m	Discontinued Operations £m	Total £m
								2017
External revenue	342.3	407.5	277.5	–	–	1,027.3	15.7	1,043.0
Intersegment revenue	0.8	2.0	–	(2.8)	–	–	–	–
Total revenue	**343.1**	**409.5**	**277.5**	**(2.8)**	**–**	**1,027.3**	**15.7**	**1,043.0**
Operating profit / (loss) before intangible amortisation and exceptional operating items	58.7	7.2	34.8	–	(15.8)	84.9	2.5	87.4
Amortisation of acquired intangible assets	(9.5)	(13.4)	–	–	–	(22.9)	–	(22.9)
Exceptional operating items	(7.2)	(39.0)	(0.5)	–	(9.5)	(56.2)	132.4	76.2
Operating profit / (loss)	**42.0**	**(45.2)**	**34.3**	**–**	**(25.3)**	**5.8**	**134.9**	**140.7**
Segment assets	197.6	225.9	162.8	–	15.7	602.0	–	602.0
Intangible assets	175.0	372.6	0.1	–	–	547.7	–	547.7
Unallocated items[2]	–	–	–	–	90.0	90.0	–	90.0
Total assets	**372.6**	**598.5**	**162.9**	**–**	**105.7**	**1,239.7**	–	**1,239.7**
Segment liabilities	53.0	100.5	48.8	–	23.7	226.0	–	226.0
Unallocated items[2]	–	–	–	–	393.3	393.3	–	393.3
Total liabilities	**53.0**	**100.5**	**48.8**	**–**	**417.0**	**619.3**	**–**	**619.3**
Other segment items								
Capital expenditure (cash spend)	11.6	18.3	11.4	–	5.8	47.1	0.3	47.4
Depreciation	10.6	13.4	9.3	–	2.0	35.3	–	35.3
Average number of employees[3]	2,455	3,746	1,598	–	163	7,962	89	8,051

1 Central Services includes executive and non-executive management, 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.
2 The unallocated assets relate to income and 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.
3 The average number of employees within discontinued operations over the period from 1 January 2017 until the date of disposal of the Porous Technologies business was 531.

Continuing operations' net finance expense of £10.4m (2016: £12.5m) and income tax credit of £10.4m (2016: £11.5m) cannot be meaningfully allocated by segment.

No customer accounted for more than 10% of revenue in either 2017 or 2016. Analysed by destination, revenue to Europe & Africa is £494.0m (2016: £522.7m), revenue to Americas is £338.3m (2016: £387.3m) and revenue to Asia and Middle East is £210.7m (2016: £193.7m). Revenue to the UK is £116.0m (2016: £141.7m), with other significant countries being the USA with revenue of £258.0m (2016: £307.2m), Ireland £50.9m (2016: £47.4m) and Germany £53.1m (2016: £47.0m). Non-current assets in the UK total £151.8m (2016: £168.5m), with the other significant location being the USA with £315.1m (2016: £406.7m).

1. Segment analysis continued

	Component Solutions £m	Health & Personal Care Packaging £m	Filter Products £m	Eliminations £m	Central Services[1] £m	Total Continuing Operations £m	Discontinued Operations £m	2016 Total £m
External revenue	301.8	427.6	269.1	–	–	998.5	105.2	1,103.7
Intersegment revenue	0.8	2.6	0.1	(3.5)	–	–	–	–
Total revenue	**302.6**	**430.2**	**269.2**	**(3.5)**	**–**	**998.5**	**105.2**	**1,103.7**
Operating profit / (loss) before intangible amortisation and exceptional operating items	54.4	34.5	37.5	–	(16.0)	110.4	21.5	131.9
Amortisation of acquired intangible assets	(8.8)	(21.4)	–	–	–	(30.2)	(2.7)	(32.9)
Exceptional operating items	(0.8)	(126.7)	(1.0)	–	–	(128.5)	(5.2)	(133.7)
Operating profit / (loss)	**44.8**	**(113.6)**	**36.5**	**–**	**(16.0)**	**(48.3)**	**13.6**	**(34.7)**
Segment assets	188.4	253.7	170.4	–	10.4	622.9	72.9	695.8
Intangible assets	190.2	391.4	0.1	–	–	581.7	51.1	632.8
Unallocated items[2]	–	–	–	–	76.9	76.9	6.7	83.6
Total assets	**378.6**	**645.1**	**170.5**	**–**	**87.3**	**1,281.5**	**130.7**	**1,412.2**
Segment liabilities	41.9	96.9	54.0	–	17.6	210.4	14.4	224.8
Unallocated items[2]	–	–	–	–	566.6	566.6	18.1	584.7
Total liabilities	**41.9**	**96.9**	**54.0**	**–**	**584.2**	**777.0**	**32.5**	**809.5**
Other segment items								
Capital expenditure (cash spend)	8.0	25.4	6.8	–	4.5	44.7	2.0	46.7
Depreciation	10.1	10.8	8.2	–	1.5	30.6	3.7	34.3
Average number of employees	2,230	3,893	1,606	–	179	7,908	521	8,429

1 Central Services includes executive and non-executive management, 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.

2 The unallocated assets relate to income and 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.

2. Net operating expense

	2017 £m	2016 £m
Changes in inventories of finished goods and work-in-progress	**5.7**	(4.0)
Raw materials and consumables	**463.7**	499.0
Personnel expense[1] (note 5)	**277.5**	272.7
Depreciation of property, plant and equipment	**35.3**	34.3
Amortisation of intangible assets	**23.9**	33.4
Exceptional operating items[1]	**(76.2)**	133.7
Operating lease expense	**14.4**	15.0
Exchange differences recognised in profit or loss	**(0.1)**	(1.1)
Other operating expenses	**158.1**	155.4
Net operating expense (including discontinued operations)	**902.3**	1,138.4

1 Personnel expense totalling £9.8m (2016: £1.9m) was charged to exceptional operating items during the year.

2. Net operating expense continued

No income or expense (2016: £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 2017 and 2016, as defined by IAS 39, and therefore no hedge ineffectiveness has been recognised in net operating expense in 2017 (2016: £nil). Research and development expenses (including relevant staff costs) charged to profit or loss during the year amounted to £5.2m (2016: £5.0m). Other operating expenses include manufacturing, selling, general and administrative overheads

Exceptional operating items (including discontinued operations)

	2017 £m	2016 £m
(Gains) / losses and transaction costs relating to acquisitions and disposals of businesses[1]		
– Continuing operations	**1.6**	0.3
– Discontinued operations (Porous Technologies)	**(132.4)**	4.7
Acquisition integration and restructuring costs[2] – continuing operations	**–**	4.5
Impairment of acquired assets[3]	**–**	123.9
Other[4]		
Continuing operations	**54.6**	(0.2)
Discontinued operations (Porous Technologies)	**–**	0.5
Total exceptional operating items	**(76.2)**	133.7
Exceptional tax items[5]	11.4	–

1 Gains / losses and transaction costs relating to acquisitions and disposals of businesses are made up of a £132.4m net gain on disposal of the Porous Technologies business, £1.3m net loss on disposal of the Health & Personal Care Packaging business in Bristol, £0.5m of costs in relation to the acquisition of Micro Plastics and release of £0.2m of deferred consideration from the acquisition of Abric in 2014. In 2016 transaction costs of £5.0m included £0.3m in respect of the acquisition of Kamsri Printing & Packaging PVT. Ltd based in India, and £4.7m costs in relation to the disposal of Porous Technologies (including costs incurred on corporate reorganisation carried out as part of the closing conditions to complete the transaction, and cost of a claim settlement associated with the exit from Porous Technologies).

2 Acquisition integration and restructuring costs were incurred during 2016 in respect of:
> Additional integration costs (primarily employee costs directly associated with the restructuring activities, costs of site closures and directly attributable costs of sites which businesses are transferred into under the integration plan) in relation to the ongoing integration of the Clondalkin SPD business (£4.5m) offset with the gain on disposal of certain properties which were acquired with that business (£1.7m); and
> The costs associated with the closure of the Components site at Xiamen, China, and integration of those operations into other sites in Asia as part of the Components Asia restructuring programme following the Abric acquisition (£1.7m).

3 An impairment charge of £123.9m during 2016 was recognised in respect of the Health & Personal Care strategic business unit (further details are provided in note 8).

4 Other exceptional items in 2017 of £54.6m relate to:
> £35.4m associated with the closure of the folded cartons facility at Newport, comprising £16.7m of property-related costs (in relation to remaining obligations for rent, rates, service charges and dilapidations), £13.6m of asset write-downs (primarily property, plant and equipment) and £5.1m of other costs in relation to redundancy and other closure-related costs;
> £17.3m in respect of the strategic review undertaken during the period and associated reorganisation cost, including £5.3m in relation to senior management restructuring and £4.7m write-down of IT-related assets which are not in line with the Group's revised strategies. The remaining costs relate to external consultancy and project costs attributable to reviews into the various aspects of the Group's operations, systems and processes under the strategic review; and
> £1.9m relating to the closure and relocation of the security seals production from Ipoh, Malaysia to Rayong, Thailand as a result of the strategic review.

Other exceptional items incurred in 2016 related to further costs of £2.7m associated with the closure of the Filters site in Jarrow and integration of previous Jarrow operations into the Hungary site offset with the net release of property provisions of £1.3m on the disposal of certain properties in Filtration Products (including a £0.5m loss of property disposal in Porous Technologies) and the release of £1.1m provision for contingent deferred consideration in relation to a prior period acquisition.

5 Exceptional tax items of £11.4m in 2017 primarily related to the revaluation of deferred tax balances as a result of tax reform in the US. The tax effect of the exceptional items is an expense of £16.7m (2016: £24.9m).

The tax effect of the exceptional items is an expense of £16.7m (2016: £24.9m).

2. Net operating expense continued

Auditor's remuneration (including discontinued operations)

	2017 £m	2016 £m
Audit of these Financial Statements	**0.1**	0.3
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of Financial Statements of subsidiaries of the Company	**1.1**	1.1
Audit-related assurance services[1]	**0.1**	0.1
Other services[2]	**–**	0.2
Total fees	**1.3**	1.7

1 Fees for other services relate principally to the review of the half year Financial Statements.
2 Fees of £17,810 were paid in relation to expatriate tax compliance services in Singapore. In 2016 fees of £15,335 were paid in relation to the audit of the Essentra pension schemes.

Audit fees presented in the table above represent auditor's remuneration in respect of PwC and affiliates in the year ended 31 December 2017 and auditors remuneration in respect of KPMG and affiliates in the year ended 31 December 2016.

3. Net finance expense

	2017 £m	2016 £m
Finance income		
Bank deposits	**0.4**	0.7
Other finance income	**0.1**	0.4
Net interest on net pension scheme assets (note 17)	**0.3**	1.0
	0.8	2.1
Finance expense		
Interest on loans and overdrafts	**(8.5)**	(12.5)
Amortisation of bank facility fees	**(1.0)**	(0.7)
Other finance expense	**(0.4)**	(0.2)
Net interest on pension scheme liabilities (note 17)	**(1.3)**	(1.2)
	(11.2)	(14.6)
Net finance expense	**(10.4)**	(12.5)

4. Income tax

	2017 £m	2016 £m
Amounts recognised in the consolidated income statement		
Current tax	**39.3**	18.0
Prior years' tax	**(0.6)**	0.5
Deferred tax (note 15)	**(24.2)**	(26.1)
Income tax expense / (credit) (including discontinued operations)	**14.5**	(7.6)
Amounts recognised in the consolidated statement of comprehensive income		
Deferred tax expense / (credit) on remeasurement of defined benefit pension schemes	**2.8**	(5.0)
Income tax expense / (credit) in respect of foreign exchange	**0.2**	(1.0)
Income tax expense / (credit) (including discontinued operations)	**3.0**	(6.0)

Factors affecting income tax for the year

Essentra operates in many countries and is subject to income tax in many different jurisdictions (the most significant jurisdictions being the UK, US, Singapore, Hungary, Thailand and Indonesia). Essentra calculates its average expected tax rate as a weighted average of the applicable corporate income tax rates in the tax jurisdictions in which it operates.

	2017 £m	2016 £m
Profit / (loss) before income tax (including discontinued operations)	**130.3**	(47.2)
Tax at weighted average tax rate (2017: 17.6%; 2016: 39.8%)[1]	**22.9**	(18.8)
Effects of:		
Permanent disallowable items (including exceptional costs)[2]	**2.4**	1.7
Non-deductible impairment of goodwill[3]	**–**	8.5
Disposal of Porous Technologies entities[4]	**(2.5)**	–
Non-taxable exceptional items[5]	**–**	(0.3)
US tax reform[6]	**(11.4)**	–
Overseas state and local tax	**0.9**	1.4
Unrecognised tax attributes arising / (utilised)[7]	**2.1**	(0.5)
Adjustments in respect of prior periods	**(1.8)**	1.6
Withholding tax (including on unremitted earnings)[8]	**0.6**	1.7
Change in tax rates[9]	**(0.2)**	–
Other items[10]	**1.5**	(2.9)
Income tax expense / (credit) (including discontinued operations)	**14.5**	(7.6)

Income tax credit in the UK is £3.6m (2016: £9.0m expense). This is primarily due to the trading performance and exceptional costs of the UK businesses.

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 changes in corporate tax rates in these geographies. The prior year weighted average tax rate was distorted due to the impairment loss in relation to the Health & Personal Care Packaging Strategic Business Unit.
2 This includes primarily depreciation on assets not qualifying for capital allowances, costs incurred in relation to the disposal of the Porous Technologies businesses and closure of the cartons site in Newport, UK. Permanent disallowable items may vary in future years dependent on the nature of future expenditure.
3 The 2016 impairment to the Health & Personal Care Packaging goodwill was disallowable for tax purposes.
4 The disposal of the Porous Technologies businesses gives rise to taxable gains, the basis of which is different to the accounting gains.
5 In 2016 gains from the adjustment to contingent deferred consideration in relation to prior acquisitions were non-taxable.
6 The US Tax Reform enacted during 2017 generates a tax credit as deferred tax liabilities are rebased to reflect the reduction to the US Federal tax rate from 1 January 2018. Given the material nature of this impact, it is presented as an exceptional tax credit.
7 See further information regarding deferred tax asset recognition in note 15.
8 Essentra is able to control the timing and amount of remitted earnings so this amount may vary in future years.
9 This reflects changes to substantially enacted or enacted corporate tax rates during the year excluding the impact of the US Tax Reform.
10 Adjustments to uncertain tax positions and sundry items.

5. Personnel expense

	2017 £m	2016 £m
Wages and salaries	**244.6**	238.6
Social security expense	**23.5**	24.2
Pension expense (note 17)	**8.7**	7.9
Share option expense (note 17)	**0.7**	2.0
Total personnel expense (including discontinued operations)	**277.5**	272.7

Personnel expense totalling £9.8m (2016: £1.9m) was charged to exceptional operating items during the year. The Annual Report on Remuneration on pages 97 to 107 sets out information on Directors' remuneration.

Key management remuneration

	2017 £m	2016 £m
Short-term employee benefits	**4.4**	3.6
Post-employment benefits	**0.5**	0.5
Share-based payments	**1.0**	0.7
Termination benefits	**2.0**	–
	7.9	4.8

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 Annual Report on Remuneration.

6. Earnings per share

	2017 £m	2016 £m
Earnings: Continuing operations		
Earnings / (loss) attributable to equity holders of Essentra plc	**4.0**	(51.7)
Adjustments		
Amortisation of acquired intangible assets	**22.9**	30.2
Exceptional operating items	**56.2**	128.5
	79.1	158.7
Tax relief on adjustments	**(14.0)**	(30.8)
Exceptional tax item	**(11.4)**	–
Adjusted earnings	**57.7**	76.2
Earnings: Discontinued operations		
Earnings attributable to equity holders of Essentra plc	**110.3**	11.4
Adjustments		
Amortisation of acquired intangible assets	**–**	2.7
Exceptional operating items	**(132.4)**	5.2
	(132.4)	7.9
Tax relief on adjustments	**24.1**	(0.7)
Adjusted earnings	**2.0**	18.6
Weighted average number of shares		
Basic weighted average ordinary shares in issue (million)	**261.6**	261.1
Dilutive effect of employee share option plans (million)	**2.0**	–
Diluted weighted average ordinary shares (million)	**263.6**	261.1
Earnings per share: Continuing operations (pence)		
Basic earnings / (loss) per share	**1.5p**	(19.8)p
Adjustment	**20.6p**	49.0p
Basic adjusted earnings per share	**22.1p**	29.2p
Diluted earnings / (loss) per share	**1.5p**	(19.8)p
Diluted adjusted earnings per share	**21.9p**	29.2p
Earnings per share: Discontinued operations (pence)		
Basic earnings per share	**42.2p**	4.4p
Adjustment	**(41.5)p**	2.7p
Basic adjusted earnings per share	**0.7p**	7.1p
Diluted earnings per share	**41.9p**	4.4p
Diluted adjusted earnings per share	**0.7p**	7.1p
Earnings per share: Total Group (pence)		
Basic earnings / (loss) per share	**43.7p**	(15.4)p
Adjustment	**(20.9)p**	51.7p
Basic adjusted earnings per share	**22.8p**	36.3p
Diluted earnings / (loss) per share	**43.4p**	(15.4)p
Diluted adjusted earnings per share	**22.6p**	36.3p

Adjusted earnings per share is provided to reflect the underlying earnings performance of Essentra.

6. Earnings per share continued

For the prior year, the employee share options were not considered as dilutive, as they would increase loss per share from continuing operations.

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

7. Property, plant and equipment

				2017
	Land and buildings £m	Plant and machinery £m	Fixtures, fittings and equipment £m	Total £m
Cost				
Beginning of year	**87.3**	**426.1**	**55.7**	**569.1**
Acquisitions (note 23)	1.8	2.1	0.1	**4.0**
Additions	7.3	31.2	10.1	**48.6**
Disposals	(3.7)	(29.2)	(2.6)	**(35.5)**
Transfers	8.5	0.3	(1.6)	**7.2**
Currency translation	(3.0)	(11.7)	(0.7)	**(15.4)**
End of year	**98.2**	**418.8**	**61.0**	**578.0**
Depreciation and impairment				
Beginning of year	**16.4**	**232.7**	**34.1**	**283.2**
Charge in period	3.0	26.6	5.7	**35.3**
Disposals	(1.4)	(27.8)	(2.4)	**(31.6)**
Transfers	1.9	–	(0.3)	**1.6**
Impairment	–	12.0	0.3	**12.3**
Currency translation	(0.2)	(5.1)	(0.6)	**(5.9)**
End of year	**19.7**	**238.4**	**36.8**	**294.9**
Net book value at end of year	**78.5**	**180.4**	**24.2**	**283.1**

7. Property, plant and equipment continued

				2016
	Land and buildings £m	Plant and machinery £m	Fixtures, fittings and equipment £m	Total £m
Cost				
Beginning of year	111.6	383.3	60.4	555.3
Acquisitions (note 23)	–	0.5	–	0.5
Additions	2.3	36.0	2.0	40.3
Disposals	(14.8)	(13.0)	(3.6)	(31.4)
Transfer to intangible assets	–	–	(2.6)	(2.6)
Transfer to assets in disposal group held for sale	(27.5)	(42.5)	(6.5)	(76.5)
Currency translation	15.7	61.8	6.0	83.5
End of year	87.3	426.1	55.7	569.1
Depreciation and impairment				
Beginning of year	24.4	208.5	33.6	266.5
Depreciation charge for the year	2.4	25.1	5.5	33.0
Impairment	0.3	3.4	–	3.7
Disposals	(9.1)	(11.8)	(3.3)	(24.2)
Transfer to intangible assets	–	–	(0.5)	(0.5)
Transfer to assets in disposal group held for sale	(6.9)	(29.4)	(5.7)	(42.0)
Currency translation	5.3	36.9	4.5	46.7
End of year	16.4	232.7	34.1	283.2
Net book value at end of year	70.9	193.4	21.6	285.9

Included within land and buildings and plant and machinery are assets in the course of construction of £11.0m (2016: £25.1m) which were not depreciated during the year.

Contractual commitments to purchase property, plant and equipment amounted to £5.7m at 31 December 2017 (2016: £3.8m including Porous Technologies). The net book value of assets under finance leases amounted to £2.7m as at 31 December 2017 (2016: £3.3m).

Impairment charge in 2017 of £12.3m related primarily to the write-down of assets as a result of the closure of the folded cartons facility at Newport (see note 2) which was reported within the Health & Personal Care Packaging division for segmental reporting purposes. The assets have been written down to their recoverable amount, which represents fair value less costs of disposal.

Impairment charge in 2016 of £3.7m related primarily to the write-down of certain plant and machinery in the Health & Personal Care Packaging division as a result of detailed impairment assessment of assets held by the individual cash generating units in that division. Further details are included in note 8.

8. Intangible assets

	2017			
	Goodwill £m	Customer relationships £m	Other intangible assets £m	Total £m
Cost				
Beginning of year	**380.5**	**427.2**	**14.1**	**821.8**
Acquisitions (note 23)	10.7	–	–	**10.7**
Additions	–	–	0.2	**0.2**
Currency translation	(12.5)	(10.8)	(0.7)	**(24.0)**
End of year	**378.7**	**416.4**	**13.6**	**808.7**
Amortisation and impairment				
Beginning of year	**32.5**	**203.4**	**4.2**	**240.1**
Charge for the year	–	22.2	1.7	**23.9**
Impairment	–	–	4.4	**4.4**
Currency translation	(1.3)	(5.9)	(0.2)	**(7.4)**
End of year	**31.2**	**219.7**	**10.1**	**261.0**
Net book value at end of year	**347.5**	**196.7**	**3.5**	**547.7**

	2016			
	Goodwill £m	Customer relationships £m	Other intangible assets £m	Total £m
Cost				
Beginning of year	367.2	397.2	15.7	780.1
Acquisitions (note 23)	0.5	2.1	0.1	2.7
Additions	–	–	3.9	3.9
Transfer from property, plant and equipment	–	–	2.6	2.6
Transfer to assets in disposal group held for sale	(29.6)	(25.4)	(9.0)	(64.0)
Currency translation	42.4	53.3	0.8	96.5
End of year	380.5	427.2	14.1	821.8
Amortisation and impairment				
Beginning of year	–	80.0	8.5	88.5
Charge for the year	–	30.6	1.8	32.4
Impairment	32.5	88.0	–	120.5
Transfer from property, plant and equipment	–	–	0.5	0.5
Transfer to assets in disposal group held for sale	–	(8.3)	(6.6)	(14.9)
Currency translation	–	13.1	–	13.1
End of year	32.5	203.4	4.2	240.1
Net book value at end of year	348.0	223.8	9.9	581.7

8. Intangible assets continued

Other intangible assets principally comprise trade names acquired with Reid Supply, developed technology acquired with Richco, order backlog and eCommerce development costs. Amortisation of intangible assets arising from business combinations ("acquired intangible assets") is presented separately on the face of the income statement.

The eCommerce development costs were not acquired through a business combination, and their amortisation is included within operating profit before intangible amortisation and exceptional operating items.

The eCommerce development costs were impaired by £4.4m during the year to their value in use. The eCommerce development costs were incurred and reported within the Component Solutions division for segmental reporting purposes.

The weighted average remaining useful economic lives of customer relationships and other intangible assets (including Porous Technologies) at the end of the year were 9.2 years and 10.6 years (2016: 10.3 years and 7.2 years) respectively.

Essentra tests intangible assets annually for impairment, or more frequently if there are indications of impairment. A discounted cash flow analysis is computed to compare the discounted estimated future operating cash flows to the net carrying value of the goodwill and other intangible assets for each cash generating unit or group of cash generating units as appropriate.

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

	Goodwill	
Operating segment	**2017 £m**	**2016 £m**
Component Solutions	**98.7**	93.3
Health & Personal Care Packaging	**248.8**	254.7
Porous Technologies[1]	**–**	31.4
	347.5	379.4

1 These are included in assets in disposal group held for sale as at 31 December 2016. The disposal transaction completed in March 2017 (see note 23).

With effect from 1 January 2018, a new organisation structure has been implemented comprising these strategic business units (see note 28 for further details). Goodwill is allocated to groups of cash generating units, in accordance with the new operating segment structure as follows:

	Goodwill
Operating segment	**2017 £m**
Components	**83.8**
Packaging	**189.0**
Filters	**–**
Specialist Components	**74.7**
	347.5

8. Intangible assets continued

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

Business	Operating segment	Customer relationships and other intangible assets 2017 £m	Customer relationships and other intangible assets 2016 £m
Components – Businesses of former Moss and Skiffy	Component Solutions	**13.2**	17.5
Components – Businesses of former Richco	Component Solutions	**28.9**	35.2
Components – Business of former Reid Supply	Component Solutions	**5.7**	7.6
Components – Business of former Mesan	Component Solutions	**9.0**	11.8
Components – Abric	Component Solutions	**10.6**	11.6
Healthcare – Europe	Health & Personal Care Packaging	**75.3**	79.7
Healthcare – Americas	Health & Personal Care Packaging	**39.8**	46.6
Healthcare – Asia	Health & Personal Care Packaging	**1.9**	2.1
Porous St. Charles[1]	Discontinued operations	**–**	3.3
Porous Chicopee[1]	Discontinued operations	**–**	14.5
Porous Asia[1]	Discontinued operations	**–**	1.9
Tear Tapes	Health & Personal Care Packaging	**1.6**	2.2
Speciality Tapes	Health & Personal Care Packaging	**6.8**	8.2
Other businesses	Multiple segments	**7.4**	11.2
		200.2	253.4

1 These were included in assets in disposal group held for sale as at 31 December 2016. The assets were disposed of with the Porous Technologies business in March 2017.

The Health & Personal Care Packaging business faced significant operational and commercial challenges during 2016. Integration of the acquired Clondalkin operations and the associated site rationalisation programme has experienced significant issues and resulted in losses of customers, particularly in the UK, the US and the Netherlands. Furthermore, there has been significant scaling back of high margin security feature business in the tear tape operations. Issues were also experienced in the integration of the European speciality tapes activities into the European tear tapes business. As a result, impairment losses were recognised in 2016 for £32.5m of goodwill, £88.0m of customer relationship intangible asset and £3.4m of property, plant and equipment (primarily plant and machinery).

At 31 December 2017, management has performed impairment assessments of the assets in each division based on the new organisational structure (which became effective from 1 January 2018). In management's view, as the annual impairment test of goodwill is performed on 31 December, it is more appropriate to apply the new organisational structure for the test as at 31 December 2017. Following this impairment assessment, no impairment loss was recognised in 2017.

The impairment assessment for intangible assets (excluding goodwill) and property, plant and equipment is performed on the cash generating units within the divisions. The cash generating units are primarily the manufacturing sites. Goodwill is tested at the divisional level, which is the level that management monitor goodwill at. The recoverable amount is estimated on the basis of value in use, ie, discounted cash flow projection expected to be generated by the group of cash generating units. For assets in the cash generating units assessed to be impaired, their fair value less costs to sell is also considered in determining the impairment loss to be recognised, if any. In these cases the fair value less costs to sell is based on estimated market prices reflecting the age and condition of the asset.

8. Intangible assets continued

The impairment tests for goodwill and intangible assets are based on the following assumptions:

- Cash flows for the next year are based upon the Group's annual Plan ("the Plan"). The key assumptions in the cash flow projections for the Plan are the revenue growth and operating margin for each strategic business unit. Operating margin is primarily based on the levels achieved in 2017, which are disclosed in note 1, adjusted by targets set for revenue expansion and cost control and reduction for each individual division within the Plan period.
- In relation to the test for the Components and Specialist Components divisions, cash flows beyond the Plan period are based on Plan cash flows with growth rates specific to each business of up to 2% (2016: up to 2%).
- The estimated cash flows are discounted using a pre-tax discount rate based upon Essentra's estimated post-tax weighted average cost of capital of 8.8% (2016: 8.2%). The specific pre-tax discount rates applied for each group of cash generating units to which significant goodwill is allocated are as follows: 11.9% for Packaging, 11.6% for Components and 11.3% for Specialist Components (2016: 10.6% for Health & Personal Care Packaging, 10.6% for Component Solutions and 10.6% for Filtration Products).
- There is no goodwill held by the Filter Products division.
- In relation to the test for the Packaging division, management carried out a more detailed assessment of the growth and profit margin assumptions for each of the next four years after the Plan period, and applied a terminal growth rate of 2.0% (2016: 1.0 - 1.5%) subsequently. The growth and profit margin assumptions are based on management's assessment of market condition and scope for cost and profitability improvement, taking into account realisable synergies following the recent integration activities. The key assumption is that operating margins in this division will return to industry average margins by the end of the forecast period following a number of changes made as an outcome of the Group-wide strategic review.

The following reasonably possible change to key assumptions will cause the carrying amount to exceed the recoverable amount in the Packaging division:

- An increase in discount rate of four basis points
- A reduction in terminal annual growth rate of four basis points
- A reduction in each year's growth rate by 13 basis points
- A reduction of six basis points in the operating profit margin in the fifth year of the five-year period

9. Inventories

	2017 £m	2016 £m
Raw materials and consumables	**45.1**	45.4
Work-in-progress	**11.7**	10.4
Finished goods and goods held for resale	**57.5**	59.3
	114.3	115.1

During 2017 inventories with a total value of £1.8m were written down as a result of site closures, the amount written off in 2016 was not material.

10. Trade and other receivables

	2017 £m	2016 £m
Trade receivables	**168.8**	187.8
Other receivables	**21.7**	22.6
Prepayments and accrued income	**10.5**	8.0
	201.0	218.4

11. Cash and cash equivalents

	2017 £m	2016 £m
Bank balances	**48.0**	27.4
Short-term bank deposits and investments	**4.0**	26.6
Cash and cash equivalents	**52.0**	54.0
Amount in disposal group held for sale	**–**	6.7
Cash and cash equivalents in the statement of cash flows	**52.0**	60.7

12. Trade and other payables

	2017 £m	2016 £m
Trade payables	**119.1**	134.0
Other tax and social security contributions	**9.1**	11.8
Other payables	**14.0**	15.1
Accruals and deferred income	**55.3**	43.4
	197.5	204.3

13. Interest bearing loans and borrowings

	2017 £m	2016 £m
Non-current liabilities		
Unsecured bank loans	**152.6**	310.1
US Private Placement Loan notes	**114.4**	64.2
Finance lease liabilities	**0.1**	0.6
	267.1	374.9
Current liabilities		
US Private Placement Loan notes	**–**	64.5
Finance lease liabilities	**0.5**	0.6
	0.5	65.1

At 31 December 2017, the Group had £32.0m (2016: £170.0m), and €140.0m (2016: €165.0m) of unsecured bank loans drawn in sterling and euros at floating rates of interest set by reference to LIBOR. Essentra's $155.0m US Private Placement Loan notes are at a weighted average interest rate of 5.26% per annum (2016: 5.64%).

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

	2017		2016	
	Carrying value £m	Nominal value £m	Carrying value £m	Nominal value £m
Sterling	**30.7**	**32.2**	170.1	170.5
US dollar	**114.4**	**114.8**	128.7	129.0
Euro	**122.5**	**124.3**	141.2	141.7
	267.6	**271.3**	440.0	441.2

The difference between the total nominal and carrying value of loans and borrowings relates to the amortised value of prepaid facility fees of £3.7m (2016: £1.2m).

14. 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 2017				
Derivatives held in net investment hedges				
Forward foreign exchange contracts	0.1	4.7	(0.3)	8.3
Derivatives held in cash flow hedges				
Forward foreign exchange contracts	0.3	32.0	(0.6)	73.1
	0.4	**36.7**	**(0.9)**	**81.4**

	Assets		Liabilities	
	Fair values £m	**Contractual or notional amounts £m**	**Fair values £m**	**Contractual or notional amounts £m**
At 31 December 2016				
Derivatives held in net investment hedges				
Forward foreign exchange contracts	0.2	3.7	(0.4)	15.8
Derivatives held in cash flow hedges				
Forward foreign exchange contracts	1.0	43.5	(1.3)	166.7
	1.2	47.2	(1.7)	182.5

Cash flow hedges are hedges of the currency risk exposure to variability in cash flows. They relate to trading transactions and interest payments denominated in foreign currencies.

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

The net fair value gains or losses on open forward foreign exchange contracts that hedge foreign currency risk of anticipated future sales, purchases and interest payments are accounted for as cash flow hedges. The fair value will be transferred to the income statement when the forecast transactions 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 gains of £7.4m (2016: losses of £40.8m) on the US dollar borrowings and the losses of £4.4m (2016: losses of £16.1m) on the euro borrowings were recognised in other comprehensive income. In addition, certain foreign exchange contracts were also designated as hedges of the Group's net investments in foreign operations.

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 3.

15. Deferred tax

Deferred tax assets and liabilities (including amounts relating to disposal group held for sale) are attributable to the following:

	2017			2016		
	Assets £m	Liabilities £m	Net £m	Assets £m	Liabilities £m	Net £m
Property, plant and equipment[1]	**(3.1)**	**12.7**	**9.6**	(1.3)	22.6	21.3
Intangible assets[2]	**–**	**47.3**	**47.3**	–	69.4	69.4
Employee benefits[3]	**(8.2)**	**3.1**	**(5.1)**	(12.0)	2.1	(9.9)
Other[4]	**(18.3)**	**6.1**	**(12.2)**	(12.9)	5.8	(7.1)
Tax (assets) / liabilities	**(29.6)**	**69.2**	**39.6**	(26.2)	99.9	73.7
Set off of tax	**19.2**	**(19.2)**	**–**	23.6	(23.6)	–
Net tax (assets) / liabilities	**(10.4)**	**50.0**	**39.6**	(2.6)	76.3	73.7

1 A deferred tax liability arises on property, plant and equipment as the tax value of assets is lower than the corresponding accounting value. This arises as tax deductions are determined by the applicable tax laws in each country the Group operates in whereas accounting depreciation is calculated in line with the Group's accounting policy. The decrease during the year is due to the disposal of the Porous Technologies business and the impact from the US Tax Reform.
2 A deferred tax liability is provided on temporary differences arising on the Group's intangible assets as in the majority of cases the local tax authorities do not allow deduction for amortisation of these intangible assets. The decrease during the year is due to the disposal of the Porous Technologies business and the impact from US Tax Reform.
3 This represents deferred tax on the Group's defined benefit pension schemes and share-based incentives.
4 This includes expenditure that will be deductible in future periods for tax purposes when the amounts are settled in cash, tax losses expected to be utilised in future periods and withholding tax on overseas earnings from Group companies expected to be remitted in the foreseeable future of £4.5m (2016: £4.2m).

Movements in the year:

	2017 £m	2016 £m
Beginning of year	**73.7**	88.4
Credit to the income statement in respect of current year	**(23.0)**	(27.1)
(Credit) / charge to the income statement in respect of prior years	**(1.2)**	1.0
Credit to reserves on foreign exchange movements	**(0.8)**	–
Charge / (credit) to other comprehensive income	**2.8**	(5.0)
Charge to reserves on share-based incentives	**0.3**	3.0
Reclassification to current tax	**0.9**	–
Acquisitions & disposals	**(10.9)**	–
Currency translation	**(2.2)**	13.4
End of year	**39.6**	73.7
Included in:		
Disposal group held for sale (see note 23)	**–**	10.5
Rest of Group	**39.6**	63.2
	39.6	73.7

No deferred tax liability is provided in respect of unremitted 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. At the year end it is expected that earnings from certain overseas Group companies will be remitted and a deferred tax liability of £4.5m (2016: £4.2m) has been recognised accordingly. This represents withholding taxes payable on the remittance of these earnings under local tax laws. The amount of temporary differences associated with investments in subsidiaries and branches for which deferred tax liabilities have not been recognised is £107.8m as at 31 December 2017 (2016: £113.7m), and the associated amount of unrecognised deferred tax is £11.5m (2016: £11.7m).

15. Deferred tax continued

Based on available information, management determined whether it is probable for some or all of the deferred tax assets to be realised. In determining this management considered the cumulative losses in prior years, the history of tax losses, the manner in which assets can be used (including time limitations under local laws), future earnings potential and expectation of future reversal of taxable temporary differences. Following management assessment, gross deferred tax assets of £0.2m (2016: £0.2m) in respect of capital losses and unutilised tax losses of £31.9m (2016: £46.1m) have not been recognised as their realisation is not probable. The capital losses have an unlimited expiry date. The tax losses expire as follows: £0.1m within five years, £4.5m in five to ten years, £0.1 in over 10 years and £27.2m with no expiry. If future conditions change the amount of unrecognised deferred tax assets will be reassessed. This may impact the income tax expense / (credit) in the year of remeasurement.

16. Provisions

			2017
	Reorganisation £m	Other £m	Total £m
Beginning of year	**0.2**	**5.9**	**6.1**
Provisions made during the year	21.4	6.2	**27.6**
Provisions released during the year	–	(0.6)	**(0.6)**
Utilised during the year	(6.6)	(1.4)	**(8.0)**
Transfer	–	(0.3)	**(0.3)**
End of year	**15.0**	**9.8**	**24.8**
Non-current	14.5	5.5	**20.0**
Current	0.5	4.3	**4.8**
	15.0	**9.8**	**24.8**

			2016
	Reorganisation £m	Other £m	Total £m
Beginning of year	2.9	7.9	10.8
Provisions made during the year	–	0.4	0.4
Provisions released during the year	(1.9)	(1.2)	(3.1)
Utilised during the year	(0.8)	(2.0)	(2.8)
Acquisitions	–	0.1	0.1
Transferred to accruals and other payables	–	(0.1)	(0.1)
Currency translation	–	0.8	0.8
End of year	0.2	5.9	6.1
Non-current	–	4.9	4.9
Current	0.2	1.0	1.2
	0.2	5.9	6.1

16. Provisions continued

Reorganisation provisions are generally held against restructuring and redundancy costs, primarily related to the integration of acquired businesses and restructuring associated with acquisitions. Reorganisation provisions made during 2017 primarily related to the exceptional restructuring costs arising from the closure of the folded cartons facility at Newport (see note 2).

Other provisions relate primarily to vacant properties, lease dilapidations, employees' compensation claims and other claims.

Non-current provisions are generally provisions for vacant properties and lease dilapidations which are expected to be utilised within the next 10 years. The release of other provisions during the year relates mostly to claims and property-related provisions.

17. 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. The defined benefit plans operate within the wider regulatory framework of the country in which the plan is operated.

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 2015 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 recently completed 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 articipating 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.

17. Employee benefits continued

The amounts included in the consolidated Financial Statements are as follows:

	2017 £m	2016 £m
Amounts expensed against operating profit		
Defined contribution schemes	**7.1**	6.2
Defined benefit schemes – service cost	**1.5**	1.5
Other – curtailment gain	**(0.1)**	–
Other post-employment obligations	**0.2**	0.2
Total operating expense (including discontinued operations)	**8.7**	7.9
Amounts included as finance (income) / expense		
Net interest on defined benefit scheme assets (note 3)	**(0.3)**	(1.0)
Net interest on defined benefit scheme liabilities (note 3)	**1.3**	1.2
Net finance expense (including discontinued operations)	**1.0**	0.2
Amounts recognised in the consolidated statement of comprehensive income		
Return on defined benefit scheme assets excluding amounts in net finance income	**(11.2)**	(24.0)
Impact of changes in assumptions and experience to the present value of defined benefit scheme liabilities	**2.9**	40.8
Gains / losses on remeasurement of defined benefit schemes (including discontinued operations)	**(8.3)**	16.8

During 2015, the principal defined benefit pension schemes in the UK and the US were closed to future accrual, and curtailment gains were recognised in profit or loss accordingly. Following the closure of the Group's principal defined benefit pension schemes to future accruals, the schemes are funded by the Group's subsidiaries and employees are not required to make any further contribution. The funding of these schemes is based on separate actuarial valuations for funding purposes for which the assumptions may differ from those used in the valuation for IAS 19 purposes.

The principal assumptions used by the independent qualified actuaries for the purposes of IAS 19 are as follows:

	2017		2016	
	Europe	US	Europe	US
Increase in salaries (pre-2010)[1]	**n/a**	**n/a**	n/a	n/a
Increase in salaries (post-2010)[1]	**n/a**	**n/a**	n/a	n/a
Increase in pensions[1]				
at RPI capped at 5%	**3.10%**	**n/a**	3.30%	n/a
at CPI capped at 5%	**2.20%**	**n/a**	2.40%	n/a
at CPI minimum 3%, capped at 5%	**3.10%**	**n/a**	3.20%	n/a
at CPI capped at 2.5%	**1.90%**	**n/a**	2.00%	n/a
Discount rate	**2.50%**	**3.60%**	2.70%	4.15%
Inflation rate – RPI	**3.20%**	**n/a**	3.40%	n/a
Inflation rate – CPI	**2.20%**	**n/a**	2.40%	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.

17. Employee benefits continued

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

	2017		2016	
	Europe	US	Europe	US
Male retiring today at age 65	**22.1**	**20.7**	22.7	20.8
Female retiring today at age 65	**23.9**	**22.7**	24.5	22.8
Male retiring in 20 years at age 65	**23.5**	**22.3**	24.4	22.5
Female retiring in 20 years at age 65	**25.4**	**24.2**	26.4	24.4

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 pension scheme liabilities, which are derived from cash flow projections over long periods and are therefore inherently uncertain, are:

					2017
		Europe £m		US £m	Total £m
Equities	33%	73.7	62%	34.4	**108.1**
Corporate bonds	18%	40.5	38%	20.9	**61.4**
Government bonds	49%	109.8	–	–	**109.8**
Other	–	1.1	–	0.2	**1.3**
Fair value of scheme assets		225.1		55.5	**280.6**
Present value of scheme liabilities		(208.0)		(83.3)	**(291.3)**
Net retirement benefit assets / (obligations)		**17.1**		**(27.8)**	**(10.7)**

					2016
		Europe £m		US £m	Total £m
Equities	32%	69.9	61%	34.5	104.4
Corporate bonds	18%	39.0	38%	21.6	60.6
Government bonds	50%	111.1	–	–	111.1
Other	–	0.9	1%	0.8	1.7
Fair value of scheme assets		220.9		56.9	277.8
Present value of scheme liabilities		(212.3)		(86.6)	(298.9)
Net retirement benefit assets / (obligations)		8.6		(29.7)	(21.1)

17. Employee benefits continued

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 pension surplus in Europe is not restricted as the asset is considered realisable on the basis of the Group's unconditional right to a refund.

The average expected duration of the Group's European defined benefit pension liability at 31 December 2017 is 20.0 years (2016: 20.0 years). The average expected duration of the Group's US defined benefit pension liability at 31 December 2017 is 12.7 years (2016: 12.8 years).

The Group's contributions to its defined benefit pension schemes are determined in consultation with trustees, taking into consideration actuarial advice, investment conditions and other local conditions and practices. In 2018, the Group expects to make defined benefit contributions of $3.5m to its US schemes. As the Group's European schemes are in a surplus position the Group does not expect to make further contributions in 2018.

Movement in fair value of post-employment obligations (including disposal group held for sale) during the year

	2017				2016			
	Defined benefit pension scheme assets £m	Defined benefit pension scheme liabilities £m	Other £m	Total £m	Defined benefit pension scheme assets £m	Defined benefit pension scheme liabilities £m	Other £m	Total £m
Beginning of year	**277.8**	**(298.9)**	**(2.3)**	**(23.4)**	246.7	(245.8)	(1.7)	(0.8)
Service cost and administrative expense	**(1.4)**	**(0.1)**	**(0.2)**	**(1.7)**	(1.1)	(0.4)	(0.2)	(1.7)
Employer contributions	**1.2**	**0.1**	**–**	**1.3**	0.8	–	0.2	1.0
Return on plan assets excluding amounts in net finance income	**11.2**	**–**	**–**	**11.2**	24.0	–	–	24.0
Actuarial losses arising from change in financial assumptions	**–**	**(9.5)**	**–**	**(9.5)**	–	(45.2)	(0.3)	(45.5)
Actuarial gains arising from change in demographic assumptions	**–**	**4.4**	**–**	**4.4**	–	3.4	–	3.4
Actuarial gains arising from experience adjustment	**–**	**2.2**	**–**	**2.2**	–	1.3	–	1.3
Finance income / (expense)	**8.0**	**(8.9)**	**(0.1)**	**(1.0)**	9.6	(9.8)	–	(0.2)
Benefits paid	**(10.9)**	**10.9**	**–**	**–**	(11.2)	11.2	–	–
Curtailments	**–**	**–**	**0.1**	**0.1**	–	–	–	–
Currency translation	**(4.6)**	**7.5**	**(0.2)**	**2.7**	9.0	(13.6)	(0.3)	(4.9)
Business disposals	**(0.7)**	**1.0**	**–**	**0.3**	–	–	–	–
End of year	**280.6**	**(291.3)**	**(2.7)**	**(13.4)**	277.8	(298.9)	(2.3)	(23.4)

17. 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 measurement of the scheme liabilities as at 31 December 2017.

	Scheme liabilities		
	Europe £m	**US £m**	**Total £m**
0.5% decrease in the discount rate	(21.6)	(5.3)	**(26.9)**
1.0% increase in the rate of inflation	18.8	n/a	**18.8**
1.0% increase in rate of salary / pension increases	n/a	n/a	**n/a**
1 year increase in life expectancy	(8.2)	(2.4)	**(10.6)**
0.5% increase in the discount rate	18.8	4.7	**23.5**
1.0% decrease in rate of salary / pension increases	n/a	n/a	**n/a**
1.0% decrease in the rate of inflation	16.2	n/a	**16.2**

Share-based incentives

Essentra operates equity-settled share-based incentive plans for its Executive Directors and employees. The total expense (including discontinued operations) in respect of these plans during the year was £1.3m (2016: £2.0m), of which £0.6m (2016: £nil) in relation to senior management restructuring was included within exceptional operating costs. The expense also includes a credit of £1.9m which relates to the reversal of charges incurred in prior years on options which will no longer vest. Details of these plans are set out below:

Share options outstanding

	2017											
	At 1 Jan 2017	**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 2017**	**Weighted average exercise price**	**Exercisable at 31 Dec 2017**	**Weighted average exercise price**
LTIP Part A	**1,580,165**	**653.9p**	–	–	(327,777)	811.7p	(48,410)	219.0p	**1,203,978**	**628.4p**	**624,233**	**377.3p**
LTIP Part B	**2,343,701**	**–**	1,671,180	–	(935,665)	–	(155,280)	–	**2,923,936**	**–**	**49,781**	**–**
DASB	**238,350**	**–**	–	–	(3,694)	–	(162,891)	–	**71,765**	**–**	**–**	**–**
SAYE 3-year plan	**268,979**	**755.7p**	630,779	430.0p	(295,778)	660.8p	(697)	430.0p	**603,283**	**462.1p**	**–**	**–**
SAYE 5-year plan	**182,407**	**683.4p**	174,001	842.0p	(137,468)	764.7p	(20,658)	354.2p	**198,282**	**800.5p**	**–**	**–**
US SAYE 2-year plan	**60,826**	**528.6p**	35,158	442.0p	(30,199)	622.3p	–	–	**65,785**	**439.3p**	**6,159**	**711.5p**
	4,674,428		**2,511,118**		**(1,730,581)**		**(387,936)**		**5,067,029**		**680,173**	

17. Employee benefits continued

												2016
	At 1 Jan 2016	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 2016	Weighted average exercise price	Exercisable at 31 Dec 2016	Weighted average exercise price
LTIP Part A	1,707,546	614.2p	429,212	828.5p	(265,040)	887.0p	(291,553)	466.9p	1,580,165	653.9p	735,847	380.6p
LTIP Part B	2,270,114	–	843,025	–	(561,196)	–	(208,242)	–	2,343,701	–	185,308	–
DASB	329,396	–	51,879	–	(19,376)	–	(123,549)	–	238,350	–	–	–
SAYE 3-year plan	641,923	691.6p	104,466	787.0p	(330,333)	743.4p	(147,077)	525.7p	268,979	755.7p	–	–
SAYE 5-year plan	321,708	588.9p	64,569	787.0p	(133,465)	720.5p	(70,405)	276.4p	182,407	683.4p	–	–
US SAYE 2-year plan	94,116	713.6p	32,552	367.0p	(65,842)	713.2p	–	–	60,826	528.6p	7,919	713.6p
	5,364,803		1,525,703		(1,375,252)		(840,826)		4,674,428		929,074	

The exercise prices of options outstanding at the end of the year range from nil to 997.0p.

The weighted average share price at the date of exercise for options exercised during the year was 507.2p (2016: 768.1p). 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 2017	**n/a**	**403.8p**	**n/a**	**138.7p**	**114.4p**
Year ended 31 December 2016	158.7p	635.8p	777.4p	153.8p	176.3p

Fair value model inputs for share options awarded

					2017
	LTIP Part A	LTIP Part B	DASB	SAYE 3-year plan	SAYE 5-year plan
Weighted average fair value at grant	127.1p	514.9p	876.4p	147.2p	148.4p
Weighted average share price at grant	621.2p	680.5p	931.4p	568.5p	600.8p
Weighted average exercise price	628.4p	–	–	462.1p	482.6p
Weighted average volatility	30.2%	34.8%	24.8%	40.4%	34.4%
Weighted average dividend yield	2.66%	3.17%	2.07%	3.73%	3.43%
Weighted risk free rate	1.04%	0.41%	0.52%	0.34%	0.79%
Expected employee retention rates	85.2%	100.0%	100.0%	75.0%	75.0%
Expected term	3.16 years	3.00 years	3.00 years	3.00 years	5.00 years
Valuation model	Binomial	Monte Carlo	Binomial	Binomial	Binomial

17. Employee benefits continued

	2016				
	LTIP Part A	LTIP Part B	DASB	SAYE 3-year plan	SAYE 5-year plan
Weighted average fair value at grant	132.4p	660.2p	850.7p	235.6p	249.8p
Weighted average share price at grant	648.0p	866.4p	900.8p	935.4p	850.8p
Weighted average exercise price	653.9p	–	–	755.7p	683.4p
Weighted average volatility	29.5%	25.2%	24.9%	24.7%	28.1%
Weighted average dividend yield	2.57%	2.07%	1.94%	1.92%	1.98%
Weighted risk free rate	1.10%	0.77%	0.80%	0.89%	1.30%
Expected employee retention rates	86.7%	100.0%	100.0%	75.0%	75.0%
Expected term	3.14 years	3.00 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.

	2017 and 2016				
	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 Annual Report on Remuneration on pages 97 to 107.

18. 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.

18. Financial risk management continued

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.

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 2017, gross trade receivables (including amounts relating to disposal group held for sale) were £173.3m (2016: £220.1m) of which £39.3m (2016: £45.0m) were past due but not impaired. The ageing analysis of trade receivables past due but not impaired is as follows:

	2017 £m	2016 £m
Up to 3 months	**36.7**	42.8
Over 3 months	**2.6**	2.2
	39.3	45.0

As at 31 December 2017, trade receivables (including amounts relating to disposal group held for sale) of £4.5m (2016: £4.7m) were provided for as they were considered to be impaired. The ageing of the impaired receivables provided for is as follows:

	2017 £m	2016 £m
Up to 3 months	**–**	–
Over 3 months	**4.5**	4.7
	4.5	4.7

The movement in the provision for impaired receivables (including amounts relating to disposal group held for sale) is as follows:

	2017 £m	2016 £m
Beginning of year	**4.7**	4.3
Impaired receivables acquired	**0.3**	–
Impairment loss recognised	**1.5**	2.4
Utilisation	**(2.0)**	(2.0)
End of year	**4.5**	4.7

18. Financial risk management continued

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

Cash and cash equivalents
Credit risk relating to cash and cash equivalents is monitored daily, on a counterparty by counterparty basis. The credit limits imposed specify the maximum amount of cash which can be invested in, or with, any single counterparty. These limits are determined by geographic presence, expertise and credit rating. 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 (including amounts relating to disposal group held for sale) according to credit ratings of the counterparties. AAA is the highest possible rating and all of the assets are neither impaired nor past due.

							2017
	AAA £m	AA £m	A £m	BBB £m	BB £m	Not rated £m	Total £m
Derivative assets	–	–	0.3	0.1	–	–	0.4
Cash and cash equivalents	0.1	2.8	29.9	16.3	2.7	0.2	52.0
	0.1	2.8	30.2	16.4	2.7	0.2	52.4

							2016
	AAA £m	AA £m	A £m	BBB £m	BB £m	Not rated £m	Total £m
Derivative assets	–	0.2	0.6	0.4	–	–	1.2
Cash and cash equivalents	–	4.9	41.5	8.1	6.0	0.2	60.7
	–	5.1	42.1	8.5	6.0	0.2	61.9

Essentra's maximum credit risk exposure is £251.5m (2016: £303.9m) and no collateral is held against this amount (2016: £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.

18. Financial risk management continued

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 36% (2016: 32%) hedged by the US dollar-denominated borrowings. Essentra's euro-denominated assets were approximately 65% hedged by the euro-denominated borrowings (2016: 73%).

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.

						2017
	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)	**4.7**	**2.2**	**0.4**	**(0.4)**	**(2.0)**	**(3.8)**
Impact on equity – gain / (loss)	**56.7**	**26.8**	**5.2**	**(5.0)**	**(24.3)**	**(46.4)**

						2016
	Weakening in sterling			Strengthening in sterling		
	10% £m	5% £m	1% £m	1% £m	5% £m	10% £m
Impact on the income statement – gain / (loss)	3.9	1.8	0.4	(0.3)	(1.7)	(3.2)
Impact on equity – gain / (loss)	65.2	30.9	5.9	(5.8)	(27.9)	(53.3)

b) Interest rate risk

Essentra's strategy 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.

18. Financial risk management continued

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.

						2017
	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)	**4.4**	**2.2**	**1.1**	**(1.1)**	**(2.2)**	**(4.4)**

						2016
	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)	6.2	3.1	1.6	(1.6)	(3.1)	(6.2)

See note 13 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.

Essentra's objective is to maintain a balance between continuity of funding and flexibility. Essentra is primarily funded by a series of US Private Placement Loan notes from various financial institutions totalling US$155m and syndicated multi-currency five-year revolving credit facilities of £285.0m and €100.8m from its banks. The $80m Loan note repaid on its due date in April 2017 was replaced with three new Loan notes totalling $75m in November 2017. A Revolving Credit Facility of £375m was made available upon completion of the November 2017 Loan note issuance . The new series of Loan notes have original maturities ranging from seven and 12 years and the revolving credit facilities mature in November 2022. The refinancing exercise undertaken in November 2017 also included the new Revolving Credit Facility of £375.0m. At 31 December 2017, the available bank facilities totalled £374.2m (2016: £414.2m) of which £155.9m (2016: £311.0m) was drawn down. In addition, uncommitted and overdraft facilities are maintained to provide short-term flexibility.

Amounts drawn by Essentra on its committed facilities are subject to standard banking covenants. The financial covenants require the net debt to EBITDA ratio to be less than 3.0x and interest cover to be greater than 3.5x. There has been no covenant breach during the period.

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

	2017 £m	2016 £m
Expiring after two years	**218.3**	103.2

Any loans drawn on these facilities would bear interest at floating rates with reference to LIBOR for the currency and period of the loan.

18. Financial risk management continued

The maturity of Essentra's financial liabilities (including amounts relating to disposal group held for sale), including estimated interest payments, is analysed below.

2017	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	**155.9**	**152.6**	**167.8**	**2.4**	**2.4**	**163.0**	**–**
US Private Placement Loan notes	**117.8**	**114.4**	**148.6**	**6.0**	**6.0**	**68.6**	**68.0**
Derivative liabilities	**0.9**	**0.9**	**0.9**	**0.9**	**–**	**–**	**–**
Trade and other payables	**133.1**	**133.1**	**133.1**	**133.1**	**–**	**–**	**–**
Finance lease liabilities	**0.6**	**0.6**	**0.6**	**0.5**	**0.1**	**–**	**–**
Deferred consideration	**4.5**	**4.5**	**4.5**	**0.8**	**1.3**	**1.2**	**1.2**
	412.8	**406.1**	**455.5**	**143.7**	**9.8**	**232.8**	**69.2**

2016	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	310.1	310.1	320.7	3.9	3.9	312.9	–
US Private Placement Loan notes	136.5	128.7	144.1	70.1	3.8	70.2	–
Derivative liabilities	1.7	1.7	1.7	1.7	–	–	–
Trade and other payables	160.0	160.0	160.0	160.0	–	–	–
Finance lease liabilities	1.2	1.2	1.2	0.6	0.5	0.1	–
	609.5	601.7	627.7	236.3	8.2	383.2	–

Total trade and other payables (including amounts relating to disposal group held for sale) carried at £197.5m (2016: £218.5m) including accruals and deferred income of £55.3m (2016: £46.3m) and other taxes and social security contributions of £9.1m (2016: £12.2m) 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.

18. 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 (including amounts relating to disposal group held for sale).

	2017				2016			
	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	–	199.1	–	**199.1**	–	242.0	–	**242.0**
Cash and cash equivalents	–	52.0	–	**52.0**	–	60.7	–	**60.7**
Interest bearing loans and borrowings	–	–	(267.6)	**(267.6)**	–	–	(440.0)	**(440.0)**
Trade and other payables	–	–	(132.3)	**(132.3)**	–	–	(158.7)	**(158.7)**
Level 2 of fair value hierarchy								
Derivative assets	0.4	–	–	**0.4**	1.2	–	–	**1.2**
Derivative liabilities	(0.9)	–	–	**(0.9)**	(1.7)	–	–	**(1.7)**
Level 3 of fair value hierarchy								
Other non-current financial liabilities	(3.7)	–	–	**(3.7)**	–	–	–	**–**
Other current payables	(0.8)	–	–	**(0.8)**	(1.3)	–	–	**(1.3)**
	(5.0)	**251.1**	**(399.9)**	**(153.8)**	**(1.8)**	**302.7**	**(598.7)**	**(297.8)**

Total trade and other receivables (including amounts relating to disposal group held for sale) carried at £209.6m (2016: £250.4m) include prepayments of £10.5m (2016: £8.4m) 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 £4.5m relating to the acquisitions of Micro Plastics and a previous acquisition (2016: £1.3m relating to previous acquisitions). 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 £0.1m (2016: fair value gain of £1.1m) in respect of financial instruments at level 3 fair value hierarchy was recognised within exceptional items (see note 2), and £nil (2016: £nil) 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 $155m (2016: $160m) US Private Placement Loan notes. The Loan notes are held at amortised cost with a carrying value of £114.8m (2016: £128.7m). The Group estimates that the total fair value of the Loan notes at 31 December 2017 is £117.8m (2016: £136.5m).

All other financial assets, classified as "loans and receivables", and trade and other payables, classified as "amortised cost', are held at amortised cost and mostly 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.

18. Financial risk management continued

The table below shows the amount of bank overdrafts offset against the bank balances under enforceable master netting agreements with banks (including amounts relating to disposal group held for sale):

	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 2017	**53.6**	**(1.6)**	**52.0**
At 31 December 2016	61.2	(0.5)	60.7

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. During 2017, Essentra's strategy was to maintain the medium-term net debt to EBITDA ratio in the range 1.0 to 2.0. This represents a change from 2016, where the strategy was to maintain a ratio in the range 1.0 to 2.5.

The net debt to EBITDA ratios at 31 December were as follows:

	note	2017 £m	2016 £m
Net debt		**210.6**	379.3
Operating profit before intangible amortisation and exceptional operating items		**87.4**	131.9
Plus depreciation and other amounts written off property, plant and equipment, and amortisation of non-acquired intangible assets		**36.3**	34.8
Plus share option expense	17	**0.7**	2.0
EBITDA		**124.4**	168.7
Net debt to EBITDA ratio		**1.7**	2.3

19. Issued share capital

	2017 £m	2016 £m
Issued and fully paid ordinary shares of 25p (2016: 25p) each	**66.0**	66.0
Number of ordinary shares in issue		
Beginning of year	**264,129,170**	264,129,170
Issue of shares during the year	**–**	–
End of year	**264,129,170**	264,129,170

At 31 December 2017, the Company held 1,170,925 (2016: 1,286,952) of its own shares in treasury.

20. Reserves

Within retained earnings the Company has deducted the value of own shares purchased for an employee trust and treasury shares held by the Company with a total cost of £12.2m (2016: £15.4m).

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 Annual Report on Remuneration on pages 97 to 107. The assets, liabilities and expenditure of the trust have been incorporated in these Financial Statements. At 31 December 2017, the trust held 1,179,507 (2016: 1,517,883) shares, upon which dividends have been waived, with an aggregate nominal value of £0.3m (2016: £0.4m) and market value of £6.2m (2016: £7.0m).

The Company holds 1,170,925 (2016: 1,286,952) ordinary shares with a nominal value of £0.3m (2016: £0.3m) in treasury. This represents 0.4% (2016: 0.5%) of the number of ordinary shares in issue.

The other reserve relates to the Group reorganisation, which took place as part of the de-merger 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 2017 £m	Cash flow £m	Exchange movements £m	Non-cash movements £m	31 Dec 2017 £m
Cash at bank and in hand	34.0	15.0	(1.0)	–	**48.0**
Short-term bank deposits and investments	26.7	(22.7)	–	–	**4.0**
Cash and cash equivalents in the statement of cash flows	60.7	(7.7)	(1.0)	–	**52.0**
Debt due within one year	(65.1)	64.6	–	–	**(0.5)**
Debt due after one year	(374.9)	103.8	1.5	2.5	**(267.1)**
Loan receivable (arising from disposal of Porous Technologies)	–	–	–	5.0	**5.0**
Net debt	(379.3)	160.7	0.5	7.5	**(210.6)**

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

	1 Jan 2016 £m	Cash flow £m	Exchange movements £m	Non-cash movements £m	31 Dec 2016 £m
Cash at bank and in hand	23.8	7.1	3.1	–	34.0
Short-term bank deposits and investments	6.4	19.7	0.6	–	26.7
Cash and cash equivalents in the statement of cash flows	30.2	26.8	3.7	–	60.7
Debt due within one year	(0.6)	–	–	(64.5)	(65.1)
Debt due after one year	(403.5)	24.6	(59.8)	63.8	(374.9)
Net debt	(373.9)	51.4	(56.1)	(0.7)	(379.3)

The non-cash movements represent the amortisation of prepaid facility fees and reclassification of part of the US Private Placement Loan notes as current.

22. Commitments

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

	2017 £m	2016 £m
Payable within one year	**11.5**	10.9
Payable between one and five years	**34.8**	38.9
Payable after five years	**11.2**	19.8
	57.5	69.6

23. Acquisitions and disposals

2017 acquisition: Micro Plastics
On 12 December 2017, Essentra acquired 100% of the share capital of Micro Plastics Inc ("Micro Plastics"). Micro Plastics is a leading manufacturer and distributor of nylon fasteners and other plastic components for a wide range of industrial end-markets – including general industrial, automotives and white goods – and is reported under the Company's Component Solutions division (Components under the new organisational structure – see note 28). The acquisition of Micro Plastics expands the division's product range, adds manufacturing capacity in the US and extends the division's geographical presence primarily in Mexico.

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 including the split between goodwill and intangible assets and fair value adjustments are provisional and subject to finalisation for up to one year from the date of acquisition.

Had the acquisition been completed on 1 January 2017, the contribution to the Group's revenue and operating profit would have been £20.1m and £1.4m higher respectively.

Related transaction costs of £0.5m were recognised in the income statement in exceptional operating items.

A summary of the acquisition of Micro Plastics is detailed below:

	Fair value of assets / (liabilities) acquired £m
Property, plant and equipment	4.0
Inventories	3.2
Trade and other receivables	2.5
Cash and cash equivalents	4.3
Deferred tax	(0.5)
Trade and other payables	(0.8)
	12.7
Goodwill	10.7
Consideration	23.4
Satisfied by:	
Cash consideration	19.7
Deferred consideration	3.7
Cash consideration	19.7
Cash and cash equivalents acquired	(4.3)
Net cash flow in respect of the acquisition	**15.4**

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

2016 acquisition: Kamsri
The Group acquired the pharmaceutical assets of Kamsri Printing & Packaging PVT. Ltd ("Kamsri") based in India in January 2016. This acquisition was not material.

Disposal of Porous Technologies
On 25 August 2016, Essentra entered into a sale and purchase agreement with Filtration Group to dispose of the Group's entire operations in Porous Technologies. The transaction completed on 6 March 2017. The results of Porous Technologies up to the date on which the transaction completed are presented as profit from discontinued operations in the Consolidated Income Statement.

23. Acquisitions and disposals continued

The assets and liabilities of Porous Technologies were presented as held for sale on the balance sheet as at 31 December 2016. No finance income or expense related to discontinued operations, and the income tax expense relating to discontinued operations amounted to £24.9m (2016: £3.9m).

Included within exceptional operating items is a profit arising from the movement in foreign exchange reserve of £26.3m, reclassified to and reported in the income statement.

The results of continuing and discontinued operations are as follows:

Year ended 31 December 2017	Continuing operations £m	Discontinued operations £m	Total Group £m
External revenue	1,027.3	15.7	1,043.0
External expenses	(942.7)	(12.9)	(955.6)
Operating profit before intangible amortisation and exceptional operating items	84.6	2.8	87.4
Amortisation of acquired intangible assets	(22.9)	–	(22.9)
Exceptional operating items	(56.2)	132.4	76.2
Operating profit	5.5	135.2	140.7
Finance income	0.8	–	0.8
Finance expense	(11.2)	–	(11.2)
(Loss) / profit before tax	(4.9)	135.2	130.3
Income tax credit / (expense)	10.4	(24.9)	(14.5)
Profit after tax	5.5	110.3	115.8
Basic earnings per share	1.5p	42.2p	43.7p
Basic adjusted earnings per share	22.1p	0.7p	22.8p
Diluted earnings per share	1.5p	41.9p	43.4p
Diluted adjusted earnings per share	21.9p	0.7p	22.6p

Year ended 31 December 2016	Continuing operations £m	Discontinued operations £m	Total Group £m
External revenue	998.5	105.2	1,103.7
External expenses	(889.8)	(82.0)	(971.8)
Operating profit before intangible amortisation and exceptional operating items	108.7	23.2	131.9
Amortisation of acquired intangible assets	(30.2)	(2.7)	(32.9)
Exceptional operating items	(128.5)	(5.2)	(133.7)
Operating (loss) / profit	(50.0)	15.3	(34.7)
Finance income	2.1	–	2.1
Finance expense	(14.6)	–	(14.6)
(Loss) / profit before tax	(62.5)	15.3	(47.2)
Income tax credit / (expense)	11.5	(3.9)	7.6
(Loss) / profit after tax	(51.0)	11.4	(39.6)
Basic (loss) / earnings per share	(19.8)p	4.4p	(15.4)p
Basic adjusted earnings per share	29.2p	7.1p	36.3p
Diluted (loss) / earnings per share	(19.8)p	4.4p	(15.4)p
Diluted adjusted earnings per share	29.2p	7.1p	36.3p

23. Acquisitions and disposals continued

The results from discontinued operations are attributable entirely to the equity holders of Essentra plc. The earnings per share of discontinued operations are disclosed in note 6.

Cash flows of discontinued operations are as follows:

	2017 £m	2016 £m
Net cash from operating activities	**(19.1)**	23.0
Net cash from investing activities	**210.5**	(1.0)
Net cash flows for the year	**191.4**	22.0

The assets and liabilities of Porous Technologies at 31 December 2016 which were presented as assets and liabilities in disposal group held for sale, and the assets and liabilities of the rest of the Group were as follows:

As at 31 December 2016	Porous Technologies £m	Rest of Group £m	Total Group £m
Property, plant and equipment	35.2	285.9	**321.1**
Intangible assets	51.1	581.7	**632.8**
Long-term receivables	–	3.5	**3.5**
Deferred tax assets	–	2.6	**2.6**
Retirement benefit assets	–	11.6	**11.6**
Inventories	9.2	115.1	**124.3**
Income tax receivable	–	7.5	**7.5**
Trade and other receivables	28.5	218.4	**246.9**
Derivative assets	–	1.2	**1.2**
Cash and cash equivalents	6.7	54.0	**60.7**
Total assets	**130.7**	**1,281.5**	**1,412.2**
Trade and other payables	14.2	204.3	**218.5**
Interest bearing loans and borrowings	–	440.0	**440.0**
Provisions	0.2	6.1	**6.3**
Retirement benefit obligations	0.3	34.7	**35.0**
Derivative liabilities	–	1.7	**1.7**
Deferred tax liabilities	10.5	65.8	**76.3**
Income tax payable	7.3	24.4	**31.7**
Total liabilities	**32.5**	**777.0**	**809.5**

The cumulative income or expenses included in other comprehensive income relating to Porous Technologies amounted to a net loss of £26.3m (2016: £18.1m). The £210.5m of net cash from investing activities is made up of disposal proceeds of £214.7m less cash disposed of £3.9m, and £0.3m cash outflow relating to acquisition of property, plant and equipment.

24. Dividends

	Per share		Total	
	2017 p	2016 p	2017 £m	2016 £m
2016 interim: paid 30 October 2016		6.3		16.5
2016 final: paid 3 May 2017		14.4		37.6
2017 interim: paid 30 October 2017	**6.3**		**16.5**	
2017 proposed final: payable 1 May 2018	**14.4**		**37.7**	
	20.7	20.7	**54.2**	54.1

25. Transactions with related parties

Other than the compensation of key management (note 5), Essentra has not entered into any material transactions with related parties during 2016 and 2017.

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 amortisation of acquired intangible assets 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:

	2017 £m	2016 £m
Operating profit / (loss) (including discontinued operations)	**140.7**	(34.7)
Amortisation of acquired intangible assets	**22.9**	32.9
Exceptional operating items	**(76.2)**	133.7
Adjusted operating profit (including discontinued operations)	**87.4**	131.9
Depreciation	**35.3**	34.3
Amortisation of non-acquired intangible assets	**1.0**	0.5
Share option expense	**0.7**	2.0
Other non-cash items	**(2.6)**	(5.4)
Working capital movements	**5.6**	1.7
Net capital expenditure	**(45.6)**	(38.3)
Operating cash inflow – adjusted (including discontinued operations)	**81.8**	126.7

28. Additional segmental analysis

With effect from 1 January 2018, Essentra implemented a new organisational structure, comprising four divisions. A new Specialist Components division has been created to ensure greater focus across the portfolio in the other divisions. This new division includes the following smaller businesses of Essentra:

- The Extrusion business is a leading custom profile extruder located in the Netherlands which offers a complete design and production service.
- 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 the oil & gas industry.
- The Speciality Tapes business has expertise in coating multiple adhesive systems in numerous technologies, and its products range from foam, magnetic, finger lift and acrylic high bond tapes to hook and loop and non-skid foam.
- The Tear Tapes business is globally recognised as the leading manufacturer and supplier of pressure-sensitive tear tapes, which are largely used in the tobacco, food & drink and specialist packaging sectors.
- The Industrial Supply business provides a wide range of branded hardware supplies to a broad base of industrial customers, largely located in the US Mid-West.
- The Card Solutions business has access to a side portfolio of products and services, including printers, software and consumables from leading manufacturers.

The Extrusion, Pipe Protection Technologies, Industrial Supply and Card Solutions businesses were included within the Component Solutions division in 2017. The Tear Tapes and Speciality Tapes businesses were included within the Health & Personal Care Packaging division in 2017.

Following the creation of the new Specialist Components division, the Components business and the Packaging business each forms a separate division on its own.

2017 results under the new organisational structure are shown below:

	Components £m	Packaging £m	Filter Products £m	Specialist Components £m	Eliminations £m	Central Services £m	Total continuing operations £m	Discontinued operations £m	Total £m
External revenue	241.1	348.8	277.5	159.9	–	–	1,027.3	15.7	1,043.0
Intersegment revenue	0.7	1.7	–	3.7	(6.1)	–	–	–	–
Total revenue	**241.8**	**350.5**	**277.5**	**163.6**	**(6.1)**	**–**	**1,027.3**	**15.7**	**1,043.0**
Operating profit / (loss) before intangible amortisation and exceptional operating items	53.6	(1.8)	34.8	14.1	–	(15.8)	84.9	2.5	87.4
Amortisation of acquired intangibles	(7.5)	(12.8)	–	(2.6)	–	–	(22.9)	–	(22.9)
Exceptional operating items	(7.0)	(36.3)	(0.5)	(2.9)	–	(9.5)	(56.2)	132.4	76.2
Operating profit / (loss) before financing and income taxes	**39.1**	**(50.9)**	**34.3**	**8.6**	**–**	**(25.3)**	**5.8**	**134.9**	**140.7**

ESSENTRA PLC COMPANY BALANCE SHEET

At 31 December 2017

	note	2017 £m	2016 £m
Fixed assets			
Investment in subsidiary undertaking	2	**455.0**	453.7
Current assets			
Debtors	3	**376.6**	394.2
Current liabilities			
Creditors: amounts falling due within one year	4	**(1.0)**	(65.7)
Net current assets		**375.6**	328.5
Non-current liabilities			
Creditors: amounts falling due after more than one year	5	**(114.6)**	(64.2)
Net assets		**716.0**	718.0
Capital and reserves			
Issued share capital	7	**66.0**	66.0
Merger relief reserve		**298.1**	298.1
Capital redemption reserve		**0.1**	0.1
Profit and loss account	8	**351.8**	353.8
Shareholders' funds: equity interests		**716.0**	718.0

The profit attributable to equity holders included in the accounts of the Company is £50.5m (2016: profit of £395.3m).

The Company Financial Statements on pages 170 to 181 were approved by the Board of Directors on 2 March 2018 and were signed on its behalf by:

Paul Forman
Chief Executive

Stefan Schellinger
Group Finance Director

ESSENTRA PLC COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

				Profit and loss account		
	Issued share capital £m	Merger relief reserve £m	Capital redemption reserve £m	Retained earnings £m	Own shares £m	Total equity £m
1 January 2017	66.0	298.1	0.1	369.2	(15.4)	**718.0**
Profit for the year				50.5		**50.5**
Other comprehensive income				–		**–**
Total comprehensive income for the year	–	–	–	50.5	–	**50.5**
Shares issued to satisfy employee share option exercises				(3.2)	3.2	**–**
Share options exercised				0.3		**0.3**
Share-based payments				1.3		**1.3**
Dividends paid				(54.1)		**(54.1)**
31 December 2017	**66.0**	**298.1**	**0.1**	**364.0**	**(12.2)**	**716.0**

				Profit and loss account		
	Issued share capital £m	Merger relief reserve £m	Capital redemption reserve £m	Retained earnings £m	Own shares £m	Total equity £m
1 January 2016	66.0	298.1	0.1	27.2	(19.0)	372.4
Profit for the year				395.3		395.3
Other comprehensive income				–		–
Total comprehensive income for the year	–	–	–	395.3	–	395.3
Shares issued to satisfy employee share option exercises				(3.6)	3.6	–
Share options exercised				2.3		2.3
Share-based payments				2.0		2.0
Dividends paid				(54.0)		(54.0)
31 December 2016	66.0	298.1	0.1	369.2	(15.4)	718.0

ESSENTRA PLC COMPANY ACCOUNTING POLICIES

a. Authorisation of Financial Statements and statement of compliance with FRS 101

The Parent Company Financial Statements of Essentra plc ("the Company") for the year ended 31 December 2017 were authorised for issue by the Board of Directors on 2 March 2018 and the balance sheet was signed on the Board's behalf by Paul Forman and Stefan Schellinger. Essentra plc is a public limited company that is incorporated, domiciled and has its registered office in England and Wales. The Company's ordinary shares are publicly traded on the London Stock Exchange and it is not under the control of any single shareholder. These Financial Statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

The profit and loss account of the Company is not presented as permitted by Section 408 of the Companies Act 2006.

b. Basis of preparation

The Company transitioned to FRS 101 from the UK Generally Accepted Accounting Practice during the year ended 31 December 2015. No adjustments were required as part of this transition.

In these Financial Statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

> The requirements of paragraph 45(b) and 46 - 52 of IFRS 2 *Share-Based Payment*

> The requirements of paragraphs 62, B64(b), B64(e), B64(g), B64(h), B64(j) to B64(m), b64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 *Business Combinations*

> The requirement of IFRS 7 *Financial Instruments: Disclosures*

> The requirement of paragraphs 91 - 99 of IFRS 13 *Fair Value Measurement*

> The requirement in paragraph 38 of IAS 1 *Presentation of Financial Statements* to present comparative information in respect of paragraph 79(a)(iv) of IAS 1, paragraph 73(e) of IAS 16 *Property, Plant and Equipment* and paragraph 118(e) of IAS 38 *Intangible Assets*

> The requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 - 136 of IAS 1 *Presentation of Financial Statements*

> The requirements of IAS 7 *Statement of Cash Flows*

> The requirements of paragraphs 30 and 31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

> The requirements of paragraph 17 of IAS 24 *Related Party Disclosures*

> The requirements in IAS 24 *Related Party Disclosures* to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member

> The requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 *Impairment of Assets*

Where required, equivalent disclosures are given in the consolidated Financial Statements.

The following principal accounting policies have been consistently applied.

c. 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.

d. 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. Detailed disclosures for the share-based payment arrangements of the Company are provided in note 17 to the consolidated Financial Statements.

e. 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.

f. Dividends

Dividend distributions to the Company's shareholders 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).

Dividend income is recognised when the right to receive payment is established.

g. 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 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.

h. Financial assets

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period which are classified as non-current assets. The Company's loans and receivables comprise receivables in the balance sheet.

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Interest income is recognised accordingly using the effective interest method.

i. Financial liabilities

Interest bearing loans and borrowings and other financial liabilities (excluding derivatives) are initially recognised at fair value net of transaction costs incurred. They are subsequently held 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 profit or loss over the term of the borrowings.

The Company holds financial instruments which hedge the net investments in the foreign operations of its subsidiary undertakings. Gains and losses on these instruments are recognised in the profit and loss account of the Company.

j. Taxation

Income tax in the profit and loss account comprises current and deferred tax. Income tax is recognised in the profit and loss account except to the extent that it relates to items recognised in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year using the applicable 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 the applicable tax rates enacted or substantively enacted at the balance sheet date.

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.

ESSENTRA PLC COMPANY NOTES

1. Net operating charges

The auditor was paid £5,125 (2016: £5,125) 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 in note 2 to the consolidated Financial Statements.

The Directors' remuneration, which was paid by Essentra International Limited, is disclosed in the Annual Report on Remuneration on pages 97 to 107.

2. Investments held as fixed assets

	Investment in subsidiary undertaking	
	2017 £m	**2016 £m**
Beginning of year	**453.7**	451.7
Additions	**1.3**	2.0
End of year	**455.0**	453.7

3. Debtors

	2017 £m	**2016 £m**
Amounts receivable from subsidiary undertakings	**376.6**	393.8
Corporate taxes	**–**	0.4
	376.6	394.2

4. Creditors: amounts falling due within one year

	2017 £m	**2016 £m**
US Private Placement Loan notes	**–**	64.5
Accruals and deferred income	**0.8**	1.2
Corporate taxes	**0.2**	–
	1.0	65.7

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

	2017 £m	**2016 £m**
US Private Placement Loan notes	**114.6**	64.2

6. Maturity of financial liabilities

	Non bank loans	
	2017 £m	2016 £m
Debt can be analysed as falling due:		
Within one year	–	64.5
Between one and five years	**59.0**	64.2
Over five years	**55.6**	–
	114.6	128.7

7. Issued share capital

	2017 £m	2016 £m
Issued and fully paid ordinary shares of 25p (2016: 25p) each	**66.0**	66.0

Number of ordinary shares in issue	2017 £m	2016 £m
Beginning of year	**264,129,170**	264,129,170
Issue of shares during the year	–	–
End of year	**264,129,170**	264,129,170

At 31 December 2017, the Company held 1,170,925 (2016: 1,286,952) of its own shares in treasury.

8. Reserves

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 profit attributable to equity holders included in the accounts of the Company is £50.5m (2016: profit of £395.3m).

Included in retained earnings are accumulated share-based payments of £38.3m (2016: £37.0m) which are credited directly to reserves. Full details of these share-based payments are set out in the Annual Report on Remuneration on pages 97 to 107.

9. Dividends

	Per share		Total	
	2017 p	2016 p	2017 £m	2016 £m
2016 interim: paid 30 October 2016		6.3		16.5
2016 final: paid 3 May 2017		14.4		37.6
2017 interim: paid 30 October 2017	**6.3**		**16.5**	
2017 proposed final: payable 1 May 2018	**14.4**		**37.7**	
	20.7	20.7	**54.2**	54.1

10. Subsidiary undertakings

The companies named below are subsidiary undertakings of Essentra plc and are included in the consolidated Financial Statements of the Group. The investments in the companies below relate to ordinary shares or common stock. The principal country in which each company operates is the country of incorporation.

All entities below are wholly owned subsidiaries of the Group except for ITC Essentra Limited (India) (50% owned), Essentra (MEA) Pte. Ltd (Singapore) (51% owned) and Essentra FZE (UAE) (51% owned). The ownership held by the Group in these companies are through holding of ordinary shares in these companies and they are accounted for as subsidiaries of the Group in the consolidated Financial Statements due to a control achieved via board membership.

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

	Country of incorporation	Principal activity	Address of registered office
Essentra (Bangor) Limited	UK	Manufacturing	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
Essentra (Kilmarnock) Limited	UK	Manufacturing	Hurlford Road, Riccarton, Kilmarnock, KA1 4LA, Scotland, United Kingdom
Essentra Components Limited	UK	Manufacturing	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
Essentra Filter Products Limited	UK	Manufacturing	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
Essentra Finance Limited	UK	Treasury activities	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
Essentra Packaging & Security Limited	UK	Manufacturing	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
Essentra Packaging Limited	UK	Manufacturing	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
Essentra Pension Trustees Limited	UK	Pension Trustee	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
Micro Plastics International Limited	UK	Manufacturing	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
P. P. Payne Limited	UK	Property Company	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
Essentra Components Inc.	US	Distribution	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
Essentra Components Japan Inc.	US	Distribution	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
Essentra Filter Products Inc.	US	Manufacturing	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
Essentra Packaging Inc.	US	Manufacturing	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
Essentra Packaging US Inc.	US	Manufacturing	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
Essentra Pipe Protection Technologies Inc.	US	Manufacturing	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
Essentra Plastics LLC	US	Manufacturing	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
Micro Plastics Inc.	US	Manufacturing	11 Industry Ln. PO Box 149 Flippin, AR 72634, United States
Essentra Pty Ltd	Australia	Manufacturing	32 Clyde Street, Rydalmere NSW 2116, Australia
Essentra Components GmbH	Austria	Distribution	Schubertring 6, 1010 Wien, Austria
Essentra Industria E Commercio LTDA	Brazil	Manufacturing	Rua Alvares Cabral, 979, Serraria, City of Diadema, State of Sao Paulo, 09980-160, Brazil

	Country of incorporation	Principal activity	Address of registered office
Essentra Limited	Canada	Distribution	2538 Speers Road, Oakville, Ontario, L6L 5KY, Canada
Essentra Components International Trading (Shanghai) Co Ltd	China	Distribution	Room 347, Xinmao Building, 2 South Taizhong Road, Shanghai, Pilot Free Traded Zone, China
Essentra Plastic Trading (Ningbo) Co. Ltd.	China	Distribution	99 Huanghai Road, Beilun District, Ningbo, Zhejiang, China
Essentra Precision Machinery Components (Ningbo) Co. Ltd	China	Manufacturing	99 Huanghai Road, Beilun District, Ningbo, Zhejiang, China
Essentra Trading (Ningbo) Co. Ltd.	China	Distribution	99 Huanghai Road, Beilun District, Ningbo, Zhejiang, China
Essentra Components sro	Czech Republic	Distribution	Dornych 47, Brno, 617 00, Czech Republic
Essentra Components SAS	France	Distribution	280 rue de la Belle Étoile 95700 Roissy en France, France
Essentra Packaging S.a.r.l.	France	Manufacturing	F-27200, Sarreguemines, Rue Guillaume, Schoettke, France
Essentra Components GmbH	Germany	Distribution	Herrenpfad Süd 36, 41334, Nettetal, Germany
Essentra Packaging GmbH	Germany	Manufacturing	D-06766 Wolfen, Edisonstrasse, Germany
Essentra Components Kft	Hungary	Distribution	2040 Budaors Gyar u. 2., Hungary
Essentra Filter Products Kft	Hungary	Manufacturing	2310 Szigetszentmiklos, Leshegy ut 30, Hungary
Essentra (India) Private Limited	India	Manufacturing	Survey No. 46, Jala Hobli, Dodajala Village, Bangalore North – 562 157, Karnataka, India
ITC Essentra Limited	India	Manufacturing	Doddajala Post, Yarthiganahally, (via) Bettahalasur, Bangalore North, 562 157, India
PT Essentra	Indonesia	Manufacturing	Jalan Berbek Industri 1, 18-20 Surabaya Industrial Estate Rungkut (SIER), Sidoario, 61256, Indonesia
Essentra Packaging Ireland Limited	Ireland	Manufacturing	8 Airways Industrial Estate, Dublin 17, Ireland
ESNT Finance Ireland Limited	Ireland	Treasury activities	7 Airways Industrial Estate, Cloghran, Dublin 17, D17 RR88, Ireland
Essentra Finance (Euro) Limited	Ireland	Treasury activities	7 Airways Industrial Estate, Cloghran, Dublin 17, D17 RR88, Ireland
Essentra Components srl	Italy	Distribution	Via Massarenti, 1 Loc, 1 Maggio, 40013, Castel Maggiore, Italy
Essentra Packaging srl	Italy	Distribution	Via Copernico n.54, Loc. 1 Casoni Fraz., Gariga, 29027, Podenzano, Italy
Essentra Co. Ltd Korea	Republic of Korea	Distribution	3F, 70 (Hyundai Knowledge Industry Center, Doksan-dong), Dusan-ro, Geumcheon-gu, Seoul, Republic of Korea
Essentra Asia Sdn Bhd	Malaysia	Manufacturing	Unit 1110 Block A, Pusat Dagangan Phileo Damansara II, 15 Jalan 16/11 Off Jlana Damansara, 46350 Petaling Jaya, Selangor, Malaysia
Essentra Malaysia Sdn Bhd	Malaysia	Distribution	Unit 1110 Block A, Pusat Dagangan Phileo Damansara II, 15 Jalan 16/11 Off Jalan Damansara, 46350 Petaling Jaya, Selangor Darul Ehsan, Malaysia
Essentra Pipe Protection Technologies SA de CV	Mexico	Manufacturing	Avenida Framboyanes Lote 1, Manzana 4, Ciudad Industrial Bruno Pagliali, Veracruz, Mexico
Essentra Pipe Protection Technologies Services S de r.l de CV	Mexico	Services	Avenida Framboyanes Lote 1, Manzana 4, Ciudad Industrial Bruno Pagliali, Veracruz, Mexico
Micro Plastics International S.A. de C.V. de R.L.	Mexico	Manufacturing	Carretera a Huinala #510 Fracc. Ind. San Andres CP 66640 Apodaca, N.L. Mexico
Micro Plastics Servicios S de C.V. de R.L.	Mexico	Services	Carretera a Huinala #510 Fracc. Ind. San Andres CP 66640 Apodaca, N.L. Mexico
Essentra Components B.V.	Netherlands	Distribution	Den Belleman 9, 5571 NR Bergeyk, Netherlands
Essentra Extrusion B.V.	Netherlands	Manufacturing	Beatrixstraat 7, 9285 TV, Buitenpost, Netherlands
Essentra Packaging B.V.	Netherlands	Distribution	Celsiusweg 37, 8912 AM, Leeuwarden, Netherlands
Essentra Filter Products S.A.	Paraguay	Manufacturing	Calle 12, Acacary, Cuidad del Este, Paraguay
Essentra Packaging Spółka z o.o.	Poland	Manufacturing	Tokarska 25, 20-210, Lublin, Poland

	Country of incorporation	Principal activity	Address of registered office
Essentra Sp. z o.o.	Poland	Distribution	11 Lakowa Street, 90-562, Lodz, Poland
Essentra Packaging Puerto Rico Inc.	Puerto Rico	Manufacturing	Los Frailes Industrial Park, Street C, Guaynabo, PR 00970
Essentra Components SRL	Romania	Distribution	Burcuresti Sectorul 1, Strada Polana, Nr. 68-72, Etaj 2, Biroul NR.5, Romania
Essentra St Petersburg Limited Liability Company	Russia	Distribution	4a Finlyandskiy Prospect, 194044, St. Petersburg, Russian Federation
OOO Essentra Filter Products	Russia	Distribution	Moskovskyi pr. 60/129, Business Center Senator, 190005, St Petersburg, Russian Federation
Essentra Filter Products Leasing Pte. Limited	Singapore	Leasing Company	36 Robinson Road 17-01/06, City House, 068877, Singapore
Essentra Pte. Limited	Singapore	Distribution	36 Robinson Road 17-01/06, City House, 068877, Singapore
Essentra Components sro	Slovakia	Distribution	Gogol'ova 18, 852 02 Bratislava, Slovakia
Essentra Components (Pty) Limited	South Africa	Distribution	Unit 2 Sage Corporate Park, CNR Suni and Tsessebe Streets, South Midrand, Gauteng, 1683,, South Africa
Essentra Components S.L.U	Spain	Manufacturing	Carrer dels Fusters 18-20, Poligono Industrial Can Cuyas, Montcada I Reixac, 08110, Barcelona, Spain
Essentra Packaging SA	Spain	Manufacturing	Carrer dels Fusters 18-20, Poligono Industrial Can Cuyas, Montcada I Reixac, 08110, Barcelona, Spain
Essentra Components AB	Sweden	Distribution	Askims Verkstadsvag 13Sweden, 436 34 Askim, Vastra Gotalands lan, Goteborg kommun, Sweden
Essentra Components Sarl	Switzerland	Distribution	Rue du Grand-Chene 2, c/o Pierre- Alain Killias, Lexartis Avocats, 1003 Lausanne, Switzerland
Essentra Eastern Limited	Thailand	Manufacturing	111/5 Moo 2 Tambon Makamku, Amphur Nikom Pattana, Rayong Province, Thailand
Essentra Limited	Thailand	Manufacturing	116/3 Soi Thiantalay 24, Bangkhunthian-Chaitalay Road, Thakam, Bangkhunthian, Bangkok, 10150, Thailand
Mesan Kilit A.S.	Turkey	Manufacturing	Ilitelli Organzie Sanayi, Bolgesi Metal Is San,Sit .7. Blok No24 Basaksehir, Istanbul, Turkey
Essentra FZE	United Arab Emirates	Manufacturing	Plot No. S20403 PO Box No.261392, Jafza, Dubai, United Arab Emirates
Essentra International Gmbh	Germany	Holding Company	Gutenbergstrasse 5-9, 21465 Reinbek, Germany
ESNT (Cherry Orchard) Holdings Limited	Ireland	Holding Company	Unit 629 Ida Industrial Park Northern Extension, Old Kilmeaden Road, Watherford, Ireland
ESNT Holdings SpA	Italy	Holding Company	Podenzano, Loc.I Casoni Fraz. Gargia, Via Copernico no. 54, 29027, Italy
Blue NewCo 1 B.V.	Netherlands	Holding Company	Gustav Mahlerplein 68, 1082 MA, Amsterdam, Netherlands
Blue NewCo 2 B.V.	Netherlands	Holding Company	Gustav Mahlerplein 68, Ito Tower, 9th floor, MA Amsterdam, 1082, Netherlands
Blue NewCo 3 B.V.	Netherlands	Holding Company	Gustav Mahlerplein 68, Ito Tower, 9th floor, MA Amsterdam, 1082, Netherlands
Blue NewCo 4 B.V.	Netherlands	Holding Company	Gustav Mahlerplein 68, Ito Tower, 9th floor, MA Amsterdam, 1082, Netherlands
ESNT Holding B.V.	Netherlands	Holding Company	Den Belleman 9, 5571 NR, Bergeijk, Netherlands
ESNT Holdings (Netherlands) B.V.	Netherlands	Holding Company	Den Belleman 9, 5571 NR, Bergeijk, Netherlands
Essentra B.V.	Netherlands	Holding Company	Beatrixstraat 7, 9285 TV, Buitenpost, Netherlands
Essentra Holdings (No.2) Cooperative WA	Netherlands	Holding Company	Den Belleman 9, 5571 NR, Bergeijk, Netherlands
Essentra Holdings Cooperative WA	Netherlands	Holding Company	Den Belleman 9, 5571 NR, Bergeijk, Netherlands
Essentra International B.V. / LLC	Netherlands	Holding Company	Den Belleman 9, 5571 NR, Bergeijk, Netherlands
Boxes Prestige Poland Sp. z o.o.	Poland	Holding Company	Tokarska 25, 20-210, Lublin, Poland
Essentra (MEA) Pte. Limited	Singapore	Holding Company	36 Robinson Road, 17-01 City House, 068877, Singapore

	Country of incorporation	Principal activity	Address of registered office
Clondalkin Holdings SA	Spain	Holding Company	Carrer dels Fusters 18-20, Poligono Industrial Can Cuyas, Montcada I Reixac, 08110, Barcelona, Spain
Pranakorn Holding Company Limited	Thailand	Holding Company	116/3 Soi Thiantalay 24 Bangkhunthian-Chaitalay Road, Bangkhunthian, Bangkok 10150 Thailand
San Yai Holding Company Limited	Thailand	Holding Company	1116/3 Soi Thiantalay 24 Bangkhunthian-Chaitalay Road, Bangkhunthian, Bangkok 10150 Thailand
ESNT Group Holdings Limited	UK	Holding Company	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
ESNT Filter Products Limited	UK	Holding Company	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
ESNT Holdings (No.1) Limited	UK	Holding Company	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
ESNT Holdings (No.2) Limited	UK	Holding Company	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
ESNT International Limited	UK	Holding Company	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
ESNT Packaging & Securing Solutions Limited	UK	Holding Company	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
Essentra Filter Products International Limited	UK	Holding Company	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
Essentra International Limited	UK	Holding Company	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
Essentra Overseas Limited	UK	Holding Company	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
ESNT (Porous) Holdings Inc.	US	Holding Company	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
ESNT Holdings Inc.	US	Holding Company	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
ESNT US Holdings Corp	US	Holding Company	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
Essentra Corporation	US	Holding Company	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
Essentra Holdings Corp.	US	Holding Company	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
Liquidated	China	Non-trading	Room 202 Building 11, 327 East Songhui Road, Songjiang District, Shanghai, China
Abric Shanghai Co Ltd	China	Non-trading	8, Furong Road, Yexie Town, Songjiang District, Shanghai, 201709, China
Essentra Components (Xiamen) Co. Ltd	China	Non-Trading	Huizuo Road98#, Xinyang Industrial Zone, Haicang District, Xiamen, Fujian Province, China
Cigarette Components (HK) Limited	Hong Kong	Non-trading	36/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong
Essentra (Hong Kong) Ltd	Hong Kong	Non-trading	36/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong
Filtrona (China) Limited	Hong Kong	Non-trading	36/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong
CB Packaging Limited	Ireland	Non-trading	8 Airways Industrial Estate, Dublin 17, Ireland
ESNT (Cherry Orchard) Limited	Ireland	Non-trading	8 Airways Industrial Estate, Dublin 17, Ireland
ESNT (Clonshaugh) Limited	Ireland	Non-trading	8 Airways Industrial Estate, Dublin 17, Ireland
ESNT (Cork) Limited	Ireland	Non-trading	8 Airways Industrial Estate, Dublin 17, Ireland
ESNT (Glasnevin) Limited	Ireland	Non-trading	8 Airways Industrial Estate, Dublin 17, Ireland
Essentra Packaging Waterford Limited	Ireland	Non-trading	8 Airways Industrial Estate, Dublin 17, Ireland
Swiftbrook Limited	Ireland	Non-trading	8 Airways Industrial Estate, Dublin 17, Ireland

	Country of incorporation	Principal activity	Address of registered office
Venture Laminate Limited	Ireland	Non-trading	8 Airways Industrial Estate, Dublin 17, Ireland
Wilkes-Cerdac Limited	Ireland	Non-trading	8 Airways Industrial Estate, Dublin 17, Ireland
Essentra Filter Products Spa	Italy	Non-trading	Studio De Vivo SCIS, 84123 Salerno, Corso, Garibaldi n. 143, Italy
Essentra Packaging Luxembourg Sarl	Luxembourg	Non-trading	1, Zone Industrielle Bombicht, L-6947, Niederanven, Luxembourg
Abric Encode Sdn Bhd	Malaysia	Non-trading	Unit 1110 Block A, Pusat Dagangan Phileo Damansara II, 15 Jalan 16/11 Off Jalan Damansara, 46350 Petaling Jaya, Selangor Darul Ehsan, Malaysia
Essentra Components SEA (M) Sdn Bhd	Malaysia	Non-trading	D5-5-6, Solaris Dutamas 1, Jalan, Dutamas 1, 50480, Kuala Lumpur, Malaysia
Servicios Filtrona, S DE R.L. DE C.V.	Mexico	Non-trading	Avenida Industrias 150, Fraccionamiento Industrial PIMSA Oriente, Apodaca, N.L. 66603, Mexico
Fijnmechanica Surhuisterveen B.V.	Netherlands	Non-trading	Beatrixstraat 7, 9285 TV, Buitenpost, Netherlands
Linde Vouwkartonnage B.V.	Netherlands	Non-trading	Hanzeweg 14, 7591 BK, Denekamp, Netherlands
Richco Benelux B.V.	Netherlands	Non-trading	Beeldschermweg 5-3, 3821 AH Amersfoot, Netherlands
Skiffy B.V.	Netherlands	Non-trading	Den Belleman 9, 5571 NR, Bergeijk, Netherlands
ESNT Holdings Cooperative 1 WA	Netherlands	Non-trading	Beatrixstraat 7, 9285 TV, Buitenpost, Netherlands
ESNT Holdings Cooperative 2 WA	Netherlands	Non-trading	Den Belleman 9, 5571 NR, Bergeijk, Netherlands
Essentra Filter Products Development Co. Pte. Limited	Singapore	Non-trading	238A Thomson Road, 25-04/05 Novena Square, 307684, Singapore
Essentra Components Pte. Limited	Singapore	Non-Trading	36 Robinson Road 17-01/06, City House, 068877, Singapore
Essentra Packaging Pte Limited	Singapore	Non-Trading	36 Robinson Road 17-01/06, City House, 068877, Singapore
Apex Filters Company Limited	Thailand	Non-Trading	31/2 Rama 3 Road, Chongnonsee, Yannawa, Bangkok 10120, Thailand
Chemical Resins (Thailand) Limited	Thailand	Non-trading	4th Floor, 77/1 Soi Ruamrudee 2, Ploenchit Road, Lumpini, Pathumwan, Bangkok 10330, Thailand
Filtrona Thailand Limited	Thailand	Non-trading	776 Charoennakorn Road, Bukkalo, Thonburi, Bangkok 10600, Thailand
Alliance Plastics Limited	UK	Non-trading	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
Cigarette Components Limited	UK	Non-trading	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
Essentra (Great Harwood) Limited	UK	Non-trading	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
Essentra (Hull) Limited	UK	Non-trading	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
Essentra (Kimbolton) Limited	UK	Non-trading	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
Essentra (Northampton) Limited	UK	Non-trading	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
ESNT Components Limited	UK	Non-trading	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
ESNT Group Limited	UK	Non-trading	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
ESNT Limited	UK	Non-trading	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
Essentra Services Limited	UK	Non-trading	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
Essentra Speciality Tapes Limited	UK	Non-trading	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom

	Country of incorporation	Principal activity	Address of registered office
Filtrona Limited	UK	Non-trading	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
North West Plastics Limited	UK	Non-trading	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
Skiffy Limited	UK	Non-trading	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
Stera Tape Limited	UK	Non-trading	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU, United Kingdom
ESNT Components Inc	US	Non-trading	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
US Limited Liability Company	US	Non-trading	The Corporation Services Company, 2711 Centreville Road, Ste 400, Wilmington, Delaware 19808, United States
US NewCo LLC	US	Non-trading	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
Filtrona Venezolana C.A.	Venezuela	Non-trading	Urbn. Parque Comercio Industrial Castillito, Lot No. P-8. Street 103 c/c Av. 66, San Diego Municipality, Valencia, Edo Carabobo, Venezuela

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ESSENTRA PLC

Report on the audit of the financial statements

Opinion

In our opinion:

> Essentra plc's Group financial statements and parent company financial statements (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 2017 and of the Group's profit and cash flows for the year then ended;

> the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;

> the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); 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.

We have audited the financial statements, included within the Annual Report, which comprise: the Consolidated and Company Balance Sheets as at 31 December 2017; the Consolidated Income Statement and Consolidated Statement of Comprehensive Income, the Consolidated and Company Statements of Changes in Equity, and the Consolidated Statement of Cash Flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies; the accounting policies; and the notes to the financial statements.

Our opinion is consistent with our reporting to the Audit Committee.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in the Accounting Policies to the financial statements, the Group, in addition to applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion, the Group financial statements have been properly prepared in accordance with IFRSs as issued by the IASB.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

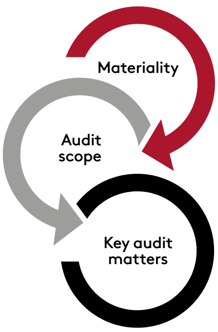
We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company.

Other than those disclosed in note 2 to the financial statements, we have provided no non-audit services to the Group or the parent company in the period from 1 January 2017 to 31 December 2017.

Our audit approach

Overview



- Overall Group materiality: £3.7m, based on 5% of profit before tax before intangibles amortisation and exceptional items.
- Overall parent company materiality: £7.1m, based on 1% of net assets.

- There were no significant components within the Group.
- We performed full scope audit work on 25 reporting units, and specified procedures over certain balances on 33 reporting units.
- This provided coverage of 67% revenue, 62% profit before tax, and 67% net assets.

- Tax liabilities.
- Goodwill impairment.
- Presentation of exceptional items.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained an understanding of the legal and regulatory framework applicable to the Group and the industries in which it operates, and considered the risk of acts by the Group which were contrary to applicable laws and regulations, including fraud. We designed audit procedures at Group and significant component level to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the Group and parent company financial statements, including, but not limited to, the Companies Act 2006, the Listing Rules, Tax legislation, Employment regulation, Health and Safety legislation, and other legislation specific to the industries in which the Group operates. Our tests included, but were not limited to, review of correspondence with the regulators, review of correspondence with legal advisors, enquiries of management, enquiries with component auditors' and review of internal audit reports in so far as they related to the financial statements. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the matters, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Tax liabilities The Group operates in a number of tax jurisdictions and recognises tax based on interpretation of local laws and regulations which are sometimes uncertain. At 31 December 2017, the Group has current and non-current tax payables of £43.1m. Where the amount of tax payable is uncertain, the directors are required to exercise significant judgment in determining the appropriate amount to provide in respect of potential tax exposures and uncertain tax positions. We focused on the judgements made by management in assessing the likelihood and quantification of material exposures. See page 129 for management's disclosure of this significant judgement.	We assessed management's process for identifying uncertain tax positions and the accounting policy for providing for tax exposures. We considered management's assessment of known areas of uncertainty and the provisions held against these. Through review of management's analysis of these positions, including testing of detailed workings and consideration of advice received from their tax advisors, we determined that the provisions recognised and the disclosures in the financial statements were reasonable.
Goodwill impairment The Group has goodwill of £347.5m. In the prior year an impairment of £123.9m was taken against the Health & Personal Care Packaging ('HPC') division and further impairment risk was identified in the HPC division based upon underlying trading performance of particular components and the planned closure of a site in the UK. All cash generating units (CGUs) containing goodwill and indefinite-lived intangible assets must be tested for impairment annually. Management must also determine the recoverable amount for other finite-lived assets where impairment indicators are identified. The impairment reviews performed by management contain a number of significant judgements and estimates including revenue growth, profit margins and discount rates. A change in these assumptions can result in a material change in the valuation of the assets. See page 129 for management's disclosure of this significant judgement.	We have assessed the methodology applied by management in performing their impairment review including the identification of CGUs under the new divisional structure, and the appropriateness of the valuation models. We evaluated the future cash flow forecasts for each CGU, including short term cash flows, and the process by which they were drawn up, and tested the underlying value in use calculations. In doing this, we compared the cash flow forecasts to the latest Board approved plans and compared prior year budget to actual data, in order to assess the quality of the forecasting process. The results of our evaluation proved to be satisfactory. We also tested key assumptions including exchange rates and long-term growth rates by comparing them to third party published economic and industry forecasts; and the discount rate by recalculating the Group's cost of capital. In respect to the HPC division we specifically considered the assumptions regarding the recovery of site operating margin to industry average levels across the forecast period in light of management's action plans to improve the performance of the business. We also verified the assumptions regarding industry average performance levels to third party data. We found the assumptions to be reasonable. We performed sensitivity analysis around the key assumptions to ascertain the extent of change in those assumptions that, either individually or collectively, would be required for the goodwill to be impaired. As included within note 8, a reasonably possible change in assumptions for the HPC division would result in an impairment. However this is expected as the value was impaired down to the value in use during 2016 and therefore the headroom against which assumptions are sensitised is low. Disclosures included within note 8 have also been assessed for compliance with requirements and deemed reasonable.

Key audit matter	How our audit addressed the key audit matter
Presentation of exceptional items The financial statements include certain items which are disclosed as exceptional. The nature of these exceptional items is explained within the Group accounting policy and includes transaction costs relating to acquisitions and disposals of businesses, acquisition integration and restructuring costs, and other items such as impairment. In continuing operations these exceptional costs relate to the fundamental restructuring programme of £19.2m, the closure of the Newport cartons site of £35.4m, and acquisition and disposal costs of £1.6m. In discontinuing operations exceptional items comprise a gain on disposal of the Porous Technologies business of £132.4m. In addition, £11,4m relating to the benefit arising as a result of the US tax reform has been disclosed as exceptional. We focused on this area because items classified as exceptional require judgement by the directors as to whether the items meet the definition in the Group's accounting policy. Consistency in identifying and disclosing items as exceptional is important to maintain comparability of the results year on year. See page 129 for management's disclosure of this significant judgement.	We assessed the appropriateness of the Group's accounting policy for the recognition of exceptional items with reference to the applicable accounting standards. We evaluated whether each of the items disclosed as exceptional met the criteria set out in the accounting policy and were consistent with the treatment adopted in previous accounting periods, to confirm that items were appropriately classified. We agreed a sample of restructuring costs incurred to invoices or other form of evidence such as payroll records. Specifically, we have considered the inclusion of certain asset impairment charges and an onerous contract as part of the exceptional item and we are satisfied that these charges have arisen as a result of the strategic review process. We tested a sample of site closure costs incurred to invoices or other form of evidence such as payroll records and the property lease agreement. We have specifically considered the nature of these costs and concluded that the classification as exceptional is appropriate. We read the sale and purchase agreement for disposal of the Porous Technologies business and verified the proceeds to bank receipts. Adjustments to the profit on disposal were also sampled and agreed to supporting documentation such as invoice or asset write off details. We consider the classification to be appropriate given the nature of the disposal meets the definition of a discontinued operation. Other acquisition and disposal costs were agreed to invoices to confirm they meet the group policy definition for exceptional items. We have considered the presentation of benefit arising as a result of the US tax reform as exceptional and agreed the calculation of the benefit to management's impact assessment and detailed deferred tax workings without exception. The disclosures included in note 2 were read and deemed reasonable.

We determined that there were no key audit matters applicable to the parent company to communicate in our report.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the parent company, the accounting processes and controls, and the industry in which they operate.

The Group is split into three divisions being Components Solutions, Health & Personal Care Packaging, and Filter Products. Each division consists of a large number of controller sites spread globally across 37 territories. There are 268 reporting units within the consolidation, which include the controller sites and other consolidation units.

We did not identify any individually significant components within the Group, with the largest contribution to revenue being 6% from one controller site, and the average being 1%. We determined the most effective approach was to engage PwC local component teams to perform full scope procedures over 20 reporting units, with the Group audit team performing full scope audit work over a further 5 reporting units. In addition, specified audit procedures were performed by component auditors over certain balances, including revenue, at a further 6 reporting units in the Americas. This approach ensures that appropriate audit coverage has been obtained over all financial statement line items.

Where work was performed by component auditors, we determined the appropriate level of involvement we needed to have in that audit work to ensure we could conclude that sufficient appropriate audit evidence had been obtained for the Group financial statements as a whole. We issued written instructions to all component auditors and had regular communications with them throughout the audit cycle. This included a clearance meeting with each component team and review of all significant matters reported.

In addition the Group engagement partner has visited controller sites in the US, Singapore, Thailand and UK, including meeting with local audit teams and local management as part of these visits.

Based on the detailed audit work performed across the Group, we have gained coverage of 67% of total revenue, 62% of profit before tax, and 67% of net assets.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Overall materiality	£3.7m	£7.1m
How we determined it	5% of profit before tax before intangibles amortisation and exceptional items.	1% of net assets.
Rationale for benchmark applied	The Group is profit-oriented, therefore it is considered most appropriate to apply a rule of thumb based upon a profit-based benchmark. The directors, management and the users of the Group financial statements focus on adjusted numbers, being adjusted operating profit, adjusted net income or adjusted pre-tax profit. The Group defines "adjusted" as excluding the impact of intangible amortisation and exceptional items. Based on this, we consider an adjusted metric of profit before tax before intangibles amortisation and exceptional items to be the most appropriate benchmark.	The entity is a holding company of the rest of the Group and is not a trading entity. Therefore an asset based measure is considered appropriate.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £0.2m and £3.3m. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.2m (Group audit) and £0.2m (Parent company audit) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern
In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Group's and the parent company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and parent company's ability to continue as a going concern.
We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006, (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and parent company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

The directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

We have nothing material to add or draw attention to regarding:

> The directors' confirmation on page 72 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.

> The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.

> The directors' explanation on page 111 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal risks facing the Group and statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the Group and parent company and their environment obtained in the course of the audit. (Listing Rules).

Other code provisions
We have nothing to report in respect of our responsibility to report when:

> The statement given by the directors, on page 71, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and parent company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and parent company obtained in the course of performing our audit.

> The section of the Annual Report on pages 77 to 78 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

> The directors' statement relating to the parent company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' remuneration
In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06).

Responsibilities for the financial statements and the audit
Responsibilities of the directors for the financial statements
As explained more fully in the Statement of Directors' Responsibilities set out on pages 112 to 113, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report
This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

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

- we have not received all the information and explanations we require for our audit; or
- 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
- certain disclosures of directors' remuneration specified by law are not made; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment
Following the recommendation of the audit committee, we were appointed by the directors on 20 April 2017 to audit the financial statements for the year ended 31 December 2017 and subsequent financial periods. This is therefore our first year of uninterrupted engagement.

NICHOLAS STEVENSON
(Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Milton Keynes
2 March 2018

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Registrar

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Telephone +44 (0)370 703 6394
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 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.

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