Welcome to the Annual Report 2018

This interactive PDF allows you to find information and navigate around this document easily. It also links you to useful information on the web that is not part of the Annual Report.

Go to contents page

Search this pdf

Print pdf

Previous page

Next page

Previous view

Go to specific page

Links

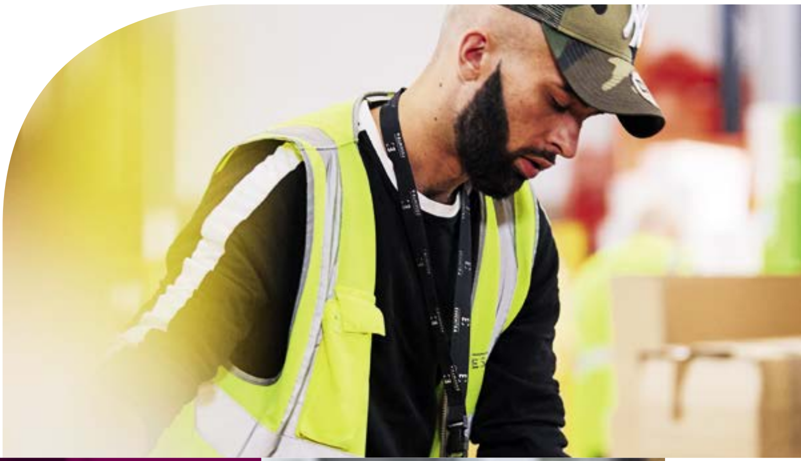
Dynamic links within the text are indicated when the user rolls over hyperlinks and the mouse cursor changes to a pointed hand.

ESSENTRA

CREATING GROWTH FROM STABILITY

Annual Report 2018

Welcome to our
Annual Report 2018



Our purpose is to provide the parts, products and services our customers need to succeed as businesses

Four global divisions

Our four global divisions produce and distribute millions of small but essential components and solutions. Our products may not be noticeable – or even recognisable – but wherever you are, our business is all around you.

Components
See page 50

Packaging
See page 54

Filters
See page 58

Specialist Components
See page 62

See more online
essentraplc.com/investors

Essentra at a Glance

Essentra is a leading global provider of essential components and solutions. Every day we produce and distribute millions of small but essential products. Our products may not be noticeable – or even recognisable – but wherever you are, our business is all around you.

See Our Strategy and Progress on page 16
See Operational Review from page 48

Components

Global market-leading manufacturer and distributor of plastic injection moulded, vinyl dip moulded and metal items.

Revenue

£271.1m
(2017: £241.8m)

Adjusted operating profit[1]

£60.0m
(2017: £53.6m)

Segmental contribution*

26.3%
(2017: 23.4%)

2018 summary

- Broad-based result across geographic markets and customer size, underpinned by improved "hassle-free" service proposition
- Very strong growth maintained in access hardware, supported by cable management solutions and general protection range of caps and plugs
- Further commercial and operational initiatives in line with strategic objectives
- Successful integration of Micro Plastics and acquisition of Hertila
- Continued pipeline development to support future potential inorganic growth opportunities
- Investment in digital capabilities, to enhance online presence and support future growth

Packaging

Multi-continental supplier of secondary packaging to the health and personal care sectors, including cartons, leaflets, self-adhesive labels and printed foils.

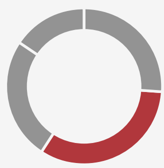
Revenue

£342.3m
(2017: £350.5m)

Adjusted operating profit[1]

£5.4m
(2017: operating loss: £1.8m)

Segmental contribution*



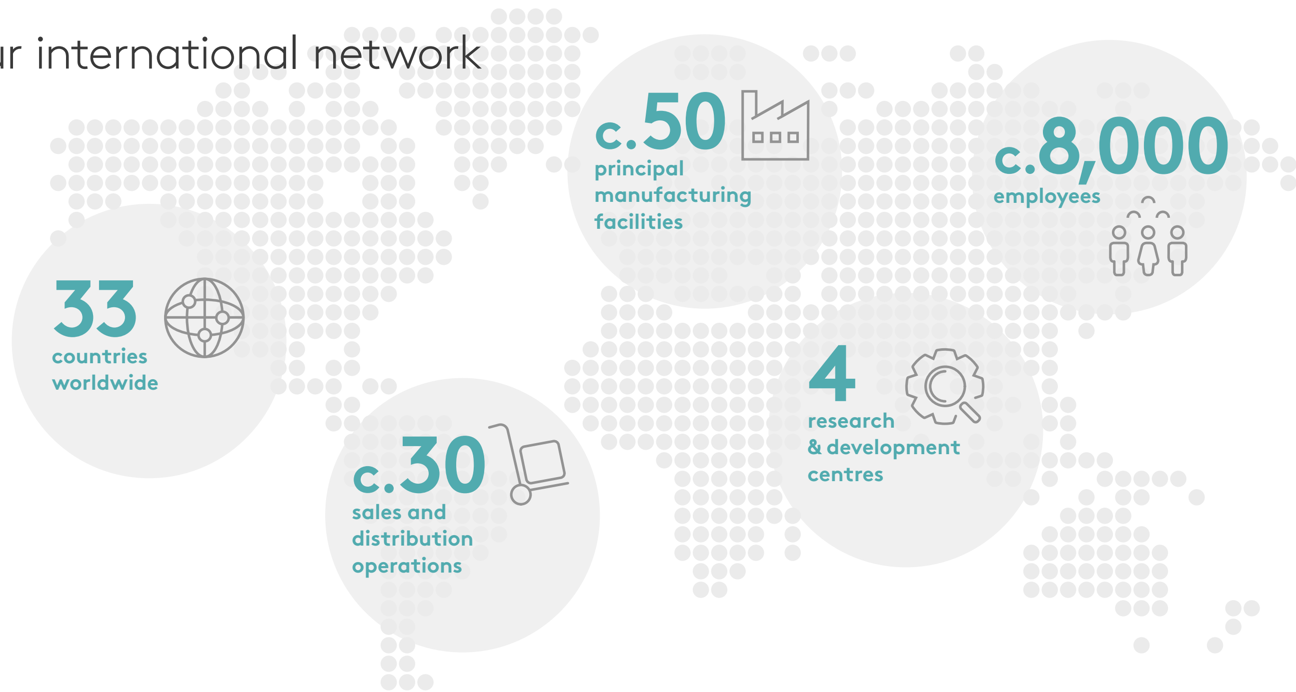
33.1%
(2017: 33.9%)

2018 summary

- Return to underlying revenue growth (excluding disposals/Newport IP5 site) in H2 and full-year profitability
- Encouraging business wins and continued improvement in customer dialogue, underpinned by ongoing stability, key service metrics and organisational improvements
- Ongoing product pipeline development to meet industry trends and customer needs
- Second Design Hub established in the USA
- Significant investment in upgraded equipment to underpin growth and margin opportunities
- Further footprint rationalisation to focus on strategic end-markets of pharma, beauty and personal care

* To Group revenue, before the elimination of intersegment revenue
1 Excluding amortisation of acquired intangible assets and exceptional and other adjusting items

Our international network



Filters

The only global independent supplier of a wide range of innovative cigarette filters as well as e-cigarette and Heat Not Burn solutions.

Revenue

£260.0m
(2017: £277.5m)

Segmental contribution*

Adjusted operating profit[1]

£34.8m
(2017: £34.8m)

25.2%
(2017: 26.9%)

2018 summary

- Good progress with independent customers offset by characteristic industry project volatility
- Continued product development in traditional combustible filters, to address industry trends
- Good growth in China, India and Dubai, supported by innovative new special filters
- Ongoing discussions regarding each of the potential game changers
- Further progress on Next Generation Products with multinational and independent customers
- Continued improvement in service, quality, waste and material usage from already excellent levels

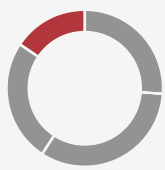
Specialist Components

In 2018 the division was comprised of Essentra's six smaller businesses: Extrusion, Pipe Protection Technologies, Speciality Tapes, Tear Tapes, Industrial Supply and Card Solutions.

Revenue

£159.1m
(2017: £163.6m)

Segmental contribution*



Adjusted operating profit[1]

£12.2m
(2017: £14.1m)

15.4%
(2017: 15.8%)

2018 summary

- Divisional revenue and profit decline largely due to ongoing weakness in Tear Tapes and driven by lower tobacco volumes
- Good growth in Pipe Protection Technologies, boosted by higher oil price for much of 2018
- Modest increase in Industrial Supply supported by expansion of core product lines and launch of new ranges
- Result in Speciality Tapes reflected specific customer-related softness in retail POP and appliances segments, offsetting a stable result in industrial end-markets
- Continued progress with technical profiles in Extrusion offset by decline in Furniture segment
- Development of University and Healthcare sectors in Card Solutions

How we have performed this year

Revenue

£1,026m

(2017: £1,027m)

Adjusted operating profit

£90.7m ■

(2017: £84.6m)

Adjusted operating margin

8.8% ■

(2017: 8.2%)

Reported operating profit

£47.2m

(2017: £5.5m)

Adjusted earnings per share

23.1p ■

(2017: 22.1p)

Reported earnings per share

9.3p ■

(2017: 43.7p)

Dividend per share

20.7p

(2017: 20.7p)

Cash conversion

85% ■

(2017: 95%)

Operational highlights

- Full-year operating profit growth from a stable revenue base restored for the first time since 2015
- Strong operating cash conversion; balance sheet gearing retained within target range notwithstanding significant business investment
- Widespread improvement in all underlying operating metrics
- Key elements of divisional strategies progressing; strategic plan for Specialist Components defined in 2017 and strategies for value creation progressing
- Return to growth in H2 and improving profitability in Packaging, continued robust performance in Components and enhanced "as-is" capabilities and progress on "game changers" in Filters

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.

■ Adjusted measures
Adjusted results exclude certain items because, if included, these items could distort the understanding of Essentra's performance for the year and the comparability between periods.

In management's view, such adjusted performance measures ("APMs") reflect the underlying performance of the business and provide a more meaningful comparison of how the business is managed and measured on a periodic basis. Our APMs and KPIs are aligned to our strategy and business segments, and are used to measure the performance of the Company and form the basis of the performance measures for remuneration.
See page 18 for KPIs and page 44 for APMs.

Contents

Embedding Stability

In last year's Annual Report, I stated that stability was being restored to the business following the new corporate strategy unveiled by Chief Executive, Paul Forman.

Dividend per share

20.7p
(2017: 20.7p)

Female representation on Board

42.9%
(2017: 25.0%)

Dear Shareholder,

Twelve months on, I am pleased to report that further progress has been made across the organisation in stabilising our key commercial and operational metrics.

This is evidenced by the return to operating profit growth from a stable revenue base for the first time in three years. As a result, my Board colleagues and I have increasingly been able to turn our attention to the delivery of strategic objectives which underpin how we restore Essentra to future sustainable growth based on the highest standards of business ethics and best practice governance.

A particular highlight has been the return to growth in the Packaging division during the second half of the year. While there is still much to do in terms of improving profitability to industry-average levels, it is testament to the hard work of the divisional leadership team that we have been able to turn around the business in a relatively short space of time. In order to ensure the division's future development and strategic focus we have had to further rationalise the divisional site footprint so that it can focus on the pharmaceutical, beauty and personal care end-markets we identified in our strategic review. As a result, during the year, we had to take the tough decision to close certain non-core and financially challenged Packaging sites. These decisions were in no-way a reflection on the quality or dedication of our employees at the locations involved, and my Board colleagues and I would like to acknowledge the supportive and professional way in which employees have handled a difficult situation.

Beyond the Packaging division, we have made further portfolio management changes in support of our corporate strategy and long-term shareholder value creation. I would like to formally welcome the employees of Hertila, who joined Essentra following the acquisition by our Components business in July 2018 and who are already making a great contribution to our presence in Sweden. Then, shortly after the year end, we announced the divestment of our Pipe Protection Technologies ("PPT") business to National Oilwell Varco, Inc.. The PPT business has been a valued contributor to the Essentra Group since 1994.

"The Board was pleased to support the establishment of the Group Sustainability Committee."

Culture and values

In 2018 the Board continued to deepen their understanding of Essentra's working culture and witnessed the Six Principles become further embedded

See Our People from page 22

During the year, the Board continued to review the Company's strategy as presented to the market in July 2017 and to gain further insight and challenge actions being taken to deliver the strategy.

At the same time, the Board together with the Audit and Risk Committee, continually reviews the Company's risks. This has included a specific review of the potential effects of the UK's exit from the European Union. The Company has put in place a number of mitigation strategies to provide as much protection as possible.

The Board needs to continue to develop and add appropriate talent to support the business objectives. Following a robust selection process led by the Nomination Committee, my colleagues and I were delighted to welcome Lily Liu to the Board as Chief Financial Officer, to succeed Stefan Schellinger. Lily's track record of international experience in relevant sectors, together with her strong people focus, are a good match as we continue to restore Essentra to sustainable, profitable growth. Having been with Essentra since 2013, I would personally like to thank Stefan for his immense contribution and commitment to the Company, and to wish him every success in the future.

Separately, since assuming the role of Chairman of the Audit and Risk Committee from Terry Twigger, Mary Reilly has overseen a highly energised process in making change and my Board colleagues and I have been particularly pleased with the enhanced Risk Management processes, the interaction between the Group Risk Committee and the Audit and Risk Committee as well as progress in the roll out of the Global Minimum Control Standards project. I would also like to thank Tommy Breen for his ongoing counsel since assuming the role of Senior Independent Director upon Terry's retirement from the Board.

People and culture

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 several of our businesses in the UK, Europe and the USA. An active programme for Non-Executive Directors to independently visit businesses commenced during 2018 and there are plans to expand this during 2019.

In early 2018 all Non-Executive Directors attended the Leadership Conference in Charlotte, USA, which was attended by approximately 100 of the Company's senior management team. During the conference we took part in the discussion on the continuation of work around the strategic objectives. We also visited the Charlotte Packaging facility and participated in a panel discussion with a Q&A session. The lively debate and contribution from Essentra's senior leadership team was hugely encouraging, as was the positive energy for change execution.

One of the Six Principles endorsed by Paul and his senior management team is employee engagement and tremendous effort is put into making Essentra a great place to work, where talent and diversity can thrive. This included the annual employee survey where we've seen an increase in employee engagement scores bringing Essentra's result in line with global and manufacturing industry averages. The Board attaches high importance to employee engagement and recognises the challenges in engaging with global employees. Local management do a very good job of engaging with their employees and keeping them appraised of relevant issues within their businesses. At Group level, management are continually looking to find ways to improve communication links with the businesses.

Additionally 2018 saw the establishment of the Diversity and Inclusion Steering Group which is beginning to thrive with a number of initiatives being put in place to attract, develop and retain talent across the organisation.

The Board was pleased to support the establishment of the Group Sustainability Committee which was formed during the year and reports to the GMC, the focus being on providing advice on and co-ordinating sustainability-related activities across the Group.

The Board is committed to achieving and maintaining the highest standards of occupational health, safety and environmental protection. When Board members visit Essentra sites they are required to undertake a health and safety "walk" around the site to focus on these important matters. The Board fully endorses the priority which these critical workplace practices are now being given under Paul's leadership.

A stronger company

Last year saw stability being restored to Essentra, and the Company moving towards achieving sustainable, profitable growth. I am confident that 2019 will bring continued improvement.

Paul Lester, CBE
Chairman
1 March 2019

Creating Growth From Stability

Essentra turned a corner in 2018. Thanks to the tremendous contribution of our employees across the world, we ended the year a more stable and sustainable organisation, facing the future with a renewed sense of purpose and confidence.

There is much left to do but I am immensely encouraged by the momentum I see building in terms of our Stability, Strategy, Growth journey; the three steps to long-term success we identified in 2017.

We have placed our people at the centre of that journey, making their safety a non-negotiable priority at all our sites and working hard to improve communication and engagement. I want everyone at Essentra to have a voice and ensure we are maximising all of our people's talents. Our ambition is for everyone to feel safe, respected, valued and able to thrive as part of a winning, engaged and diverse team.

During the year these efforts have led to adjusted profit growth being restored from a stable revenue base for the first time since 2015 and I am confident that we are building a firm foundation for future growth. We are also restoring a reputation for identifying priority areas for action and then delivering on them.

While our people are the heart of our organisation, our customers are our lifeblood. After all, our purpose is to provide the parts, products and services our customers need to succeed as businesses. Restoring their faith in our ability to deliver quality products On Time and In Full ("OTIF") has been a key focus for 2018 and we have made tremendous progress.

Adjusted earnings per share

23.1p

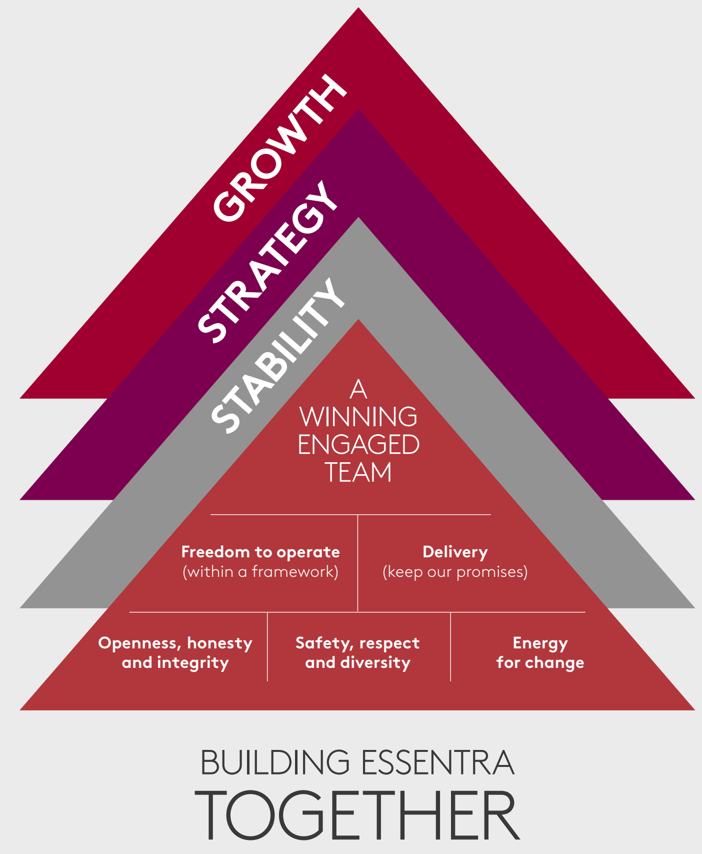
(2017: 22.1p)

Employee engagement

75%

(2017: 69%)

Three steps to long-term success



Strategic development

The purpose of our *Stability, Strategy, Growth* roadmap is to create sustainable profitable growth at Essentra. Stability is the foundation and during 2018 we continued to drive improvements in all our underlying operating metrics; people, customers, processes and finances.

The Components, Packaging and Filters divisions have been progressing the strategies set out in 2017 and the six businesses in Specialist Components developed strategic plans during the year. Across Essentra, strategic momentum has been building, with renewed employee and customer focus increasing the businesses' investment in innovation and product development. Furthermore, in January 2019 a five-year Business Process Redesign ("BPR") programme was launched. This will focus on business model redesign and ERP investment, ultimately reducing risk across Essentra. Finally, we continue to ensure we are well placed for inorganic opportunities, where they can move our business into complementary product categories or end-markets, or further our geographic distribution capability.

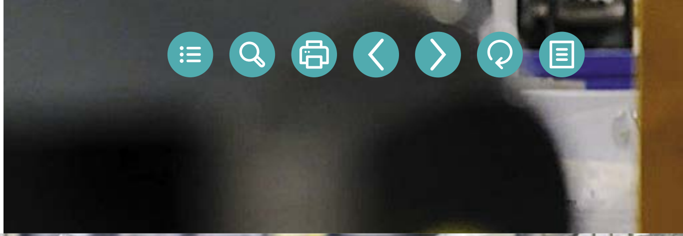
Financial performance

Components
2018 saw another strong performance across all regions in Components despite declining industry production levels. The Hertila business in Sweden acquired in the year and the recently acquired Micro Plastics business in the USA performed at least in line with expectations. There has been good progress across a number of strategic objectives; the division continued to refine its product range and in terms of customer service, initiatives around communication, website investment and improved delivery have contributed to a further increase in the Net Promoter Score and lay a firm foundation for the launch of a new online platform in Q1 2019.

Packaging
The Packaging division reached an inflection point during 2018, with revenue progressively improving over the course of the year and both regions returning to profit from loss in the prior year. This performance reflects a continued focus on service and quality as well as investments in machinery and the Design Hub. The introduction of a clear Key Account Management structure and product pipeline development helped secure a number of new business wins in 2018 and the divestment of Swiftbrook in Ireland and the closure of sites in Kilmarnock in the UK and Largo in the USA underscore the strategic focus on the health and personal care end-markets.

Filters
While revenue in Filters declined during the year as a result of pipeline volatility characteristic of the tobacco industry, the business ended the year in a stable position making good progress with independent customers, notably in China, India and the Middle East. In addition, the results from our joint ventures in India and Dubai were driven by a strong performance in capsule products. We continue to make progress with each of the potential "game changers" we identified in 2017; further outsourcing, a joint venture in China and Next Generation Products ("NGP"). The division has made considerable investments in its operational capability and processes and is now world-class in terms of key operating metrics that will underpin future growth. The division has also built on a strong track record of successful innovation, launching a number of new products during the year in both combustibles as well as new technologies.

Specialist Components
Revenue in Specialist Components decreased during the year, largely due to ongoing weakness in Tear Tapes, driven by lower end-market volumes, reduced demand for certain tobacco lines and macro-economic weakness in Latin America. At the end of 2018 we ceased production of Speciality Tapes in Nottingham, UK. Neither the Tear Tapes business based at Nottingham, nor the vast majority of Speciality Tapes activities located in the USA, were affected by this decision. The performance in the latter business reflected specific customer related softness in the retail POP and appliance



segments, which offset a stable result for tapes used in industrial end-markets.

A modest increase in Industrial Supply was supported by the expansion of core product lines and the introduction of new branded ranges. Revenue in Extrusion was broadly unchanged versus the prior year and the result in Card Solutions reflected the consolidation of business in, and development of, ID solutions for certain sectors.

Pipe Protection Technologies ("PPT") delivered good growth and benefited from the strength in the oil price. Shortly after year-end we announced the divestment of our PPT business to National Oilwell Varco, Inc., a disposal which represents good value for shareholders and provides the PPT business with a strong platform for future successful growth.

Customers

During the year we developed a clearer purpose centred around our customers: to provide the parts, products and services they need to succeed as businesses.

Although we serve a wide range of customers across our divisions, each business has put customers at the centre of their strategic journey and are making huge strides in improving service and quality and crucially investing in communication. These efforts will help to sustain growth as we move into 2019.

People

As Chief Executive my ambition is for *everyone* to feel safe, respected, valued and able to thrive as part of a winning, engaged and diverse team. To this end, in January 2018 I sponsored the establishment of the Diversity and Inclusion Steering Group. The Steering Group's membership is broad in terms of tenure, level, gender, age, nationality and background and has made significant progress in helping to build an inclusive culture in Essentra where diversity is embraced by everyone, ensuring we get the full business benefit while making Essentra a rewarding and successful place to work for our colleagues. During the year we partnered with *everywoman* to support our work on gender and *Business In The Community* for our work on multiculturalism, the latter leading to Essentra becoming a signatory of the joint UK government and *Business in the Community* "Race at Work Charter". This is the start of an exciting and important journey for Essentra and one to which I, the Board and Group Management Committee are passionately committed.

During the year we also made significant progress in terms of improving our internal communications to employees. Under the leadership of a new Group Communications Director who arrived in January, we have refined how we describe who we are, what we stand for, and what that looks and sounds like for employees, creating a more engaging and vibrant internal brand around the concept of "We Make It Work". We also launched Essentra's first global intranet, "The Works", and our first global recognition programme, the Make It Work Awards.

I am delighted that these efforts have led to a six-point increase in employee engagement from 69% in 2017 to 75% in 2018, a result in line with global and

2018 priorities

- Build a winning engaged team with a shared sense of purpose
- Restore and enhance our relationship with customers
- Continue to improve the stability of IT, business processes and finances
- Build strategic momentum, both as a Group and within each of our divisions
- Restore revenue and profit growth while laying the foundations for future growth

Key milestones of the year

2018

January
- Established Diversity and Inclusion Steering Group
- Constituted a new Group Risk Committee

February
- Launched global employee intranet

March

April
- Created Group Sustainability Committee
- Held Leadership Conference in Charlotte, USA

May

June

July
- Launched a new Health, Safety and Environment information management system
- Acquired Hertila
- Divested Swiftbrook
- Conducted strategic review of Specialist Components division
- Joined *Business in the Community*

In 2018 I continued to meet customers and colleagues around the world.

In particular, meeting employees is a source of tremendous pride and energy for me. Throughout a busy year they have shown unstinting dedication, commitment and professionalism.

"As Chief Executive my ambition is for everyone to feel safe, respected, valued and able to thrive as part of a winning, engaged and diverse team."

manufacturing industry averages. This also reflects world-class levels of survey participation, 91% up from 89% last year. There is still much to do and it will take time, but together we are making Essentra a great place to work.

We have continued to make organisational changes in light of our strategic review. These have resulted in a number of key senior appointments such as the appointment of Lily Liu as Chief Financial Officer in November 2018 and Oshin Cassidy as Group Human Resources Director in January 2019. Regrettably, these have also included some changes that have negatively impacted our people, such as the closure of our printing facilities in Kilmarnock and Largo and the cessation of production of Speciality Tapes at Nottingham.

These decisions, taken after thoughtful consideration, were in no way a reflection on the quality or dedication of the impacted employees but rather a consequence of the need to ensure we act in the best interests of our customers and other stakeholders.

Health and Safety

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.

During the year we continued to significantly invest in our global Health, Safety and Environment ("HSE") capability, launching a number of improvements – for example upgrading our machinery guarding – and rolled out a new HSE information management system that provides all employees with a standardised incident and near-miss reporting tool. We refreshed the look and feel of Health and Safety communications throughout the organisation and almost 200 managers were trained in safety leadership. I am delighted that as a result we achieved a 46% reduction in Lost Time Incidents ("LTIs") and the number of days lost has reduced by 53% compared with 2017. Clearly, the only acceptable number of LTIs is zero, but this highlights the significant strides we have made in improving processes as well as culture.

Corporate Responsibility

We are committed to the highest standards of corporate governance and responsibility, getting behind local good causes while minimising our environmental impact on the wider world around us. In 2018 we established a Group Sustainability Committee and developed a strategy in order to focus our efforts in four key areas. We also launched a Community Engagement Policy, allowing sites to identify local volunteering opportunities and releasing our employees to support them. We know from the employee survey that our people want to see us demonstrate our contribution to communities more so this is something that we will be focusing on in 2019.

Outlook

When I first joined Essentra in January 2017 I was struck by how strategically attractive Essentra's businesses are, with leadership positions in our markets and strong competitive advantage. My view has not changed. Combined with the actions we have taken in 2018 to embed stability, deliver the strategy and restore growth, we are building on solid foundations.

Of course there is more to do, but I am incredibly proud of the great strides we are making to restore sustainable growth and have every faith in our ability to achieve success together as a team.

Paul Forman
Chief Executive
1 March 2019

August
- Launched new internal brand positioning

September
- Launched global employee survey
- Announced the intended closure of Kilmarnock and Largo sites and cessation of production of Speciality Tapes at Nottingham

October
- Signed "Race at Work Charter"
- Launched first global awards programme, "Make it Work Awards"

November
- Launched global partnership with *everywoman*

December

Investment Case

In 2018, the Essentra Group comprised nine businesses, serving multiple end-markets with a broad and differentiated range of products and services.

Focused growth and delivery of strategy

We have a clear, market-driven strategy for each of our divisions. They operate in sizeable end-markets that present opportunities for future growth, and in which we are fundamentally well-positioned to drive long-term growth and margin expansion.

We continue to deliver on the potential of our Packaging division in terms of both revenue and margin expansion, robust organic and inorganic growth in Components, the opportunities within Filters' stated "game changers" and Specialist Components' value creation strategies.

Established blue chip customer relationships

We develop and maintain a close relationship with a wide portfolio of blue chip customers, who are successful leaders in their respective markets.

The high standards of service and supply demanded by such customers help to drive continuous improvement across the Company.

Our manufacturing and distribution expertise adds value in response to customer demands, and our innovative capabilities drive the joint development of new products and services with key strategic partners.

In order to create sustainable long-term value, we seek 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.

High-quality and efficient global operations with a strong value proposition

We have 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.

Our extensive international manufacturing and 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.

Investment in innovation capabilities

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

Investment in research and development functions, supported by the identification of additional product sourcing opportunities and range development enhance our competitive positions.

Robust quality systems maintained to internationally accredited standards assist the fulfilment of customers' demands.

Strong financial position and business model

Our strategy calls for a significant focus on cash flow generation, which is evidenced in well-defined financial and capital allocation policies and a strong balance sheet.

We have a highly experienced and well-regarded team leading a diversified business. By harnessing this strength in diversity, with a clearly defined and unifying role for the Group, we are well placed to create sustainable long-term value for our shareholders.

Our Business Model

Our purpose is to provide the parts, products and services our customers need to succeed as businesses.

What we do

We manufacture

Whether it is a tiny but critical component or a bespoke solution to a complex need, we have the skills and capability to manufacture a wide range of products.

We partner

We take a long-term partnership approach with suppliers and customers so we can deliver what our customers need, when they need it.

We distribute

Our global scale and market knowledge mean that we are able to anticipate and meet the needs of our customers, whether large or small, in a wide variety of end-markets and geographies.

See Operational Review from page 48

Who we serve

- Automotive
- Equipment manufacturing
- Fabrication
- Electronics
- Construction
- Oil and gas
- Pharmaceutical
- Personal Care and Beauty
- Tobacco
- Retail POP/ Paper & Board

How we do it

Our products and services are delivered by a team of thousands, framed by our business principles.

A WINNING ENGAGED TEAM

Freedom to operate
(within a framework)

Delivery
(keep our promises)

Openness, honesty and integrity

Safety, respect and diversity

Energy for change

See Our People from page 22

Our competitive advantage

We are well positioned to effectively manage our portfolio of global leading, diverse activities in order to create sustainable long-term value.

Strength of customer relationships
Deep customer relationships and expert customer service is at the heart of what we do. Ensuring we anticipate and deliver on our customer needs is crucial to our success as a business.

Market-leading positions
We have market-leading positions in the majority of our served markets providing us with the scale and expertise necessary to deliver for our customers.

Creating value for our stakeholders

Essentra is built on diversity. Of parts, products and services. Of customers, partners and markets. Of people, perspectives and ideas.

Our customers

We put our customers first, partnering with them and delivering On Time and In Full.

OTIF for 2018
(%)

1 Components
2 Packaging
3 Filters
4 Specialist Components

Our people

We prioritise safety, employee engagement, diversity and inclusion, creating an environment where our people feel respected with space to learn and grow.

Employee engagement

75%

(2017: 69%)

Our suppliers

We partner with a range of suppliers so that we can provide our customers with a range of products across each of our divisions.

Our communities

We get behind local good causes while minimising our environmental impact on the wider world around us.

Reduction in waste to landfill

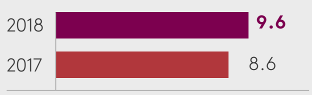
16.3%

(2018 vs 2017)

Our shareholders

We deliver shareholder value through the strength of our balance sheet, customer relationships and market positions.

Return on invested capital
(%)



Diverse and market-leading product and service ranges

We invest in product research and robust quality systems in order to deliver product innovation and range development.

Passion and skill of our employees

Our people are our greatest asset. We take personal ownership of what we do each day and pride in what we help to achieve as a team.

Global footprint with local execution

Our comprehensive international production and distribution footprint can be flexed to respond to customers' needs, whether they be product, service, cost or supply chain driven.

Market Trends and Opportunities

Our businesses are diverse in terms of geography, product and services, supplying a multitude of end-markets and customers.

Industrial

Given their very wide application, the global market for industrial components is large, fragmented and ill-defined for both suppliers and customers. However, the value of the Bill of Materials ("BOM") small components market is estimated at c. £8bn, with growth in line with Industrial Production.

We target the strong yet fragmented segment of small to medium-sized manufacturers that typically require standard parts on their BOM, giving them the benefits of low development cost and rapid delivery to market of new products. This sector is flexible, so as well as playing a critical support role in the global manufacturing tiers, it is also capable of adapting to new market trends such as 5G, connected cities and e-mobility.

This need for supply chain flexibility extends to "just-in-time" delivery; as our customers are required to operate on this basis so they demand the same from us. In addition, standardised manufacturing processes 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 and then to manufacture in lower labour cost regions, which benefits components suppliers with global reach.

As end-markets become more sophisticated and demanding, so the requirement for higher-quality and/or more functional components increases. Over and above this more general trend, certain customers are increasingly facing regulatory guidelines in terms of the components they use.

Market size

£8bn

Source: Management estimates

Our opportunity

Uniquely combining the expertise and flexibility of a manufacturer with the range and service of a distributor, we work with over 70% of the world's top 100 manufacturers, providing small essential components and tapes for a wide range of needs. We offer rapid global distribution, with over 100,000 industrial solutions with multiple applications and more than 1 billion parts in stock in 21 countries. Our ability to further expand our product ranges and to develop new sectors for our existing customer base – together with our ongoing investment in our digital presence – means that we are able to continuously improve our "hassle-free" proposition.

While we serve a very broad spectrum of industrial end-markets, we can scale our offering to the needs of our customers – as well as provide custom solutions, specialist advice and samples – to ensure the optimal solution for their particular application. Our understanding of all the key elements of our customers' manufacturing processes – together with our industry-accredited manufacturing footprint – means that we are well-placed to support them at each and every step; from replacing metal components with plastic to achieve weight reduction targets and improve fuel efficiency in the automotive sector, to providing more sophisticated cable management and noise reduction solutions to the white goods industry.

See Operational Review: Components from page 50

Pharmaceutical, personal care and beauty

Management estimates the value of the global addressable market for secondary pharmaceutical, personal care and beauty packaging at c. US$19bn, growing at a low to mid single-digit level depending on the geographic region served.

Increasing regulatory requirements, as well as brand/product protection and verification, are key considerations for the industry. As a result, there is a growing demand for packaging solutions, which can help customers meet these evolving requirements to track, trace and authenticate their products through the supply chain.

With cartons, leaflets and labels being used to convey critical information to patients, quality is also of paramount importance. However, considerations such as design/aesthetics, as well as sustainability are significant in assisting customers in communicating their brand messages and engaging with consumers. On the latter, paper-based packaging has superior credentials versus plastic, and is an increasing feature of public awareness.

As customers globalise their own activities, they are increasingly seeking strategic multi-continental partners who can grow with them and reduce their supply chain risk while providing nimble and flexible manufacturing. At the same time, there is a demand for partners who can deliver a complete offering – from design to end-supply – as well as those who are able to meet the clear pattern of "one stop shopping" by customers for their multiple packaging requirements.

Market size

US$19bn

Source: Management estimates

Our opportunity

Our innovative approach in partnership with customers and suppliers allows us to meet rapidly changing industry requirements with a flexible and competitive response, while our end-to-end solutions help drive cost-efficiency and embed value.

Investment in the latest technology allows us to develop novel, value-added packaging and brand protection solutions, to meet legislative and regulatory changes; it also means that we can support the specific requirements of emerging sectors, such as biopharma and clinical trials. In addition, the upgrading of equipment and digital capability – as well as comprehensive quality management systems – enhances our reliability as a cost-competitive partner to our customers, while allowing us to meet the growing demand for smaller batch manufacturing.

Our creative and secure design solutions provide enhanced communication and authentication opportunities, while our opening, closing/resealing and tamper-evidence technologies allow us to add functional benefits or provide more eco-friendly solutions.

See Operational Review: Packaging on page 54

Tobacco

The global cigarette filters market has an estimated value of US$4.5bn, with c.90% of manufacturing done in-house by the multinational players.

The industry is heavily regulated around the world on health grounds, with significant restrictions on the way in which products can be marketed to consumers. This regulation continues to evolve, not only in respect of traditional cigarettes and innovations such as e-cigarettes and Heat Not Burn devices, but also the testing and packaging requirements for these products.

Although the overall market is in modest decline, the growth markets of Asia – which account for approximately 70% of global cigarette volume – are forecast to be flat. Indeed, as per capita income rises in eastern markets in particular, there is increasing demand for new products to reflect associated lifestyle changes and consumer expectations and aspirations – including environmental considerations, such as sustainability and pollution.

Counterfeiting of tobacco products and packaging continues to present a significant and increasing challenge for the industry, undermining brand value, presenting a risk to consumers from low-quality goods and reducing tax revenues.

Market size

US$4.5bn

Source: Euromonitor and management estimates

Our opportunity

With over 60 years' experience in developing both filters and tear tapes for the tobacco industry, we have the knowledge and capability to translate the latest innovations, scientific testing methods and regulatory requirements into business success. From manufacturing to packaging, our filters and pressure-sensitive tear tapes provide a unique full-service proposition to our customers.

With a c.50% share of the outsourced market and an extensive filter archive, we are able to provide multiple solutions – from "lifestyle" products (eg, Slims/Superslims, "eco" ranges) to recessed filters which meet brand-specific requirements, as well as capsules, flavoured thread and activated carbon products which provide enhanced user experience.

Our expertise also allows us to continue to provide additional or adjacent value-added services, including a full bespoke service for roll-your-own brands, the provision of scientific testing services and emerging "beyond tobacco" products such as Heat Not Burn and e-cigarettes.

In addition, complex filters are more challenging to counterfeit, while our range of security solutions which can be applied to our pressure-sensitive tear tapes provide overt, covert and forensic solutions and can also help to protect and verify genuine products in the continuing fight against the illicit trade.

See Operational Review: Filters on page 58

Oil and gas

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

As oil and gas production techniques continue to evolve and end-markets become more sophisticated and demanding, so the adoption of new technologies and the requirement for higher-quality, regulatory-compliant components will continue to increase, as will customer focus on their cost base.

Our opportunity

With ongoing investment in state-of-the art manufacturing capability and further capacity, we are well-placed to continue to meet industry demands and to support end-market growth. At the same time, our new product development expertise means that we can continue to add to our comprehensive product offering, both in terms of specification and price point.

Following the divestment of the PPT business in January 2019, our exposure to the oil and gas market has significantly reduced to a very modest presence for the Components division.

See Operational Review: Specialist Components on page 62

Retail

We serve a number of retail-related segments, from point of purchase to transit packaging.

While traditional retail space is reducing, online shopping continues to present attractive growth opportunities.

Our opportunity

With many decades' experience of manufacturing, coating and printing, both our tear tapes and speciality tapes businesses offer a comprehensive range of premium-quality adhesive products, designed to allow the easy opening of a product's contents which are well suited to the transit packaging segment for both traditional and online retail.

In addition, our ability to invest in more efficient equipment and manufacturing processes means that we can provide an extensive and cost-competitive offering to our point of purchase customers, from extruded plastic ticket rails to double-sided adhesive foam tapes used in the design or manufacture of temporary, semi-permanent or permanent retail displays.

See Operational Review: Specialist Components on page 62

Our Strategy and Progress

Our aim is to make Essentra the best company it can be.

How we will achieve it

STABILITY
"The preparation"

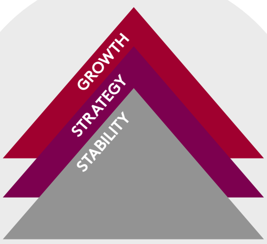
In order to restore – and maintain – sustainable growth to Essentra over the medium to long-term, it is imperative that we have stable foundations upon which to build: in our people; our processes; our customers; and our finances.

STRATEGY
"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.

GROWTH
"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.



Three steps to long-term success

Stability

Strategy

Growth

Progress in 2018

- Undertook Group-wide employee survey, to identify further areas for improvement
- Identified certain talent development and employee communication gaps, and made a number of senior appointments to lead and drive improvement
- Launched first global employee intranet as a key communications channel
- Developed a refreshed and engaging internal employee brand
- Launched Diversity and Inclusion Steering Group
- Embedded risk as part of Essentra's core governance and leadership agenda
- Established a new Legal, Risk and Governance team, with a number of senior appointments to drive governance improvement initiatives
- Constituted a new Group Risk Committee
- Implemented a Minimum Control Standards programme, to drive improvements in the financial control framework
- Continued roll out of HSE plan and safety leadership training
- Launched a new HSE information management system
- Sustained/made further improvement in key service and quality metrics
- Launched Group Sustainability Committee to advise and prioritise activities
- Drove improvement activities throughout the Group's IT infrastructure, to upgrade/rebuild capability

Priorities for 2019

- Ensure action plans from 2018 employee survey are executed
- Undertake annual Group-wide employee engagement survey
- Continue to drive and enhance talent management and learning and development programmes
- Drive ongoing improvements in diversity and inclusion
- Continue to drive risk management improvement plan towards best practice levels
- Embed new HSE information management system and undertake Group-wide training
- Maintain key quality and service metrics at least at industry-level standards
- Drive strategic investment in Business Process Redesign
- Continue to focus on cash generation

Progress in 2018

- Developed and articulated a clear strategy for each of the Specialist Components businesses
- Significantly progressed key strategic initiatives in each of the three larger divisions
- Developed more structured sales management processes and enhanced Key Account Management capability
- Enhanced Voice of the Customer surveys and activities
- Rolled out Lean operational capability development programme
- Reorganised and enhanced Group Procurement function
- Made significant investment in upgrading equipment, especially in Packaging and IT
- Completed the divestment of Swiftbrook and closure of Largo and Kilmarnock non-H&PC Packaging sites
- Ceased production of Speciality Tapes in Nottingham, UK

Priorities for 2019

- Continue to drive deeper customer relationships across the Group
- Identify and develop value-adding innovation opportunities, for both products and services
- Make further improvement in innovation focus and new product pipeline management
- Continue to develop our commercial capabilities
- Continue to embed and refine Sales and Operations Planning processes
- Further refine Continuous Improvement and other operational improvement initiatives
- Continue to invest in upgrading equipment, especially in Packaging and IT

Progress in 2018

- Completed the acquisition of Hertila
- Successfully integrated the acquisition of Micro Plastics
- Progressed each of the potential "game changers" in Filters
- Further developed the pipeline of potential bolt-on acquisitions in Components
- Continued to focus on sizeable end-markets with growth opportunities
- Invested further in innovation capabilities

Priorities for 2019

- Successfully integrate Hertila
- 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 enhance our enabling function 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 Essentra's progress in the delivery of value.

Alignment of KPIs to executive remuneration

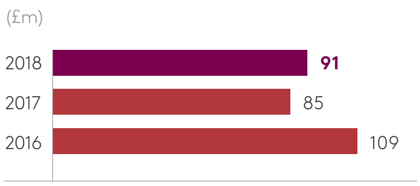
- Performance measures for the executive Annual Bonus Plan
- Performance measures for the executive Long-Term Incentive Plan

Like-for-like revenue growth

How we measure it
Revenue at constant exchange rates, excluding acquisitions and disposals

Why this is important
Measures the ability of the Company to grow sales by operating in selected geographies and categories, and offering differentiated, cost-competitive products and services

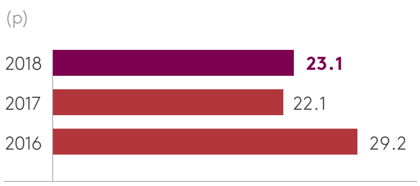
Adjusted operating profit[1]



How we measure it
Operating profit, excluding the impact of amortisation of acquired intangible assets and exceptional and other adjusting items

Why this is important
Measures the profitability of the Company

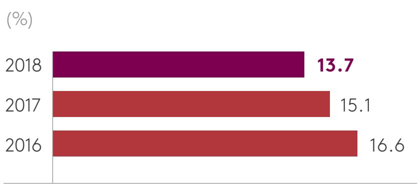
Adjusted earnings per share[1]



How we measure it
Earnings per share, excluding the impact of amortisation of acquired intangible assets and exceptional and other adjusting items

Why this is important
Measures the benefits generated for shareholders from the Company's overall performance

Net working capital[2] ratio



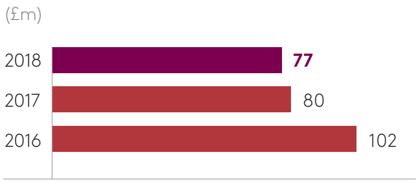
How we measure it
Average net working capital[2] per month, as a % of revenue

Why this is important
Measures the ability of the Company to finance its expansion and release cash from working capital

Alignment of KPIs to executive remuneration

- Performance measures for the executive Annual Bonus Plan
- Performance measures for the executive Long-Term Incentive Plan

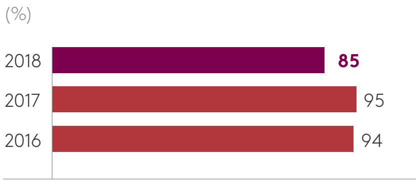
Adjusted operating cash flow[3]



How we measure it
Adjusted operating profit less non-cash/other items, net working capital and net capital expenditure

Why this is important
Measures the cash generation capability of the Company

Cash conversion



How we measure it
Adjusted operating cash flow[3] as a % of adjusted operating profit[2]

Why this is important
Measures how the Company converts its profit into cash/quality of the Company's earnings

Dividend per share

How we measure it
Total dividends paid divided by the number of relevant shares in issue

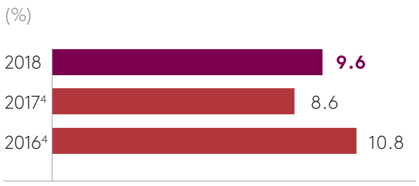
Why this is important
Measures the amount of cash per share which the Company returns to shareholders

Return on Capital Employed

How we measure it
Adjusted operating profit[1] divided by (tangible fixed assets and net working capital)

Why this is important
Measures how effectively the Company uses its operational assets

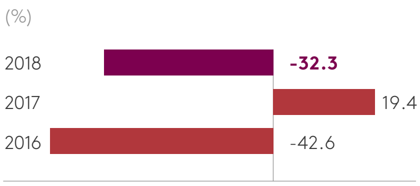
Return on Invested Capital



How we measure it
Adjusted operating profit[1] divided by (average Property, Plant & Equipment plus average intangible assets plus average net working capital)

Why this is important
Measures the Company's ability to effectively deploy capital

Total Shareholder Return



How we measure it
Total annual increase in value. Based on the increase in share price and the dividend paid to shareholders

Why this is important
Measures the Company's ability to generate long-term value

1 Excluding the impact of amortisation of acquired intangible assets and exceptional and other adjusting items.
2 As defined in the Financial Review on page 42.
3 As defined in the Alternative Performance Measures on page 44.
4 2016 and 2017 restated to 2018 calculation of Return on Invested Capital.

Key Performance Indicators – Non Financial

Equally important to the delivery of Essentra's strategic priorities is a focus on KPIs which measure our progress against stated priorities in terms of our customers, people and communities.

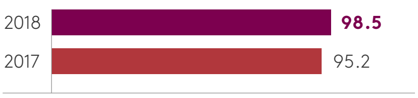
Customer

On Time and In Full ("OTIF") (%)

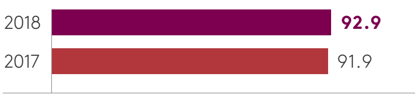
Components

Packaging

Filters



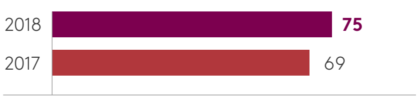
Specialist Components



Why this is important
Our purpose is to provide the parts, products and services our customers need to succeed as businesses. Our ability to deliver quality products On Time and In Full has been a key focus for 2018.

People

Employee engagement (%)



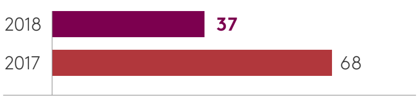
Increased by

8.7%

Why this is important
The happiness and fulfilment of our people is a key priority. Having more engaged employees reduces staff turnover, improves productivity and helps us serve and retain our customers.

Safety

Lost-Time Incidents ("LTIs")

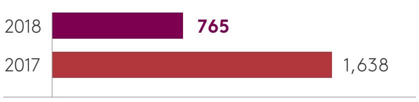


Reduced by

46%

Why this is important
Our overriding commitment in the workplace is the health, safety and welfare of our employees and all those who visit Essentra's operations. Our aim is to be in the top quartile of manufacturing companies for Incident Frequency Rates.

Number of days lost (Days)



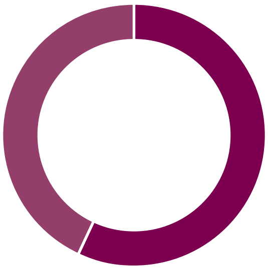
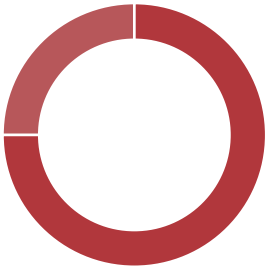
Reduced by

53%

Why this is important
This is a measure used to quantify the severity of Lost Time Incidents. Where incidents do result in Lost Time, we work hard to minimise the amount and to support the injured person in their recovery by offering restricted or light duties, and through a structured return to work programme.

Diversity

Board gender diversity (%)

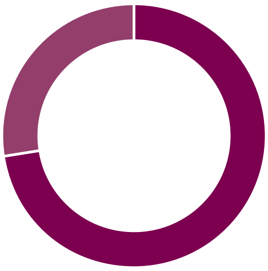
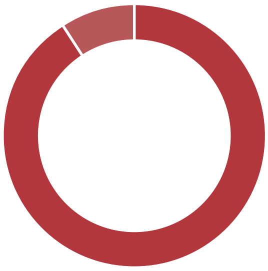



2018
- Men: 57%
- Women: 43%

2017
- Men: 75%
- Women: 25%

Why this is important
The Board is committed to providing all employees with an equal opportunity to develop and advance, and for everyone to feel safe, respected, valued and able to thrive as part of a winning, engaged and diverse team.

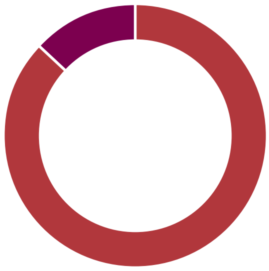
Group Management Committee gender diversity (%)

2018
- Men: 73%
- Women: 27%

2017
- Men: 91%
- Women: 9%

Gender split senior management (Levels 6-8)



2018
- Men: 87%
- Women: 13%

Source: Essentra Employee Survey Q4 2018

Environment

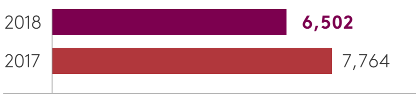
CO_2 emissions (tonnes)

Reduced by

5.8%

Why this is important
We recognise that we have a role, and interest, in environmental stewardship. This is not just a duty we owe to our neighbours, but to future generations. We know that the way we manage our environmental impacts forms an important element of our reputation and is a measure of the quality of Essentra's businesses.

Waste to landfill (tonnes)



Reduced by

16.3%

Non-Financial information table

This table follows the requirements of Companies Act 2016 sections 414C(7), 414CA and 414CB and is intended to help stakeholders understand our position on key non-financial matters. We have a number of Group policies and standards which govern our approach to these matters. These are detailed in this report in the sections shown and more information can be found at essentraplc.com/responsibility

Reporting requirement	Where to read more in this report
Environmental matters: Corporate Responsibility	26
Employees: Our People	22
Human rights: Our People	22
Social matters: Corporate Responsibility	26
Anti-corruption and anti-bribery: Corporate Responsibility	26
Business model: Our Business Model	10
Principal risks: Management of Principal Risks	30

Our People

Nothing Essentra achieved in 2018 would have been possible without a team of engaged, passionate and dedicated people – in offices, factories and distribution centres in every region of the world.

Our employees are vital in ensuring 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 that allows Essentra to provide added value to our customers, enhance supply chain logistics and reduce the environmental impact of operations.

2018 was a year of significant change at Essentra; we have had to make tough decisions as we stabilised the business and we do not underestimate the impact that some of those decisions have had on elements of our workforce. However, 2018 has also brought significant change for the better. We have placed our people at the heart of our strategic change journey, making their safety a non-negotiable priority at all our sites and working hard to improve communication and engagement. Our ambition is for Essentra to be a great place to work and this is the reason we created the Six Principles which were developed and rolled out during 2017. With a renewed focus on our people, we are listening to feedback and making big improvements.

Employee Survey

The results of our 2018 employee survey were delivered in December and show a six point increase in employee engagement from 69% in 2017 to 75% in 2018, a result that brings us in line with the global and manufacturing industry averages. Participation levels were at market-leading levels: 91% overall up from 89% in 2017, despite the number of eligible participants increasing from last year.

In terms of insights, the survey has told us that Essentra employees feel safer, more respected and fulfilled by their work. They are also seeing Essentra demonstrate a commitment to safety, quality, customer service and responsible business practices. However, perceptions around recognition, growth opportunities and communication between departments could all be improved. 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.

Health and Safety

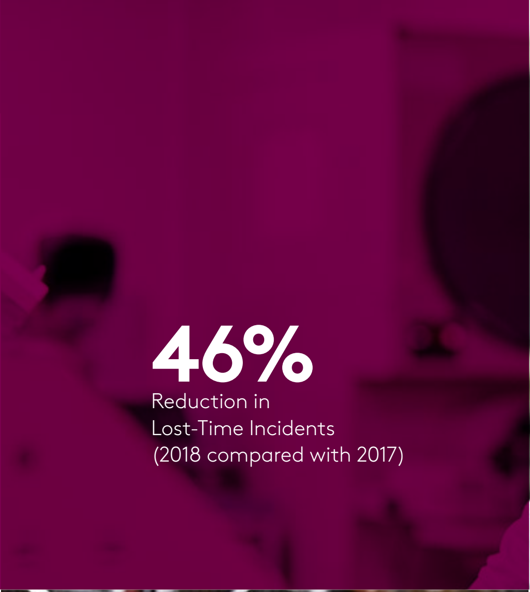
Our overriding commitment in the workplace continues to be the health, safety and welfare of our employees and all those who visit Essentra's operations, as well as those who carry out work on our behalf. The Board provides direction and leadership on all health and safety matters and the Chief Executive has primary responsibility for setting the principal health and safety objectives for divisional managers to achieve and maintain the highest possible standards of safety. These objectives are cascaded throughout the organisation and apply to all Essentra's managers and employees.

The Group Management Committee regularly reviews progress against these objectives and monitors performance through monthly updates. All incidents resulting in Lost Time are formally investigated and findings are shared throughout the business.

Our aim is to be in the top quartile of manufacturing companies for Incident Frequency Rates. We are therefore pleased to report that the number of incidents resulting in Lost Time has reduced by 46% from 68 in 2017 to 37 in 2018 and the total number of days lost due to incidents has reduced by 53% over the same period.

75%
Employee Engagement
as measured in Q4, 2018
(2017: 69%)

As measured via a survey administered by Mercer Sirota. This overall score reflects 91% of employees responding to the survey.



46%

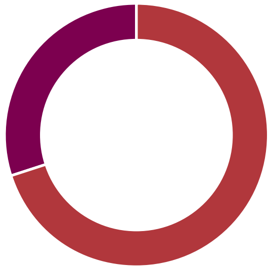
Reduction in Lost-Time Incidents (2018 compared with 2017)

During 2018, we initiated a number of health and safety improvement projects, including committing to a comprehensive programme to upgrade our machinery guarding to the latest standards with a rolling programme of investment over the next four years. We continued to significantly invest in our global health and safety capability, further embedding a Global Safety Team governance structure and extending Visible Felt Leadership training to 200 managers across Europe and Asia. We refreshed the look and feel of health and safety communications in 2018 which has led to more impactful and globally consistent communications.

During the year, we also completed a Group-wide Assurance Programme to ensure that the foundations were in place to sustainably manage and improve occupational health and safety. This initiative mandated that every work-task has a written risk assessment and a documented standard work procedure.

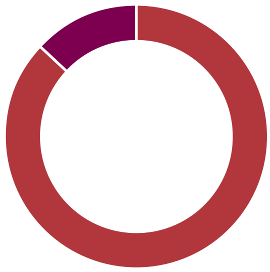
In 2018 we procured and implemented a new HSE information management system that provides all employees with a standardised incident and near-miss reporting tool. This will allow findings and lessons to be evaluated and shared across the entire business and for appropriate corrective actions to be implemented across all regions. This tool also allows inspections, audits and behavioural safety observations to be performed using a handheld app, with data able to be analysed and shared worldwide. As at January 2019, these modules are now available throughout the business and during the first half of 2019 we will begin training users in the use of this new tool.

Gender split all employees



- Male: 68%
- Female: 32%

Gender split senior management (Levels 6-8)



- Male: 87%
- Female: 13%

Source: Employee Survey Q4, 2018

It is our intention to further develop this system to allow sites to self-assess the maturity of their local health and safety arrangements and management systems, with these self-assessments forming the basis for a divisional audit programme in the second half of 2019.

We manage occupational health by identifying key risk activities, undertaking health assessments and, where appropriate, implementing health surveillance programmes. We continue to support the adoption of accredited Occupational Health and Safety Management Systems (such as the "OHSAS" 18001 standard) by our manufacturing sites and, at the end of 2018, 30 of our principal manufacturing facilities had achieved accreditation.

Our People continued

"We are proud to partner with Essentra on its Diversity and Inclusion agenda. We are inspired by its energy and commitment to create a culture where all employees feel safe, respected, valued and able to thrive."

Karen Gill MBE and Maxine Benson MBE, co-founders, *everywoman*

Development Programmes

In order to deliver our strategic objectives we need to be able to attract, retain and motivate employees with the necessary skills and talent across the Company. Essentra runs a number of very successful training initiatives which continue to expand their international reach. These programmes allow us to continually improve our talent pool at all levels of the organisation.

Essentra Graduate Programme

The programme is a structured two-year course delivered while the Graduates undertake a real job from day one. The Graduates are given the opportunity to learn the business and be developed and attend training sessions in Management, Project Management, Finance, Sales, Negotiation, Operations Management, Presentation Skills, Leadership and Marketing. They will be given a business-focused project to complete and they present their findings to senior leaders of the business. In 2018 24 Graduates joined the scheme (10 male/14 female) originating from Europe (19), the Americas (2) and Asia (3). They join the 23 graduates already on the scheme having joined in 2017 (13 male/10 female). In 2018 16 Graduates completed the programme.

Essentra Apprenticeship Programmes (UK)

All programmes are three years in length and are supported by both national and local training providers. The programmes allow apprentices to undertake a real job while being taught the technical skills required to progress with their programme and early careers at Essentra. There are currently 10 apprentices (all male) enrolled on Print, Engineering and Toolmaking Apprenticeships.

Internal Communications

During the year we also made significant progress in terms of improving our internal communications to employees. We have refined how we describe who we are, what we stand for, and what that looks and sounds like for employees, creating a more engaging and vibrant internal brand around the concept of "We Make It Work". We have also launched Essentra's first global intranet, "The Works", and introduced regular, globally consistent, town hall content across all our sites.

Make It Work Awards

In October Essentra's first global annual recognition programme was launched reflecting our Six Principles and celebrating the people who have gone above and beyond to deliver what Essentra does best: make it work. More than 130 nominations were submitted from all divisions and many functions across the organisation. Winners were announced in January 2019 and have been invited to accept their awards at a Gala Dinner held in their honour at the Leadership Conference in Barcelona, Spain in Spring 2019.

Diversity and Inclusion

The Diversity and Inclusion Steering Group was established in January 2018 with broad-based membership in terms of tenure, level, gender, age, nationality and background. Its purpose is to build an inclusive culture in Essentra where diversity is embraced by everyone, ensuring we get the full business benefit while making Essentra a rewarding and successful place to work for our colleagues.

The Diversity and Inclusion Steering Group has developed a strategy which harnesses and celebrates diversity for everyone, across all the areas of difference, whether that be gender, age, race, cultural heritage, religion, sexual orientation or(dis)ability. As part of the strategy, we are beginning to take action and introduce some practical steps to ensure we are tackling the barriers some of our employees face in recruitment and progression. These include reviews of our enabling Group-wide employee policies and "inclusive behaviours" training for managers. During the year we also took time to celebrate and mark several global events across our sites, including International Women's Day in March and International Men's Day in November.

everywoman Partnership
In November Essentra launched a partnership with *everywoman*, an organisation committed to changing the landscape for women in business. All Essentra employees have access to *everywoman's* e-learning platform delivered online and via an app, giving access to a variety of online self-development resources such as workbooks, online seminars, articles and podcasts. Topics are relevant to both men and women and can help with a variety of challenges, including boosting self-confidence, feeling more empowered as a leader and achieving work-life balance.

Gender Pay
In line with legislation, Essentra published 2017 gender pay gap information for UK entities in April 2018. Our guiding principle is to provide all employees with an equal 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. However, we know from the UK data that a gender pay gap does exist and we are committed to understanding the causes of the gap and the actions we need to take to close it. Going forward the Diversity and Inclusion Steering Group will own the activity to assess and close our gender pay gap, not just in the UK but across all our businesses globally.

Business in the Community
In July Essentra joined *Business in the Community* ("BITC") as a Champion Partner for Race. BITC is a UK-based responsible business network which helps organisations learn how to be more responsible. This includes creating diverse and inclusive workplaces, employee wellbeing, sustainability and purposeful leadership.

As part of that partnership, ten Essentra UK-based employees will be participating in Cross-Organisational Mentoring Circles starting in January 2019. The Circles aim to support the progression and impact of Black, Asian and Minority Ethnic ("BAME") employees and address their current under-representation at senior levels.

In November Essentra became a signatory of the Race at Work Charter developed by BITC in partnership with the UK Government. It calls on all employers to make a public commitment to improving outcomes for BAME employees. Essentra is proud to be a signatory of the Charter, demonstrating our support to equality in the workplace and commitment to improving outcomes for our BAME employees.

Approach to disability
Our guiding principle to provide all employees with the opportunity to develop and advance 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.

Right to Speak

Our Right to Speak policy and process is in place to enable any employee to report 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 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 and report any concerns on a confidential basis, or use the confidential individual helpline telephone numbers which are displayed at each business location.

Human Rights

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 Nations 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 essentraplc.com. Our operations based in India, Indonesia and Thailand are additionally accredited to SA 8000 which details fundamental principles of human rights.

"Our guiding principle is to provide all employees with an equal opportunity to develop and advance – subject to personal performance and business objectives."

Corporate Responsibility

Our business reputation, together with the trust and confidence of the people we do business with, is one of our most valuable assets.

At Essentra we are committed to conducting business with the appropriate regard for corporate responsibility, and to managing our activities in a way that reflects the expectations of all our stakeholders.

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.

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.

In 2018 Essentra established a Group Sustainability Committee which provides advice on and co-ordinates sustainability-related activities across the Company. During the year the Committee identified and prioritised corporate responsibility issues which are material to our business and to our stakeholders – whether specific to a particular country or location, or applicable globally – so that we are well positioned to respond to them in an appropriate and robust manner.

Key areas of focus for Essentra

Focus areas in 2018, momentum created and more to do in 2019	**People and Communities**	We operate in a variety of communities across the world. It is vital that we provide a safe, fair working environment and respect those communities, no matter where we are. Because we are so global, the diversity of our workforce brings us a great opportunity.
	Energy and Climate Change	Broader concerns on climate change, plus the concerns of our customers and value chains mean that we need to minimise our greenhouse gas emissions as much as possible.
Focus areas for 2019 onwards	**Responsible Material Usage**	All of our businesses use and transform materials, including as packaging for other goods – it is important that we develop and use these materials and resources as responsibly as possible.
	Responsible Supply Chain	Because of the global nature of our activities and the businesses and communities that we buy from, we need to ensure that we work with our supply chain as responsibly as possible.

STRATEGIC REPORT

People and Communities

We operate in a variety of communities across the world. It is vital that we provide a safe, fair working environment and respect those communities, no matter where we are.

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.

In 2018 we created a Community Engagement Policy which came into effect in January 2019. The policy empowers employees at each site to volunteer in groups to support local community engagement projects, equivalent to one day's work per employee per site per year. Activities must be based on guidelines governed by the Essentra Ethics Code.

Energy and Climate Change

We recognise that business has a role, and an interest, in environmental stewardship. This is not just a duty we owe to our neighbours, but to future generations. We know that the way we manage our environmental impacts forms an important element of our reputation and is a measure of the quality of Essentra's businesses.

Our approach to managing environmental impacts is focused on:

- implementing and maintaining environmental and energy management systems and, where appropriate, gaining certification by accredited bodies to the ISO 14001 standard. Globally 35 of our sites hold the ISO 14001 environmental accreditation and many of our operations are additionally required to adhere to more stringent standards, such as those serving the automotive and health and personal care sectors
- measuring and monitoring energy and water consumption, and any associated emissions to air and water, and setting targets to improve performance
- providing facilities to segregate and reuse or recycle production waste
- providing training to employees on ways to reduce their environmental impact
- engaging with customers and suppliers to identify opportunities to reduce the environmental footprint of our products throughout the supply chain
- conducting environmental impact assessments on any prospective acquisitions and where relevant, developing site improvement plans

Graduate project

Zero Waste to Landfill

During 2018 a team of Essentra Graduates undertook a project to create a decision tool for Essentra to implement a zero waste to landfill strategy. The team visited several Packaging sites around the world and researched the zero waste journeys other companies have taken. The project identified a number of benefits to gain from sustainable practices including people, environment, legal, financial and competitive advantage. The team presented their findings to the Group Management Committee in Chicago, USA in October 2018 and were able to highlight areas of good practice as well as areas to improve recycling.

As a result of the team's efforts, Essentra has committed to tracking the number of sites at zero waste to landfill from January 2019. The work of the team helped to identify six sites currently producing zero waste to landfill and in 2019 we are committed to raising this number to eight.

Tonnes of CO_2e	Year ended 31 Dec 2018	Year ended 31 Dec 2017 (restated)	Year ended 31 Dec 2017	Year ended 31 Dec 2016	% change from 2017 (restated)
Scope 1	**11,276**	10,929	10,111	10,479	+3.18%
Scope 2	**82,936**	89,086	87,051	95,748	-6.90%
Total CO_2e emissions	**94,212**	100,015	97,162	106,227	-5.80%
Total CO_2e emissions per £m revenue	**91.86**	97.36	94.57	96.23	-5.65%

As per the Greenhouse Gas Protocol, Scope 1 covers emissions from the combustion of fossil fuels and Scope 2 covers emissions from bought electricity, heat, steam or cooling.

Our Scope 1 emissions increased slightly year on year, whilst our Scope 2 emissions reduced. We believe that this reflects the fact that 2018 globally was slightly cooler than 2017, resulting in marginally more energy required for heating and less electricity needed for cooling during the year. Due to the energy mix in our business, this resulted in a positive overall change in our total emissions, with a 5.80% reduction. Our emissions per £m have decreased by 5.65%.

The following assumptions, methodology, definitions and data validation processes have been used to report the Group's key environmental performance indicators in 2018. The reported data complies with the Companies Act, for the Mandatory Reporting of Greenhouse Gases.

- **Boundary scope:** Data from all manufacturing locations over which the Company has operational control is measured and reported.
- **Primary data sources:** These include meter readings, 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 are cross-checked with the data held within the Company's own internal data capture systems.
- **Conversion factors:** The Electricity Emissions Factors by Country (2017 edition), published by the International Energy Agency, has been used to calculate greenhouse gas emissions for electricity consumed; and the Greenhouse Gas Protocol 2017 has been used to calculate emissions from the combustion of fossil fuels.
- **Intensity metric:** Total carbon emissions per £m of revenue are used to calculate the Company's intensity metric.
- **Restating of data:** The introduction of a new HSE information system to collate energy and electricity consumption data has resulted in some changes in classifications of fuel types, as well as highlighting regional differences in measurement which were considered sufficiently material to warrant restating the 2017 data in order to allow a like-for-like comparison. This revealed that the absolute figures for Scope 1 and 2 emissions were not materially changed by the acquisitions, site closures and divestments that occurred during the year.

In the UK, our sites comply with the Carbon Reduction Commitment scheme and we apply the same principles to our operations worldwide. All our UK sites that directly purchase electricity do so from renewable sources and our sites in Newport, Newmarket, Bradford and Cervia have implemented LED lighting projects in order to reduce energy use.

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

- energy use, including electricity, natural gas, heating fuel, fuel for internal transport
- CO_2 emissions arising from that energy use
- use of resources, including water
- generation and disposal of waste

Waste	Year ended 31 Dec 2018	Year ended 31 Dec 2017 (restated)	Year ended 31 Dec 2017	Year ended 31 Dec 2016	% change from 2017 (restated)
General waste sent to landfill (tonnes)	**6,502**	**7,764**	5,928	6,530	-16.25%
Factory waste sent to recycling (tonnes)	**20,877**	**21,386**	19,753	23,020	-2.38%
Incinerated waste (tonnes)	**1,844**	**1,760**	1,590	1,704	+4.77%

"In the UK, our sites comply with the Carbon Reduction Commitment scheme and we apply the same principles to our operations worldwide."

Ethics and compliance

The Essentra 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 Legal, Risk and Governance 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 and 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.

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 Essentra 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 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.

Priorities/goals	How do we manage it?	How did we do in 2018?	How will we improve further in 2019?
Ensure that Essentra fulfils its commitment to being a great place to work	• Undertake employee surveys on a regular 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 • Provide appropriate learning and development opportunities at all levels • Encourage constructive, open and honest dialogue across the organisation	• Refreshed our internal brand around the concept of "We Make It Work" • Launched first global employee intranet • Introduced regular, globally consistent town hall content across all sites • Launched first global annual recognition programme – Make It Work Awards • Continued involvement of Chief Executive and senior management in employee communications • Carried out a global employee engagement survey • Established site-level forum groups and clear action plans to follow through engagement survey findings • Established Diversity and Inclusion Steering Group	• Undertake annual employee engagement surveys and act upon feedback • Establish new internal communications channels such as digital screens on sites • Continue to focus on regular employee dialogue with the Chief Executive and divisional management • Evaluate findings from Diversity and 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
Achieve the highest standards of health and safety	• Regularly review the Group's Health and Safety strategy • Establish a Global Safety Team that meets regularly to set the minimum expectations for the management of health and safety in all divisions • Assess the risks our processes pose to the health and safety of our people • Encourage employee participation in hazard spotting, incident reporting and identifying and driving health and safety improvement initiatives • Identify areas to improve health and safety performance, and share lessons and opportunities throughout the Group • Provide Safety Leadership training for all senior executives • Pursue accreditation of our safety management systems	• 46% reduction in Lost Time Incidents • 53% reduction in days lost due to incidents • Over 200 senior leaders attended two-day safety leadership workshops • Continued to support the adoption of OHSAS 18001 standard with 30 of our manufacturing sites accredited	• Maintain the focus on health and safety improvement strategies • Continue to embed robust management systems, standards and processes • Develop and embed Group-wide minimum standards to control health and safety risks • Broaden training to capture front-line management • Increase employee engagement through participation in safety-related improvement activities, employee consultation forums, communication programmes and training • Continue to share examples of good practice, lessons identified from past incidents and near misses, and recognition of outstanding performance
Minimise any adverse environmental impacts from our manufacturing operations	• Regular review of the Group's environmental strategy • Establish a Sustainability Committee to set Group minimum expectations for environmental management • Identify and understand the environmental impacts associated with our activities • Measure and report on current energy consumption, and set targets for efficiency improvements • Implement initiatives to reduce waste and increase recycling rates in order to divert waste from landfill	• CO_2 emissions down by 5.8% • Waste to landfill down by 16.25% • Maintained programme of ISO certification at key manufacturing sites	• Focus on targeted energy-saving actions to reduce energy usage • Initiate new campaign to improve waste management • Maintain robust management systems, standards and processes • Pursue appropriate ISO certification for selected manufacturing facilities • Develop and embed Group-wide minimum standards for the identification and control of risks and environmental impacts
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	• Continued to communicate Essentra's six principles, which describe the way we work • 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 • Continue to investigate complaints

Management of Principal Risks

Risk management is integral to the achievement of our long-term goals.

Risk management approach

Our risk management activities aim to improve performance, encourage innovation and support the achievement of our strategic objectives. In doing this, we take a balanced approach that puts risk management at the core of the senior management agenda, which is where we believe it should be.

To underpin the successful delivery of our strategic growth and business performance the Board and the Chief Executive have set the objective for the Company to be in line with FTSE 250 upper quartile by 2020.

During 2018, the Company delivered a number of specific initiatives designed to deliver more effective governance. This was driven by the adoption of risk management, improvements in internal audit and compliance programmes. The changes have been implemented with the full endorsement of the Board. The Company has now increased its internal resources as part of a new Legal, Risk and Governance team to support delivery in line with best practice.

2018 was a year of further embedding better risk management processes and practices as part of our core governance and leadership agenda. Further improvements in risk management will be a continued focus in 2019. We are committed to managing risks in a proactive and effective manner to provide assurance to the Board and stakeholders.

Risk management framework

We have a risk management framework for identifying and managing risk within our defined appetite levels, in relation to both our operations and strategy.

The framework has been designed to provide the Group Risk Committee ("GRC") and the Board with a clear line of sight over risk and to enable informed decision-making.

Risk can present itself in many forms, and has the potential to impact our health and safety, environment, community, reputation, regulatory, market and financial performance and therefore the achievement of our corporate purpose. By understanding and managing risk, we provide greater certainty and confidence for our shareholders, employees, customers, suppliers, and the communities in which we operate.

Roles and responsibilities of the GRC

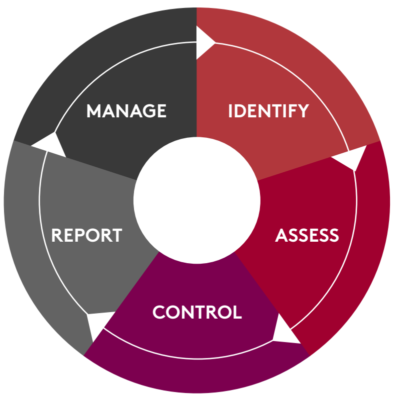
Identify
- establish the process for identifying and understanding key business risks
- identify risks in each of our businesses and enabling functions
- risk reviews with senior leadership
- review Principal, other Key Risks and Emerging Risks

Assess
- prioritise risks through agreed ranking criteria
- risk appetite set by the Board for all Principal Risks

Control
- ownership defined
- establish key control processes and practices
- controls to manage the risk within appetite
- monitor the operation of the controls

Report
- agree and implement measurement and reporting standards
- communicate with all stakeholders

Manage
- review all aspects of the Company's risk profile
- review and challenge risk management practices



The process for identifying, assessing and controlling material business risks is designed to manage, rather than eliminate.

Our Risk Governance structure

→ Direct and monitor
→ Report

Facilitators
Group Assurance

Divisional Risk Champions

Enabling Function Risk Champions

Board
Overall responsibility for assessing the Company's Principal Risks, setting risk appetite and monitoring risk management.

Group Risk Committee (GRC)
Chaired by the Chief Executive and comprised of the Group Management Committee members and other key function resources, the GRC is responsible for monitoring Principal, Key and Emerging Risks and ensuring the effectiveness of divisional and functional risk management.

Audit and Risk Committee
Responsible for reviewing the effectiveness of the Group's risk management systems and processes.

Leadership Teams
Each leadership team is responsible for ensuring their divisional risks are captured and are being effectively mitigated within business as usual processes. Risk management is a standing agenda item for leadership team meetings.

Enabling Functions
Enabling functions are responsible for identifying and mitigating risks within their own functions – applicable to Finance, Operations, IT, Human Resources and Legal, Risk and Governance.

Business Units
Specific business units or sites within each division are implementing their own risk registers, risk and action owners. Management are responsible for managing local level risk and reporting to the respective leadership teams.

The Board reviews its risk appetite annually by mappings its Principal Risks against a sliding scale from "risk-averse" to "risk-neutral" to "risk-tolerant" and this informs the development of mitigating actions for each of the Principal Risks.

At a strategic level, our risk management objectives are to:

- identify the Company's significant risks and appropriate mitigating actions
- formulate the risk appetite and ensure that our business profile and plans are consistent with it
- ensure that business growth plans are properly supported by an effective risk infrastructure
- help our business leaders improve the control and co-ordination of risk-taking across the business

Strengthening our framework

To achieve our FTSE 250 upper quartile performance in governance and risk management the Board has sought to further mature and embed the risk management framework that has been developed over the past year. As part of this the Company has developed a risk management improvement plan in line with best practice and ISO 31000 guidelines. This includes a number of specific initiatives to drive enhanced risk reporting and further embed risk activities to improve risk culture across the Company.

Risk governance structure and oversight

The Board has established a risk and internal control structure designed to manage the achievement of strategic business objectives. The Group Assurance function, separate from line management, enables and facilitates the risk management process across the Company and acts as the custodian of the Company's risk architecture and its management. In addition, a number of divisions have appointed Risk Champions to drive risk management practices into their businesses.

A new GRC chaired by the Chief Executive was constituted in 2018. During the year, seven GRC meetings were held. All the GMC members, Head of Group Assurance, Director of Group Assurance, Group Health and Safety Director, Group Communications Director, Head of Legal and Deputy Company Secretary normally attend all meetings of the GRC. Other members of senior management are also invited to present reports on risk activities. The Chairman of the Board and the Audit and Risk Committee Chair have a standing invite to attend all GRC meetings and receive copies of the minutes of every meeting.

The GRC's responsibility is to focus and co-ordinate risk management activities throughout the Company and to facilitate the appropriate identification, evaluation, mitigation and management of all key business risks. In addition, the GRC reviews the risk appetite and future risk strategy, and makes recommendations on risk appetite to the Board and actions required to ensure adequate controls and mitigating actions are in place against identified key risks.

Management of Principal Risks continued

As an important part of fulfilling its responsibilities the Board receives 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, Key Risks and Emerging Risks.

The Audit and Risk Committee engages directly with the divisions and the Enabling Functions, including deep dive reviews, as part of fulfilling its oversight responsibilities on the risk management processes. The Audit and Risk Committee, with assistance from Group Assurance, oversees compliance with risk management processes and the adequacy of risk management activities related to the Company's operations.

The divisional leadership teams and enabling function leadership teams dedicate time each year in a facilitated discussion with Group Assurance to consider the risk environment for their particular functional or geographic area of responsibility and how these could impact on the achievement of the Company's strategic objectives.

The Company also requires every division and enabling function to monitor, communicate and report changes in the risk environment and the effectiveness of actions taken to manage identified risks on an ongoing basis. During the year the GRC and the Board agendas carry out deep dive reviews of the Principal Risks to ensure proper focus and progress with mitigating actions.

Emerging Risks

The 2018 UK Corporate Governance Code (the "2018 Code") came into effect from 1 January 2019. The 2018 Code requires the Board to carry out a robust assessment of the Company's Emerging and Principal Risks.

To respond to this, we have started to integrate Emerging Risks into our current risk management practices, as part of this "disruptive" was included as a risk category.

Risk categories

The Company has considered the risks it is facing under the following four risk category headings and has identified 11 Principal Risks

External

Risks relating to the macroeconomic climate, political events, competitive pressures or regulatory issues

Strategic

Internal risks that may impede achievement of strategic goals

Operational

Risks that could impact day-to-day operations and prevent business as usual activities

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

"The GRC has identified relevant Emerging Risks. These have been presented to the Board and will continue to be a focus for us in 2019."

Principal Risks

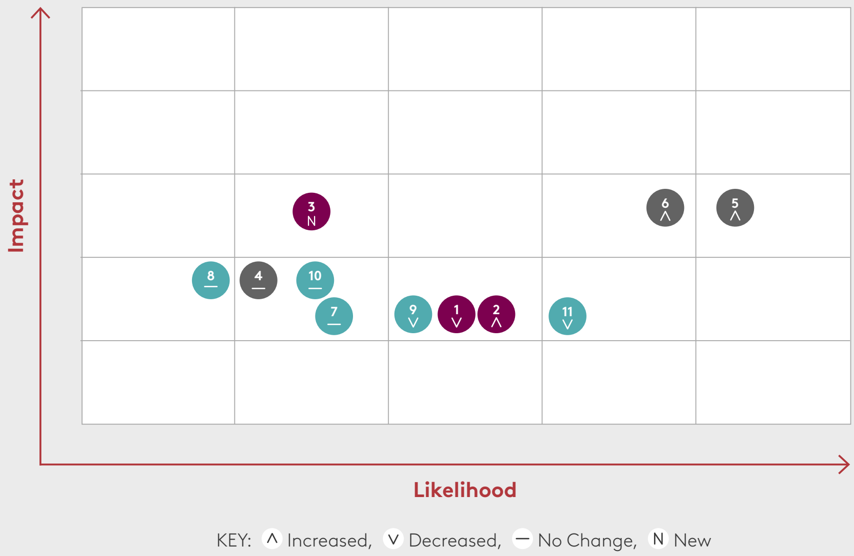
The GRC has responsibility for overseeing Essentra's Principal Risks. We undertake a top-down and a bottom-up assessment to identify our Principal Risks. The assessment is performed against the four risk categories as set out above. As part of our top down process an updated assessment was completed for each Principal Risk by the GRC. This top-down assessment required the GRC to provide analysis on material changes in the risk they manage and whether they consider it to have more or less impact during the course of the year on achievement of our strategic objectives.

These individual responses were consolidated, the GRC then discussed and reached a consensus regarding Principal Risks that can seriously affect the performance, future prospects or reputation of Essentra. As part of this assessment the GRC also considered Emerging Risks. The outputs from the GRC assessments were then presented to the Board for approval along with the recommendation of Principal Risks to be included in the viability testing.

As part of the bottom up process, the divisional leadership teams and enabling functions have also undertaken a detailed risk assessment. This was then analysed to ensure completeness and appropriateness of the Principal Risks.

The Board believes that the Principal Risks are specific to Essentra and reflect the risk profile of the Company at the current time. All the Principal Risks are being managed within their individual risk appetite. 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

Principal Risks



1. Failure to Achieve Acceptable Returns from the Packaging Division
2. Tobacco Industry Dynamics
3. Delivery of Strategic Projects
4. Regulatory – Governance
5. Cyber Attack
6. Macro-economic and Trade Deal Uncertainty (including Brexit)
7. Business Continuity Planning and Management
8. Product Liability
9. Internal Processes and Control
10. Safety (including Regulatory)
11. IT Systems – Stability and Reliability

the nature and characteristics of the major risks and an enhanced focus on effective mitigation.

In addition to the Principal Risks, other Key and Emerging Risks have been identified and are being monitored by the Company. These are not currently material to be considered as Principal Risks. Mitigation actions in response to such risks are an important part of the divisional and enabling functional risk reporting to the GRC and Board.

The Board and GRC evaluate the potential effects of Principal Risks materialising over a three-year period to understand how they could impact the Company's long-term viability. The evaluation is based on plausible worst case scenarios. These scenarios encompass what could reasonably go wrong, as a foreseeable "perfect storm".

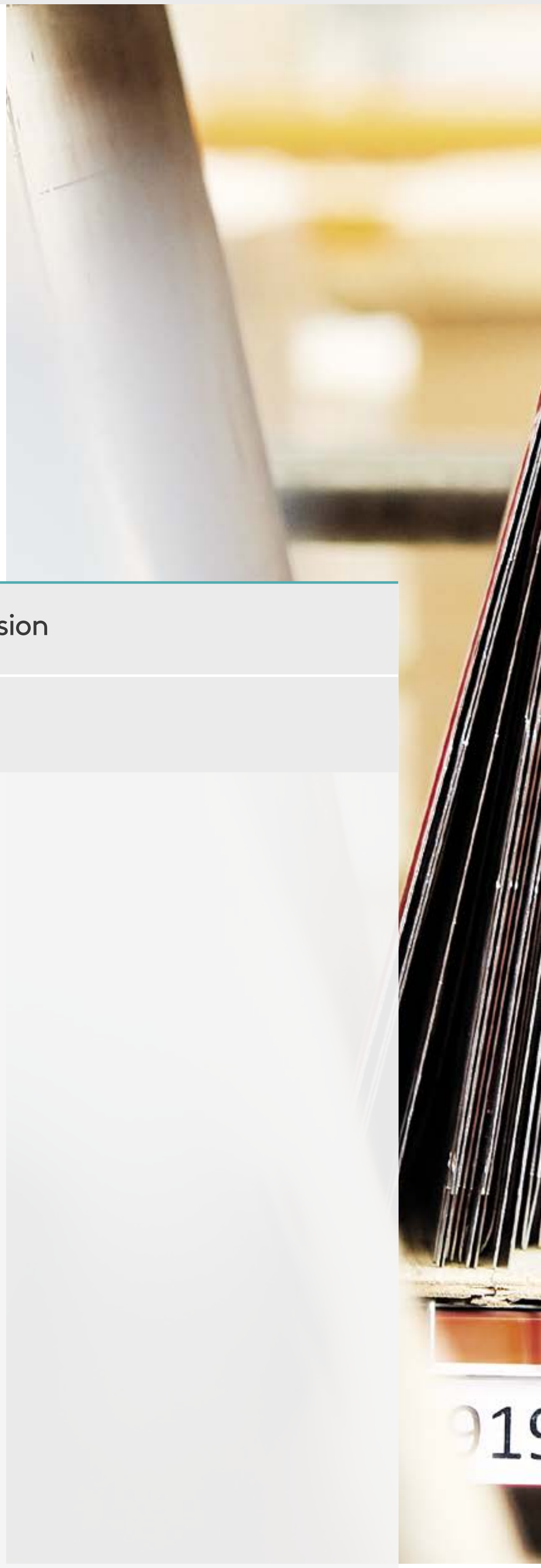
To make this evaluation, the estimated financial impact of each Principal Risk crystallising was considered. The Board and GRC assessed the potential impact on the Company's viability, based on selected severe plausible risk scenarios. These were developed in conjunction with senior management. The Principal Risks that were considered to have a potentially significant impact on the Company's viability are included in the Long-Term Viability Statement on pages 107 to 108.

Key changes in the year

Following the 2018 review process, our risk profile remains stable relative to last year, with the following key changes:

- Two Principal Risks were merged to reduce duplication and enable more effective management of the risks. Product Quality, Liability and Contamination has been merged with Regulatory Products as "Product Liability". Operational Resilience – Natural Catastrophe and Fire has been merged with Supply Chain Single Point of Failure as "Business Continuity Planning and Management"
- The Customer Service Quality and OTIF Principal Risk was downgraded to a Key Risk given the significant work performed. Our improvements in service quality mean this risk can now be managed as business-as-usual activities
- One new Principal Risk was identified, relating to the Delivery of Strategic Projects. This risk has been introduced given the Company's strategic growth initiatives

Management of Principal Risks continued



- N New
- — No change
- Λ Increased
- V Decreased

Strategic Risk

Failure to Achieve Acceptable Returns from the Packaging Division

Change in risk level:	Ownership:	Relevance
V Decreased	Packaging division Managing Director	Company Specific

Description

Principal Risks relating to the potential decline of the Packaging division were reported in 2017. During 2018, the division has stabilised. Therefore risk focus is now on ensuring the stabilisation steps that have been taken are effective and sustained and allow the division to provide an acceptable return. This risk includes the potential of the Packaging turnaround failing to deliver new business wins, expected cost savings, or takes longer or costs more to implement than expected.

Mitigation

The Packaging division has been a key area of focus for the Company in 2018 and a number of changes have been made to address the division's performance, including:

- a new Packaging division strategy has been developed, communicated and rolled out
- pricing strategies, major CAPEX investments and a greater focus on quality and cost management
- new divisional and regional leadership teams established
- introduction of more effective pipeline management processes, expansion of innovation collaboration using the Design Hub capability
- establishment of Key Account Management Structure to enhance customer relationships
- monthly performance reviews of key initiatives

Strategic Risk

Tobacco Industry Dynamics

Change in risk level: Increased

Ownership: Filters division Managing Director

Relevance Company Specific

Description

The Filters division supplies filter products and packaging solutions to manufacturers in the tobacco industry. Changes in the traditional tobacco market present both opportunities and risks for the division.

Whilst the Company has a strong market position the future growth opportunities may be affected by dynamics of the tobacco industry such as the declining combustible markets, shifting towards Next Generation Products ("NGP") as well as moving towards other tobacco substitutes such as cannabis.

Essentra's competitive position can be sustained if we continue to adapt our operational capacity and innovation capabilities in line with key market trends. Key market trends include global consumption shift from western to eastern markets, customers' self-manufacture and demand volatility, increasing commercial pressures, special filters and NGP developments and evolving legislation.

There is an increasing trend towards more legislation restricting smoking prevalence.

Tobacco-related litigation could also affect Essentra, although there is no history of the Company being involved in such a claim.

A number of initiatives are targeted to be completed in 2019 which are anticipated to minimise the risk over time.

Mitigation

Essentra is seeking to mitigate the risk associated with changes in the tobacco market dynamics by focusing on activities with longer-term viability and exploiting potential growth opportunities. This includes progressing on our game changers and increasing our innovation capabilities

- increased segmentation and prioritisation based on customer categorisation and filter differentiation
- further upgrading of innovation capabilities and research and development
- enhanced focus on Key Account Management, leading to better market visibility and building further enhanced relationships
- developing world class capabilities in operations and responsiveness to customer demands
- exploring medium to long-term value creation levers:
  - investing to establish continued growth in the highly attractive Chinese market
  - delivering new solutions and business models to respond to evolving outsourcing requirements of our customers
  - developing NGP and testing capabilities

Management of Principal Risks continued

Strategic Risk

Delivery of Strategic Projects

N **Change in risk level:** New

Ownership: Strategy and Commercial Director

Relevance: Company Specific

Description

The Company's success is dependent on its ability to deliver key strategic projects on time and within budget, to realise their full potential. The Company invests in, and delivers, significant strategic, operational and capital expenditure projects in order to drive the business forward. In line with our strategic plans this project approach also includes the acquisition and disposal of businesses. Failure to deliver such key projects effectively and efficiently could result in significantly increased project costs and impede our ability to execute our strategic plans.

This is a newly identified Principal Risk given our strategic growth initiatives.

Mitigation

The Company uses a range of controls to ensure successful delivery of strategic projects including:

- a project management methodology has been put in place to enable the Company to manage, monitor and control its major strategic programmes, investments and capital expenditure projects
- key, strategic projects are reviewed and approved by the Board and GMC, as appropriate
- robust governance, detailed reporting and regular reviews by the GMC and the Board of project KPIs and key milestones
- use of external advisers to provide expertise, assistance and rigorous due diligence
- an annual strategic review is in place with the Board and the GMC where we proactively monitor the market, review our strategy and our strategic programmes. This process is led by the Strategy and Commercial Director
- acquisition pipeline management to identify suitable acquisition targets with best value-creation potential
- undertake post-investment/project reviews to identify key learnings to embed into future initiatives
- maintain strong focus on the capability of our employees. This is achieved by mobilising teams which possess the right skills to deliver our strategic programmes

STRATEGIC REPORT

External Risk

Regulatory – Governance

Change in risk level: No Change

Ownership: Company Secretary and General Counsel

Relevance: Industry General

Description

The Company operates across many international jurisdictions and engages with a wide range of stakeholders, including a diverse employee, customer and supplier base. Some locations we operate in are high risk. We are required to comply with multiple areas of legislation, regulation and good practice for areas such as Anti-Trust, Anti-Bribery, Sanctions and General Data Protection Regulation ("GDPR"). Our operations are subject to an external environment which is seeing increasing levels of scrutiny and oversight from regulators and enforcement agencies.

Failure to manage effectively the scrutiny and oversight and/or comply with new laws and regulations could result in significant fines, costs and reputational damage to the Company.

Whilst the external environment is generating additional compliance demands of enforcement the level of risk to the Company has remained the same.

Mitigation

The Company deploys 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
- strengthening of internal resources and continued investment to drive better governance
- appointment of a Data Privacy Officer and continued roll out of the GDPR compliance programmes
- the Company's Legal, Risk and Governance team continuously monitors changes in regulations and emerging good practice. This team is responsible for enacting an appropriate compliance framework with effective policies, processes and reporting. Each division is responsible for embedding regulatory compliance in their particular sector
- through the Company's compliance programme, we aim to conform with all applicable laws, regulations and encourage a culture of transparency, integrity and respect
- a Right to Speak process in which the Chief Executive, Company Secretary and General Counsel and Group Human Resources Director are key stakeholders

In 2019 we will continue to embed our controls and processes and monitor compliance and assess the potential impact of any additional Emerging Risks.

External Risk

Cyber Attack

Change in risk level: Increased

Ownership: Chief Information Officer

Relevance: Industry General

Description

The Company is dependent on the IT systems for day-to-day operations. Should the Company be affected by a cyber security breach, this could result in suspension of some IT services and loss of data. Subsequently, the Company could receive fines, lose customer confidence and suffer reputational damage.

The risk of cyber attack is constant, the Company experienced two sophisticated breaches in 2018. These were contained as part of our internal cyber incident response process and were reported to the UK Information Commissioner's Office. No direct financial loss was sustained and these events served as a stark reminder of the need to continue efforts to improve cyber security. Cyber attacks are recognised as normal course of business and the Company continues to be vigilant. However the level of the risk has increased.

The financial impacts from a cyber attack have been analysed and included in the Company's viability modelling.

Mitigation

The Company deploys a range of controls to manage risk of cyber attack including:

- endpoint protection, encryption of data, identity-based access control, network firewalls, web and email content protection
- cyber security awareness training for all employees
- vulnerability and penetration testing for all external facing Company services and websites
- scanning, monitoring and logging tools to identify intrusions and detect rogue data traffic
- enhance internal cyber security skills and capabilities
- preparation for Cyber Essentials Plus and ISO 27001
- further investment in cyber security has been budgeted in 2019 as a result of increased threat

Cyber security continues to be the subject of a high degree of monitoring through the GRC and the Board. Our Crisis Communication Network is currently being enhanced to include a cyber attack scenario.

External Risks

Macro-economic and Trade Deal Uncertainty (including Brexit)

Change in risk level: Increased

Ownership: Group Operations Director

Relevance: Industry General

Description

As a global business, we operate in many countries and currencies so changes to global economic conditions or trading arrangements have the potential to impact multinational companies such as ours.

Specifically, the impending Brexit situation could impact the Company in a number of ways:

- a material element of the operations of the Components division involves manufacturing and importing 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 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

Given the uncertainty surrounding Brexit, the financial impact has been analysed and estimated in a plausible worst case scenario. This is included in the Company's viability modelling.

Mitigation

The Board considers potential impacts of major macro-economic events, including the UK's decision to leave the EU.
The breadth of the Company's portfolio and its diversification across markets, geographies and products provides some natural mitigations of potential impacts. However, it is not possible to mitigate the impact of the UK leaving the EU on 29 March 2019 entirely.

Our business divisions consider the wider economic situation in their strategies as part of the budgeting and strategic planning process.

Brexit uncertainty:
During 2018 and the early part of 2019, the Company conducted a thorough review of Brexit risks. This included consultation with external experts. Detailed Brexit Preparedness Plans have been formalised including a "No Deal Brexit" scenario for each of our business divisions. These are now being implemented.

During 2018, the following key actions were taken:

- changes to the European asset footprint to optimise material flows
- optimisation of product manufacturing locations versus customer locations
- seeking alternative raw material supply sources to minimise cross-border flows
- working to obtain an "Approved Economic Operator" status to minimise inspection delays

Macro-economic uncertainty:
Essentra has an international customer base which dilutes the effect of downturns in specific geographies.

The economic environment is constantly monitored as part of our business planning cycle and budgeting, enabling a degree of forward planning in the event of a period of economic instability. This is performed in close co-ordination with each division to pinpoint trends likely to impact our individual business activities.

The annual budgets that result from the planning process are a control against which monthly results are monitored, surfacing any effects of economic instability and informing commercial decision making.

Movements in currency can have positive and negative impacts on the Company's reported earnings. This is managed through proactive hedging of currency measures.

Operational Risks

Business Continuity Planning and Management

Change in risk level: No Change

Ownership: Group Operations Director

Relevance: Industry General

Description

The continuity of our supply chain is a critical factor in serving our customers. Our operating model is constantly exposed to many different situations, and our customers expect us to have a resilient supply chain to minimise the impact of any disruption.

Given our global footprint we are exposed to a broader set of potential disruption risks including natural catastrophe. This global footprint provides risk diversification, via alternative manufacturing routes.

The Group experienced limited employee impact and operational disruption as a result of natural catastrophes during 2018. Should further events occur, this could impact production capability and fixed assets, supply chain management, customer relationships, reputation, revenue and profit. Such events continue to be a risk to the normal operation of the Company. The level of risk remains the same.

Given the Company has some single manufacturing site dependencies, for the production of specific products, related downturn financial impacts have been analysed and estimated in a reasonable worst case scenario. Those impacts are material enough to be included in the Company's viability modelling.

Mitigation

The Group continues to review and refresh its business continuity planning processes. Such plans are kept under constant review and are tested periodically.

Other mitigating factors that the Company has in place are:

- operating within a flexible global infrastructure
- developing multi-site capabilities and manufacturing flexibility
- fire and other risk prevention systems
- assessing and managing operational risks via the enterprise risk management process
- continuing to identify alternative sources of supply for key raw materials and supply guarantees where necessary and feasible
- ensuring comprehensive maintenance plans are in place for key manufacturing equipment, and/or alternative manufacturing routes are identified
- maintaining an insurance programme and working closely with our insurers FM Global to ensure complete and comprehensive cover to prevent losses

Operational Risks

Product Liability

Change in risk level: No change

Ownership: Group Operations Director

Relevance: Industry General

Description

The Company manufactures a range of products for a wide range of customers, some of which provide a significant proportion of Company and/or divisional revenues. Should the Company fail to provide adequate quality on a consistent basis in its products, including failure to adhere to customer specifications, or failure to adhere to underlying industry specifications or regulations there is a risk of loss of customers, liability resulting from product-related risks or previously unanticipated product liabilities.

The level of the risk has remained the same as there have been no material changes in levels of product regulation or business operations.

Mitigation

The Company uses a range of controls to manage risk relating to the products that it manufactures and distributes, including:

- maintaining the quality and safety of our products by ensuring strict quality control and product testing procedures
- ongoing tracking of quality metrics and review of quality management processes to ensure they remain fit for purpose
- divisional capital expenditure plans also include, where appropriate, additional spend on inspection equipment (e.g. sensors, cameras) to improve in-line inspection and further reduce the likelihood of product quality issues
- trade/industry body membership to remain abreast of industry regulations
- group compliance policies, processes and guidance materials
- checking supplier specifications. We exercise the right to due diligence when it comes to undertake new suppliers and continuing to do business with existing ones

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. In 2019, we will continue to monitor changes in emerging regulations in the sector with support from external specialists where necessary.

Operational Risks

Internal Processes and Controls

Change in risk level: Decreased

Ownership: Chief Financial Officer

Relevance: Company Specific

Description

Processes and controls play an important part in our ability to prevent and detect inappropriate and unethical behaviour. This includes fraud, deliberate financial misstatement and improper accounting practices. If the design, operation or the assurance over these controls is ineffective or ownership is not defined or controls are overridden, there is a greater risk of operational loss. The lack of documentation and embedment of standard operating procedures across key business areas including finance increases this risk.

During 2018, we have taken several initiatives to reduce this risk with further work planned in 2019.

Mitigation

During 2018, Minimum Controls Standards (MCS) were rolled out across various key sites in the Company with a particular focus on the financial control environment. The MCS project is overseen and sponsored by both the Audit and Risk Committee and GMC. The objectives of this project are to:

- develop a robust and effective financial control environment
- embed a controls culture across the Company

As a result of the MCS project we have identified both improvement areas and areas of good practice, these are being shared across the Company. In respect of improvement areas identified, remediation plans are well underway including documentation of key risks and controls across our sites.

The 2019 Group Assurance plan will also focus on MCS remediation activities and controls review for key sites.

While we have taken steps to improve our control environment, we recognise we have more to do. Development of the Company's IT capabilities will support the improvement in internal business processes.

Further activities in 2019 will include rolling out of MCS across our key business areas. We are also enhancing our controls and compliance programme to strengthen awareness of the standards we expect and the capabilities of our people, and to reinforce the importance of doing business in a disciplined and standardised way underpinned by strong controls.

Operational Risks

Safety (including Regulatory)

Change in risk level: No change

Ownership: Group Human Resources Director

Relevance: Industry General

Description

Safety is of the highest priority for the Company. Essentra has many manufacturing facilities across the world, along with non-manufacturing sites and internationally mobile employees. Factory manufacturing can be inherently risky given the use of industrial machinery and high speed manufacturing processes. In addition, the Company must comply with national safety regulation in multiple jurisdictions.

When considering Health and Safety, Essentra is aware that should an injury or fatality occur involving our employees or visitors; or should there be any breach of safety regulation resulting in prosecution, considerable reputational damage is anticipated as well as potentially significant financial costs.

Such events will continue to be a threat to the Company, consequently the level of the risk remains the same with continued active management and controls to mitigate these risks.

Mitigation

Throughout 2018, the "tone from the top" on safety has been reinforced across all of the businesses. Management teams have been instructed to give a high priority to establishing appropriate Safety Management Systems and reinforcing the desired behaviours by all who are employed by the Company.

Some of the key mitigations which are in place:

- regular reporting to the GMC, GRC and the Board on Health, Safety and Environment ("HSE") related matters
- a Group HSE policy is in place detailing required standards, governance, roles and responsibilities at all sites
- performance monitoring and Health and Safety Audits, incorporating reporting and escalation arrangements to ensure all actions are closed
- root cause analysis is conducted for any issues identified through investigation of serious incidents, including Near Misses and "Stop, Think, Examine, Proceed" (STEP) programme
- our Global STEP programme which is a hazard identification- and process-improvement initiative. Its purpose is to empower the entire workforce to recognise and address opportunities
- corrective actions arising from any STEPs raised are assigned an owner who takes responsibility for implementing appropriate corrective and preventative actions within 48 hours

In 2019, we will be developing Health and Safety Assurance Map to ensure all risks are managed across our three lines of defence.

Operational Risks

IT Systems – Stability and Reliability

Change in risk level: Decreased

Ownership: Chief Information Officer

Relevance: Company Specific

Description

The Company is dependent on a wide range of IT systems for its day-to-day operations. Some of these systems lack the functionality of modern software. This could have an impact on manufacturing operations, delay customer shipments and therefore impact customer service and profitability.

The level of risk has decreased compared to 2017. This is due to several initiatives completed in 2018 resulting in greater stability in our IT infrastructure.

Mitigation

The Company began an investment programme in Q4 2017 to upgrade and reconfigure the internal infrastructure across all divisions and key sites. The focus was to reduce, and ultimately eliminate, the number of unplanned outages caused by systems failure and avoid any disruption to business operations.

- during 2018, £10m was invested in stabilising our IT infrastructure, strengthening cyber security defences and improving system usability
- the stability programme included five workstreams: connectivity and resilience, modern workplace, technical operations, cyber security and public cloud services. The majority of this work has been completed in 2018 and is expected to conclude in the first half of 2019
- core networks and data communications were upgraded and scaled to accommodate the forecasted increase in data flows resulting from cloud-based services and electronic communications with our customers and suppliers
- new monitoring and filtering tools have been introduced to provide secure access to external services and the internet
- IT incident management processes are now embedded to provide faster resolution of problems and minimise operational disruption

A solid technical foundation has been put in place to bring greater resilience and reliability to core systems. For 2019, attention will be paid to good IT service management practices in order to reduce the IT incident rates even further.

The Company continues to make significant investment in technology infrastructure to ensure that it continues to support the growth of the business. During 2019, we are launching our Business Process Redesign (BPR) programme which is a multi-million pound investment over the next five years.

Financial Review

Our continued focus on converting profit into cash has allowed us to both increase investment in the business in support of our strategic objectives and maintain the distribution to our shareholders.

Trading performance

FY 2018 revenue was broadly unchanged (increased 1.9% at constant FX) at £1,025.6m, with like-for-like growth of 0.2% (+1.4%, adjusting for the closure of the Newport IP5 cartons site at the end of 2017). The underlying result reflected a continued robust performance in Components and a return to growth in Packaging in H2, partially offset by a modest like-for-like decline in Filters and Specialist Components.

On an adjusted basis, operating profit was ahead 7.2% (9.1% at constant FX) at £90.7m. The 60bps uplift in the margin (50bps at constant FX) to 8.8% was driven by the sequential improvement in revenue performance in Packaging and further operational efficiency gains in Filters, mitigated by measured investment in Components to underpin future revenue growth opportunities and a less profitable revenue and segment mix in Specialist Components.

Including amortisation of acquired intangible assets of £22.7m and an exceptional pre-tax charge of £20.8m – mainly relating to costs associated with acquisitions/disposals and with the strategic review of the Company, as well as rationalisation of the site footprint, simplification of the organisational structure and the departure of certain senior management during the year – operating profit as reported was £47.2m (2017: £5.5m).

Net financial expense

Net finance expense was slightly above the prior year at £10.9m (2017: £10.4m). The net interest charge on net debt increased to £9.6m (2017: £8.4m), the amortisation of bank facility fees was slightly lower at £0.7m (2017: £1.0m) and the IAS 19 pension net finance charge reduced to £0.6m (2017: £1.0m).

Tax

The effective tax rate on underlying profit before tax (before exceptional and other adjusting items and amortisation of acquired intangible assets) was lower at 19.5% (2017: 20.0%).

Net income

On an adjusted basis, net income of £64.2m was up 8.4% (6.0% at constant FX) and basic earnings per share increased by 4.5% (2.3% at constant FX) to 23.1p. On a total reported basis, net income of £28.1m and earnings per share of 9.3p compared to £115.8m and 43.7p respectively in FY 2017, as a result of the exceptional gain resulting from the disposal of Porous Technologies in FY 2017.

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 £121.8m was £2.6m lower than the 31 December 2017 level of £124.4m, largely due to a reduction in accounts receivable. The average net working capital/revenue ratio decreased to 13.7% (2017: 14.9% at constant exchange).

Cash flow

Adjusted operating cash flow was £2.8m lower at £77.2m (2017: £80.0m). This includes an inflow of net working capital for the year of £5.9m (2017: inflow of £6.4m) and gross capital expenditure of £61.2m (2017: £47.1m), with net capital expenditure of £60.2m (2017: £45.3m). Net capital expenditure equated to 168% (2017: 125%) of the depreciation charge (including amortisation of non-acquired intangible assets) for the year of £35.9m (2017: £36.3m). Net interest paid was £9.5m (2017: £12.5m) and tax payments increased by £5.3m to £16.5m (2017: £11.2m). The outflow in respect of pension obligations was £1.0m (2017: inflow of £0.1m).

Adjusted free cash flow of £50.2m compared to £56.4m in FY 2017.

Free cash flow reconciliation	**£m**
Adjusted operating profit	90.7
Non-cash/other items	40.8
Net working capital	5.9
Net capital expenditure	(60.2)
Adjusted operating cash flow	**77.2**
Tax paid	(16.5)
Net interest paid	(9.5)
Pension contributions	(1.0)
Adjusted free cash flow	**50.2**

Net debt

Net debt at the end of the period was £240.1m (31 December 2017: £210.6m), primarily due to dividend payments and cash exceptional and other adjusting items. The Company's financial ratios remain robust. The ratio of net debt to EBITDA as at 31 December 2018 was 1.8x (31 December 2017: 1.7x) and interest cover was 9.0x (31 December 2017: 9.0x).

Balance sheet

As at the end of 2018, the Company had shareholders' funds attributable to Essentra equity holders of £592.6m (2017: £612.3m), a decrease of 3.2%. Net debt was £240.1m (2017: £210.6m) and total capital invested in the business was £943.7m (2017: £979.4m).

This finances non-current assets of £853.3m (2017: £868.1m), of which £282.2m (2017: £283.1m) 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 £121.8m (2017: £124.4m), current provisions of £5.3m (2017: £4.8m) and long-term liabilities other than borrowings of £106.2m (2017: £105.4m).

Pensions

As at 31 December 2018, the Company's IAS 19 *Net Pension Liability* was £13.9m (2017: £13.4m).

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 2018, Essentra's US dollar-denominated assets were approximately 36% hedged by its US dollar-denominated borrowings, and its euro-denominated assets were approximately 30% hedged by its euro-denominated borrowings.

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 notable exposure to movements in exchange rates on its highly probable forecast foreign currency sales and purchases over a period of up to 18 months.

Tax

As a responsible corporate citizen, Essentra aims to act in a socially responsible manner at all times in accordance with Essentra's Corporate Social Responsibility. Our tax strategy is an important part of delivering these values. Essentra aims to achieve high standards of transparency and responsibility in dealing with its tax affairs, and to comply with tax laws and practice in all of the territories in which we operate. Compliance for us means paying the right amount of tax in the right place at the right time, and making relevant disclosures to tax authorities to allow them to determine that the right amount of tax has been paid in the right place at the right time. Our tax strategy is published at essentraplc.com/responsibility/essentra-tax-strategy.

For the current year, the effective tax rate on underlying profit before exceptional and other adjusting items and intangible amortisation was lower at 19.5% (2017: 20.0%). The tax rate is reflective of the Group operating across 33 countries worldwide and being subject to corporation tax in those territories, in accordance with local laws, at tax rates ranging from 0% to mid-30%.

Brexit

With significant business operations in the UK and across the European Union, Essentra has conducted a thorough review of Brexit risks in a number of areas, including the movement of goods across borders, currency effects and employees. The key issues identified in this review were the flow of materials and finished goods across EU – UK borders (in both directions), further to which the Company has been working on an active programme of initiatives over the last twelve months to mitigate both short- and medium-term risks.

While there is still uncertainty as to when and under what circumstances the UK will exit the EU, the Company is assuming a worst case scenario for its planning processes and has taken various actions, such as the building of stocks of finished goods and relevant raw materials to mitigate against short-term supply chain disruption, and ensuring that logistics providers have the required status and processes in place to facilitate smooth customs handling.

Lily Liu
Chief Financial Officer
1 March 2019

Alternative Performance Measures

Management uses a number of measures of financial performance, position or cash flows of Essentra which are not defined or specified in accordance with relevant financial reporting. In management's view, these Alternative Performance Measures reflect the underlying performance of the Company and provide a more meaningful comparison of how the business is managed and measured on a periodic basis.

FY 2018 results at a glance

	FY 2018 £m	FY 2017 £m	% change Actual FX	% change Constant FX
Revenue	1,026	1,027	–	+2
Adjusted operating profit	91	85	+7	+9
Adjusted pre-tax profit	80	74	+8	+10
Adjusted net income	64	59	+9	+6
Adjusted earnings per share	23.1p	22.1p	+5	+2
Dividend per share	20.7p	20.7p	–	n/a
Reported operating profit	47	6	n/a	n/a
Reported pre-tax profit/(loss)	36	(5)	n/a	n/a
Reported net income – total	28	116	n/a	n/a
Reported earnings per share – total	9.3p	43.7p	n/a	n/a

The financial information in this FY 2018 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 116 to 123.

Basis of preparation

Continuing operations

Unless otherwise stated, the FY 2018 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 2018 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 2018 ("FY 2018"), see the table below.

Retranslating at FY 2018 average exchange rates decreases the prior year revenue and adjusted operating profit by £21.3m and £1.5m respectively.

Principal exchange rates	US$:£	€:£
Average		
FY 2018	1.33	1.13
FY 2017	1.30	1.14
Closing		
FY 2018	1.28	1.12
FY 2017	1.35	1.13

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 2018 results are adjusted for the divestment of the Bristol consumer packaging site on 5 June 2017, the acquisition of Micro Plastics on 12 December 2017, the acquisition of Hertila on 5 July 2018 and the divestment of the trade and assets of the Swiftbrook paper merchant business on 3 September 2018.

Adjusted basis

The term "adjusted" excludes the impact of amortisation of acquired intangible assets and exceptional and other adjusting items, less any associated tax impact. In FY 2018, amortisation of acquired intangible assets was £22.7m (FY 2017: £22.9m), and there was an exceptional pre-tax charge of £20.8m (FY 2017: £56.2m) mainly relating to costs associated with the aforementioned acquisitions/disposals and with the strategic review of the Company, as well as rationalisation of the site footprint, simplification of the organisational structure and 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 pages 18 and 19.

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 and other adjusting 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. In FY 2018, net capital expenditure excludes £8.3m of exceptional plant, property and equipment disposal proceeds, realised during site closures.

Summary

Summary growth in revenue by division

% growth	Like-for-like	Acquisitions/ disposals	Foreign exchange	Total reported
Components	+6	+9	-3	+12
Packaging	–	-1	-1	-2
Filters	-3	–	-3	-6
Specialist Components	-1	–	-2	-3
Total	–	+2	-2	–

Net income

£m	FY 2018	FY 2017
Adjusted net income	**64.2**	**59.2**
Amortisation of acquired intangible assets	(22.7)	(22.9)
Exceptional and other adjusting items	(20.8)	(56.2)
Exceptional tax items	–	11.4
Tax on adjustments	7.4	14.0
Profit after tax	**28.1**	**5.5**

Cash flow

£m	FY 2018	FY 2017
Operating profit – adjusted	**90.7**	**84.6**
Depreciation and amortisation of non-acquired intangible assets	35.9	36.3
Share option expense/other movements	4.9	(2.0)
Change in working capital	5.9	6.4
Net capital expenditure (excluding exceptional plant, property and equipment disposal proceeds)	(60.2)	(45.3)
Operating cash flow – adjusted	**77.2**	**80.0**
Tax	(16.5)	(11.2)
Cash outflow in respect of exceptional and other adjusting items	(20.8)	(17.1)
Pension obligations	(1.0)	0.1
Other	–	(0.6)
Add back: net capital expenditure (excluding exceptional plant, property and equipment disposal proceeds)	60.2	45.3
Net cash inflow from operating activities – continuing operations	**99.1**	**96.5**
Net cash (outflow) from operating activities – discontinued operations	–	(19.1)
Net cash inflow from operating activities – total Group	**99.1**	**77.4**
Operating cash flow – adjusted	**77.2**	**80.0**
Tax	(16.5)	(11.2)
Net interest paid	(9.5)	(12.5)
Pension obligations	(1.0)	0.1
Free cash flow – adjusted – continuing operations	**50.2**	**56.4**
Free cash flow – adjusted – discontinued operations	–	(7.6)
Free cash flow – adjusted – total Group	**50.2**	**48.8**

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 notes from page 125.

Group Management Committee

Executive Board Directors

Paul Forman
Chief Executive

Paul's biographical details can be found on page 68.

Lily Liu
Chief Financial Officer

Lily's biographical details can be found on page 68.

Divisions

Scott Fawcett
Managing Director, 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.

Iain Percival
Managing Director, 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, 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, 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.

Enabling functions

See more on the Board of Directors on page 68

STRATEGIC REPORT

Richard Cammish
Chief Information Officer

Richard Cammish joined Essentra as Chief Information Officer in June 2017. Prior to this he was Group Chief Information Officer for Coats plc. During his career, Richard has gained extensive IT, digital and international experience in organisations including Heineken, Cadbury, British American Tobacco and Mars. He has also worked for a leading management consultancy and in a technology start-up business.

Oshin Cassidy
Group Human Resources Director

Oshin Cassidy joined Essentra as Group Human Resources Director in January 2019. Prior to joining Essentra, Oshin was Group Human Resources Director at Imagination Technologies, and has extensive human resources experience having previously held senior roles at global organisations including Securitas, ComfortDelGro, Centrica and QinetiQ.

Kathrina FitzGerald
Strategy and Commercial Director

Kathrina FitzGerald was appointed as Strategy and 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 and General Counsel

Jon Green joined Essentra in 2005, and was appointed Company Secretary and 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.

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 and 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.

Operational Review

Components

Global market-leading manufacturer and distributor of small components

Revenue

£271m

(2017: £242m)

Packaging

Multicontinental supplier of secondary packaging to the health and personal care sectors

Revenue

£342m

(2017: £351m)

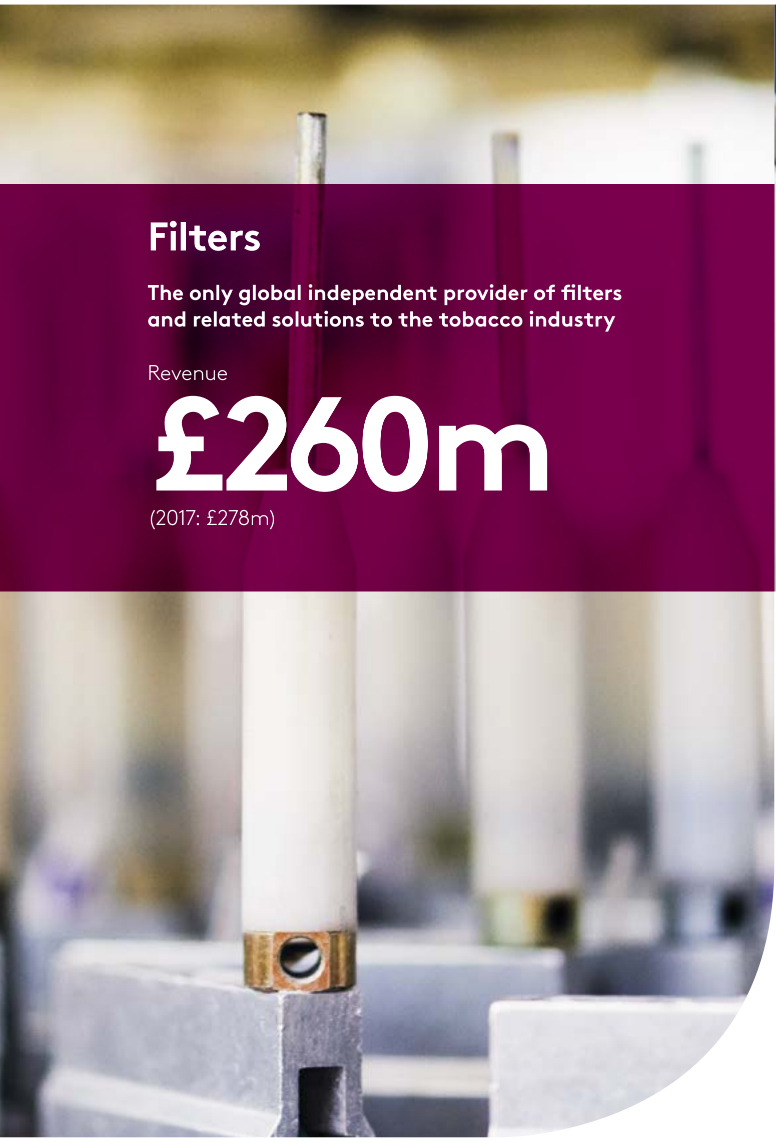
Specialist Components

Six smaller standalone businesses with strong positions in niche markets

Revenue

£159m

(2017: £164m)



Filters

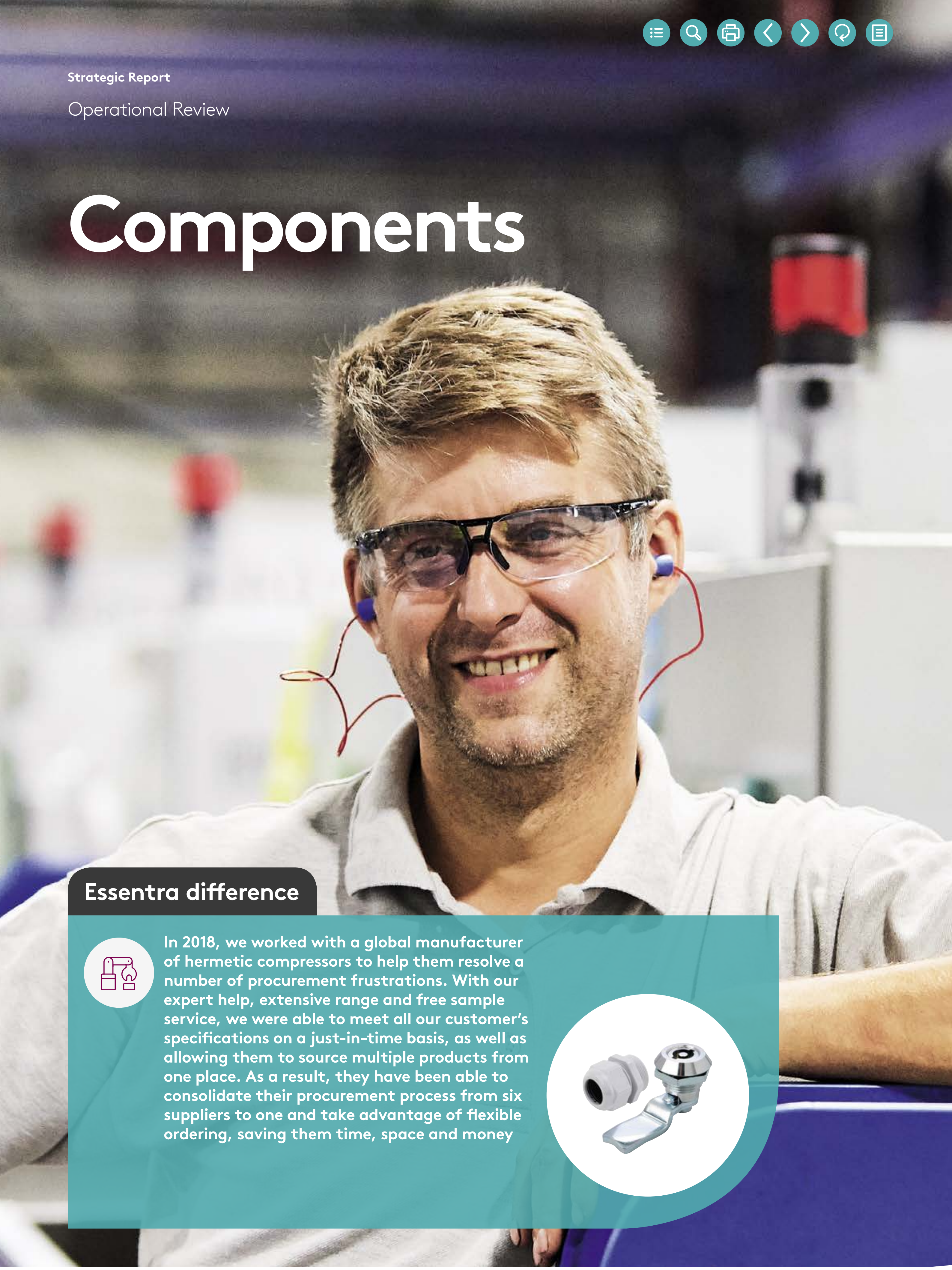
The only global independent provider of filters and related solutions to the tobacco industry

Revenue

£260m

(2017: £278m)

Components



Essentra difference

In 2018, we worked with a global manufacturer of hermetic compressors to help them resolve a number of procurement frustrations. With our expert help, extensive range and free sample service, we were able to meet all our customer's specifications on a just-in-time basis, as well as allowing them to source multiple products from one place. As a result, they have been able to consolidate their procurement process from six suppliers to one and take advantage of flexible ordering, saving them time, space and money

Scott Fawcett
Managing Director
Components

Revenue

£271.1m

(2017: £241.8m)

Adjusted operating profit[1]

£60.0m

(2017: £53.6m)

Adjusted operating margin[1]

22.1%

(2017: 22.2%)

[1] Excluding amortisation of acquired intangible assets and exceptional and other adjusting items

Who we are and what we do

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

We are a global market-leading manufacturer and distributor of plastic injection moulded, vinyl dip moulded and metal items. Operating in 28 countries worldwide with 12 manufacturing facilities and 29 logistics centres, the division serves more than 85,000 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 machinery.

How we do it

Our objective is to leverage our 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.

Operational Review: Components continued

Our markets

- Automotive
- Equipment manufacturing
- Fabrication
- Electronics
- Construction
- Oil and Gas
- Retail POP/ Paper and Board

2019 key initiatives

- Successfully roll out the new digital platform, to support new customer acquisition and to improve cross-selling opportunities and ease of use
- Continue to drive "hassle free proposition" through best practice customer service training and OTIF improvements, as well as more streamlined processes and procedures
- Improved discipline in pricing across geographical markets
- Increase cross-selling through better product training and enhance commercial effectiveness
- Continue to drive growth in China through recruitment of dedicated Commercial team and marketing approach
- Further enhance acquisition pipeline, with the objective of boosting organic growth with value-creating transactions

"Our objective is to leverage our extensive customer base, product range and distribution capability."

How we performed in 2018

Revenue increased 12.1% (14.8% at constant exchange) to £271.1m. Adjusting for the acquisition of Micro Plastics on 12 December 2017 and Hertila on 5 July 2018, like-for-like growth was 5.9%.

This strong performance reflected good progress across a number of our key strategic objectives, with refinement of our product offer and service proposition and improved customer experience supporting a broad-based result across geographic markets and customer size – notwithstanding Industrial Production levels declining throughout the course of the year.

Our range of access hardware maintained its very strong growth, boosted by the launch of new lock, hinge and handle solutions and underpinned by investment in additional injection moulding equipment and a new painting environment at our two facilities in Istanbul, Turkey. Cable management solutions and the general protection range of caps and plugs also performed well, while components aimed at the consumer electronics sector supported the result in Asia. In addition – and reinforcing our strength in our core ranges – over 1,500 new products were introduced globally through our websites and catalogues, particularly in the specialist fastener and hardware segments.

Consistent with our strategic objective of providing our customers with a "hassle-free" experience and reliable and timely delivery, we initiated a number of commercial and operational projects during the year. Supported by a selective investment in talent, these included the upgrading of our digital capability – with our new online platform scheduled for initial launch in Q1 2019 – as well as ongoing customer service improvement and product training programmes.

In addition, we made significant progress in ensuring that our operational processes for both our products and customers are in place and are standardised. As a result, we not only delivered a material uplift in our OTIF delivery but also a meaningful reduction in our waste levels, with further Continuous Improvement initiatives being launched towards the end of the year to drive additional benefits in 2019.

Having made three commitments to our customers in 2018 – better communication, website investment and improved delivery – we were therefore pleased that these combined initiatives contributed to a further improvement in our Net Promoter

What we measure

85K
2017: 94K

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 94K to 85K, as we focus on mid-sized customers

30
2017: 29

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 29 to 30 on a global basis

92.4%
2017: 90.4%

On time in full

Why we measure it
Demonstrates the ability to meet delivery demand

How we have done
92.4% compares to 90.4% in 2017

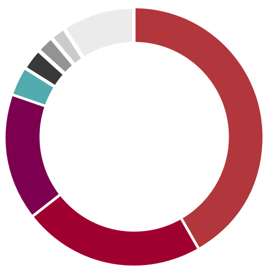
4
2017: 6

Lost time incidents

Why we measure it
Indicates our overriding commitment to health, safety and welfare in the workplace

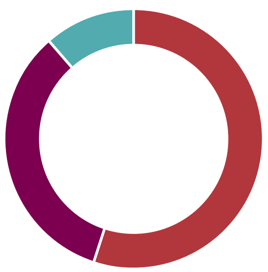
How we have done
Decreased to four from six in 2017

Revenue by segment



- Electronics: 41.8%
- Fabrication machinery: 22.8%
- Automotive: 15.8%
- Hydraulics/Pneumatics: 3.5%
- Retail POP/Paper and Board: 3.0%
- Oil and Gas: 2.1%
- Construction: 1.9%
- Other: 9.1%

Revenue by destination



- Europe and Africa: 55.2%
- Americas: 33.6%
- Asia including Middle East: 11.2%

"Having made three commitments to our customers in 2018 – better communication, website investment and improved delivery – we were therefore pleased that these combined initiatives contributed to a further improvement in our Net Promoter Score."

Score, which is our key metric to measure overall satisfaction levels and reflecting a particularly good uplift in the USA.

Both the recently-acquired Micro Plastics, USA and Hertila, Sweden businesses performed in line with expectations and the respective integrations have progressed well. In the case of the former, the cross-selling of Essentra products in Mexico and of Micro Plastics' components to our USA customer base rolled out during the second half of the year, with Europe/Asia scheduled for early 2019. Regarding the latter, the cross-selling of Essentra products to Hertila's c. 1,000 customers is on track for the first half of 2019, and has also allowed us to transfer certain equipment between Sweden and our Spanish facility in Barcelona, thus providing us with greater flexibility in our manufacturing footprint in Continental Europe. At the same time, we invested considerable time in rebuilding our pipeline of potential transactions, to ensure we are well-placed to continue realising our strategic objective of complementing our organic growth with value-creating acquisitions should the opportunities arise.

Adjusted operating profit increased 11.9% (13.2% at constant exchange) to £60.0m, equating to a margin of 22.1%. This 10bps decline (-30bps at constant exchange) reflected the robust top line performance as well as ongoing operational efficiency initiatives, which were offset by continued measured investment in divisional capabilities and the dilutive impact of recently acquired businesses which currently have a margin below the Components' average.

Packaging

Essentra difference

In 2018, we supported a global pharmaceutical customer in meeting a regulatory deadline to introduce tamper-evident cartons. Working in close collaboration through a dedicated project management team, we leveraged our innovation and flexible manufacturing expertise to design, trial and approve 68 carton profiles, as well as redesign, process and approve >1,000 artworks. As a result, 1,200 new cartons were implemented within eight months, ensuring our customer fulfilled their regulatory obligations.

Iain Percival
Managing Director,
Packaging

Revenue

£342.3m

(2017: £350.5m)

Adjusted operating profit[1]

£5.4m

(2017: adjusted operating loss: £1.8m)

Adjusted operating margin[1]

1.6%

(2017: n/a)

1 Excluding amortisation of acquired intangible assets and exceptional and other adjusting items.

Who we are and what we do

One of very few multi-continental suppliers of a full secondary packaging range to the pharmaceutical, personal care and beauty sectors.

Our 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 be combined with Essentra's authentication solutions to help fight against counterfeiting. As a result, our products and technologies provide a value-adding, multi-functional choice for our customers, with our solutions helping to ensure that the consumer receives products that have been protected in transit, have not been tampered with, contain critical information which is accurate and user-friendly and can be confirmed as genuine.

Supported by in-house design studios – the Design Hub – R&D and multi-million pound print facilities, we are positioned to deliver the very best in quality, service and reliability through our 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 24 manufacturing sites across four geographic regions, we are a leading global supplier of a broad suite of innovative specialist secondary packaging and authentication solutions to meet the rapidly changing requirements of the pharmaceutical, personal care and beauty markets. Working in effective partnership with customers and strategic suppliers, we are committed to quality, flexibility and creativity, to ensure we are well placed to meet the exacting needs of an international customer base.

Our markets

Pharmaceutical

Personal Care and Beauty

2019 key initiatives

- Continue to leverage Key Account Management structure and the Design Hub capabilities to drive revenue growth and regain market share
- Further improve operational efficiency through implementation of Continuous Improvement/Lean manufacturing tools
- Leverage scale to improve procurement benefits
- Improve quality management through enhanced training across the site footprint
- Drive profitability towards medium-term objective of industry-average levels, through volume gearing and returns from ongoing incremental investment programme

"Our objective is to partner closely with our customers, to provide them with value-creating solutions to their needs."

How we performed in 2018

Revenue decreased 2.3% (-1.5% at constant exchange) to £342.3m. Excluding the divestment of the Bristol consumer packaging facility on 5 June 2017 and the trade and assets of Swiftbrook, Ireland on 3 September 2018, like-for-like revenue was -0.5% lower (+3.2% adjusting for both disposals and the closure of the Newport IP5 cartons site at the end of 2017).

As anticipated, the revenue trend improved progressively over the course of the year. The Europe and Asia region returned to underlying growth during Q2 (ie, excluding divestments and Newport IP5), shortly followed by the Americas in Q3, with the entire division delivering a very encouraging performance during H2 and thus entering 2019 on a solid footing. This inflection point for our business reflects our continuing focus on key service and quality metrics which have been maintained at least at industry-average levels throughout 2018, as well as a further strengthening and deepening of the dialogue with our customers as to how we can collaborate to help them meet a range of needs and business objectives.

Further underpinning these enhanced customer relationships has been the establishment of a clear Key Account Management structure during the year, as well as the embedding of new global and regional leadership teams. In addition, we continued to develop our product pipeline to ensure that customers are well placed to meet such industry trends as patient adherence and evolving legislative requirements regarding the tracking, tracing and authenticating of products through the supply chain. As a result, we have not only built on the global framework agreements with certain international blue-chip healthcare companies which were signed towards the end of 2017, but also secured a number of encouraging new business wins over the course of 2018.

To support the ongoing improvement in both our commercial and operational effectiveness, we continued to rebuild our capabilities through significant investment in machine upgrades. To meet the growing demand for more complex literature, we installed new folding equipment in the USA, Puerto Rico, the UK, Ireland and Germany. Meanwhile, we added a new gluing line in Spain, as well as carton presses featuring the latest colour management technology at several sites in both the Americas and Europe: as colour management is the single largest source of product defects, this will therefore allow us

What we measure

95.6%
2017: 95.9%

On time in full

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

How we have done
95.6% compares to 95.9% in 2017

21.6%
Decrease vs 2017

Customer complaints

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

How we have done
A 21.6% decrease in customer complaints versus 2017

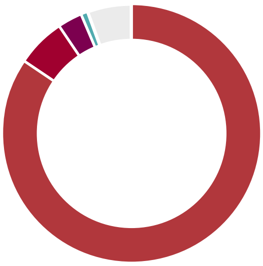
47
2017: 23

Lost time incidents

Why we measure it
Indicates our overriding commitment to health, safety and welfare in the workplace

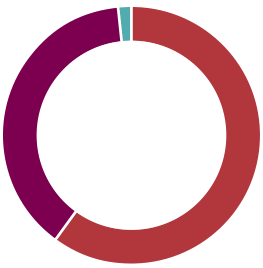
How we have done
23 lost-time incidents compares to 47 in 2017

Revenue by segment



- Health and Personal Care: 84.5%
- Food and Beverage: 6.2%
- Retail POP/Paper and Board: 3.0%
- Tobacco: 0.8%
- Other: 5.5%

Revenue by destination



- Europe and Africa: 60.0%
- Americas: 38.6%
- Asia including Middle East: 1.4%

"Underscoring our strategic focus on the health and personal care end-markets, we undertook further site footprint rationalisation during the year."

to further improve our capability and quality. New cut-and-crease equipment in Charlotte, USA and Bradford, UK has already resulted in a material reduction in waste, while we also invested in our digital footprint with additional digital label capacity in Lublin, Poland to support future growth opportunities and a digital carton printing capability at Glasnevin, Ireland to allow us to better meet the demand for small batch runs which are particularly required for clinical drug trials. Continuing to leverage the capabilities of the Design Hub in providing value-added solutions, we established a second facility in Moorestown, USA, to better serve customers in the Americas. Taken in aggregate, this incremental investment will not only help us to realise our objective of being the leading provider of secondary packaging in terms of quality management, but also to make continual improvement in our manufacturing lead times as customers require even greater agility from their suppliers.

Underscoring our strategic focus on the health and personal care end-markets, we undertook further site footprint rationalisation during the year. In July 2018, we announced the divestment of the trade and assets of Swiftbrook, a paper merchant based in Dublin, that serves customers in end-markets such as office supplies, commercial print and pharmaceuticals. Then in September, we announced the intended closure of the commercial print/consumer packaging site in Largo, USA, as well as a consultation process at our commercial print facility in Kilmarnock, UK. Having confirmed the proposal at Kilmarnock, both this and the Largo site closed at the end of 2018.

Adjusted operating profit of £5.4m compared to an adjusted operating loss of £1.8m in FY 2017 and equated to a margin of 1.6%. This was largely driven by the closure of the loss-making Newport IP5 facility and the receipt of an additional £1.2m of insurance proceeds in respect of hurricane-related disruption to the Puerto Rico sites in 2017, boosted by price increases to offset higher raw material costs and a modest volume gearing effect as revenue returned to growth. On a like-for-like basis, the margin was 1.6% (1.6% adjusting for both divestments and Newport IP5).

Filters

Essentra difference

In 2018, we worked with a global customer to develop a new e-cigarette component to solve a performance issue. Leveraging our extensive expertise and understanding of customer and consumer needs, we designed, prototyped and tested a bespoke circular component. We also created a manufacturing process to produce for larger volumes. As a result, the consumer vaping experience is vastly improved and we can efficiently supply our customer as this Next Generation Product ("NGP") segment continues to grow.

Kamal Taneja
Managing Director,
Filters

Revenue

£260.0m

(2017: £277.5m)

Adjusted operating profit[1]

£34.8m

(2017: £34.8m)

Adjusted operating margin[1]

13.4%

(2017: 12.5%)

1 Excluding amortisation of acquired intangible assets and exceptional and other adjusting items.

Who we are and what we do

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

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 to 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 ("HNB") 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 700 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.

How we do it

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

STRATEGIC REPORT

Our markets

Tobacco

2019 key initiatives

- Continue to progress discussions regarding each of the three potential game changers
- Continue to leverage scientific know-how to add value to customers, in both the traditional combustible and NGP segments
- Further enhance value proposition through customer and supplier partnerships to drive innovation
- Drive additional operational excellence initiatives, to help shorten the supply chain and to further reduce waste
- Continue to leverage and reinforce Key Account Management structure, to further strengthen customer relationships

"Our objective is to leverage our long-standing experience, expertise and insight to develop value-creating partnerships with our customers."

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 2018

Revenue decreased 6.3% (-2.9% at constant exchange) to £260.0m, with good progress with independent customers (notably in China, India and the Middle East) being offset by the volatile nature of projects which is characteristic of the tobacco industry. In addition, further progress was made in discussions regarding each of the potential game changers we identified in the 2017 strategic review of the division – namely, further outsourcing, a joint venture in China and NGPs.

Continuing to build on our track record of successful innovation and the acknowledged capabilities of our business, we launched a number of new products during the year to meet the evolving requirements of our customers. In the combustibles segment, we developed further products to meet the ongoing trend for combining flavour capsules in filters which also offer visual differentiation, building on our extensive know-how in both technologies. Our business in China also maintained its strong growth, driven by ongoing demand for Superslim and shaped filters as the consumer trend for increasingly complex and smaller diameter products continues to increase. In addition, the result in both our joint ventures in India and Dubai were driven by a strong performance for capsule products.

What we measure

98.5%
2017: 95.2%

On time in full

Why we measure it
Demonstrates the ability to meet delivery demands

How we have done
98.5% compares to 95.2% in 2017

41.4%
Decrease vs 2017

Quality complaints per billion rods

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

How we have done
A 41.4% reduction in complaints per billion rods versus 2017

3.9%
2017: 6.0%

Waste

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

How we have done
3.9%, a decrease from 6.0% in 2017

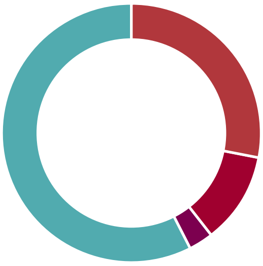
4
2017: 7

Lost time incidents

Why we measure it
Indicates our overriding commitment to health, safety and welfare in the workplace

How we have done
Decreased to four from seven in 2017

Revenue by segment



- Mono: 28.2%
- Carbon: 11.4%
- Flavour: 3.0%
- Other: 57.4%

Revenue by destination

- Europe and Africa: 24.1%
- Americas: 13.8%
- Asia including Middle East: 62.1%

Consistent with our strategic objective of further upgrading the division's innovative capabilities, we held a series of customer and supplier workshops, which have resulted in a number of strategic development projects already being launched. In particular, the matter of degradability and littering of cigarette butts has again come to the forefront as a key regulatory and consumer concern where, given our existing Paper, Ochre and Bi Tech products and our more dispersible plug wrap, we believe we have significant experience which we can bring to bear in assisting our customers meet these important evolving requirements.

Beyond traditional combustible filters, progress in NGP was encouraging during the year. Although currently a relatively modest contributor to divisional revenue and operating profit, the business successfully piloted a number of HNB solutions with Chinese and other Asian independent customers, as well as continuing to work with various multinationals to advance their respective potential – or next phase – HNB offers. With our customers increasingly focusing their research and development beyond traditional combustible filters, we have likewise shifted our innovation efforts into these emerging – but reportedly fast-growing – new technologies, to ensure that we continue to expand our knowledge and capabilities to meet their needs.

Scientific Services; based in Indonesia, continued to perform well, further building on its extensive experience and expanded range of accredited testing methods. During the year, we added the testing of HNB products to the existing analytical laboratory services, to ensure the delivery of high-quality analysis which remains at the forefront of industry trends and regulatory requirements in this growing segment.

Adjusted operating profit was unchanged (increased 1.5% at constant exchange) at £34.8m, with the 90bps (+60bps at constant exchange) uplift in the margin to 13.4% driven by further significant efficiency improvements and productivity gains.

Specialist Components

Essentra difference

In 2018, our Speciality Tapes business was approached by a residential construction company that needed a way to easily bond decorative tiles to interior wall surfaces. With our vast experience, we were able to identify and produce multiple samples, working directly with the customer for six months through many rounds of testing. As a result, our ability to provide a consistently high-quality solution to our customer's evolving needs, we have been appointed as their sole tape supplier.

Tim Wilson
President,
Specialist Components

Revenue

£159.1m

(2017: £163.6m)

Adjusted operating profit[1]

£12.2m

(2017: £14.1m)

Adjusted operating margin[1]

7.7%

(2017: 8.6%)

1 Excluding amortisation of acquired intangible assets and exceptional and other adjusting items.

Who we are and what we do

Six smaller standalone industrial businesses with strong positions in niche markets.

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

Our Industrial Supply business provides a wide range of branded hardware supplies to a broad base of industrial customers in the Maintenance, Repair and Overhaul ("MRO") segment, largely located in the US Mid-West.

Our Speciality Tapes business has expertise in coating multiple adhesive systems in numerous technologies, with approximately 1,200 tape products stocked for same-day shipping – and an additional 450+ custom product variations – predominantly for retail POP, white goods and industrial applications.

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

Our 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.

Our Tear Tapes business is globally recognised as the leading manufacturer and supplier of narrow-width pressure-sensitive adhesive tear tapes, which allow the easy opening of a product's packaging and which are largely used in the tobacco, food and drink and specialist packaging sectors.

How we do it

As a global leading supplier to the oil and 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, USA, to meet global demand while ensuring adherence to the latest industry regulations.

With c. 73,000 SKUs from approximately 650 suppliers in stock and available for rapid shipment, our Industrial Supply business focuses on supplying small and medium-sized Original Equipment Manufacturers ("OEMs") from its well-located facility in the Mid-West, enhancing its customer service proposition with value-added technical support.

Operational Review: Specialist Components continued

Our markets

Fabrication

Oil and Gas

Tobacco

Construction

Retail POP/ Paper and Board

2019 key initiatives

- Continue to enhance customer experience and launch new products to leverage distribution infrastructure in Industrial Supply
- Drive commercial excellence and gain share through further penetration of higher-growth segments in Speciality Tapes
- Continue to drive operational excellence and gain share through new market entry/innovation in Extrusion
- Expand product range and improve commercial effectiveness in Card Solutions
- Increase commercial effectiveness and focus, and continue to drive operational excellence in Tear Tapes

"Our objective is to leverage our respective in-house capabilities to add value to our customers in the diverse end-markets we serve."

Combining over 65 years' manufacturing experience with rapid distribution capability, our wide range of premium-quality Speciality Tapes 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. Offering a full range of value-adding design and production services, our Extrusion business is well placed to provide purpose-developed products based on unique specifications. Our objective is to leverage our extensive in-house capabilities – including 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.

Our Card Solutions business has access to a wide portfolio of products and service, 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. Uniquely combining manufacturing, coating and printing capabilities with global service, our Tear Tapes business serves key multinational and regional customers with a comprehensive range of high-quality, filmic-based narrow tapes which can be designed to meet specific requirements. Additional relevant capabilities include regulatory expertise, tamper evidence and authentication.

How we performed in 2018

Revenue decreased 2.8% (-0.8% at constant exchange) to £159.1m, largely due to ongoing weakness in Tear Tapes where a strategic improvement plan has been implemented. PPT delivered good growth – albeit at a significantly reduced rate of improvement compared to FY 2017 – and benefited for much of the year from the strength in the oil price and increase in the North American rig count, with the consequent impact on drilling activity and demand from the pipe mills, oil and gas service companies and pipe processors. A modest increase in Industrial Supply was supported by the expansion of core product lines and the introduction of new branded ranges, with site automation initiatives additionally improving operational efficiency.

The performance in Speciality Tapes reflected specific customer-related softness in the retail POP and appliance segments, which offset a stable result for tapes used in industrial end-markets.

What we measure

92.9%
2017: 91.9%

On time in full

Why we measure it
Demonstrates the ability to meet delivery demands

How we have done
92.9% compares to 91.9% in 2017, with four out of six businesses showing an improvement

17.0%
Decrease vs 2017

Customer complaints/ quality

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

How we have done
A 17.0% reduction in incidents compared to 2017, with five out of six businesses showing an improvement

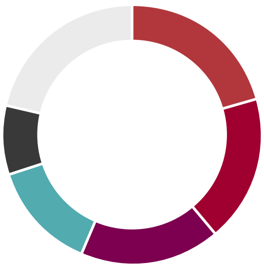
6
2017: 8

Lost time incidents

Why we measure it
Indicates our overriding commitment to health, safety and welfare in the workplace

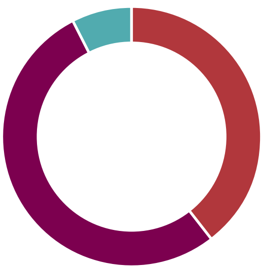
How we have done
Six lost time incidents compares to eight in 2017, with five out of six businesses showing an improvement or maintaining a very low/zero level

Revenue by segment



- Oil and Gas: 20.8%
- Retail POP/Paper and Board: 18.2%
- Fabrication Machinery: 17.6%
- Tobacco: 13.5%
- Construction: 8.7%
- Other: 21.2%

Revenue by destination



- Europe and Africa: 39.6%
- Americas: 53.0%
- Asia including Middle East: 7.4%

Revenue in Extrusion was broadly unchanged versus the prior year. The business made further progress with its complex, technical profiles which are used in the water purification process and in the construction industry for swimming pool covers: however, this was offset by a weakening in the retail POP and furniture segments.

The result in Card Solutions reflected the consolidation of business in the university and healthcare sectors, as well as successfully developing ID solutions for major sporting events and some of the largest English Premier League football clubs.

The decline in Tear Tapes was driven by lower end-market volumes, as well as reduced demand for certain value-added consumer/tobacco lines in Asia and Europe and macro-economic weakness in Latin America.

Having created the Specialist Components division with effect from 1 January 2018, we initiated a strategy development programme with the aim of providing a well-defined and objective assessment of the current status of each of our six business activities, together with their future potential. Presented at the time of our interim results on 3 August 2018, the output of this six-month review has been a clear strategy for each of our businesses, which provides a data-driven view of how we intend to drive future growth and of the respective commercial and operational opportunities available, as we seek to maximise the value-creation potential of our diverse activities.

Reflective of the portfolio assessment which we continue to undertake across the entire Essentra Group, in September we announced a consultation process at our Nottingham, UK site regarding the production of Speciality Tapes and, having confirmed our proposal, we ceased production at the end of 2018. Neither the Tear Tapes business based at Nottingham, nor the vast majority of Speciality Tapes activities which are located in the USA, was affected by this decision. Then shortly after the year end, on 14 January 2019, we announced the divestment of our PPT business to National Oilwell Varco, Inc. ("NOV") for a transaction value of US$48.0m, free of cash and debt. Given the historically volatile industry exposure and limited addressable market from an Essentra perspective, this disposal therefore represents not only good value for the Company's shareholders but also provides our PPT business with a strong platform for future successful growth under the strategic ownership of NOV.

Adjusted operating profit was 13.5% lower (-10.9% at constant exchange) at £12.2m, equating to a margin of 7.7%. This 90bps decline (-80bps at constant exchange) was driven by the revenue decline in Tear Tapes, which offset margin progression in the other five businesses.

Directors' Report

Chairman's Corporate Governance Statement

Dear Shareholder

Essentra continues its commitment to achieving FTSE 250 upper quartile best practice governance by 2020 by driving better governance practices in line with the Governance Improvement Programme. This will establish clear leadership, effectiveness and accountability at both Board and Committee levels in order to drive better governance practices.

It is my responsibility to ensure that Essentra is governed and managed in the best interests of shareholders and wider stakeholders, this includes encouraging open discussions and constructive challenges. The Board is committed to maintaining high standards of corporate governance which are fundamental to discharging our responsibilities. In this report we set out our governance framework and explain how our activities as a Board throughout the year have supported our strategy. There has been a continued focus on company governance arrangements not only at Group level but also throughout the organisation to ensure that strong corporate governance arrangements are cascaded and exist at the heart of everything Essentra does.

The 2018 Corporate Governance Code ("2018 Code") was published during the year which included a number of new and revised processes and procedures to be implemented and put in place from 1 January 2019. From an early stage the Board received comprehensive briefings and guidance on the changes being implemented.

The Board has already commenced its review of any upcoming changes and started to take action by putting into place a number of new procedures; for example we have enhanced our remuneration reporting which is further detailed in the Remuneration Report on page 85. As recommended by the 2018 Code guidance we have identified Mary Reilly to be the Board Employee Champion. A programme of activities will be commenced early in the year so that Mary might engage with as many global employees as possible. The Board will continue to review the 2018 Code for reporting in the 2019 Annual Report.

In line with the 2018 Code recommendations the Nomination Committee has reviewed and revised its terms of reference to ensure that the Nomination Committee takes responsibility for the execution of a more diverse pipeline for both executive and senior management. This should cover a range of different aspects of diversity, including age, disability, ethnicity, education and social background as well as gender.

Board evaluation

Further to the completion of the interviews and submission of the Lintstock report to the Board we are continuing to make good progress with a number of actions identified in our external board evaluation in early 2018, and further details on the process and findings can be found on page 71. The action plan put in place resulting from the last evaluation is reviewed at each Board meeting.

One area that has substantially improved, following identification during both the 2017 and 2018 board evaluations, is the continuous development in Board Reporting. Essentra has taken guidance from an external party and introduced templates and advice on effective briefing papers which has enabled Board members to determine what to focus on and subsequently enable good decision making. A clear set of priorities are the cornerstone of a focused and effective board helping to align its priorities, quickly and with confidence. The improved method of reporting has been a substantial help for both myself and my colleagues.

Another area of focus following the Board Evaluation is a more structured approach to Non-Executive Directors visiting sites independently of Board meetings to gain a better understanding of the business and to interact more informally with the local management and all employees.

Summary

During 2018 the Company strived to put in place the previously identified processes and practices which were required to improve its corporate governance structure. An effective framework was created and the priority now remains to embed these new processes within the Group and to continue with the identification of areas that require continued improvement.

We continue to support the ongoing improvements to our governance practices in order to secure stability, provide a solid foundation for future sustainable growth, build stakeholder confidence and make Essentra a top performing company.

Paul Lester, CBE
Chairman
1 March 2019

Board of Directors

Committee membership key

1 Audit and Risk Committee
2 Nomination Committee
3 Remuneration Committee
4 Committee Chairman

Paul Lester, CBE
Non-Executive Chairman

2 4

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 and 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 and 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 Beatty plc, President of the Society of Maritime Industries, the BSA and the EEF.

Paul Forman
Chief Executive

2

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 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 and Lyle plc.

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

Lily Liu
Chief Financial Officer

Appointed to the Board:
November 2018

Skills and experience:
Prior to joining Essentra, Lily was CFO of Xaar Plc, a FTSE listed inkjet technology developer and manufacturer of industrial inkjet printheads. Before this, Lily was CFO, Smiths Detection at Smiths Group plc, and has nearly 20 years of experience in the manufacturing and engineering sectors.

Lily began her career with a Chinese investment firm before emigrating to Australia to complete a MBA, and she has worked across three continents (Asia, Europe and Australia).

Other appointments:
None

Past appointments:
Chief Financial Officer of Xaar Plc.

Tommy Breen
Senior Independent Director

1 2 3

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.

❶ Audit and Risk Committee
❷ Nomination Committee
❸ Remuneration Committee
❹ Committee Chairman

Mary Reilly
Non-Executive Director

❶❷❸❹

Appointed to the Board:
July 2017

Skills and experience:
Mary is currently a Non-Executive Director of global media internet company Travelzoo – a USA-listed publisher of travel entertainment and local offers – Ferrexpo plc – an iron ore mining company – and Mitie Group plc – a facilities management company. 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 and Risk Committee of Travelzoo and of Ferrexpo plc. Non-Executive Director of Mitie Group plc.

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

Lorraine Trainer
Non-Executive Director

❶❷❸❹

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 and Chairman of the Remuneration Committee of Sonae – SGPS, S.A. and of TP ICAP plc.

Past appointments:
Non-Executive Director of Aegis Group plc and Colt Group S.A. Non-Executive Director, Senior Independent Director and Chairman of the Remuneration Committee of Jupiter Fund Management plc.

Ralf K. Wunderlich
Non-Executive Director

❷❸

Appointed to the Board:
July 2017

Skills and experience:
Based in Germany, 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. and of Huhtamäki Oyj.

Past appointments:
Non-Executive Director of AMVIG.

See more on the Group Management Committee on page 46

Corporate Governance Framework

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.

An effective Board defines the Company's purpose and then sets a strategy to deliver it, underpinned by the values and behaviours that shape its culture and the way it conducts its business. The Board should consider the main trends and factors which will affect the long-term success and future viability of the Company – and how these and the Company's Principal Risks and uncertainties have been addressed.

Our structure

Board
In fulfilling its role, the Board:

- sets, continually reviews and tests the Company's strategic aims
- determines the nature and extent of acceptable risks in achieving the Company's strategic objectives
- assesses shareholder and stakeholder interests from the perspective of the long-term sustainable success of the Company
- 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, standards and purpose
- 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.

Audit and Risk Committee
The Audit and Risk 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.

Remuneration Committee
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 the reward, incentives and conditions available to the Company's workforce, 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.

Nomination Committee
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 taking into account the Company's strategic priorities and the main trends and factors affecting the long-term success and future viability of the Company.

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

Group Risk Committee
The Group Risk Committee ("GRC") is responsible for monitoring principal, key group risks and emerging 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 30.

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

Board Effectiveness

The continued development of the Governance Improvement Programme emphasises the Board's commitment to an effective governance framework and its objective of achieving robust processes, procedures and controls, which by 2020, will be aligned with FTSE 250 upper quartile best practice.

The publication of the revised 2018 Corporate Governance Code has led to a further assessment of the status of the corporate governance framework and a renewed focus of driving improvement and best practice actions.

A high performing Board is a fundamental requirement 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.

As reported in last year's Annual Report, during the early part of 2018, the Company engaged Lintstock Ltd to externally facilitate an interview-driven review of the performance of the Board and each of its Committees.

Board evaluation

Step 1

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.

Step 2

Lintstock subsequently conducted one to one interviews with the Board members addressing the performance of the Board, its Committees and the Chairman, as well as their own individual contribution to the Board. The anonymity of all respondents was ensured throughout the process, in order to promote open and frank exchange of views.

Step 3

Lintstock presented their report during the April Board meeting.

Addressing the following areas

- the current composition of the Board, and any particular considerations relevant to any potential new Director appointments
- the relationship between the Board and Chief Executive
- the management of Board and Committee meetings, and particular considerations to ensure thoughtful debate and broad input
- improvements to 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 separate 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 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

What we found

Board dynamics
Further increase engagement between Board and management teams through additional and more formal and informal interaction inside and outside the Boardroom including a more detailed programme of site visits.

Management and focus of meetings
Continuing the improvements relating to content and prioritisation of the agenda and pre read documents allowing the focus of the meeting to be around a handful of key issues to discuss.

Board oversight
Ensuring clear agendas and cycle of reviews to facilitate appropriate steering and supervising focus on key issues with a particular focus on risk.

Board support
Improving quality, content and timeliness of materials submitted to the Board.

Corporate Governance Report

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

Meetings during the year

Paul Lester, Non-Executive Chairman	8 of 8
Paul Forman, Chief Executive	8 of 8
Tommy Breen, Senior Independent Director	8 of 8
Lily Liu, Chief Financial Officer[1]	1 of 1
Mary Reilly, Non-Executive Director	8 of 8
Lorraine Trainer, Non-Executive Director	8 of 8
Ralf K Wunderlich, Non-Executive Director	8 of 8
Stefan Schellinger, Chief Financial Officer[2]	7 of 7
Terry Twigger, Non-Executive Director[3]	3 of 3

1 Appointed 15 November 2018.
2 Resigned 15 November 2018.
3 Retired 19 April 2018.

The Essentra Board is accountable to all of 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 subject to the UK 2016 Corporate Governance Code (the "2016 Code") published by the Financial Reporting Council ("FRC"), a copy of which can be found on its website frc.org.uk.

The Company applies the 2016 Code's principles of openness, integrity and accountability 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.

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 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.

Roles

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.

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 2016 Code.

The Board maintains that, for the year ended 31 December 2018, 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.

External Commitments

The Board is fully aware of current external commitments for all of the Non-Executive Directors, and is satisfied these do not distract from the time committed to Essentra. Non-Executive Directors 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 Senior Non-Independent Director (SID), in conjunction with the other Non-Executive Directors. The Conflict of Interest register is reviewed at each Board meeting.

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 and Stone plc at its AGM on 24 January 2018. It 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

Roles and responsibilities

Chairman

- Sets the board agenda primarily focused on strategy, performance, value creation, culture, stakeholders and accountability, and ensuring that issues relevant to these areas are reserved for board decision
- Shapes the culture in the boardroom
- Encourages board members to engage in board and committee meetings
- Fosters relationships based on trust, mutual respect and open communication – between Non-Executive Directors and the Group Management Committee
- Develops a working relationship with the Chief Executive
- Provides guidance and mentoring to new directors as appropriate
- Leads the annual board evaluation

Chief Executive

- Proposes the strategy to the Board and implements the strategy which has been approved by the Board
- Communicates to the workforce the expectations in respect of the Company's culture and for ensuring that operational policies and practices drive appropriate behaviour
- Develops manageable goals and priorities for the management team
- Leads and motivates the management teams
- Ensures that the Board is aware of the views of the senior management team on business issues
- 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
- 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
- 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

given assurances of his continued commitments to the Company. The Board also notes that Paul Lester has announced his intention to retire from Forterra plc as Chairman and Director with effect from Forterra's AGM on 20 May 2019.

Since Tommy Breen's retirement as Chief Executive of DCC plc Tommy has taken on a number of smaller roles with privately owned companies, the Board remains confident that he has sufficient time for the SID role which he undertook 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 and that this appointment is beneficial to Essentra given Paul's exposure to another business and their response to a wide variety of issues.

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

Directors' elections

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 2016 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 Notice of Meeting contains additional information as to the recommendations of the Directors election or re-election.

The conduct of Board matters

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. In particular, the Directors held a specific meeting in June 2018 to review the progress to date including the reaction of Essentra's shareholders to the current Group strategy. During this meeting the Board reviewed the proposed strategies for each of the six businesses within the Specialist Components division, all of which are now being operationalised.

In managing the affairs of the Company, the Board's agenda is set by the Chairman, in conjunction with the Company Secretary and General Counsel. The annual cycle of agenda items deals with an adopted schedule of reserved matters.

"Some matters are reserved exclusively for decision by the Board, while others are delegated to the Board Committees."

Matters considered by the Board in 2018 include:

Corporate Responsibility
- establishment of a Group Sustainability Committee to assess the Company's approach to sustainability and establish a future strategy with objectives

Strategy
- receiving regular strategy update sessions in Board meeting
- holding an annual 'away-day' focused on strategy
- setting and approving the Company Purpose

Acquisitions and disposals
- approved the purchase of Hertila
- approved the divestment of Swiftbrook, Ireland
- approved the closure of the Largo, USA
- approved the divestment of Kilmarnock, UK
- approved the sale of the Pipe Protection Technologies business

Financial and Operational Performance
- approval of the Company's trading statements, full year and half year results and quarterly trading statements
- receiving regular reports to the Board from the Chief Executive and the Chief Financial Officer
- approving the Group budget for the year 2019
- recommending the 2017 final dividend and approving the 2018 interim dividend
- received detailed presentations from senior management across the businesses and considered reports from enabling functional management about matters of material importance to the Company
- approval of major capital and operating expenditure proposals.

Governance and risk
- review of the Governance Improvement Programme by receiving regular reports and updates on governance matters
- review of the 2018 Corporate Governance Code
- review of its meeting processes particularly in relation to the consistent approach and use of templates for meeting papers
- participated in the externally facilitated Board evaluation and regularly reviewed progress against actions arising from the evaluation
- review of risk strategy and risk appetite
- annual review of Principal Risks, other Key Risks and Emerging Risks facing the Group's businesses
- Deep Dive reviews for the Company's Principal Risks
- continued consideration of cyber security risk
- continued consideration of Brexit implications and mitigating strategies
- reviewing and approving gender pay reporting
- reviewing and approving the annual Modern Slavery Statement

People
- review of Talent Management process within the Group
- reviewed the annual employee engagement survey results
- monitoring of performance and continued development of Health and Safety risk
- appointment of new Chief Financial Officer
- receiving updates on and considering senior succession planning and people activities
- appointment of new Group Human Resources Director

During the year a number of informal discussions were held between the Chairman and the Non-Executive Directors without the Executive Directors being present, additionally prior or post each scheduled Board meeting the Non-Executive Directors will meet. Led by the SID, 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.

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. The support of the GMC ensures a strong link between Essentra's overall corporate strategy and its implementation within an effective internal control environment and robust risk management.

Full details of the membership of the GMC can be found on page 46.

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

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

In 2018 the Board held one of its meetings at its facility in Hungary and it is intended that further locations will host meetings during 2019 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. Additionally Non-Executive Directors were encouraged to undertake site visits during 2018 and continuing into 2019 to gain a better understanding of the Group's businesses in a more informal environment. All of the Non-Executive Directors also visited the Packaging facility based in Charlotte, USA as part of the annual Leadership Conference.

Other specific responsibilities are delegated to the Nomination and Remuneration Committees. The Remuneration Committee Report can be found on pages 85 to 103 and the Nomination Committee Report can be found on pages 78 to 79.

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 2018, the Group Human Resources Director and the Group Operations Director, were 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 26 to 29 and on the Company's website.

Diversity

During 2018 Essentra established a Diversity and Inclusion Steering Group and has committed to a programme of work with some externally facilitated support with a view to ensuring behaviours fully reflect the principles of diversity and inclusion across the Company, and has recently approved a Diversity and Inclusion policy. A Diversity and Inclusion strategy has been developed and as part of that, the Company has developed partnerships with *everywoman* and *Business in the Community* and is beginning to take action to tackle the barriers faced by some individuals in terms of recruitment and progression. The Board confirms a strong commitment to diversity (including, but not limited to, gender diversity) at all levels of the Group. Further information can be found on pages 24 to 25.

Group Sustainability Committee

During 2018 the Company also established a Group Sustainability Committee chaired by the Group Operations Director. The purpose of the Group Sustainability Committee is to identify and co-ordinate company-wide opportunities to improve Essentra's performance and reduce the Company's risk profile through sustainability-related activity. Further details can be found on pages 26 to 29.

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. The decision to authorise a conflict of interest can only be made by non-conflicted Directors. A register of Directors' interests is maintained 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 and General Counsel, takes responsibility for ensuring that the Directors receive accurate, timely and clear information.

On appointment, an induction programme tailored to their individual needs is available to Directors, and is designed to assist them in their understanding of Essentra and its operations.

Throughout a Director's tenure, they are encouraged to develop their knowledge of the Group through meetings with senior management and site visits. Directors are also provided with updates, as appropriate, on matters such as fiduciary duties, Companies Act requirements, share dealing restrictions and corporate governance matters.

All Directors have access to the advice and services of the Company Secretary and General Counsel, and for the year under review, his advice was sought in relation to share dealings only. 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 and Risk, 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, Chief Financial Officer 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.

Lily Liu's induction

Since Lily Liu joined the Board she has been through an induction programme to ensure a smooth transition, which has included

- Meetings with Chairman, Chief Executive and the Non-Executive Director and the Audit and Risk Committee Chairman
- Meeting with the Company Secretary covering UK Corporate Governance and Board procedures
- Engagement with key members of the finance team
- Meeting with key advisers including briefing from brokers and External Auditors
- Meetings and presentations with other senior executives, including Corporate Development and Strategy, Investor Relations, Group Assurance, Human Resources, Operations and IT
- Receiving briefings from divisional management teams
- Site tours of both the UK and overseas, which will continue throughout 2019

Board roles
The SID, currently Tommy Breen, 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 Chief Financial Officer, or where such contact is inappropriate.

Financial reporting
The Directors have acknowledged, in the Statement of Directors' Responsibilities set out on page 109, 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 169 to 175.

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. 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.

"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."

Internal controls
In accordance with the 2016 Code, the Board acknowledges its overall responsibility to shareholders to ensure that an adequate system of risk management and internal control is in place 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. This is essential for reliable financial reporting and also for the effective management of the Group.

Further details on the Company's risk management system and internal controls can be found on page 84.

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

The Audit and Risk Committee is committed to a prioritised and structured programme and to drive improvements in the effectiveness of the internal audit function. Better engagement with the businesses should further reduce the risk of error, fraud or poor practice. Template agendas for the leadership teams have been introduced to deliver greater visibility on potential internal control concerns, process gaps and drive appropriate executive and management responses. It is anticipated that this will ensure that a more structured and detailed approach will be adopted in reviewing governance, strategy and performance reviews.

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

- the Audit and Risk Committee meets regularly and reports to the Board, no less frequently than at every Board meeting following an Audit and Risk Committee meeting
- the terms of reference provide a framework for the Audit and Risk 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 by the Chief Financial Officer and 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 procedures – which are subject to ongoing review and updated as required in response to strategic, operational, business, legal or regulatory developments, with the approval of the Board or its respective Committees as appropriate – are communicated across the Group. 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 and establishing the Company's risk appetite
- 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 2018 are provided on page 84.

Nomination Committee Report

"During the year, the Nomination Committee met to discuss general succession planning for the Board, Senior Management and the appointment of the new Chief Financial Officer."

Paul Lester, CBE
Non-Executive Chairman
Committee Chairman

Membership and attendance

	Meetings during the year
Paul Lester, Non-Executive Chairman	4 (4)
Paul Forman, Chief Executive	4 (4)
Tommy Breen, Non-Executive Director	4 (4)
Mary Reilly, Non-Executive Director	4 (4)
Lorraine Trainer, Non-Executive Director	3 (4)
Ralf K. Wunderlich, Non-Executive Director	3 (3)
Terry Twigger, Non-Executive Director	2 (2)

Other attendees
During 2018, the Group Human Resources Director and the Chairman of the Diversity and Inclusion Steering Group attended by invitation as appropriate.

Figures in brackets denote the maximum number of meetings that could have been attended. The Company Secretary and General Counsel acts as Secretary to the Nomination Committee. Ralf K. Wunderlich was appointed to the Nomination Committee with effect from 1 March 2018. Lorraine was absent from one meeting due to an illness.

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, senior management and the appointment of the new Chief Financial Officer.

Appointments

The Nomination Committee was satisfied with the appointment of Lily Liu, as the Chief Financial Officer. The Nomination Committee believe that Lily's proven track record of international experience in the business sectors applicable to Essentra and her strong people focus will provide the necessary skills and current experience relevant to the activities of the Board and the Group, providing a positive contribution to its current strategic objectives and the Company's future development. The biography of Lily is available on page 68.

Inzito Partnership were engaged to assist the Nomination Committee in the recruitment of Lily Liu. There is no related party connection with Inzito Partnership, and the assignment was undertaken on an arm's length basis.

Lorraine Trainer has advised her intention to retire from the Board of Essentra plc as a Non-Executive Director and Chair of the Remuneration Committee following the Company's 2020 Annual General Meeting. In order to ensure a smooth transition and that the new Non-Executive Director is "in situ" for approximately one year, prior to Lorraine's retirement, we have announced that Nicki Demby will be appointed as a Non-Executive Director and Chairman designate of the Remuneration Committee effective 1 June 2019.

Inzito Partnership were engaged to assist the Nomination Committee in the recruitment of Nicki Demby. There is no related party connection with Inzito Partnership and the assignment was undertaken on an arm's length basis.

The Nomination Committee is satisfied that the appointment of Nicki Demby will provide the Board and the Remuneration Committee with the necessary skills and current experience relevant to the Company. In particular, consideration was taken of Nicky's extensive remuneration experience of providing Board level counsel to many UK and International businesses for more than 25 years.

When considering succession planning for both the Board and the senior management roles the Nomination Committee considered diversity within a range of different aspects, including age, disability, ethnicity, education and social background, as well as gender.

Diversity

The Nomination Committee and the Board supports the recommendations set out in the Lord Davies Report "Women on Boards". 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.

2018 UK Corporate Governance Code

Following the publication of the 2018 Corporate Governance Code the Terms of Reference for the Nomination Committee were reviewed and revised to ensure Essentra follows best practice. The impact of diversity amongst the Board and the senior management is the responsibility of the Nomination Committee who believe that diversity can have a positive effect on the quality of decision-making by reducing the risk of group think.

"During 2019 the Nomination Committee will work with the Group Human Resources Director and the Diversity and Inclusion Steering Group in setting and meeting diversity objectives."

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. With regard to the 2018 Code the Nomination Committee noted that the Board has appointed Mary Reilly as the designated Non-Executive Director responsible for the engagement of employees and reporting the "Voice of the Employee" to the Board and its Committees.

During 2019 the Nomination Committee will work with the Group Human Resources Director and the Diversity and Inclusion Steering Group in setting and meeting diversity objectives and strategies for the Group as a whole, and in monitoring the impact of diversity initiatives.

Key activities

Nomination Committee 2018 key activities

- Reviewed the composition and structure of the Company's Board and the Committees
- Reviewed the Company's evolving approach to ensuring a diverse and inclusive culture and the initiatives being undertaken by the Company
- Reviewed the succession planning for the Board
- Reviewed the nature and extent of the succession planning for senior management roles and the plans to address any development needs for senior management
- 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 Lily Liu as the new Chief Financial Officer
- Reviewed the new 2018 Corporate Governance Code and noted the new guidelines in relation to the role of the Nomination Committee
- Reviewed and agreed revised Terms of Reference for the Nomination Committee
- Reviewed the workstreams and progress currently being undertaken by the Diversity and Inclusion Steering Group
- Considered the appointment of Nicki Demby as a Non-Executive Director and Remuneration Committee Chair Designate

Audit and Risk Committee Chairman's Letter

Dear Shareholder,

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

I was appointed Chairman of the Audit and Risk Committee in April 2018 and would like to thank my predecessor Terry Twigger for his counsel and guidance during the months leading up to this date. At the 2018 December meeting the Terms of Reference were reviewed and taking into consideration its importance and focus in the risk management process it was agreed to recommend to the Board that the Audit Committee should be renamed the Audit and Risk Committee, which was subsequently approved. The Audit and Risk Committee fulfils an important oversight role on behalf of the Essentra Board, monitoring the integrity of the Group's financial reporting and the effectiveness of both the Group's systems of internal control and its risk management framework.

Last year the Company embarked on a Corporate Governance improvement programme with the aim of being upper quartile best practice FTSE 250 by 2020. To support this initiative a number of improvement projects were started during 2018 which will continue into 2020, focused on the continued evolution of the improvement programme in response to requests from the Board. In support of this, during the year, the Audit and Risk Committee has overseen the implementation of a number of changes to policy, processes and practice within the areas of governance, risk and control. The changes have been "rolled out" to the divisions making regular individual presentations to each Audit and Risk Committee ensuring that the divisions are an integral part of the improvement process. These presentations also allow the members of the Committee to interact with management on a more regular basis.

In addition to fulfilling its normal programme of work this year the Audit and Risk Committee has focused on the:

- implementation of an established Minimum Controls Standards ("MCS") programme to drive improvements within the Company's financial control framework to ensure that all areas become effective and efficient on a more consistent and sustainable basis, and above all is embedded within everything we do. Led by the Group Assurance team the MCS programme included controls training across the Group. The implementation plan is well underway and a MCS Steering Committee has been established which reports directly to the Audit and Risk Committee. I am pleased to note the strong commitment of the site teams to maintaining a robust control environment
- delivery of a project to improve IT General Controls which goes hand in hand with the MCS programme to create a sustainable environment. The remediation effort involved the undertaking of a thorough review of all user accesses across all systems to ensure appropriate segregation of duties and where necessary introduce mitigating actions and auditable processes. The extensive programme was completed by the end of January 2019. The work on this programme will continue as the controls are embedded within the Group's systems and functions

One of the key undertakings reported in last year's Annual Report was the improvement initiatives being put in place regarding the Company's risk management practices and procedures. Since my appointment as Chair of the Audit and Risk Committee I have committed to attend the Group Risk Committee meetings on a bi-annual basis. I am happy to confirm the high quality levels of debate, discussions and presentations made within this forum when examining and identifying the Principal Risk, other Key Risks and Emerging Risks for consideration by the Board at both the half year and full year reporting cycle.

The detailed report, which follows, aims to provide insight into the workings and activity of the Audit and Risk Committee throughout the year, enabling us to assist the Board to discharge its responsibilities; the integrity of Financial Reporting; the relationship with the External Auditor; the effectiveness of the Group Assurance function and the effectiveness of the risk management process and internal control. I believe that the Audit and Risk Committee has the necessary experience, expertise and financial understanding to fulfil its responsibilities and meet the increasing governance demands.

The Audit and Risk Committee in 2019 will continue to focus on the audit, assurance and risk processes in order to enhance the overall effectiveness of the Internal Controls, review the progress of the implementation programme and to assess the effectiveness of the improvements being made. I would like to thank the members and the Board as a whole for their work and support during these first few months.

The Audit and Risk Committee can 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.

Mary Reilly
Non-Executive Director
Audit and Risk Committee Chairman

Report of the Audit and Risk Committee

Mary Reilly
Non-Executive Director
Committee Chairman

Membership and attendance

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

Other attendees
The External Auditor, Chairman of the Board, Chief Executive, Chief Financial Officer, Group Head of Assurance, Group Financial Controller and members of the Group Management Committee ("GMC") attended meetings by invitation, as appropriate. During the year, the Audit and Risk Committee met the External Auditor, PricewaterhouseCoopers ("PwC"), and the Group Head of Assurance without the Executive Directors being present.

The Audit and Risk Committee received presentations from Ernst and Young ("EY"), the Chief Executive, the Chief Financial Officer, the majority of the divisional Managing Directors, the Group Head of Tax, the Group Head of Treasury, the Group Human Resources Director and the Group Chief Information Officer.

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

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

Governance

All the Audit and Risk Committee members are independent Non-Executive Directors, and have financial and/or related business experience gained in senior positions in other large diverse organisations. Mary Reilly has been the Chairman of the Audit and Risk Committee since April 2018, and the Board is satisfied that Mary has recent and relevant financial experience. As a whole the Audit and Risk Committee believe that its members are competent in the business sectors within which the Essentra Group operates. The Audit and Risk Committee supports the Board and reports to it on a regular basis, and no less frequently than at each following Board meeting.

During early 2018, the Company engaged Lintstock Ltd to facilitate an interview-driven review of the performance of the Audit and Risk 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 and Risk Committee. These items are scheduled in accordance with the requirements of the external audit cycle and any other requirements of the Audit and Risk 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 the FRC review of the UK 2018 Corporate Governance Code (the "2018 Code").

The current terms of reference for the Audit and Risk Committee are available at essentraplc.com. A substantive review of the terms of reference was carried out after publication of the 2018 Code and they were subsequently aligned to ensure best practice in the context of Essentra. The terms of reference provide a framework for the Audit and Risk 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

Ensuring the integrity of the financial statements and associated announcements is a fundamental responsibility of the Audit and Risk Committee.

As part of recommending for approval the 31 December 2018 Annual Report and Accounts and the 30 June 2018 Half Year Report, the Audit and Risk Committee reviewed, examined and challenged the Chief Financial Officer 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 and levels of disclosure to ensure that the reports are fair, balanced and understandable.

Report of the Audit and Risk Committee continued

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

The Audit and Risk Committee was presented with information and advice regarding the changes due to the implementation of IFRS 15 *Revenue from Contracts with Customers*, IFRS 16 *Leases* and IFRS 9 *Financial Instruments: Recognition and Measurement*.

In July 2018, Essentra received a letter from the Corporate Reporting Review Team ("CRRT") of the Financial Reporting Council in relation to its regular review and assessment of the quality of corporate reporting in the UK. The CRRT raised certain questions regarding the impairment assessment of goodwill and other intangible assets including disclosures, information on the underlying gain on disposal of the Porous Technologies business, depreciation expense and effective tax rate reconciliation. The Company responded to the CRRT's questions providing clarifying information and proposing specific enhancements to its 2018 Annual Report and Accounts. These enhancements included further sensitivity disclosures in relation to reasonable possible changes in key assumptions for impairment assessment and disclosure of assets and liabilities for material disposals. These enhancements have been incorporated into the 2018 financial statements.

Significant financial judgements

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. The assumptions for 2019 and beyond (such as the annual growth rate and the terminal growth rate) are based on the 2019 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 and Risk 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. The Audit and Risk Committee discussed at length with the Chief Financial Officer and the External Auditor the review and assumptions presented. After due consideration the Audit and Risk Committee was satisfied that the impairment assessment is appropriately carried out.

Exceptional and other Adjusting Items

The Financial Statements include certain items which are disclosed as exceptional and other adjusting items. The nature of these 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 and Risk Committee is satisfied that the Group's definition of exceptional and other adjusting 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 and Risk Committee has been involved in a rigourous review of the items presented, and challenged the Chief Financial Officer about the appropriateness of items presented. This included 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 of the Financial Statements.

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 judgement in determining the appropriate amount to provide in respect of potential tax exposures and uncertain tax positions. The Audit and Risk Committee challenged the nature and extent of the tax provisioning of the Company and sought 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 the deductibility of interest on internal financing.

The Audit and Risk 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 and Risk Committee questioned and challenged the Chief Financial Officer and Group Head of Tax as to the appropriateness of the Company's risk attitude in this area. Upon consideration of the Company's explanations and the External Auditor's conclusions, the Audit and Risk Committee was satisfied that the tax liabilities are appropriate, and that the Group's tax disclosures are 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 and Risk Committee during the planning and scoping of the external audit process. The Group has adopted IFRS 15 *Revenue from Contracts with Customers* during the year. The adoption of this standard does not have a material effect on the Group's 31 December 2018 consolidated financial statements.

Tax activities

The Group Head of Tax presented to the Audit and Risk 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 and Risk Committee considered these activities in conjunction with advice from the Chief Financial Officer, and was satisfied with the approach being taken by the Company.

Compliance programme

The Audit and Risk Committee continued its regular review of the Group's compliance activities and received regular presentations from the Company Secretary and General Counsel. At each meeting reports are presented detailing any claims made under the Company's independent Right to Speak process. Introduced during 2018, each division, on a rotating basis, makes a presentation to the Audit and Risk Committee detailing their own compliance and risk mitigation programmes.

The Audit and Risk Committee reviewed the Group 2018 Compliance three-year Strategy. This new framework is intended to:

- more formally define the scope and objectives of the compliance programme, to ensure that management can more effectively plan for and prioritise its goals, activities, and day-to-day responsibilities
- establish a dedicated compliance and ethics risk assessment process to identify key compliance risks in the business, evaluate the effectiveness of existing controls, and build mitigation strategies
- create a more targeted training and communication approach
- more fully evaluate the effectiveness of the programme and communicate that information to key stakeholders

The Audit and Risk Committee noted the continued investment being made by the Company to improve the 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.

External Auditor

During the year the Audit and Risk 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 and Risk 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 and Risk Committee in conjunction with the GMC. The Audit and Risk 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 and Risk Committee had due regard to their expertise, resourcing and independence.

Cyber security

Cyber security risk remains an important matter for constant monitoring. During the course of the year, the Audit and Risk Committee further assessed the Company's programme to respond to potential threats to the integrity of its IT systems. Presentations were provided by the Chief Information Officer and also a third party, EY, was engaged to carry out a review of the Cyber Security threat to the Essentra Group. This topic remains under constant review by the Audit and Risk Committee and the Board. The Group embarked on a six month cycle of cyber security awareness training for all employees towards the end of 2018 which will run until April 2019. The intent of this Group-wide training programme is to make employees aware of the threat of cyber crime so that more employees can play a part in keeping the business secure.

Independence of the External Auditor

The Audit and Risk Committee believes that it is important to maintain the objectivity and independence of the External Auditor by minimising their involvement in projects of a non-audit nature. It is, however, also acknowledged that, due to their 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 and Risk Committee has in place a policy which reflects 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 and Risk Committee Chairman, without the approval of the Committee, 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 exceed 70% of the average of the fees paid in the last three consecutive financial years. 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. At each Audit and Risk Committee meeting non-audit fee work is reviewed. Details of the fees paid to PwC up until 31 December 2018, can be found in note 2 to the Financial Statements, which includes fees paid to the External Auditor and its network firms for audit services, audit-related services and non-audit services.

"The Audit and Risk Committee has formally reviewed the independence of its External Auditor."

In order to fulfil its responsibility, the Audit and Risk 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. The Audit and Risk Committee has formally reviewed the independence of its External Auditor. PwC has provided a letter confirming that it believes it remained independent throughout the year, within the meaning of the regulations on this matter and in accordance with their professional standards. The letter describes arrangements to identify report and manage any conflicts of interests and policies and procedures in place to maintain independence and the subsequent monitoring of this.

Effectiveness of the External Auditor

The Audit and Risk Committee assessed the effectiveness of the External Auditor by reviewing:

- 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
- feedback from the businesses, evaluating the performance of each assigned 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. 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 who has been in this role since PwC was appointed in April 2017.

The Audit and Risk 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 Audit and Risk Committee undertook a comprehensive competitor tender for the external audit in 2015 and the appointment of PwC to replace the Company's previous auditors was approved by the shareholders at the 2017 AGM. The Audit and Risk Committee is satisfied with the External Auditor's effectiveness and independence and has recommended to the Board that PwC be reappointed as the Company's External Auditor at the 2019 AGM. 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.

In preparation for their audit activities, the External Auditor carried out a review of the Company's existing IT systems and concluded that 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. Essentra has a well-established internal audit function, which now sits within the Group Assurance role, but has identified potential opportunities for improvements to deliver additional value to the respective businesses and to support change management.

The Company has complied throughout the year with the Statutory Order 2014 issued by the Competition and Markets Authority.

Internal control and internal audit

The Audit and Risk Committee is required to assist the Board in fulfilling its responsibilities for ensuring the capability of the Group Assurance function and the adequacy of its resourcing and plans. To fulfil its duties the Audit and Risk Committee is committed to a prioritised and structured programme to drive improvements in the Company's internal control systems. In order to strengthen the Company's internal control systems a number of actions were put in place in 2018, this included improvements in the effectiveness of the Group Assurance function. The Company appointed a new Head of Group Assurance and a Director of Group Assurance who attend each Audit and Risk Committee. Group Assurance assists the Company in accomplishing its objectives by bringing a systematic and disciplined approach to the evaluation, assurance and improvement in the effectiveness of the organisation's risk management, internal control and governance processes. The agreed annual internal audit plan 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 and Risk Committee reviewed:

- the internal audit plan and its achievement of the planned activity
- any significant findings from internal audits undertaken during the year, to ensure they are appropriately investigated
- the adequacy of management's response and the necessary actions taken to address and rectify any weaknesses identified
- the effectiveness of the Group's internal controls and disclosures made in the Annual Report and Financial Statement

Risk management processes and practices

The Audit and Risk Committee's discussions and considerations on risk to ensure an oversight of the risk management process continued throughout the year. The Audit and Risk Committee worked closely with the Group Risk Committee and the Group Assurance function to assess the quality of its existing practices and to identify key principal risks, other risks and emerging risks. Further details on the risk management initiatives reviewed by the Audit and Risk Committee can be found on pages 30 to 41 in the Management of Principal Risks Report.

Remuneration Committee Chairman's Letter

Lorraine Trainer
Non-Executive Director
Remuneration Committee Chairman

Key principles

Key principles that have underpinned our approach to remuneration this year are as follows:

Linking reward to strategy
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.

Aligning pay and performance
The Remuneration Committee sets performance targets that are stretching whilst also providing sufficient incentive for management.

Ensuring remuneration continues to attract and develop key talent
The Remuneration Committee works with the Chief Executive to ensure he has the right reward tools to be able to attract talent into the business.

Ensuring consistency of reward principles
The Remuneration Committee has taken an active role in ensuring that reward principles are applied consistently throughout the Essentra organisation.

Dear Shareholder

As Chairman of the Remuneration Committee I am pleased to present our Remuneration Report for the financial year ended 31 December 2018.

At the 2018 AGM, we asked shareholders to support a Directors' Remuneration Policy (the "Policy") aligned to our new corporate strategy. I was delighted with the overwhelming support that we received with more than 99% of votes being cast in favour of the new Policy.

As outlined in the Chief Executive's Review on pages 4 to 7, our strategy remains unchanged in 2019 and accordingly no change is proposed to our Policy. Notwithstanding this, the Remuneration Committee had a full and varied agenda in 2018 as illustrated in the meeting activities on page 95.

I have provided more detail below on some of the key activities undertaken by the Committee during the year.

Linking reward to strategy

During the year, the Remuneration Committee undertook its annual review of remuneration arrangements against corporate strategy. Whilst the Committee was satisfied that existing arrangements remained generally appropriate, one change being made following the review, and in response to shareholder feedback, is the replacement of the cash measure used in 2018 with a return on invested capital measure for the 2019 LTIP award. The Committee believes that this is an appropriate change and is consistent with Essentra's strategic priorities for 2019 now that stability is achieved, strategic momentum continues and profit growth has been restored from a stable revenue base.

The table below summarises the KPIs that are being used in executive incentive plans in 2019.

KPI	2018	2019
Adjusted operating profit	**Annual bonus**	Annual bonus
Net working capital	**Annual bonus**	Annual bonus
Adjusted EPS	**LTIP**	LTIP
Total shareholder return	**LTIP**	LTIP
Adjusted operating cash flow	**LTIP**	
Return on invested capital ("ROIC")		LTIP

Aligning pay and performance

In 2018 profit growth was restored from a stable revenue base for the first time since 2015, a development which represents a sustainable inflection point for the business. Revenue remained unchanged on a like-for-like basis and there was continued improvement in all aspects of business stability, with further progress in key elements of each of the four divisions.

More information on the financial and operating performance of Essentra in 2018 is set out on pages 42 to 45 in the Strategic Report.

Remuneration Committee Chairman's Letter continued

For the LTIP awards to be granted in 2019, the Remuneration Committee has adjusted targets for the EPS measure of 5% to 12% and set the ROIC measure of 9.5% to 14.5% that are consistent with the successful delivery of our strategy within the uncertain operating environment discussed in the Chief Executive's Review on pages 4 to 7.

The Remuneration Committee believes that the overall annual bonus outcomes for the Executive Directors summarised below are a fair reflection of what has been achieved in 2018 by Essentra as a whole and the performance of the individual Executive Directors.

2018 Annual bonus outturn

KPIs	Base performance	Target performance	Stretch performance	Actual performance	% of maximum bonus payable
Adjusted Operating Profit (50% of maximum)[1]	£91.9m	£99.4m	£106.8m	£96.8m	16.2%
Net Working Capital (30% of maximum)[2]	15.1%	14.8%	14.6%	14.0%	30.0%
Personal objectives (20% of maximum)	Details of performance against pre-set personal objectives are set out on page 97. Following assessment by the Remuneration Committee, Paul Forman (Chief Executive) and Stefan Schellinger (former CFO) received 18.0%, and 11.0% of their respective maximum bonuses in relation to these objectives.				
Bonus award to Paul Forman: 64.2% of maximum					
Bonus award to Stefan Schellinger: 57.2% of maximum (pro-rated for period of employment)					

1 Based on internal forecast at constant exchange rates.
2 Average monthly net working capital as a percentage of sales.

Having only joined Essentra in November 2018 Lily Liu was not entitled to a bonus in relation to 2018.
The performance targets for the 2016 LTIP awards were not met and these awards lapsed in full.

> "The Remuneration Committee believes that the overall annual bonus outcomes for the Executive Directors are a fair reflection of what has been achieved in 2018."

Change in Chief Financial Officer ("CFO")

Lily Liu replaced Stefan Schellinger as CFO in November 2018. A summary of Lily Liu's remuneration arrangements that were approved by the Remuneration Committee in Q2 2018 is set out below:

- salary of £320,000 subject to annual review from 1 April 2019. An inflationary increase of 2.9% will be effective from April 2019. Above inflationary increases may be applied to the salary as Lily Liu gains experience in this role
- pension provision worth 20% of salary. This was determined prior to recent 2018 UK Corporate Governance Code guidance on pensions
- car allowance and standard other benefits
- maximum annual bonus potential of 125% of salary, with half of any bonus deferred in shares for three years
- an annual award of performance shares under the LTIP over shares worth 150% of salary. This award will be granted in August 2019
- a one-off additional award of performance shares under the LTIP over shares worth 100% of salary. This award, to be granted in August 2019, was agreed by the Remuneration Committee to compensate Lily for the value of share awards granted by her previous employer that lapsed when she joined Essentra. The award will be wholly linked to Essentra's long-term performance, and is of a lower value than the forfeited awards
- a payment of £20,000 to compensate Lily Liu for a benefit repayment to her former employer when she agreed to join Essentra
- shareholding guideline of 200% of salary

The Remuneration Committee also agreed termination remuneration arrangements for Stefan Schellinger. Full details of those arrangements are set out on page 101 of the Annual Report on Remuneration.

Considering the 2018 UK Corporate Governance Code (the "2018 Code")

During the past year the Remuneration Committee has received regular updates on the development of the 2018 Code and discussed its implications for Essentra. Our remuneration arrangements are already compliant with many of the new provisions and work is well under way to incorporate further agreed changes. One of the 2018 Code's principles is that remuneration should promote long-term sustainable success. The Executive Directors adhere to an Essentra shareholding policy which is aligned with Essentra's long-term performance during and after their period of employment:

- whilst in Essentra's employment, Executive Directors are required to build up sizeable equity holdings (Chief Executive: 3x salary; CFO 2x salary)
- during and post-employment, vested LTIP awards are subject to an additional two-year holding period
- unvested LTIP awards will normally not be eligible for accelerated vesting following cessation of employment

We will review this shareholding policy as part of the next renewal of our Directors' Remuneration Policy taking into account market developments and shareholder guidance.

The Remuneration Committee also notes the provision in the new Code relating to alignment of pension provision between Executive Directors and the workforce. It is our intention to review the implementation of this provision as part of our next Directors' Remuneration Policy renewal or, if earlier, at the time of our next Executive Director appointment.

> "During the past year, the Remuneration Committee has also discussed a number of broader issues relating to workforce pay including our Gender Pay report and our diversity and inclusion policies."

Remuneration in our wider workforce

The Remuneration Committee is aware of its responsibility to consider remuneration in our wider workforce when making decisions that affect our senior executives. For example, our standard policy is that Executive Director salary increases should be consistent with the wider UK workforce.

Consequently, the Executive Director salaries have been reviewed and increased in line with the budget for the UK workforce salaries which was set at an average of 2.9%.

Non-Executive Director fees were not increased but the Chair fees were uplifted. Further details can be found on page 103.

During the past year, the Remuneration Committee has also discussed a number of broader issues relating to workforce pay including our Gender Pay report and our diversity and inclusion policies. During 2019, we will be working in conjunction with our Board Employee Champion to fully implement the 2018 Code requirements in this area. We will detail our actions in next year's Remuneration Report alongside the publication of our first Chief Executive pay ratio.

Conclusion

There will be an advisory shareholder vote at the 2019 AGM on the Annual Report on Remuneration section of this report, pages 95 to 103, which explains in detail how we implemented the Policy during 2018 and how we intend to implement it during 2019.

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

As outlined in the Nomination Committee Report on pages 78 to 79 I have advised the Chairman of the Board of my intention to retire from the Board as a Non-Executive Director and Chair of the Remuneration Committee at the 2020 AGM.

Finally I would like to thank the members of the Remuneration Committee for their commitment in getting the right outcomes both for the team and the shareholders. The balance of their experience really enhances our debates and our ability to evolve our measures in line with the evolution of the Company.

Lorraine Trainer
Remuneration Committee Chairman
1 March 2019

Remuneration at a glance

The full policy can be found online: essentraplc.com/remunerationpolicy

2019 Remuneration structure for Executive Directors

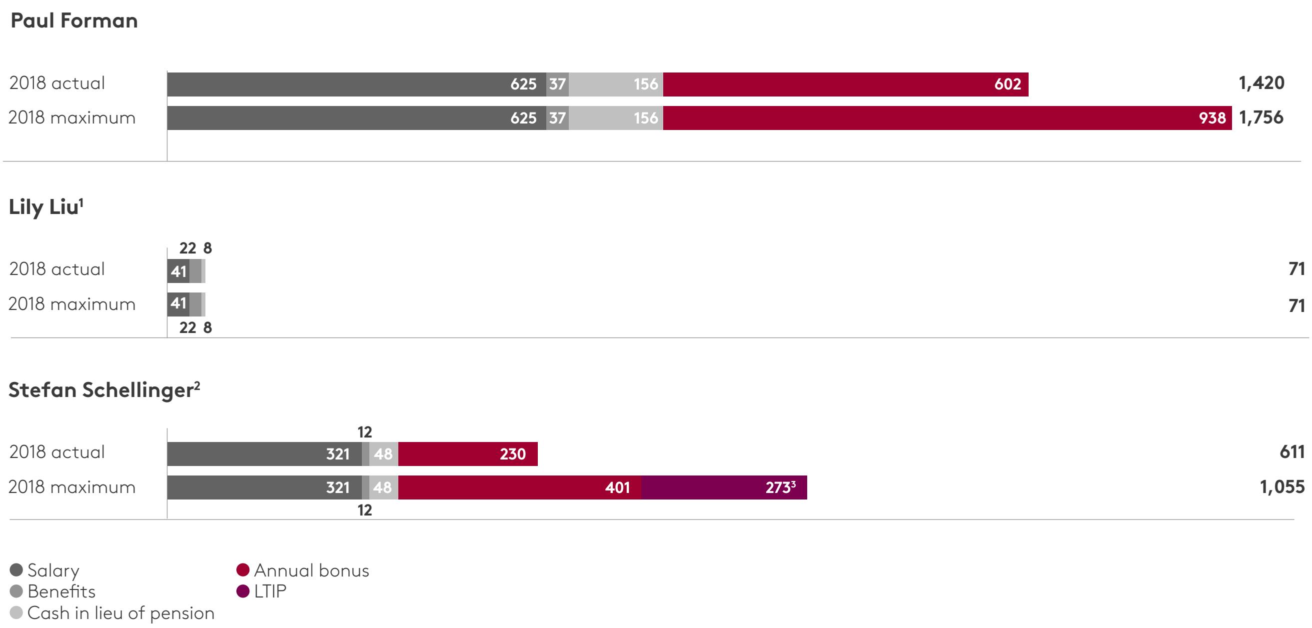
	2019	2020	2021	2022	2023	2024	Commentary	Changes since 2018
Base salary							Paul Forman (CEO) £643,125	Salary increase of 2.9% effective 1 April 2019
							Lily Liu (CFO) £329,280	Salary increase of 2.9% effective 1 April 2019
Pension							Paul Forman 25% of salary	No change
							Lily Liu 20% of salary	No change[1]
Benefits							Car or cash allowance, plus private medical insurance and life insurance cover	No change[1]
Annual bonus opportunity for 2019 Bonus: 50% Cash Bonus: 50% Deferred Shares		THREE-YEAR DEFERRAL					• Maximum: Paul Forman 150% of salary; Lily Liu 125% of salary • Performance conditions: – Adjusted Operating Profit: 50% – Net Working Capital: 30% – Personal Objectives: 20%	No change[1]
LTIP award to be made in 2019		THREE-YEAR VESTING			TWO-YEAR HOLDING PERIOD		• Conditional award of shares: – Paul Forman 200% of salary; – Lily Liu 150% of salary – Lily Liu receives an additional award of 100% of salary for forfeiture of shares from her previous employer • Performance conditions: – EPS Growth: 33.33% – Relative TSR: 33.33% – Return on invested capital: 33.33% • Award will be subject to three-year performance period and an additional two-year holding period	No change to award levels[1] Return on invested capital replaces cash flow as a measure

[1] Lily Liu's pension, benefits, annual bonus opportunity and annual LTIP award are consistent with those received by her predecessor.

Incentive outcomes for 2018

	Performance period	Performance measures	Payout	
Annual bonus[1]	2018	Adjusted operating profit, net working capital, personal objectives	Paul Forman 64.2% of maximum Stefan Schellinger (former CFO) 57.2% of maximum	Details on page 97
LTIP[2]	2016-2018[3]	EPS, relative TSR	Stefan Schellinger 0% of maximum	Details on page 96

1 Stefan Schellinger's annual bonus was pro-rated to reflect period of employment during 2018.
2 Paul Forman and Lily Liu do not hold LTIP awards for this performance cycle.
3 EPS measured over period 1 January 2016 – 31 December 2018; relative TSR measured over period 23 February 2016 – 22 February 2019.



1 Remuneration relates to period as Board Director (15 November – 31 December).
2 Remuneration relates to period as Board Director (1 January – 15 November). After leaving the Board, Stefan received remuneration of £228,245 in relation to the remainder of his notice period (details on page 101).
3 LTIP value calculated using average share price for the period 1 October 2018 to 31 December 2018.

- EPS measured over period 1 January 2016 – 31 December 2018; relative TSR measured over period 23 February 2016 – 22 February 2019.
- No LTIPs vested during 2018.

Remuneration Policy Report Summary

> "Remuneration for Executive Directors is structured so that the majority of total remuneration at the maximum performance level will derive from the Company's long-term incentive arrangements."

Our Directors' Remuneration Policy Report ("the Policy Report") sets out the policies under which the Executive and Non-Executive Directors are remunerated.

The current Policy Report was approved by shareholders at the 2018 AGM. A summary of the Policy Report is set out below and the full version can be found on our website at essentraplc.com/investors/corporate-governance/remuneration-committee.

Summary of 2018 Policy Report

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.

Basic salary

Purpose and link to strategy	**To reflect the particular skills and experience of an individual and to provide a competitive basic salary.**
Operation	Generally reviewed annually with any increase normally taking effect from 1 April although the 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.
Opportunity	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.
Performance measures	**Not applicable**

Annual bonus

Purpose and link to strategy	**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.**		
Operation	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 ("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).
Opportunity	Chief Executive – 150% of basic salary.	Other Executive Directors – 125% of basic salary.	
Performance measures	**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 in the Annual Report on Remuneration on page 102.**	**No more than 20% of each financial measure will vest at threshold performance.**

Remuneration Policy Report Summary continued

Long-Term Incentive Plan ("LTIP")

Purpose and link to strategy	**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.**
Operation	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).
Opportunity	An award to any Executive Director would be limited to a maximum of 300% of salary.
Performance measures	**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.**

All Employee Plans

Purpose and link to strategy	**To create alignment of employees' interests with those of shareholders and an awareness of the Company's share price performance.**
Operation	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 USA Plan is operated in a similar manner to the UK plan.
Opportunity	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 USA Plan is limited to the monthly dollar equivalent of the UK Sharesave plan and an option price of up to a 15% discount.
Performance measures	**No performance conditions apply to All Employee Plans.**

Pension

Purpose and link to strategy	**To provide cost-effective long-term benefits comparable with similar roles in similar companies**		
Operation	A contribution to a defined contribution plan or paid as a cash supplement.		
Opportunity	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 (Chief Financial Officer).	
Performance measures	**Not applicable.**		

Other benefits

Purpose and link to strategy	**To provide cost-effective benefits comparable with similar roles in similar companies.**		
Operation	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.
Opportunity	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.	
Performance measures	**Not applicable.**		

Shareholding requirement

Purpose and link to strategy	**To align the interests of Executive Directors and shareholders, encourage a focus on long-term performance and risk management.**		
Operation	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.
Opportunity	The guideline minimum level for Executive Directors is 300% of salary for the Chief Executive and 200%[1] of salary for the Chief Financial Officer.	Non-Executive Directors are encouraged to hold a minimum of 7,500 shares.	
Performance measures	**Not applicable.**		

[1] The Policy Report contained in the Essentra Annual Report 2017 states a shareholding requirement for the Chief Executive of 200% of salary. As disclosed on our website in advance of the 2018 AGM, this requirement was increased to 300% of salary.

Remuneration Policy Report Summary continued

Non-Executive Directors

Purpose and link to strategy	**To attract high-calibre Non-Executive Directors with the relevant experience and skills.**
Operation	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.
Opportunity	Fees for the current year are stated in the Annual Report on Remuneration. Fee increases may differ from 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 limit in the Company's Articles of Association for aggregate Non-Executive Directors' annual fees to £1,000,000 was approved at the 2018 AGM.
Performance measures	**Not applicable.**

Annual Report on Remuneration

Lorraine Trainer
Non-Executive Director
Remuneration Committee Chairman

Membership and attendance

	Meetings during the year
Lorraine Trainer, Non-Executive Director	3 of 3
Tommy Breen, Non-Executive Director	3 of 3
Mary Reilly, Non-Executive Director	3 of 3
Ralf K. Wunderlich, Non-Executive Director	2 of 2
Terry Twigger, Non-Executive Director	1 of 1

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

Terry Twigger retired as a Non-Executive Director on 19 April 2018 at the AGM. Ralf K. Wunderlich joined the Committee effective from 1 March 2018. The Company Secretary and General Counsel acts as Secretary to the Remuneration Committee.

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. Deloitte LLP were appointed by the Remuneration Committee who review their performance annually. The Remuneration Committee continues to be satisfied with the advice provided. Fees charged for the year under review are £79,100. The fees are charged on a time and expenses basis. Deloitte also provided other remuneration and tax services to the Company during 2018.

- 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 £9,765. The fees are charged on a time and expenses basis. Aon Hewitt also provided actuarial advice to the Company for its USA 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.

Key activities

Remuneration Committee 2018 key activities

Meeting in Q1 2018
- approved performance measures and targets for 2018 annual bonus of Executive Directors and other GMC members
- approved 2017 annual bonus outturn for Executive Directors and other senior management
- approved 2018 salary increases for Executive Directors and other senior management
- confirmed lapsing of 2015 LTIP award
- approved award levels, performance measures and targets for 2018 LTIP award
- reviewed 2017 Directors' Remuneration Report for inclusion in the 2018 Annual Report
- discussed definition of working capital to be used in annual bonus calculations
- approved UK SAYE grant
- discussed Gender Pay Gap results
- reviewed current Group Management Committee share ownership

Meeting in Q2 2018
- considered remuneration issues relating to Chief Financial Officer succession including approval of new Chief Financial Officer's remuneration package and termination remuneration arrangements for former Chief Financial Officer

Meeting in Q3 2018
- discussed Essentra's commitment to diversity and inclusion practices
- reviewed AGM voting and shareholder feedback on remuneration resolutions
- received Deloitte update on market and governance developments relating to remuneration including the 2018 UK Corporate Governance Code
- reviewed remuneration practices against the corporate strategy
- approved USA SAYE grant
- considered Executive Directors' remuneration arrangements in the context of the wider UK workforce

Meeting in Q4 2018
- discussed proposed performance measures for 2019 annual bonus of Executive Directors and other senior management
- reviewed anticipated 2018 annual bonus outturn and anticipated vesting levels for outstanding LTIP awards
- approved the introduction of Return On Invested Capital as a performance measure for the 2019 LTIP to replace operating cash flow

This section of the Remuneration Report will be subject to an advisory vote at the 2019 AGM.

Total Single Remuneration Table for 2018 (audited)

The remuneration received by Executive Directors for the year ended 31 December 2018 (and the 31 December 2017 comparative) was as follows:

	Year	Salary and fees for the year or from the date of appointment £000	Taxable benefits[1] £000	Long-Term Incentive Plan £000	Bonus (cash and deferred shares) £000	Cash in lieu of pension[2] £000	Total £000
Executive Directors							
Paul Forman	2018	625	37	–	602	156	1,420
	2017	625	36	–	450	156	1,267
Lily Liu	2018[4]	41	22[3]	–	–	8	71
	2017	–	–	–	–	–	–
Stefan Schellinger	2018[5]	321	12		230	48	611
	2017	360	15	–	186	72	633
Non-Executive Directors							
Paul Lester	2018	250	–	–	–	–	250
	2017	250	–	–	–	–	250
Tommy Breen	2018	57	–	–	–	–	57
	2017	52	–	–	–	–	52
Lorraine Trainer	2018	63	–	–	–	–	63
	2017	63	–	–	–	–	63
Mary Reilly	2018	52	–	–	–	–	52
	2017[6]	26	–	–	–	–	26
Ralf K. Wunderlich	2018	52	–	–	–	–	52
	2017[6]	26	–	–	–	–	26
Terry Twigger	2018[7]	21	–	–	–	–	21
	2017	70	–	–	–	–	70

1 Taxable benefits comprise a fully expensed car or cash allowance plus private medical insurance and life insurance cover.

2 Paul Forman received a pension contribution of 25% of basic salary while Stefan Schellinger and Lily Liu received a pension contribution of 20% of basic salary (inclusive of 5% of salary paid into the Company scheme by the Company). Neither Paul Forman, Stefan Schellinger or Lily Liu are entitled to any benefit under the Essentra Defined Benefit Pension Scheme.

3 Upon appointment Lily Liu received a payment of £20,000 to compensate her for a benefit repayment to her former employer when she agreed to join Essentra.

4 Salary paid from the date of appointment as an Executive Director on 15 November 2018.

5 The figures shown here relate to the period until 15 November 2018 when Stefan Schellinger resigned from the Board, Stefan ceased employment with the Company on 30 November 2018. Subsequent to this, Stefan received a contractual payment in lieu of notice of £228,245 for the remainder of his notice period (based on salary and the value of benefits). The outstanding DASB / SAYE awards became exercisable upon the termination of his employment and his outstanding LTIP awards were time pro-rated and remain subject to three-year performance conditions. Full details can be found on page 101.

6 Fees paid from date of appointment as a Non-Executive Director on 1 July 2017.

7 Fees paid to the date of retirement as a Non-Executive Director on 19 April 2018.

LTIP awards (audited)

LTIP awards granted in 2016 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 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.

Performance conditions for the 2016 grant have not been met.

For the 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 a 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.

For the LTIP awards granted to the Executive Directors in 2018, one-third of the awards is subject to a TSR performance condition as stated above, one-third is subject to a cumulative adjusted operating cash flow threshold of £252m, to a maximum cumulative adjusted operating cash flow of £292m and one-third of the awards is subject to an adjusted EPS performance condition, with a growth target range of 6% to 15% pa.

Performance condition for LTIP awards made in February 2016

	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	-48.5% Rank 166 out of 186 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	-21.4%	0%

Annual bonus (audited)

Under the terms of the annual bonus arrangements for 2018, 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, time pro rated as appropriate. Having only joined Essentra in November 2018, Lily Liu was not entitled to a bonus in relation to 2018.

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. The bonus earned by Stefan Schellinger would be paid wholly in cash.

For the year ended 31 December 2018, the performance measures for the Executive Directors were based upon Adjusted Operating Profit, Net Working Capital and personal objectives. 50% of the maximum payout would be paid for achieving target performance.

2018 Annual Bonus Outturn

Performance measure	Proportion of bonus determined by measure	Base performance	Target performance	Stretch performance	Actual performance £m	% of maximum bonus payable
Adjusted Operating Profit[1]	50%	£91.9m	£99.4m	£106.8m	£96.8m	16.2%
Net Working Capital[2]	30%	15.1%	14.8%	14.6%	14.0%	30.0%

1 Based on internal forecast at constant exchange rates.

2 Net Working Capital as % of external sales.

Personal Objectives set	Achievement	Actual score
Chief Executive – Paul Forman		
Improve employee engagement at least up to the IBM Kenexa average level for Industrials (our 2017 score is 69 versus the IBM average of 72 for industrials).	Engagement score moved up by 6 points to 75. Response rate was 91%, which is upper quartile and shows significant employee support for the survey.	5/5
Improve employee attitude to HSE as measured by the 2018 engagement survey/ spot survey compared to 2017.	In the engagement survey " Safety is a priority where I work" got a score of 90% and "my company is a safe place to work" scored 85%. Both achieved above industrial norms. Improvement in Safety standards throughout the business.	5/5
Improve the governance environment, focusing on risk management, financial controls and internal audit effectiveness.	Major improvements to the risk management achieved within the Group through best in class processes and dedicated resource.	3/5
Upgrade the quality of the CEO's second line reports.	Significant improvement in the Senior talent pool with a focus on capability and diversity.	5/5
Total actual score		18/20
Group Finance Director – Stefan Schellinger		
Improve employee engagement at least up to the IBM Kenexa average level for Industrials (our 2017 score is 69 versus the IBM average of 72 for industrials).	Engagement within the Finance team failed to achieve the same increase as the wider business.	0/6
Improve the governance environment, focusing on risk management, financial controls and internal audit effectiveness.	Internal Audit and Risk progressed at a much faster pace to that of the financial controls. PwC are happy with year end and half-year packs. Audit and Risk Committee reassured about controls with aspects like segregation of duties.	5/7
Upgrade the quality of direct reports and second line reports.	A much improved and higher calibre team from the GMC down.	6/7
Total actual score		11/20
Total of maximum		Paul Forman 64.2%
Total of maximum		Stefan Schellinger 57.2%

Annual Report on Remuneration continued

The Remuneration Committee considered these bonus payments in the context of Essentra's overall performance in 2018, including the Company's environmental, social and governance responsibilities. In particular they considered the Company's progression in health and safety and were satisfied that the bonus payments are appropriate.

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 2018	Awarded in year	Exercised / Transferred in year	Lapsed in year	At 31 Dec 2018	Share price at date of grant	Earliest vesting date	Expiry date
Paul Forman									
LTIP 2015	8 Sept 17	387,076	–	–	–	387,076	529.0p	8 Sept 20	7 Sept 23
LTIP 2015	6 Apr 18	–	292,877	–	–	292,877	426.8p	6 Apr 21	6 Apr 24
DASB	29 Mar 18	–	52,059	–	–	52,059	432.2p	1 Mar 21	1 Mar 21
Stefan Schellinger									
LTIP Part B	29 April 13	19,752	–	19,752	–	–	706.0p	19 Apr 16	18 Apr 19
LTIP 2015	30 Apr 15	36,158	–	–	36,158	–	950.5p	30 Apr 18	29 Apr 21
LTIP 2015	23 Feb 16	74,222	–	–	–	74,222	828.5p	23 Feb 19	22 Feb 22
LTIP 2015	8 Sept 17	111,478	–	–	47,398	64,080[1]	529.0p	8 Sept 20	7 Sep 23
LTIP 2015	6 Apr 18	–	126,522	–	78,067	48,455[1]	426.8p	6 Apr 21	5 Apr 24
DASB	1 Apr 15	3,872	302[2]	4,174	–	–	993.5p	1 Mar 18	1 Mar 18
DASB	1 Mar 16	3,792	–	3,792	–	–	828.5p	30 Nov 18	30 Nov 18
DASB	29 Mar 18	–	21,490	21,490	–	–	432.2p	30 Nov 18	30 Nov 18

1 Subject to a two-year holding period post vesting.
2 Additional shares were awarded in line with the DASB Plan rules, relating to a dividend roll out.

During the year Stefan Schellinger exercised his May 2013 LTIP B award, Stefan exercised 19,752 options at a price of £4.64 making a gross gain of £91,649.

During the year the April 2015 DASB award was transferred to Stefan Schellinger. 4,174 shares were transferred at a price of £4.87 making a gross gain of £20,327.

As at the date of leaving the March 2016 and March 2018 DASB award was transferred to Stefan Schellinger. 25,282 shares were transferred at a price of £3.85 making a gross gain of £97,336.

A total of 1,445,715 (2017: 981,251) share incentive awards under the LTIP 2015 and the DASB were granted during the year ended 31 December 2018 to Executive Directors and other senior executives on the Group Management Committee.

The performance conditions for the 2016 grant have not been met and there is no LTIP vesting in 2019.

LTIP awards granted during the year (audited)

The following LTIP awards were granted to Executive Directors on 6 April 2018.

Executive	Type of award	Number of awards granted	Share price used to determine award	Face value	Percentage which vests at threshold
Paul Forman	Performance share	292,877	£4.268	£1,250,000	25%
Stefan Schellinger	Performance share	126,522	£4.268	£540,000	25%

Face value is based on the mid-market closing share price on the day preceding the grant ie. 5 April 2018.
The performance period for these awards is three financial years.

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 2018	Granted	Lapsed	At 31 Dec 2018	Exercise price	Share price at date of exercise	Earliest vesting date	Expiring date
Stefan Schellinger									
Three-year SAYE	1 May 17	4,186	–	–	4,186	430.0p	–	31 May 19	31 May 19

The middle market price of an ordinary share in the Company on 31 December 2018 was £3.424. The middle market price of an ordinary share in the Company during the year ranged from £3.254 to £5.425.

Directors' shareholdings (audited)

The beneficial interests of the current Directors in office during the year, in the issued ordinary share capital of the Company were as follows:

There have been no changes in the Directors' interests since 31 December 2018 and the date of this Report.

	Beneficially owned		LTIP B awards		DASB	SAYE
	31 Dec 2017	31 Dec 2018[1]	Vested	Unvested	Unvested	Unvested
Executive Directors						
Paul Forman	120,000	240,000	–	679,953	52,059	–
Lily Liu	–	–	–	–	–	–
Stefan Schellinger	2,792	15,263		186,757	–	4,186
Non-Executive Directors						
Paul Lester	7,500	7,500	–	–	–	–
Tommy Breen	10,000	10,000	–	–	–	–
Lorraine Trainer	8,247	8,644	–	–	–	–
Ralf K. Wunderlich	52,300	136,000	–	–	–	–
Mary Reilly	–	7,500	–	–	–	–
Terry Twigger[1]	7,500	7,500	–	–	–	–

1 Or date of leaving the Board.

Paul Forman and Lily Liu are required to build up a shareholding worth 300% and 200% of salary respectively from the date of appointment. Beneficially owned shares do not include unvested LTIP awards. Current holdings as a percentage of salary are 125% for Paul Forman and 0% for Lily Liu.

Salary used is the prevailing annual salary as at 31 December 2018.

The Executive Directors are regarded as being interested in 1,073,932 (2017 restated: 1,179,507) 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 2018, potential and actual share issuance through employee related share plans totalled 2.33%, 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 ten 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 ten-year period

Ten-year Chief Executive table (unaudited)

	Mark Harper			Colin Day						Paul Forman	
	2009	2010	1 Jan – 14 Apr 11	Apr – 31 Dec 11	2012	2013	2014	2015	2016	2017	2018
Total remuneration (£000)	1,038	2,932	1,715	1,046	1,570	3,824	5,661	2,281	876	1,267	1,420
Annual bonus (%)	20	100	100	100	100	100	60	46.2	0	48	64.2
LTIP Vesting (%)	73	100	100	N/A	N/A	100	100	50	0	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)

	2018[1] £000	2017[2] £000	% change Chief Executive	% change UK Group Management Committee
Salary	625	625	0%	5%
Benefits	37	36	3.0%	5%
Bonus	602	450	33.8%	79.5%

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)

	2018 £m	2017 £m	% change
Staff costs[1]	293.7	277.5	5.8
Distributions to shareholders	54.2	54.1	1.8
Revenue – total	1,025.6	1,043.0	-1.7
Adjusted operating profit – total	90.7	87.4	3.8

1 Staff costs are as per note 5 of the Financial Statements.

Termination arrangements for departing Director (audited)

Termination payments to Stefan Schellinger were determined by the Remuneration Committee taking into account his contractual entitlements and the rules of the Company's incentive plans.

1. Payments up to the date of leaving the Company and in lieu of notice
During Stefan Schellinger's notice period (which began on 1 June 2018) Stefan was entitled to receive his normal base salary (£369,700 pa) and his normal contractual benefits. The Remuneration Committee exercised its discretion to terminate the notice period effective from 30 November 2018 and a payment in lieu of notice of £228,245 was made for the remainder of the notice period (based on salary and the value of benefits).

2. Annual Bonus
The Remuneration Committee determined that Stefan was eligible for an annual bonus to be paid in cash in respect of the year ended 31 December 2018 calculated on a time pro-rated basis reflecting the proportion of the year that he was employed by the Company.

3. Outstanding share awards
Stefan Schellinger's outstanding share incentives have been treated in accordance with the rules of the applicable plans and remain subject to the terms contained therein.

DASB: As at the date of leaving Stefan Schellinger held outstanding DASB awards granted in 2016 and 2018 which relate to annual bonuses earned in respect of performance in 2015 and 2017 respectively. The Remuneration Committee determined that the DASB would vest upon Stefan's leaving date of 30 November 2018.

LTIP: As at the date of leaving Stefan Schellinger held outstanding LTIP awards granted in 2016, 2017 and 2018. The Remuneration Committee determined that the awards will vest on their normal vesting date (three years from the date of grant) on a time pro-rated basis (including the notice period) and are subject to the performance conditions assessed over the full three-year performance period for each award.

SAYE: Stefan Schellinger's outstanding options held under the SAYE scheme will be exercisable upon leaving the Company in accordance with the rules of the plan.

During the year no payments were made by Essentra to any past director.

Implementation of Remuneration Policy for 2019 (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 2019 is 2.9%. which has been taken into account when awarding the Executive Director salary increases.

	Paul Forman £	Lily Liu £
Annual salary effective from 1 April 2019	643,125	329,280
Annual salary effective from 1 April 2018	625,000	320,000

1 At date of appointment.

DIRECTORS' REPORT

Annual Report on Remuneration continued

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. Lily Liu will receive a supplementary payment of 20% of her basic salary to permit her 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 2019, Paul Forman is potentially entitled to a maximum bonus of up to 150% of basic salary and Lily Liu 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 the 2019 incentive plan that are consistent with current strategic priorities as shown below:

For the 2019 bonus arrangements the Remuneration Committee has approved the introduction of an Operating Profit "hurdle" that must be achieved in order for any bonus to be paid.

At achievement at Threshold for Operating Profit and Net Working Capital, 20% of the bonus will be payable.

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 2019 Remuneration Report.

In addition to the financial measures, the Remuneration Committee has also set personal performance targets for Paul Forman and Lily Liu, 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.

Performance criteria 2019 Bonus

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

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 2019.

	Paul Forman	Lily Liu
The award to be granted in August 2019 as annual award	200%	250%[1]

1 Lily Liu will receive a one off recruitment award of shares 100% of salary to compensate for incentives forgone on leaving previous employment.

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.

The LTIP awards to be granted to the Executive Directors in 2019 are structured as per below.

Measures	Weighting	Performance Conditions 2019 (25% vests at threshold; 100% vests at maximum)
Relative TSR	1/3	Relative to FTSE 250 (excluding investment trusts) Threshold is median; maximum is upper quartile
Adjusted EPS 2019 – 2021 CAGR[2, 3]	1/3	Threshold is 5%; maximum is 12%
ROIC[1, 2, 3]	1/3	Threshold is 9.4%; maximum is 14.5%

1 ROIC replaced the "adjusted operating cash flow" performance measure.

2 Adjusted EPS and ROIC are subject to adjustment from portfolio management/changes, for any project with > £5m consideration.

3 For EPS and ROIC, based on current practice, we straight line on achievement from threshold to maximum.

Awards granted under the LTIP 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.

Following an assessment of the time commitments the Board approved increases for the roles with additional responsibilities. These are the first increases to the Non-Executive Director fees since 2015. No individual was present for the discussion related to their fees.

Annual fee effective	Chairman	Non-Executive Director	Senior Independent Non-Executive Director	Additional fee for chairing a Committee	Employee Champion
From 1 April 2019	250,000	52,000	10,000	13,000	5,000
From 1 April 2018	250,000	52,000	7,000	11,000	–

Outside appointments (unaudited)

Paul Forman held a Non-Executive Director appointment during the year ended 31 December 2018 for Tate and Lyle Plc. Paul received and retained fees of £67,000 in respect of this directorship.

Statement of shareholder voting (unaudited)

The results of shareholder voting in relation to the approval of the Directors' Remuneration Report at the 2018 AGM were as follows:

	Annual Report on Remuneration		Remuneration Policy Report	
	No. of votes	%	No. of votes	%
Votes cast in favour	209,727,932	97.53	218,535,269	99.54
Votes cast against	5,313,661	2.47	1,010,719	0.46
Total votes cast	215,041,593		219,545,988	
Abstentions	5,044,868	–	540,474	–

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

By order of

Lorraine Trainer
Remuneration Committee Chairman
1 March 2019

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 2018, and audited Financial Statements of the Company and its subsidiary undertakings for the year ended 31 December 2018.

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

The Directors' Report comprises pages 66 to 109, and the sections of the Annual Report incorporated by reference are as set out below:

Membership of Board during 2018 financial year	page 72
Financial instruments and financial risk management	pages 42 to 43
CO_2 emissions	page 27
Corporate Governance report	pages 72 to 77
Future developments of the business of the Group	pages 16 to 17
Employee diversity	pages 22 to 25

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 2018 was £28.1m (2017: profit £115.8m).

The profit on ordinary activities after taxation of the continuing operations for the year ended 31 December 2018 was £28.1m (2017: profit £5.5m).

As at 1 March 2019, the Company has paid the following dividend in respect of the year ended 31 December 2018:

	Per share p	Total £m
Interim dividend paid 31 October 2018	6.3	16.5

The Directors recommend that a final dividend of 14.4p (2017: 14.4p) per share be paid, making a total dividend distribution for the year of 20.7p (2017: 20.7p).

The final dividend, subject to shareholder approval at the AGM, will be paid on 3 June 2019 to shareholders on the register on 26 April 2019.

Directors

As at 31 December 2018, the Board of Directors comprised:

Paul Lester	Non-Executive Chairman
Paul Forman	Chief Executive
Lily Liu	Chief Finance Officer
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 2016 in relation to Directors' appointments, and in particular the annual re-election of all Directors.

Lily Liu was appointed as Chief Finance Officer on 15 November 2018 and will be putting herself forward for election at the 2019 AGM, having been appointed since the 2018 AGM.

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 and General Counsel as soon as possible. During 2018 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 99.

Share capital

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

On 31 December 2018, there were 264,129,170 ordinary shares of 25p each in issue. There were 1,127,065 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 1 March 2019, 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
AXA Investment Managers	4.81

Employees

As at 31 December 2018, the Company employed 8,089 people globally and 1,181 people in the UK. Information on the Group's policies on employee recruitment, engagement and the employment of disabled persons can be found in Our People on pages 22 to 25.

Political contributions

In line with Group policy, the Company made no political contributions (2017: £nil).

Environmental

The disclosures concerning CO_2 emissions required by law are included in Corporate Responsibility on pages 26 to 29.

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 and 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 23 May 2019 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 2018 AGM, the Directors were granted authority to allot relevant securities up to a nominal amount of £21,913,274, 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 £21,916,842 representing approximately one-third of the Company's issued share capital, excluding treasury shares, at 1 March 2019 (such an amount to be reduced by the nominal amount allotted or granted under section (ii) below in excess of such sum); and (ii) comprising equity securities up to an aggregate nominal amount of £43,833,684 representing approximately two-thirds of the issued share capital, excluding treasury shares, at 1 March 2019 (such an amount to be reduced by any allotments or grants made under section (i) above) in connection with an offer by way of a rights issue.

The proposal conforms to the guidelines issued by the institutional investment protection bodies to ensure that existing shareholders' interests are safeguarded. The Directors have no present intention of exercising either of these authorities, which will expire at the end of next year's AGM (or, if earlier, the close of business on 23 July 2020) except in relation to share options.

Other Statutory Information continued

Allotment of shares for cash
At the 2018 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 14 and 15 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 £3,287,526 (representing 13,150,105 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 £3,287,526 (representing 13,150,105 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 23 July 2020. 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 2018 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, 23 July 2020). In accordance with the requirements of the Listing Rules of the Financial Conduct 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 2018, 43,860 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.

External Auditor

PricewaterhouseCoopers have expressed their willingness to continue to be appointed as External Auditor of the Company. Upon the recommendation of the Audit and Risk 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 119 and in note 18 on page 146.

Going concern statement

The Directors have assessed whether the Company has adequate resources to continue in operational existence for the foreseeable future and accordingly continue to adopt 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 42 to 43. As described on pages 30 to 41, a number of Principal Risks could potentially affect the Group's results and financial position. 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 USA 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 2018 available bank facilities totalled £375.0m (2017: £374.2m). The USA 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 and the Principal Risks described on pages 30 to 41, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, and accordingly continue to adopt 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.

Long-term viability statement

In accordance with provision C.2.2 of the Corporate Governance Code, the Directors have assessed the longer-term viability of the Company over the period to December 2021.

The assessment has been based on the Company's strategy and implementation programme, balance sheet and financing position, and the potential impact of the key risks and uncertainties described above. The Company 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.

This assessment was informed by our judgements as to the potential financial impact of these risks if they materialise. In order to support the assessment of the viability, the Directors have considered the following realistic and plausible scenarios:

Scenario 1

	Level of severity tested
Cyber attack (base scenario)	£0.5 million increase in cost in year one
Business continuity event (middle scenario)	6.6% fall in revenue and 22% decline in the operating profit in year one with no recovery assumed of this in the following two years
Macro-economic and trade deal uncertainty (inc. Brexit)	3.9% fall in revenue and 26% decline in the operating profit in years one and two. In year three we have assumed recovery of lost revenue and a 3.6% decline in the operating profit

Scenario 2

	Level of severity tested
Cyber attack (severe scenario)	£10.8 million one-off exceptional cash cost in year one
Business continuity event (base scenario)	1.2% fall in revenue in year one with no recovery assumed of this lost revenue in the following two years
Macro-economic and trade deal uncertainty (inc. Brexit)	3.9% fall in revenue and 26% decline in the operating profit in years one and two. In year three we have assumed recovery of lost revenue and a 3.6% decline in the operating profit

Scenario 3

	Level of severity tested
Cyber attack (middle scenario)	£5.4 million one-off exceptional cash cost in year one
Business continuity event (severe scenario)	5.5% fall in revenue and 36.8% decline in the operating profit in year one with no recovery assumed of this in the following two years
Macro-economic and trade deal uncertainty (inc. Brexit)	3.9% fall in revenue and 26% decline in the operating profit in years one and two. In year three we have assumed recovery of lost revenue and a 3.6% decline in the operating profit

To further stress test our long-term viability the Directors have assumed that the risks in each scenario would all crystallise simultaneously.

To perform further stress testing of our viability, the Directors have also considered the worst case events from each of the scenarios as follows:

Scenario 4

	Level of severity tested
Cyber attack (severe scenario)	£10.8 million one-off exceptional cash cost in year one
Business continuity event (severe scenario)	5.5% fall in revenue and 36.8% decline in the operating profit in year one with no recovery assumed of this in the following two years
Macro-economic and trade deal uncertainty (inc. Brexit)	3.9% fall in revenue and 26% decline in the operating profit in years one and two. In year three we have assumed recovery of lost revenue and a 3.6% decline in the operating profit

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 actions 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.

Other Statutory Information continued

This assessment was informed by our judgements as to the potential financial impact of these risks if they materialise. In order to support the assessment of the viability, the Directors have considered the following realistic and plausible scenarios:

To further stress test our long-term viability the Directors have assumed that the risks in each scenario would all crystallise simultaneously.

To perform further stress testing of our viability, the Directors have also considered the worst case events from each of the scenarios as follows:

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 actions 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 reasonable 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 1 March 2019

By order of the Board

Jon Green
Company Secretary
1 March 2019

Statement of Directors' Responsibilities in Respect of the Financial Statements

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 (IFRSs) 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 IFRSs as adopted by the European Union and IFRSs 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; and
- 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 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 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 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.

Directors' confirmations

Each of the Directors, whose names and functions are listed in Directors' Report 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; and
- 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

Lily Liu
Chief Financial Officer
1 March 2019

Financial Statements

Consolidated Income Statement

For the year ended 31 December 2018

	note	**2018 £m**	2017 £m
Revenue	1	**1,025.6**	1,027.3
Operating profit before intangible amortisation and exceptional and other adjusting items		**90.7**	84.6
Amortisation of acquired intangible assets		**(22.7)**	(22.9)
Exceptional and other adjusting items	2, 23	**(20.8)**	(56.2)
Operating profit		**47.2**	5.5
Finance income	3	**1.7**	0.8
Finance expense	3	**(12.6)**	(11.2)
Profit/(loss) before tax		**36.3**	(4.9)
Income tax (expense)/credit	4	**(8.2)**	10.4
Profit from continuing operations		**28.1**	5.5
Profit from discontinued operations	23	**–**	110.3
Profit for the year		**28.1**	115.8
Attributable to:			
Equity holders of Essentra plc		**24.3**	114.3
Non-controlling interests		**3.8**	1.5
Profit for the year		**28.1**	115.8
Earnings per share attributable to equity holders of Essentra plc:			
Basic	6	**9.3p**	43.7p
Diluted	6	**9.2p**	43.4p
Earnings per share from continuing operations attributable to equity holders of Essentra plc:			
Basic	6	**9.3p**	1.5p
Diluted	6	**9.2p**	1.5p

FINANCIAL STATEMENTS

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

	note	2018 £m	2017 £m
Profit for the year		**28.1**	115.8
Other comprehensive income/(expense):			
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit pension schemes	17	**2.7**	8.3
Deferred tax expense on remeasurement of defined benefit pension schemes	4,15	**(0.4)**	(2.8)
		2.3	5.5
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**	(0.6)
Effective portion of changes in fair value of cash flow hedges		**(0.2)**	0.6
Foreign exchange translation differences:			
Attributable to equity holders of Essentra plc:			
Arising on translation of foreign operations		**10.1**	(51.6)
Arising on effective net investment hedges		**(5.6)**	1.7
Income tax expense	4	**(0.2)**	(0.2)
Attributable to non-controlling interests		**0.1**	(0.5)
		4.8	(50.6)
Other comprehensive income/(loss) for the year, net of tax		**7.1**	(45.1)
Total comprehensive income for the year		**35.2**	70.7
Attributable to:			
Equity holders of Essentra plc		**31.3**	69.7
Non-controlling interests		**3.9**	1.0
Total comprehensive income for the year		**35.2**	70.7

Consolidated Balance Sheet

At 31 December 2018

	note	31 December 2018 £m	31 December 2017 £m
Assets			
Property, plant and equipment	7	**282.2**	283.1
Intangible assets	8	**528.2**	547.7
Long-term receivables		**9.6**	8.6
Deferred tax assets	15	**14.8**	10.4
Retirement benefit assets	17	**18.5**	18.3
Total non-current assets		**853.3**	868.1
Inventories	9	**119.7**	114.3
Income tax receivable		**2.9**	3.9
Trade and other receivables	10, 18	**188.8**	201.0
Derivative assets	14, 18	**0.3**	0.4
Cash and cash equivalents	11, 18	**65.8**	52.0
Total current assets		**377.5**	371.6
Assets in disposal group held for sale	23	**41.8**	–
Total assets		**1,272.6**	1,239.7
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		**0.1**	(0.3)
Translation reserve		**22.8**	18.5
Retained earnings	20	**338.3**	362.7
Attributable to equity holders of Essentra plc		**592.6**	612.3
Non-controlling interests		**11.6**	8.1
Total equity		**604.2**	620.4
Liabilities			
Interest bearing loans and borrowings	13, 18	**311.2**	267.1
Retirement benefit obligations	17	**32.4**	31.7
Provisions	16	**20.7**	20.0
Other financial liabilities	18	**2.6**	3.7
Deferred tax liabilities	15	**50.5**	50.0
Total non-current liabilities		**417.4**	372.5
Interest bearing loans and borrowings	13, 18	**0.1**	0.5
Derivative liabilities	14, 18	**0.2**	0.9
Income tax payable		**41.8**	43.1
Trade and other payables	12, 18	**199.5**	197.5
Provisions	16	**5.3**	4.8
Total current liabilities		**246.9**	246.8
Liabilities in disposal group held for sale	23	**4.1**	–
Total liabilities		**668.4**	619.3
Total equity and liabilities		**1,272.6**	1,239.7

The consolidated financial statements on pages 111 to 155 were approved by the Board of Directors on 1 March 2019 and were signed on its behalf by:

Paul Forman
Chief Executive
Company registration no: 05444653

Lily Liu
Chief Financial Officer

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	note	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
										2018
At 1 January 2018		**66.0**	**298.1**	**0.1**	**(132.8)**	**(0.3)**	**18.5**	**362.7**	**8.1**	**620.4**
Change in accounting policy	1							**(2.2)**	**(0.1)**	**(2.3)**
Restated total equity at the beginning of the financial year		**66.0**	**298.1**	**0.1**	**(132.8)**	**(0.3)**	**18.5**	**360.5**	**8.0**	**618.1**
Profit for the year								**24.3**	**3.8**	**28.1**
Other comprehensive income						**0.4**	**4.3**	**2.3**	**0.1**	**7.1**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**0.4**	**4.3**	**26.6**	**3.9**	**35.2**
Share options exercised								**0.1**		**0.1**
Share option expense								**5.2**		**5.2**
Tax relating to share-based incentives								**0.1**		**0.1**
Dividends paid								**(54.2)**	**(0.3)**	**(54.5)**
At 31 December 2018		**66.0**	**298.1**	**0.1**	**(132.8)**	**0.1**	**22.8**	**338.3**	**11.6**	**604.2**

	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
									2017
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

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	note	2018 £m	2017 £m
Operating activities			
Profit for the year		**28.1**	115.8
Adjustments for:			
Income tax expense	4	**8.2**	14.5
Net finance expense	3	**10.9**	10.4
Intangible amortisation	2,8	**23.2**	23.9
Exceptional and other adjusting items	2	**20.8**	(76.2)
Depreciation	2,7	**35.4**	35.3
Share option expense	5,17	**4.8**	0.7
Hedging activities and other movements		**1.2**	(1.6)
Increase in inventories		**(8.0)**	(2.4)
Decrease in trade and other receivables		**5.5**	15.5
Increase/(decrease) in trade and other payables		**8.4**	(7.5)
Cash outflow in respect of exceptional and other adjusting items		**(20.8)**	(28.9)
Adjustment for pension contributions		**(1.0)**	(0.1)
Movement in provisions		**(1.1)**	(1.6)
Cash inflow from operating activities		**115.6**	97.8
Income tax paid		**(16.5)**	(20.4)
Net cash inflow from operating activities		**99.1**	77.4
Investing activities			
Interest received		**1.2**	0.5
Acquisition of property, plant and equipment		**(58.2)**	(47.2)
Proceeds from sale of property, plant and equipment		**9.3**	1.8
Payments for intangible assets		**(3.0)**	(0.2)
Acquisition of businesses net of cash acquired	23	**(4.9)**	(15.4)
Proceeds from sale of businesses net of cash disposed	23	**0.9**	210.8
Net cash (outflow)/inflow from investing activities		**(54.7)**	150.3
Financing activities			
Interest paid		**(10.7)**	(13.0)
Dividends paid to equity holders		**(54.2)**	(54.1)
Dividends paid to non-controlling interests		**(0.3)**	(0.2)
Repayments of short-term loans		**(0.4)**	(64.6)
Repayments of long-term loans		**(101.4)**	(305.6)
Proceeds from long-term loans		**137.0**	201.8
Proceeds from sale of employee trust shares		**0.1**	0.3
Net cash outflow from financing activities		**(29.9)**	(235.4)
Net increase/(decrease) in cash and cash equivalents	21	**14.5**	(7.7)
Net cash and cash equivalents at the beginning of the year		**52.0**	60.7
Net increase/(decrease) in cash and cash equivalents		**14.5**	(7.7)
Net effect of currency translation on cash and cash equivalents		**(0.3)**	(1.0)
Net cash and cash equivalents at the end of the year	11,21	**66.2**	52.0

Accounting Policies

a. Basis of preparation

The consolidated financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the European Union ("EU") in accordance with EU law (IAS Regulation EC 1606/2002) ("adopted IFRS") and 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 156 to 166.

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 14 January 2019, Essentra disposed of its Pipe Protection Technologies business ("PPT") for US$48.0m (£37.5m), free of cash and debt. The assets and liabilities of PPT have been presented as held for sale on the balance sheet as at 31 December 2018.

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 42 and 43. 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 totalling US$155m and syndicated multi-currency five-year revolving credit facilities of £285.0m and €100.8m from its banks. The series of Loan Notes have original maturities ranging from seven to twelve years and the revolving credit facilities mature in November 2022. At 31 December 2018, the available bank facilities totalled £375.0m (2017: £374.2m) of which £193.1m (2017: £155.9m) was drawn down. In addition, uncommitted and overdraft facilities are maintained to provide short-term flexibility.

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.

Changes in accounting policies
In the current financial year, Essentra adopted the following pronouncements:

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 concludes that the new standard did not have a material impact on revenue recognition for the Group, given the nature of products and services offered by the Group.

The following areas were specifically considered by the Group:

- Revenue 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 is now 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 expects to recover those costs. These costs were not significant in the past, and are not expected to be significant going forward.
- 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.

a. Basis of preparation continued

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 standard became effective from 1 January 2018.

Impairment: As at 31 December 2017, financial assets were assessed for impairment using the IAS 39 incurred loss model. Following the adoption of IFRS 9, this was replaced 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 fair value to other comprehensive income ('FVOCI') will be subject to the impairment provisions of IFRS 9. The Group applies 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 expected loss rate estimated for each ageing period is as follows: Current: 0.5%, Overdue 1-30 days: 1%, Overdue 31-60 days: 5%, Overdue 61-90 days: 10%, Overdue 91-180 days: 25%, Overdue 181-360 days: 50% and Overdue over 360 days: 100%.

The quantitative impact of IFRS 9 on the group's retained earnings at 1 January 2018 relating to the increase in provision for trade receivables is £2.3m. The loss allowance at 31 December 2017 under IAS 39 was £4.5m.

Hedging: The hedge accounting requirements of IFRS 9 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 arising from underlying business activities. The Group's hedge relationships under the previous IAS 39 continue to qualify as accounting hedges upon the adoption of IFRS 9.

The Group has taken advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes under IFRS 9. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are therefore recognised in retained earnings and reserves as at 1 January 2018.

The following standards or interpretations have not yet been adopted by the Group.

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 present depreciation of leased right-of-use assets separately from interest as a result of unwinding of discount on lease liabilities in the income statement.

The Group has performed the impact assessment of adopting this accounting standard, which involved collating information on lease obligations and contractual arrangements across the Group. This data was then used to compare the impact of the new standard under different transitional options.

The Group has decided to select the modified retrospective approach on transition primarily on grounds of practicality. Under this approach, comparative information is not restated and the impact of adopting IFRS 16 will be presented as an opening retained earnings adjustment as at 1 January 2019.

Under this transition option a methodology for determining the incremental borrowing rate has been developed to calculate the initial lease liability for each lease. This methodology incorporates three key elements: risk-free rate (reflecting specific country and currency), credit spread (reflecting the specific risk for each subsidiary within the Group) and an asset class adjustment (reflecting the variation in risk between asset categories).

Approximately 80% of the Group's future lease obligations under IAS17 relate to property leases and as a consequence makes up the majority of the impact of adopting IFRS 16. A key judgement in determining the right-of-use asset and lease liability is establishing whether it is reasonably certain that an option to extend the lease will be exercised. Distinguishing whether a lease will be extended or otherwise will have a material impact on the value of the right of use assets and lease liabilities recognised on the balance sheet, but will not have a material impact on the income statement.

The Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application and lease contracts for which the underlying asset is of low value. The Group has leases of certain equipment (e.g. printing and photocopying machines) that are considered of low value.

Transition to IFRS 16

During 2018, the Group has performed a detailed impact assessment of adopting IFRS 16 from 1 January 2019. In summary the impact of IFRS 16 adoption is estimated as follows:

a. Basis of preparation continued

Estimated impact on the balance sheet (increase/(decrease)) as at 31 December 2018:

	£m
Assets	
Right-of-use assets	38.9
Prepayments and deferred income	(0.4)
Liabilities	
Lease liabilities	(55.4)
Onerous lease provision	7.6
Accruals and deferred income	2.9
Net deferred tax liabilities	1.2
Net impact on equity	**(5.2)**

Estimated impact on the income statement (increase/(decrease) in profit) for 2018:

	£m
Depreciation expense	(9.7)
Operating lease expense	11.8
Operating profit	2.1
Finance costs	(2.2)
Income tax expense	0.1
Impact on profit after tax for the year	–

Under IFRS 16, the Group's operating profit will increase, while its interest expense will increase. This is due to the change in the accounting for expenses of leases that were previously classified as operating leases under IAS 17.

Other standards and interpretations

The Group also adopted the following new pronouncements during 2018, which did not have any impact on the Group's financial statement:

- 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.
- Amendments to IAS 40 *Transfer of Investment Property* clarify the accounting requirements on transfers to or from investment property.

The following pronouncements will be adopted by the Group from 1 January 2019. 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.

- IFRIC 23 *Uncertainty over Income Tax Treatments* addressed 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 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

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 and other adjusting 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 regularly to determine whether there is any indication of impairment. Goodwill is tested for impairment 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.

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 calculated using the expected loss model.

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 benefits 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 discounts, rebates, refunds, credits, price concessions or other similar items, when the associated performance obligation has been satisfied, and control of the goods has been transferred to the customer.

A significant part of the Group's businesses sell goods on an ex-works basis, where the Group as seller makes its goods ready for collection at its premises on an agreed upon sales date and the buyer incurs all transportation and handling costs and bears the risks for bringing the goods to their chosen destination.

Where the Group operates non ex-works terms with customers, revenue is recognised when the control of the goods has been transferred to the customer. These terms include consignment stock agreements, where revenue is recognised upon the customer removing goods from consignment stock.

Under IFRS 15 *Revenue from Contracts with Customers*, each customer arrangement/contract is assessed to identify the performance obligations being provided to the customer. Where distinct performance obligations are deemed to exist, an element of revenue is apportioned to that obligation.

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 USA 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 and other adjusting items

The exceptional and other adjusting items are separately presented from other items by virtue of their nature, size and/or 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 underlying results of the ongoing Group's operations, by excluding the impact of items which, in management's view, do not form part of the Group's underlying operating results, such as gains, losses or costs arising from business acquisition and disposal activities, significant restructuring and closure costs and other items which are non-recurring or one-off in nature (such as the costs of fundamental strategic review and reorganisation). Operating profit before exceptional and other adjusting items and acquired intangible amortisation is called adjusted operating profit, which forms the primary basis of management's review and assessment of operational performance of the Group's businesses.

(i) Gains/losses and transaction costs relating to acquisitions and disposals of businesses
In 2018, Essentra incurred one-off costs (such as professional fees) as a result of the acquisitions of Micro Plastics and Hertila and disposals of Swiftbrook and Pipe Protection Technologies (refer to note 23).

In 2017, Essentra incurred one-off costs (such as professional fees) as a result of the acquisitions of Micro Plastics and Kamsri Printing & Packaging PVT and disposal of Porous Technologies.

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

u. Exceptional and other adjusting items continued

(iii) Other exceptional items

In 2018, this represented costs arising from central management team restructuring, Packaging and Specialist Components restructuring (closure of the following sites: Largo and Kilmarnock in Packaging and Speciality Tapes Nottingham in Specialist Components), amounts in respect of the strategic review undertaken during the period and associated reorganisation costs, an exceptional past service cost arising from the UK defined benefit scheme (see note 17) and an adjustment on contingent deferred considerations on a prior acquisition.

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.

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; or
- 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) 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. An estimate 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.

(ii) 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.

(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 concludes 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 £17.7m (2017: £18.9m) for transfer pricing matters and £17.7m (2017: £19.0m) for other uncertain tax positions. The movement is due to adjustments for current year transactions, 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 does 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 considers it impracticable to calculate the potential contingent liability since there is too much uncertainty regarding how the process may conclude. Management note the European Commission investigation is ongoing and 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 charge/(credit) in the year the matter is concluded.

Accounting Judgements

(i) Exceptional and other adjusting items
Judgement is required to determine whether items should be included within exceptional and other adjusting 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. With effect from 1 January 2018, Essentra has implemented a new organisational structure, comprising four divisions. The scope of central services remains the same.

The operating segments are as follows:

Components is a global market-leading manufacturer and distributor of plastic injection moulded, vinyl dip moulded and metal items.

Packaging is one of only two multi-continental suppliers of a full secondary packaging range to the health and personal care sectors.

Filters is the only global independent supplier of innovative cigarette filters and related solutions to the tobacco industry.

Specialist Components is a new division, created with effect from 1 January 2018 further to the Company's strategic review, and comprises the following six 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 I**ndustrial 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 is a leading European provider of ID card printers, systems and accessories to direct and trade customers.

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 were presented as results from a discontinued operation in the consolidated income statement for the year ended 31 December 2017.

No finance income or expense related to discontinued operations, and the income tax expense related to discontinued operations amounted to £nil (2017: £24.9m).

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 the adjusted operating profit for year ended 31 December 2017 presented below of £84.9m differs from the amount presented as operating profit before intangible amortisation and exceptional and other adjusting items of £84.6m as a result of £0.3m of costs allocated to Porous Technologies under the internal management methodology.

1. Segment analysis continued

	Components £m	Packaging £m	Filters £m	Specialist Components £m	Eliminations £m	Central Services[1] £m	Continuing Operations £m	Discontinued Operations £m	Total £m
									2018
External revenue	270.6	342.2	260.0	152.8	–	–	1,025.6	–	1,025.6
Intersegment revenue	0.5	0.1	–	6.3	(6.9)	–	–	–	–
Total revenue	**271.1**	**342.3**	**260.0**	**159.1**	**(6.9)**	**–**	**1,025.6**	**–**	**1,025.6**
Operating profit/(loss) before intangible amortisation and exceptional and other adjusting items	60.0	5.4	34.8	12.2	–	(21.7)	90.7	–	90.7
Amortisation of acquired intangible assets	(7.5)	(12.6)	–	(2.6)	–	–	(22.7)	–	(22.7)
Exceptional and other adjusting items	(1.7)	(7.4)	(0.7)	(4.7)	–	(6.3)	(20.8)	–	(20.8)
Operating profit/(loss)	**50.8**	**(14.6)**	**34.1**	**4.9**	**–**	**(28.0)**	**47.2**	**–**	**47.2**
Segment assets[3]	142.1	182.6	165.7	103.8	–	32.5	626.7	–	626.7
Intangible assets[3]	151.8	296.7	0.3	89.4	–	–	538.2	–	538.2
Unallocated items[2]	–	–	–	–	–	107.7	107.7	–	107.7
Total assets	**293.9**	**479.3**	**166.0**	**193.2**	**–**	**140.2**	**1,272.6**	**–**	**1,272.6**
Segment liabilities[3]	42.1	86.0	53.1	24.6	–	26.4	232.2	–	232.2
Unallocated items[2]	–	–	–	–	–	436.2	436.2	–	436.2
Total liabilities	**42.1**	**86.0**	**53.1**	**24.6**	**–**	**462.6**	**668.4**	**–**	**668.4**
Other segment items									
Capital expenditure (cash spend)	8.4	21.0	11.9	4.2	–	15.7	61.2	–	61.2
Depreciation	7.8	10.0	8.7	6.0	–	2.9	35.4	–	35.4
Average number of employees	2,390	3,151	1,591	938	–	169	8,239	–	8,239

1 Central Services includes executive and non-executive management, group finance, tax, treasury, legal, risk and governance, human resources, information technology, corporate development, investor relations 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 Intangible assets, segment assets and segment liabilities in 2018 include the assets and liabilities of the disposal group held for sale.

1. Segment analysis continued

	Components £m	Packaging £m	Filters £m	Specialist Components £m	Eliminations £m	Central Services[1] £m	Continuing Operations £m	Discontinued Operations £m	Total £m
									2017
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 and other adjusting items	53.6	(1.8)	34.8	14.1	–	(15.8)	84.9	2.5	87.4
Amortisation of acquired intangible assets	(7.5)	(12.8)	–	(2.6)	–	–	(22.9)	–	(22.9)
Exceptional and other adjusting items	(7.0)	(36.3)	(0.5)	(2.9)	–	(9.5)	(56.2)	132.4	76.2
Operating profit/(loss)	**39.1**	**(50.9)**	**34.3**	**8.6**	**–**	**(25.3)**	**5.8**	**134.9**	**140.7**
Segment assets	139.8	175.6	162.8	108.1	–	15.7	602.0	–	602.0
Intangible assets	151.6	307.2	0.1	88.8	–	–	547.7	–	547.7
Unallocated items[2]	–	–	–	–	–	90.0	90.0	–	90.0
Total assets	**291.4**	**482.8**	**162.9**	**196.9**	**–**	**105.7**	**1,239.7**	**–**	**1,239.7**
Segment liabilities	40.9	88.2	48.8	24.4	–	23.7	226.0	–	226.0
Unallocated items[2]	–	–	–	–	–	393.3	393.3	–	393.3
Total liabilities	**40.9**	**88.2**	**48.8**	**24.4**	**–**	**417.0**	**619.3**	**–**	**619.3**
Other segment items									
Capital expenditure (cash spend)	6.4	15.8	11.4	7.7	–	5.8	47.1	0.3	47.4
Depreciation	7.0	10.6	9.3	6.4	–	2.0	35.3	–	35.3
Average number of employees[3]	1,937	3,361	1,598	903	–	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, investor relations 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 1 January 2017 until the date of disposal of the Porous Technologies business was 531.

Continuing operations' net finance expense of £10.9m (2017: £10.4m) and income tax expense of £8.2m (2017: £10.4m credit) cannot be meaningfully allocated by segment.

No Customer accounted for more than 10% of revenue in either 2018 or 2017. Analysed by destination, revenue to Europe & Africa is £477.4m (2017: £494.0m), revenue to Americas is £340.2m (2017: £338.3m) and revenue to Asia & Middle East is £208.0m (2017: £210.7m). Revenue to the UK is £105.8m (2017: £116.0m), with other significant countries being the USA with revenue of £264.6m (2017: £258.0m), Ireland £52.5m (2017: £50.9m) and Germany £51.4m (2017: £53.1m). Non-current assets in the UK total £153.5m (2017: £151.8m), with the other significant location being the USA with £334.6m (2017: £315.1m).

FINANCIAL STATEMENTS

2. Net operating expense

	2018 £m	2017 £m
Changes in inventories of finished goods and work-in-progress	**(2.0)**	5.7
Raw materials and consumables	**438.2**	463.7
Personnel expense[1] (note 5)	**293.7**	277.5
Depreciation of property, plant and equipment	**35.4**	35.3
(Profit)/loss on sale of property, plant and equipment	**(3.1)**	2.1
Amortisation of intangible assets	**23.2**	23.9
Exceptional and other adjusting items[1]	**20.8**	(76.2)
Operating lease expense	**14.4**	14.4
Exchange differences recognised in profit or loss	**(0.4)**	(0.1)
Other operating expenses	**158.2**	156.0
Net operating expenses	**978.4**	902.3

1 In addition to the above, personnel expense totalling £8.2m (2017: £9.8m) was charged to exceptional and other adjusting items during the year.

No income or expense (2017: £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 2018 and 2017, and therefore no hedge ineffectiveness has been recognised in net operating expense in 2018 (2017: £nil). Research and development expenses (including relevant staff costs) charged to profit or loss during the year amounted to £4.6m (2017: £5.2m). Other operating expenses include manufacturing, selling, general and administrative overheads.

Exceptional and other adjusting items (including discontinued operations)

	2018 £m	2017 £m
(Gains)/losses and transaction costs relating to acquisitions and disposals of businesses[1]:		
continuing operations	**4.9**	1.6
discontinued operations (Porous Technologies)	**–**	(132.4)
Acquisition integration and restructuring costs[2] – continuing operations	**0.2**	–
Other[3] – continuing operations	**15.7**	54.6
Exceptional and other adjusting items (including discontinued operations)	**20.8**	(76.2)
Exceptional tax items[4]	–	11.4

The exceptional and other adjusting items are separately presented from other items by virtue of their nature, size and/or incidence (considered for each operating segment). They are shown as a separate line item within operating profit on the face of the consolidated income statement in order for the reader to obtain a clearer understanding of the underlying results of the ongoing Group's operations, by excluding the impact of items which, in management's view, do not form part of the Group's underlying operating results, such as gains, losses or costs arising from business acquisition and disposal activities, significant restructuring and closure costs and other items which are non-recurring or one-off in nature (such as the costs of fundamental strategic review and reorganisation). Operating profit before exceptional and other adjusting items and acquired intangible amortisation is called adjusted operating profit, which forms the primary basis of management's review and assessment of operational performance of the Group's businesses.

1 Gains/losses and transaction costs relating to acquisitions and disposals of businesses are made up of £2.5m relating to the net loss on disposal of the Swiftbrook paper merchant business in September 2018 (see note 23), £1.1m of costs in relation to the acquisition of Hertila which completed on 5 July 2018 (see note 23), £1.1m relating to the effect of unwinding the fair value adjustment on inventory in relation to the acquisitions of Micro Plastics and Hertila and £1.9m of transaction costs relating to ongoing acquisition and disposal projects and release of £0.7m of deferred consideration relating to a prior acquisition. In 2017 there was a £132.4m net gain on disposal of the Porous Technologies business and £1.3m net loss on disposal of the Packaging business in Bristol, £0.5m of costs in relation to the acquisition of Micro Plastics and release of £0.2m deferred consideration from the acquisition of Abric in 2014.

2 Acquisition integration and restructuring costs relate to the integration of the Micro Plastics UK business following the acquisition of Micro Plastics.

3 Other exceptional items in 2018 of £15.7m relate to:
- £2.5m in respect of the fundamental strategic review of the Group's operations initiated in 2017 and concluded in 2018, including £0.4m in relation to divisional and Central management team restructuring. 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;
- £1.7m relating to the Packaging restructuring programme (closure costs are outlined separately below). The restructuring programme represents a division-wide programme across multiple sites to streamline and align cost structures following the strategic review, including £1.0m in relation to review and improvement of manufacturing capability and business portfolio, and £0.7m costs relating to strategic management upgrade and other structural changes within the division;
- £7.4m relating to the closure of the Largo and Kilmarnock sites within the Packaging division and the Speciality Tapes business at Nottingham within the Specialist Components division;
- £1.6m associated with the replacement of the Group Finance Director and Group HR Director, as senior management team restructuring associated with the Group's strategic review;
- £2.2m of pension past service cost relating to a Guaranteed Minimum Pensions ("GMP") equalisation was recognised in the year, in relation to the cost of equalising certain pension benefits between men and women in the UK schemes for the impact of GMP for the period between 17 May 1990 and 5 April 1997, following an external court ruling on the subject during the year;
- £0.3m relating to the Filters restructuring to align the division's operational structure with the division strategy; and

Other exceptional items in 2017 of £54.6m relate to:
- £35.4m associated with the closure of the folded cartons facility at Newport;
- £17.3m in respect of the strategic review undertaken during the period and associated reorganisation cost;
- £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.

4 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 a credit of £2.3m (2017: £16.7m expense).

2. Net operating expense continued

Auditor's remuneration (including discontinued operations)

	2018 £m	2017 £m
Audit of these financial statements	**0.2**	0.1
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries of the Company	**1.2**	1.1
Audit-related assurance services[1]	**0.2**	0.1
Total fees	**1.6**	1.3

1 These mainly relate to review of the half year financial statements. In addition the auditors provided non-audit services primarily related to tax services outside the EU for which fees in the year total less than £0.1m (2017: less than £0.1m).

3. Net finance expense

	2018 £m	2017 £m
Finance income		
Bank deposits	**0.5**	0.4
Other finance income	**0.7**	0.1
Net interest on net pension scheme assets (note 17)	**0.5**	0.3
	1.7	0.8
Finance expense		
Interest on loans and overdrafts	**(10.8)**	(8.5)
Amortisation of bank facility fees	**(0.7)**	(1.0)
Other finance expense	**–**	(0.4)
Net interest on net pension scheme liabilities (note 17)	**(1.1)**	(1.3)
	(12.6)	(11.2)
Net finance expense	**(10.9)**	(10.4)

4. Income tax

	2018 £m	2017 £m
Amounts recognised in the consolidated income statement		
Current tax	**14.1**	39.3
Prior years' tax	**0.7**	(0.6)
Deferred tax (note 15)	**(6.6)**	(24.2)
Income tax expense (including discontinued operations)	**8.2**	14.5
Amounts recognised in the consolidated statement of comprehensive income		
Deferred tax expense on remeasurement of defined benefit pension schemes	**0.4**	2.8
Income tax expense in respect of foreign exchange	**0.2**	0.2
Income tax expense (including discontinued operations)	**0.6**	3.0

FINANCIAL STATEMENTS

4. Income tax continued

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.

	2018 £m	2017 £m
Profit before income tax (including discontinued operations)	**36.3**	130.3
Tax at weighted average tax rate (2018: 18.5%; 2017: 17.6%)[1]	**6.7**	22.9
Effects of:		
Permanent disallowable items (including exceptional costs)[2]	**1.1**	2.4
Disposal of Porous Technologies entities[3]	**–**	(2.5)
US tax reform[4]	**–**	(11.4)
Overseas state and local tax[5]	**1.8**	0.9
Unrecognised tax attributes arising/(utilised)[6]	**1.1**	2.1
Adjustments in respect of prior years	**(1.0)**	(1.8)
Withholding tax (including on unremitted earnings)[7]	**1.3**	0.6
Change in tax rates[8]	**–**	(0.2)
Other items[9]	**(2.8)**	1.5
Income tax expense (including discontinued operations)	**8.2**	14.5

Income tax credit in the UK is £2.6m (2017: £3.6m credit).

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 impacted by the disposal of the Porous Technologies business and the US tax reform.
2 This primarily includes depreciation on assets not qualifying for capital allowances and costs incurred in connection with acquisition and disposals of businesses. Permanent disallowable items may vary in future years dependent on the nature of future expenditure.
3 The disposal of the Porous Technologies businesses in 2017 gave rise to taxable gains, the basis of which is different to the accounting gains.
4 The US Tax Reform enacted during 2017 generated a tax credit as deferred tax liabilities were rebased to reflect the reduction to the US Federal tax rate from 1 January 2018. Given the material nature of this impact, it was presented as an exceptional tax credit.
5 The increase in the year is largely driven by the impact of the US Global Intangible Low Taxed Income provisions that are applicable from 1 January 2018.
6 See further information regarding deferred tax asset recognition at note 15.
7 Essentra is able to control the timing and amount of remitted earnings so this amount may vary in future years.
8 This reflects changes to substantially enacted or enacted corporate tax rates during the year.
9 Release of provisions for uncertain tax positions following the settlement of open tax audits and expiry of statute of limitations and sundry items.

5. Personnel expense

	2018 £m	2017 £m
Wages and salaries	**254.7**	244.6
Social security expense	**25.4**	23.5
Pension expense (note 17)	**8.8**	8.7
Share option expense (note 17)	**4.8**	0.7
Total personnel expense (including discontinued operations)	**293.7**	277.5

In addition to the above, personnel expense totalling £8.2m (2017: £9.8m) was charged to exceptional and other adjusting items during the year. The Report of the Remuneration Committee on pages 95 to 103 sets out information on Directors' remuneration.

Key management remuneration

	2018 £m	2017 £m
Short-term employee benefits	**6.0**	4.4
Post-employment benefits	**0.5**	0.5
Share-based payments	**3.2**	1.0
Termination benefits	**0.8**	2.0
	10.5	7.9

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

	2018 £m	2017 £m
Earnings: Continuing operations		
Earnings attributable to equity holders of Essentra plc	**24.3**	4.0
Adjustments		
Amortisation of acquired intangible assets	**22.7**	22.9
Exceptional and other adjusting items	**20.8**	56.2
	43.5	79.1
Tax relief on adjustments	**(7.4)**	(14.0)
Exceptional tax item	**–**	(11.4)
Adjusted earnings	**60.4**	57.7
Earnings: Discontinued operations		
Earnings attributable to equity holders of Essentra plc	**–**	110.3
Adjustments		
Exceptional and other adjusting items	**–**	(132.4)
	–	(132.4)
Tax charge on adjustments	**–**	24.1
Adjusted earnings	**–**	2.0
Weighted average number of shares		
Basic weighted average ordinary shares outstanding (million)	**261.9**	261.6
Dilutive effect of employee share option plans (million)	**2.7**	2.0
Diluted weighted average ordinary shares (million)	**264.6**	263.6
Earnings per share: Continuing operations (pence)		
Basic earnings per share	**9.3p**	1.5p
Adjustment	**13.8p**	20.6p
Basic adjusted earnings per share	**23.1p**	22.1p
Diluted earnings per share	**9.2p**	1.5p
Diluted adjusted earnings per share	**22.8p**	21.9p
Earnings per share: Discontinued operations (pence)		
Basic earnings per share	**–**	42.2p
Adjustment	**–**	(41.5)p
Basic adjusted earnings per share	**–**	0.7p
Diluted earnings per share	**–**	41.9p
Diluted adjusted earnings per share	**–**	0.7p
Earnings per share: Total Group (pence)		
Basic earnings per share	**9.3p**	43.7p
Adjustment	**13.8p**	(20.9)p
Basic adjusted earnings per share	**23.1p**	22.8p
Diluted earnings per share	**9.2p**	43.4p
Diluted adjusted earnings per share	**22.8p**	22.6p

Adjusted earnings per share is provided to reflect the underlying earnings performance of Essentra.

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

7. Property, plant and equipment

	Land and buildings £m	Plant and machinery £m	Fixtures, fittings and equipment £m	Total £m
				2018
Cost				
Beginning of year	**98.2**	**418.8**	**61.0**	**578.0**
Acquisitions (note 23)	–	0.4	0.1	**0.5**
Additions	3.3	36.4	18.7	**58.4**
Disposals	(3.3)	(24.5)	(1.8)	**(29.6)**
Transfers	(0.1)	–	0.1	**–**
Transfers to assets held for sale	(10.4)	(31.1)	(1.2)	**(42.7)**
Currency translation	2.2	9.3	0.8	**12.3**
End of year	**89.9**	**409.3**	**77.7**	**576.9**
Depreciation and impairment				
Beginning of year	19.7	238.4	36.8	**294.9**
Charge in period	3.1	25.4	6.9	**35.4**
Disposals	(1.3)	(20.0)	(2.1)	**(23.4)**
Transfers	0.1	(0.1)	–	**–**
Transfers to assets held for sale	(1.5)	(17.9)	(1.1)	**(20.5)**
Impairment	0.1	1.8	–	**1.9**
Currency translation	0.7	5.0	0.7	**6.4**
End of year	**20.9**	**232.6**	**41.2**	**294.7**
Net book value at end of year	**69.0**	**176.7**	**36.5**	**282.2**

	Land and buildings £m	Plant and machinery £m	Fixtures, fittings and equipment £m	Total £m
				2017
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 in from disposal group held for sale	6.2	0.7	0.3	7.2
Transfers	2.3	(0.4)	(1.9)	–
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 in from disposal group held for sale	1.2	0.3	0.1	1.6
Transfers	0.7	(0.3)	(0.4)	–
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

Included within land and buildings and plant and machinery are assets in the course of construction of £12.2m (2017: £11.0m) which were not depreciated during the year.

7. Property, plant and equipment continued

Contractual commitments to purchase property, plant and equipment amounted to £3.1m at 31 December 2018 (2017: £5.7m). The net book value of assets under finance lease amounted to £0.9m as at 31 December 2018 (2017: £2.7m).

Impairment charge in 2018 of £1.9m related primarily to the closure of the Kilmarnock site within the Packaging division and the Speciality Tapes business at Nottingham within the Specialist Components division. The assets were written down to their recoverable amount, which represented fair value less cost of disposal.

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. The assets were written down to their recoverable amount, which represented fair value less cost of disposal.

8. Intangible assets

				2018
	Goodwill £m	**Customer relationships £m**	**Other intangible assets £m**	**Total £m**
Cost				
Beginning of year (restated)	**373.5**	**421.6**	**13.6**	**808.7**
Acquisitions (note 23)	2.0	3.4	–	**5.4**
Additions	–	–	3.2	**3.2**
Disposal	(1.3)	(1.5)	–	**(2.8)**
Transfers to assets held for sale	(10.2)	–	–	**(10.2)**
Currency translation	6.8	6.8	0.3	**13.9**
End of year	**370.8**	**430.3**	**17.1**	**818.2**
Amortisation and impairment				
Beginning of year	**31.2**	**219.7**	**10.1**	**261.0**
Disposal	–	(0.5)	–	**(0.5)**
Charge for the year	–	22.1	1.1	**23.2**
Transfers to assets held for sale	(0.2)	–	–	**(0.2)**
Impairment	–	0.8	–	**0.8**
Currency translation	0.9	4.6	0.2	**5.7**
End of year	**31.9**	**246.7**	**11.4**	**290.0**
Net book value at end of year	**338.9**	**183.6**	**5.7**	**528.2**

				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 (restated) (note 23)	5.5	5.2	–	10.7
Additions	–	–	0.2	0.2
Currency translation	(12.5)	(10.8)	(0.7)	(24.0)
End of year (restated)	373.5	421.6	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 (restated)	342.3	201.9	3.5	547.7

8. Intangible assets continued

The amounts of intangible assets acquired in the prior year have been restated to reflect adjustments to their fair values in relation to the acquisition of Micro Plastics during the purchase price allocation period (see note 23). Adjustment is a reclassification between goodwill and customer relationships and has no effect on net book value in 2017.

Included within the acquisition of goodwill of £2.0m is £0.7m relating to fair value adjustments in respect of the Micro Plastics acquisition and £1.3m in respect of the Hertila acquisition. Further details can be found in note 23.

Other intangible assets principally comprise trade names acquired with Reid Supply, developed technology acquired with Richco, order backlog and e-Commerce development costs. Amortisation of intangible assets arising from business combinations ("acquired intangible assets") is presented separately on the consolidated income statement.

The e-Commerce development costs were not acquired through a business combination, and their amortisation is included within operating profits before amortisation of acquired intangibles and exceptional and other adjusting items as presented on the face of the consolidated income statement.

The weighted average remaining useful lives of customer relationships and other intangible assets at the end of the year were 8.8 years and 9.4 years (2017: 9.2 years and 10.6 years) respectively.

Essentra tests intangible assets annually for impairment, or more frequently if there are indications of impairment. A discounted cash flow analysis is computed to compare the discounted estimated future operating cash flows to the net carrying value of the goodwill and other intangible and tangible 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	**2018 £m**	2017 £m
Components	**80.4**	78.6
Packaging	**191.3**	189.0
Specialist Components	**67.2**	74.7
	338.9	342.3

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

		Customer relationships and other intangible assets	
Business	Operating segment	**2018 £m**	2017 £m
Components – Businesses of former Moss and Skiffy	Components	**12.3**	13.2
Components – Businesses of former Richco	Components	**26.9**	28.9
Components – Business of former Mesan	Components	**6.1**	9.0
Components – Business of former Abric	Components	**9.9**	10.6
Components – Business of former MicroPlastics	Components	**5.0**	5.2
Components – Other businesses	Components	**11.2**	6.2
Components – e-Commerce development costs	Components		
Card Solutions	Specialist Components	**1.1**	1.6
Industrial Supply	Specialist Components	**4.6**	5.7
Speciality Tapes	Specialist Components	**6.4**	6.8
Packaging – Americas	Packaging	**37.0**	39.8
Packaging – Asia	Packaging	**1.7**	1.9
Packaging – Europe	Packaging	**66.8**	76.4
Filters	Filters	**0.3**	0.1
		189.3	205.4

At 31 December 2018, management has performed an impairment review of the assets in each division. Following the impairment assessment, no impairment loss was recognised in 2018 (apart from impairment losses arising from site closures).

8. Intangible assets continued

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 monitors goodwill at. The recoverable amount is estimated on the basis of value in use, i.e. 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.

The impairment tests for goodwill and intangible assets are based on the Business Plan and incorporate the following assumptions:

- The key assumptions in the cash flow projections for the Plan are the revenue growth and operating margin for each division. Operating margin is primarily based on the levels achieved in 2018, 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. The key assumptions underlying the estimation of cash flow projections for value in use are operating profit margin and revenue growth assumptions. The values assigned to these assumptions represent management's assessment of market condition and scope for cost and profitability improvement, taking into account realisable synergies resulting from integration activities. The compound annual revenue growth rate assumption across all four divisions for the next five years ranges from 3.0% to 5.2%. The average operating profit margin assumption for the next five years included within the Packaging division impairment assessment ranges from 5.0% to 10.0%. In respect of Components and Specialist Components, the combined average operating profit margin over the five year forecast period is assumed to improve by 110 bps from 2018.
- 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 2.0% (2017: up to 2.0%).
- 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 7.7% (2017: 8.8%). The specific pre-tax discount rates applied for each group of cash generating units to which significant goodwill is allocated are as follows: 8.8% for Packaging, 9.6% for Components and 9.5% for Specialist Components (2017: 11.9% for Packaging, 11.6% for Components and 11.3% for Specialist Components).
- There is no goodwill held by the Filters 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% (2017: 2.0%) 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 change to key assumptions will cause the carrying amount to exceed the recoverable amount in the Packaging division:

- An increase in discount rate of 228 basis points.
- A reduction of 370 basis points in the operating profit margin in the fifth year of the five-year period.

Management considered the following reasonably possible changes in the key assumptions, and the associated impact on the impairment assessment, in relation to the Packaging division:

- A 1.2% increase in discount rate would reduce headroom to £64.4m.
- A 2.0% reduction in the terminal growth rate would reduce headroom to £38.6m.
- A 1.5% reduction in each year's growth rate would reduce headroom to £138.6m.
- A 2% reduction in operating profit margin in the fifth year would reduce headroom to £75.8m.

9. Inventories

	2018 £m	2017 £m
Raw materials and consumables	**51.3**	45.1
Work-in-progress	**11.0**	11.7
Finished goods and goods held for resale	**57.4**	57.5
	119.7	114.3

Inventories with a total value of £1.5m (2017: £1.8m) were written down as a result of site closures.

On 31 December 2018 Inventories of £3.4m (2017: £nil) have been transferred into a disposal group held for sale, see note 23.

FINANCIAL STATEMENTS

10. Trade and other receivables

	2018 £m	2017 £m
Trade receivables	**150.0**	168.8
Other receivables	**25.9**	21.7
Prepayments and accrued income	**12.9**	10.5
	188.8	201.0

On 31 December 2018 Trade and other receivables of £5.8m (2017: £nil) have been transferred into a disposal group held for sale, see note 23.

11. Cash and cash equivalents

	2018 £m	2017 £m
Bank balances	**61.9**	48.0
Short-term bank deposits and investments	**3.9**	4.0
Cash and cash equivalents	**65.8**	52.0
Amount in disposal group held for sale	**0.4**	–
Cash and cash equivalents in the statement of cash flow	**66.2**	52.0

12. Trade and other payables

	2018 £m	2017 £m
Trade payables	**124.3**	119.1
Other tax and social security contributions	**8.2**	9.1
Other payables	**18.3**	14.0
Accruals and deferred income	**48.7**	55.3
	199.5	197.5

On 31 December 2018 Trade and other payables of £4.1m (2017: £nil) have been transferred into a disposal group held for sale, see note 23.

13. Interest-bearing loans and borrowings

	2018 £m	2017 £m
Non-current liabilities		
Unsecured bank loans	**190.6**	152.6
US Private Placement Loan Notes	**120.6**	114.4
Finance lease liabilities	**–**	0.1
	311.2	267.1
Current liabilities		
Finance lease liabilities	**0.1**	0.5
	0.1	0.5

At 31 December 2018, the Group had £135.0m (2017: £32.0m), and €65.0m (2017: €140.0m) 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 (2017: 5.26%).

13. Interest-bearing loans and borrowings continued

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

	2018		2017	
	Carrying value £m	**Nominal value £m**	Carrying value £m	Nominal value £m
Sterling	**133.3**	**135.0**	30.7	32.2
US dollar	**120.6**	**121.1**	114.4	114.8
Euro	**57.4**	**58.1**	122.5	124.3
	311.3	**314.2**	267.6	271.3

The difference between the total nominal and carrying value of loans and borrowings relates to the amortised value of prepaid facility fees of £2.9m (2017: £3.7m).

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 2018				
Derivatives held in net investment hedges				
Forward foreign exchange contracts	0.1	3.4	(0.1)	8.8
Derivatives held in cash flow hedges				
Forward foreign exchange contracts	0.2	10.0	(0.1)	19.8
	0.3	**13.4**	**(0.2)**	**28.6**

	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

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 consolidated 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 losses of £6.3m (2017: gains of £7.4m) on the US dollar borrowings and the gains of £0.9m (2017: losses of £4.4m) 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:

	2018				2017			
	Assets £m	**Liabilities £m**	**Net £m**	**Income Statement: Credit £m**	Assets £m	Liabilities £m	Net £m	Income Statement: Charge / (Credit) £m
Property, plant and equipment[1]	**(4.9)**	**13.4**	**8.5**	**(1.6)**	(3.1)	12.7	9.6	(6.9)
Intangible assets[2]	**–**	**47.6**	**47.6**	**(2.8)**	–	47.3	47.3	(11.8)
Employee benefits[3]	**(8.7)**	**3.2**	**(5.5)**	**(0.1)**	(8.2)	3.1	(5.1)	0.9
Other[4]	**(21.2)**	**6.3**	**(14.9)**	**(2.1)**	(18.3)	6.1	(12.2)	(6.4)
Tax (assets)/liabilities	**(34.8)**	**70.5**	**35.7**	**–**	(29.6)	69.2	39.6	–
Set off of tax	**20.0**	**(20.0)**	**–**	**–**	19.2	(19.2)	–	–
Net tax (assets)/liabilities	**(14.8)**	**50.5**	**35.7**	**–**	(10.4)	50.0	39.6	–
Total Income Statement Credit	**–**	**–**	**–**	**(6.6)**	–	–	–	(24.2)

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.
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 movement during the period is due to the acquisition of the Micro Plastics and Hertila businesses offset by reducing intangible asset value from the amortisation charge for the year.
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 £5.7m (2017: £4.5m).

Movements in the year:

	2018 Total Net £m	2017 Total Net £m
Beginning of the year	**39.6**	73.7
Credit to the income statement in respect of current year	**(5.0)**	(23.0)
Credit charge to the income statement in respect of prior years	**(1.6)**	(1.2)
Credit to reserves on foreign exchange movements	**(0.1)**	(0.8)
Charge to other comprehensive income	**0.4**	2.8
(Credit)/charge to reserves on share-based incentives	**(0.5)**	0.3
Adjustment on adoption of IFRS 9	**(0.4)**	–
Reclassification to current tax	**–**	0.9
Acquisitions & disposals	**2.4**	(10.9)
Currency translation	**0.9**	(2.2)
End of year	**35.7**	39.6

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 period end it is expected that earnings from certain overseas Group companies will be remitted and a deferred tax liability of £5.7m (2017: £4.5m) 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 £127.1m as at 31 December 2018 (2017: £107.8m), and the associated amount of unrecognised deferred tax is £14.1m (2017: £11.5m).

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 (2017: £0.2m) in respect of capital losses and unutilised tax losses of £27.6m (2017: £31.9m) have not been recognised as their realisation is not probable. The capital losses have an unlimited expiry date. The tax losses expire as follows: £0.9m within 5 years, £2.5m in 5 – 10 years, £0.2m in over 10 years and £24.0m 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

	2018		
	Reorganisation £m	**Other £m**	**Total £m**
Beginning of year	**15.0**	**9.8**	**24.8**
Provisions made during year	6.7	–	**6.7**
Utilised during year	(4.7)	(1.0)	**(5.7)**
Transfer	–	(0.1)	**(0.1)**
Currency translation	–	0.3	**0.3**
End of year	**17.0**	**9.0**	**26.0**
Non-current	12.8	7.9	**20.7**
Current	4.2	1.1	**5.3**
End of year	**17.0**	**9.0**	**26.0**

	2017		
	Reorganisation £m	Other £m	Total £m
Beginning of year	0.2	5.9	6.1
Provisions made during year	21.4	6.2	27.6
Provisions released during year	–	(0.6)	(0.6)
Utilised during 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
End of year	15.0	9.8	24.8

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 2018 primarily related to the exceptional restructuring costs arising from the closure of sites in Packaging and Specialist Components.

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 ten 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.

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 2018 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.

17. Employee benefits continued

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

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

	2018 £m	2017 £m
Amounts expensed against operating profit		
Defined contribution schemes	**7.1**	7.1
Defined benefit schemes – current service cost	**1.5**	1.5
Defined benefit schemes – past service cost	**2.2**	–
Defined benefit schemes – curtailment gain	**(0.2)**	(0.1)
Other post-employment obligations	**0.4**	0.2
Total operating expense (including discontinued operations)	**11.0**	8.7
Amounts included as finance (income)/expense		
Net interest on defined benefit scheme assets (note 3)	**(0.5)**	(0.3)
Net interest on defined benefit scheme liabilities (note 3)	**1.1**	1.3
Net finance expense (including discontinued operations)	**0.6**	1.0
Amounts recognised in the consolidated statement of comprehensive income		
Return on defined benefit scheme assets excluding amounts in net finance income	**14.1**	(11.2)
Impact of changes in assumptions and experience to the present value of defined benefit scheme liabilities	**(16.8)**	2.9
Remeasurement of defined benefit schemes (including discontinued operations)	**(2.7)**	(8.3)

The defined benefit schemes past service cost of £2.2m relating to GMP equalisation has been included within exceptional and other adjusting items (see note 2).

During 2015, the principal defined benefit pension schemes in the UK and the US were closed to future accrual. 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:

	2018		2017	
	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**	3.10%	n/a
at CPI capped at 5%	**2.20%**	**n/a**	2.20%	n/a
at CPI minimum 3%, capped at 5%	**3.10%**	**n/a**	3.10%	n/a
at CPI capped at 2.5%	**1.90%**	**n/a**	1.90%	n/a
Discount rate	**2.90%**	**4.25%**	2.50%	3.60%
Inflation rate – RPI	**3.20%**	**n/a**	3.20%	n/a
Inflation rate – CPI	**2.20%**	**n/a**	2.20%	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 (in number of years) used to estimate defined benefit obligations at the year end are as follows:

	2018		2017	
	Europe	**US**	Europe	US
Male retiring today at age 65	**22.4**	**20.6**	22.1	20.7
Female retiring today at age 65	**24.2**	**22.7**	23.9	22.7
Male retiring in 20 years at age 65	**23.8**	**22.3**	23.5	22.3
Female retiring in 20 years at age 65	**25.8**	**24.2**	25.4	24.2

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 through this matching 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:

					2018
		Europe £m		**US £m**	**Total £m**
Equities	26%	55.3	57%	29.7	**85.0**
Corporate bonds	20%	42.1	41%	21.0	**63.1**
Government bonds	54%	112.1	–	–	**112.1**
Other	–	0.3	2%	0.8	**1.1**
Fair value of scheme assets		209.8		51.5	**261.3**
Present value of scheme liabilities		(194.7)		(77.5)	**(272.2)**
Net retirement benefit assets/(obligations)		**15.1**		**(26.0)**	**(10.9)**

					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)

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 2018 is 18.0 years (2017: 20.0 years). The average expected duration of the Group's US defined benefit pension liability at 31 December 2018 is 11.7 years (2017: 12.7 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 2019, the Group expects to make defined benefit contributions of $3.9m 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 2019.

17. Employee benefits continued

Movement in fair value of post-employment obligations (including disposal group held for sale) during the year

	2018				2017			
	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	**280.6**	**(291.3)**	**(2.7)**	**(13.4)**	277.8	(298.9)	(2.3)	(23.4)
Current service cost and administrative expense	**(1.5)**	**–**	**(0.4)**	**(1.9)**	(1.4)	(0.1)	(0.2)	(1.7)
Past service cost	**–**	**(2.2)**	**–**	**(2.2)**	–	–	–	–
Employer contributions	**2.6**	**0.1**	**–**	**2.7**	1.2	0.1	–	1.3
Return on plan assets excluding amounts in net finance income	**(14.1)**	**–**	**–**	**(14.1)**	11.2	–	–	11.2
Actuarial losses arising from change in financial assumptions	**–**	**20.3**	**0.2**	**20.5**	–	(9.5)	–	(9.5)
Actuarial gains arising from change in demographic assumptions	**–**	**0.8**	**–**	**0.8**	–	4.4	–	4.4
Actuarial gains arising from experience adjustment	**–**	**(4.5)**	**–**	**(4.5)**	–	2.2	–	2.2
Finance income/(expense)	**7.5**	**(8.0)**	**(0.1)**	**(0.6)**	8.0	(8.9)	(0.1)	(1.0)
Benefits paid	**(16.7)**	**16.7**	**–**	**–**	(10.9)	10.9	–	–
Curtailments	**–**	**0.1**	**0.1**	**0.2**	–	–	0.1	0.1
Currency translation	**2.9**	**(4.2)**	**(0.1)**	**(1.4)**	(4.6)	7.5	(0.2)	2.7
Business disposals	**–**	**–**	**–**	**–**	(0.7)	1.0	–	0.3
End of year	**261.3**	**(272.2)**	**(3.0)**	**(13.9)**	280.6	(291.3)	(2.7)	(13.4)

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 2018.

	Increase/(decrease) in schemes net liabilities		
	Europe £m	**US £m**	**Total £m**
0.5% decrease in the discount rate	(18.5)	(4.6)	**(23.1)**
1.0% increase in the rate of inflation	(16.8)	n/a	**(16.8)**
1.0% increase in rate of salary/pension increases	n a	n/a	**n/a**
1 year increase in life expectancy	(7.3)	(2.2)	**(9.5)**
1 year decrease in life expectancy	7.0	2.1	**9.1**
0.5% increase in the discount rate	16.2	4.1	**20.3**
1.0% decrease in rate of salary/pension increases	n/a	n/a	**n/a**
1.0% decrease in the rate of inflation	13.7	n/a	**13.7**

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 £5.2m (2017: £1.3m), of which £0.4m (2017: £0.6m) in relation to senior management restructuring was included within exceptional and other adjusting items. Details of these plans are set out below:

17. Employee benefits continued

Share options outstanding

												2018
	At 1 Jan 2018	**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 2018**	**Weighted average exercise price**	**Exercisable at 31 Dec 2017**	**Weighted average exercise price**
LTIP Part A	**1,203,978**	**628.4p**	–	–	(241,598)	997.0p	(40,386)	180.8p	**921,994**	**551.4p**	**583,847**	**390.9p**
LTIP Part B	**2,923,936**	**–**	2,188,832	–	(736,793)	–	(28,375)	–	**4,347,600**	**–**	**25,324**	**–**
DASB	**71,765**	**–**	228,473	–	–	–	(77,200)	–	**223,038**	**–**	**–**	**–**
SAYE 3-year plan	**603,283**	**462.1p**	217,436	407.2p	(263,560)	482.9p	(1,429)	430.0p	**555,730**	**430.7p**	**–**	**–**
SAYE 5-year plan	**198,282**	**482.6p**	151,988	407.2p	(131,351)	451.5p	(2,045)	430.0p	**216,874**	**449.0p**	**–**	**–**
US SAYE 2-year plan	**65,785**	**439.3p**	48,706	324.5p	(6,159)	711.5p	–	–	**108,332**	**372.2p**	**24,468**	**367.0p**
	5,067,029		**2,835,435**		**(1,379,461)**		**(149,435)**		**6,373,568**		**633,639**	

												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	430.0p	(137,468)	701.8p	(20,658)	354.2p	198,282	482.6p	–	–
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	

The exercise prices of options outstanding at the end of the year range from nil to 787.0p.

The weighted average share price at the date of exercise for options exercised during the year was 464.5p (2017: 507.2p). 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 2018	**n/a**	**284.9p**	**373.6p**	**85.2p**	**69.9p**
Year ended 31 December 2017	n/a	403.8p	n/a	138.7p	114.4p

FINANCIAL STATEMENTS

17. Employee benefits continued

Fair value model inputs for share options awarded

	2018				
	LTIP Part A	LTIP Part B	DASB	SAYE 3-year plan	SAYE 5-year plan
Weighted average fair value at grant	115.5p	379.1p	407.4p	120.4p	102.6p
Weighted average share price at grant	551.4p	521.1p	465.9p	501.6p	505.1p
Weighted average exercise price	551.4p	–	–	430.7p	449.0p
Weighted average volatility	31.8%	39.3%	39.7%	41.3%	34.3%
Weighted average dividend yield	2.77%	4.18%	4.61%	4.22%	4.32%
Weighted risk-free rate	0.91%	0.58%	0.86%	0.55%	1.04%
Expected employee retention rates	85.1%	93.3%	100.0%	84.9%	79.5%
Expected term	3.20 years	3.00 years	3.00 years	3.00 years	5.00 years
Valuation model	Binomial	Monte Carlo	Binomial	Binomial	Binomial

	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

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.

	2018 and 2017				
	LTIP Part A	LTIP Part B	DASB	SAYE 3-year plan	SAYE 5-year Plan
Contractual life	3 – 10 years	3 – 6 years	3 years	3 years	5 years

Details of the vesting conditions of the LTIP Part A, LTIP Part B and DASB share option schemes are set out in the Report of the Remuneration Committee on pages 95 to 103.

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 function. Underlying policy assumptions and activities are reviewed by the Treasury Committee.

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

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

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

Trade and other receivables
Essentra's exposure to credit risk is driven by the profile of its customers. This is influenced by the demographics of the customer base, including the industry and country in which customers operate.

Essentra monitors significant customers' credit limits and recognises an impairment of trade receivables in specific instances where a customer's credit standing has deteriorated to the extent that a credit default is considered probable. Following implementation of IFRS 9 (as detailed in note 1), Essentra also recognises an expected credit loss impairment of trade receivables through an accounting policy election, whereby default losses are expected for each receivables ageing category as follows: Current: 0.5%, Overdue 1-30 days: 1%, Overdue 31-60 days: 5%, Overdue 61-90 days: 10%, Overdue 91-180 days: 25%, Overdue 181-360 days: 50% and Overdue over 360 days: 100%.

As at 31 December 2018, gross trade receivables (including amounts relating to disposal group held for sale) were £161.9m (2017: £173.3m) of which £34.6m (2017: £43.9m) were past due but not impaired. The ageing analysis of trade receivables past due but not impaired is as follows:

	2018 £m	2017 £m
1-60 days	**26.8**	33.7
61-180 days	**3.7**	3.3
181-360 days	**1.6**	6.0
360+ days	**2.5**	0.9
	34.6	43.9

As at 31 December 2018, the combined specific and expected credit loss impairment of trade receivables was of £6.6m (2017: £4.5m). The analysis of the combined impairment based on the underlying receivables is as follows:

	2018 £m	2017 £m
Current	**0.7**	–
1-60 days	**0.6**	–
61-180 days	**0.9**	–
181-360 days	**0.8**	1.5
360+ days	**3.6**	3.0
	6.6	4.5

18. Financial risk management continued

The movement in the provision for impaired receivables (including amounts relating to disposal group held for sale) is as follows:

	2018 £m	2017 £m
Beginning of year	**4.5**	4.7
Change in accounting policy	**2.7**	–
Beginning of year – revised	**7.2**	4.7
Impaired receivables acquired	**–**	0.3
Impairment loss recognised	**2.7**	1.5
Utilisation	**(3.3)**	(2.0)
End of year	**6.6**	4.5

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 regularly.

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.

							2018
	AAA £m	AA £m	A £m	BBB £m	BB £m	Not rated £m	Total £m
Derivative assets	**–**	**–**	**0.2**	**0.1**	**–**	**–**	**0.3**
Cash and cash equivalents	**2.1**	**1.0**	**47.2**	**12.7**	**1.9**	**1.3**	**66.2**
	2.1	**1.0**	**47.4**	**12.8**	**1.9**	**1.3**	**66.5**

							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	–	52.4

Essentra's maximum credit risk exposure is £257.7m (2017: £251.5m) and no collateral is held against this amount (2017: £nil).

ii) Market price risk
Market price risk is the risk that changes in foreign exchange rates and interest rates will affect income or the value of financial assets and liabilities. Essentra has produced a sensitivity analysis that shows the estimated change to the income statement and equity of a 1%, 5% or 10% weakening or strengthening in sterling against all other currencies or an increase or decrease of 50 basis points ("bps"), 100bps and 200bps in market interest rates. The amounts generated from the sensitivity analysis are estimates and actual results in the future may materially differ.

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

a) Currency risk
Essentra publishes its consolidated financial statements in sterling but conducts business in several foreign currencies. Therefore it is subject to currency risk due to exchange rate movements which affect the translation of results and underlying net assets of its operations and their transaction costs.

Hedge of net investment in foreign operations
The majority of Essentra's net assets are in currencies other than sterling. The Company's normal policy is to limit the translation exposure and the resulting impact on shareholders' funds through measures such as borrowing in those currencies in which the Group has significant net assets. Essentra's US dollar-denominated assets were approximately 36% (2017: 36%) hedged by the US dollar-denominated borrowings. Essentra's euro-denominated assets were approximately 30% hedged by the euro-denominated borrowings (2017: 65%).

18. Financial risk management continued

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.

	2018					
	Weakening in sterling			**Strengthening in sterling**		
	10% £m	**5% £m**	**1% £m**	**10% £m**	**5% £m**	**1% £m**
Impact on the income statement – gain/(loss)	**5.2**	**2.5**	**0.5**	**(4.3)**	**(2.2)**	**(0.5)**
Impact on equity – gain/(loss)	**66.0**	**31.3**	**6.0**	**(54.0)**	**(28.3)**	**(5.9)**

	2017					
	Weakening in sterling			Strengthening in sterling		
	10% £m	5% £m	1% £m	10% £m	5% £m	1% £m
Impact on the income statement – gain/(loss)	4.7	2.2	0.4	(3.8)	(2.0)	(0.4)
Impact on equity – gain/(loss)	56.7	26.8	5.2	(46.4)	(24.3)	(5.0)

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.

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.

	2018					
	Decrease in interest rates			**Increase in interest rates**		
	200bps £m	**100bps £m**	**50bps £m**	**200bps £m**	**100bps £m**	**50bps £m**
Impact on the income statement – gain/(loss)	**3.9**	**2.0**	**1.0**	**(3.9)**	**(2.0)**	**(1.0)**

	2017					
	Decrease in interest rates			Increase in interest rates		
	200bps £m	100bps £m	50bps £m	200bps £m	100bps £m	50bps £m
Impact on the income statement – gain/(loss)	4.4	2.2	1.1	(4.4)	(2.2)	(1.1)

See note 13 for interest rate disclosure on loans and borrowings.

18. Financial risk management continued

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 series of Loan Notes have original maturities ranging from seven to twelve years and the revolving credit facilities mature in November 2022. At 31 December 2018, the available bank facilities totalled £375.0m (2017: £374.2m) of which £193.1m (2017: £155.9m) 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:

	2018 £m	2017 £m
Expiring after two years	**181.9**	218.3

Any loans drawn on these facilities would bear interest at floating rates with reference to LIBOR for the currency and period of the loan.

The maturity of Essentra's financial liabilities (including amounts relating to disposal group held for sale), including estimated interest payments, is analysed below.

	2018						
	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	**193.0**	**190.6**	**205.1**	**3.1**	**3.1**	**198.9**	**–**
US Private Placement Loan Notes	**120.5**	**120.6**	**150.5**	**6.4**	**67.0**	**8.0**	**69.1**
Derivative liabilities	**0.2**	**0.2**	**0.2**	**0.2**	**–**	**–**	**–**
Trade and other payables	**146.7**	**146.7**	**146.7**	**146.7**	**–**	**–**	**–**
Finance lease liabilities	**0.1**	**0.1**	**0.1**	**0.1**	**–**	**–**	**–**
Deferred consideration	**3.9**	**3.9**	**3.9**	**1.3**	**–**	**1.3**	**1.3**
	464.4	**462.1**	**506.5**	**157.8**	**70.1**	**208.2**	**70.4**

	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

Total trade and other payables (including amounts relating to disposal group held for sale) carried at £203.6m (2017: £197.5m) including accruals and deferred income of £48.7m (2017: £55.3m) and other taxes and social security contributions of £8.2m (2017: £9.1m) 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.

The fair value of the unsecured bank loans is the same as the carrying amount as the loans are at floating rate, except for unamortised facility fees. The fair value of the US Private Placement Loan Notes is estimated by discounting the future cash flows (interests and principal) at the prevailing market rates. The fair value of the trade and other payables approximate the carrying amount as they are due to be settled within 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).

	2018			2017		
	Fair value £m	**Amortised cost £m**	**Total carrying value £m**	Fair value £m	Amortised cost £m	Total carrying value £m
Trade and other receivables	–	191.2	**191.2**	–	199.1	199.1
Cash and cash equivalents	–	66.2	**66.2**	–	52.0	52.0
Interest bearing loans and borrowings	–	(311.3)	**(311.3)**	–	(267.6)	(267.6)
Trade and other payables	–	(144.4)	**(144.4)**	–	(132.3)	(132.3)
Level 2 of fair value hierarchy						
Derivative assets	0.3	–	**0.3**	0.4	–	0.4
Derivative liabilities	(0.2)	–	**(0.2)**	(0.9)	–	(0.9)
Level 3 of fair value hierarchy						
Other non-current financial liabilities	(2.6)	–	**(2.6)**	(3.7)	–	(3.7)
Other current payables	(1.3)	–	**(1.3)**	(0.8)	–	(0.8)
	(3.8)	**(198.3)**	**(202.1)**	(5.0)	(148.8)	(153.8)

Total trade and other receivables (including amounts relating to disposal group held for sale) carried at £204.2m (2017: £209.6m) include prepayments of £13.0m (2017: £10.5m) 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 £3.9m relating to the acquisitions of Micro Plastics and a previous acquisition (2017: £4.5m). 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 £nil (2017: fair value gain of £0.1m) in respect of financial instruments at level 3 fair value hierarchy was recognised within exceptional and other adjusting items (see note 2), and £nil (2017: £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 (2017: $155m) US Private Placement Loan Notes. The Loan Notes are held at amortised cost with a carrying value of £120.6m (2017: £114.4m). The Group estimates that the total fair value of the Loan Notes at 31 December 2018 is £120.5m (2017: £117.8m).

All other financial assets 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 2018	**68.1**	**(1.9)**	**66.2**
At 31 December 2017	53.6	(1.6)	52.0

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 and other adjusting items.

The net debt-to-EBITDA ratios at 31 December were as follows.

	note	2018 £m	2017 £m
Net debt		**240.1**	210.6
Operating profit before intangible amortisation and exceptional and other adjusting items		**90.7**	87.4
Plus depreciation and other amounts written off property, plant and equipment, and amortisation of non-acquired intangible assets		**35.9**	36.3
Plus share option expense	17	**4.8**	0.7
EBITDA		**131.4**	124.4
Net debt-to-EBITDA ratio		**1.8**	1.7

19. Issued share capital

	2018 £m	2017 £m
Issued and fully paid ordinary shares of 25p (2017: 25p) each	**66.0**	66.0
Number of ordinary shares in issue		
Beginning of year	**264,129,170**	264,129,170
End of year	**264,129,170**	264,129,170

At 31 December 2018, the Company held 1,127,065 (2017: 1,170,925) of its own shares with a nominal value of £0.3m (2017: £0.3m) in treasury. This represents 0.4% (2017: 0.4%) of the number of ordinary shares in issue.

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 £11.1m (2017: £12.2m).

Employee trust shares are ordinary shares of the Company held in an employee benefit trust. The purpose of this trust is to hold shares in the Company for subsequent transfer to Executive Directors and employees relating to deferred share awards and options granted under the Company's share-based incentive plans. Full details are set out in the Annual Report on Remuneration on pages 95 to 103. The assets, liabilities and expenditure of the trust have been incorporated in these Financial Statements. At 31 December 2018, the trust held 1,073,932 (2017: 1,179,507) shares, upon which dividends have been waived, with an aggregate nominal value of £0.3m (2017: £0.3m) and market value of £3.7m (2017: £6.2m).

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 2018 £m	**Cash flow £m**	**Exchange movements £m**	**Non-cash movements £m**	**31 Dec 2018 £m**
Cash at bank and in hand	48.0	14.5	(0.2)	–	**62.3**
Short-term deposits and investments	4.0	–	(0.1)	–	**3.9**
Cash and cash equivalents in the statement of cash flows	52.0	14.5	(0.3)	–	**66.2**
Liabilities from financing activities					
Debt due within one year	(0.5)	0.4	–	–	**(0.1)**
Debt due after one year	(267.1)	(35.6)	(7.7)	(0.8)	**(311.2)**
Loan receivable (arising from the disposal of Porous Technologies)	5.0	–	–	–	**5.0**
Net debt	(210.6)	(20.7)	(8.0)	(0.8)	**(240.1)**

The non-cash movements in 2018 represent the amortisation of prepaid facility fees.

	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 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 the disposal of Porous Technologies)	–	–	–	5.0	5.0
Net debt	(379.3)	160.7	0.5	7.5	(210.6)

The non-cash movements in 2017 represent the movement in prepaid facility fees (£2.5m) and loan receivable arising from the disposal of Porous Technologies (£5.0m).

22. Commitments

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

	2018 £m	2017 £m
Payable within one year	**13.6**	11.5
Payable between one and five years	**35.1**	34.8
Payable after five years	**13.6**	11.2
	62.3	57.5

23. Acquisitions and disposals

2018 acquisition: Hertila
On 5 July 2018, Essentra acquired 100% of the share capital of Nolato Hertila AB ("Hertila"). Hertila is a leading manufacturer and distributor of caps and plugs and other plastic components for a wide range of industrial end-markets – including automotive, mining, coating, hydraulics and medical – and will be reported under the Company's Components division.

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 2018, the contribution to the Group's revenue and operating profit would have been £1.8m and £0.2m higher respectively.

Related transaction costs of £0.1m were recognised in the consolidated income statement in exceptional and other adjusting items.

	Fair value of assets / (liabilities) acquired £m
Intangible assets	3.4
Property, plant and equipment	0.5
Inventories	0.5
Trade and other receivables	0.6
Deferred tax	(0.7)
Trade and other payables	(0.7)
	3.6
Goodwill	1.3
Consideration	4.9
Satisfied by:	
Cash consideration	4.9
Net cash flow in respect of the acquisition	**4.9**

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

2017 acquisition: Micro Plastics
On 12 December 2017, Essentra acquired 100% of the share capital of Micro Plastics Inc ("Micro Plastics"). Due to the timing of the transaction, the purchase price allocations including the split between goodwill and intangible assets and fair value adjustments included in the financial statements for the year ended 31 December 2017 were provisional.

During 2018, Essentra reassessed the fair value adjustments and made changes to certain accruals, payables and provisions, inventories, prepayments and deferred tax balances. The impact on goodwill is an increase of £0.7m. Separately, customer relationship intangible assets were valued at £5.2m leading to a transfer between the goodwill and other intangible asset categories of £5.2m.

23. Acquisitions and disposals continued

2019 disposal: Pipe Protection Technologies
On 14 January 2019, Essentra divested of its Pipe Protection Technologies business ("PPT") to certain wholly-owned subsidiaries of National Oilwell Varco, Inc. The transaction values PPT at US$48.0m, free of cash and debt. As the transaction occurred after the 2018 financial year end, the assets and liabilities of the business have been disclosed in the consolidated balance sheet as at 31 December 2018 as a disposal group held for sale. Results from the business for the year ended 31 December 2018, and the comparative year, are presented in continuing operations. The estimated profit before tax on disposal of the PPT business is estimated to be between £4m and £8m. Included within this is an estimated gain of £9.8m arising from the movement in foreign currency exchange, which will be reclassified and reported within the consolidated income statement as part of the profit on disposal.

The assets and liabilities of PPT at 31 December 2018 presented as assets and liabilities in a disposal group held for sale, and the assets and liabilities for the rest of the Group were as follows:

As at 31 December 2018	Pipe Protection Technologies £m	Group £m	Total Group £m
Property, plant and equipment	22.2	282.2	**304.4**
Intangible assets	10.0	528.2	**538.2**
Long-term receivables	–	9.6	**9.6**
Deferred tax assets	–	14.8	**14.8**
Retirement benefit asset	–	18.5	**18.5**
Inventories	3.4	119.7	**123.1**
Income tax receivable	–	2.9	**2.9**
Trade and other receivables	5.8	188.8	**194.6**
Derivative assets	–	0.3	**0.3**
Cash and cash equivalents	0.4	65.8	**66.2**
Total assets	**41.8**	**1,230.8**	**1,272.6**
Trade and other payables	4.1	199.5	**203.6**
Interest bearing loans and borrowings	–	311.3	**311.3**
Provisions	–	26.0	**26.0**
Retirement benefit obligation	–	32.4	**32.4**
Derivative liabilities	–	0.2	**0.2**
Other financial liabilities	–	2.6	**2.6**
Deferred tax liabilities	–	50.5	**50.5**
Income tax payable	–	41.8	**41.8**
Total liabilities	**4.1**	**664.3**	**668.4**

2018 disposal: Swiftbrook
On 3 September 2018, Essentra entered in to a business transfer agreement with Graphic and Paper Merchants Holdings Limited to dispose of non-strategic Health & Personal Care Packaging operations in Ireland. Disposal proceeds comprised £0.5m payable on completion and £0.4m payable in three subsequent instalments, all of which were received in the second half of 2018. The disposal resulted in a loss before tax of £2.5m and has been treated as an exceptional and other adjusting item. Included in the net assets disposed of were goodwill and customer relationship intangible assets attributed to the business with carrying values of £1.3m and £1m respectively.

23. Acquisitions and disposals continued

2017 disposal: Porous Technologies
On 6 March 2017, Essentra completed its disposal of Porous Technologies as part of a sale and purchase agreement with Filtration Group. The results of Porous Technologies up to the date on which the transaction completed were presented as profit from discontinued operations in the consolidated income statement for the year ended 31 December 2017.

The results from continuing and discontinued operations for the year ended 31 December 2017 are shown below

	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 and other adjusting items	**84.6**	**2.8**	**87.4**
Amortisation of acquired intangible assets	**(22.9)**	**–**	**(22.9)**
Exceptional and other adjusting 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**

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.

For the year ended 31 December 2018 there were no disposals or transfers of disposal groups to assets held for sale that met the criteria under IFRS 5 to have their results reported separately in the consolidated income statement as profit from discontinued operations.

24. Dividends

	Per Share		Total	
	2018 p	2017 P	**2018 £m**	2017 £m
2017 interim: paid 30 October 2017		6.3		16.5
2017 final: paid 1 May 2018		14.4		37.7
2018 interim: paid 31 October 2018	**6.3**		**16.5**	
2018 proposed final: payable 3 June 2019	**14.4**		**37.7**	
	20.7	20.7	**54.2**	54.2

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 2017 and 2018.

26. Parent company

Essentra plc is a limited company incorporated 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 and other adjusting items which are considered not relevant to measuring the underlying performance of the business. Operating cash flow is defined as adjusted operating profit before depreciation, share option expense and other non-cash items, less working capital movements and net capital expenditure as shown below:

	2018 £m	2017 £m
Operating profit (including discontinued operations)	**47.2**	140.7
Amortisation of acquired intangible assets	**22.7**	22.9
Exceptional and other adjusting items	**20.8**	(76.2)
Adjusted operating profit (including discontinued operations)	**90.7**	87.4
Depreciation	**35.4**	35.3
Amortisation of non-acquired intangible assets	**0.5**	1.0
Share option expense	**4.8**	0.7
Other non-cash items	**0.1**	(2.6)
Working capital movements	**5.9**	5.6
Net capital expenditure[1]	**(60.2)**	(45.6)
Operating cash inflow – adjusted (including discontinued operations)	**77.2**	81.8

1 Net capital expenditure within adjusted operating cash flow excludes £8.3m of exceptional property, plant and equipment disposal proceeds realised during site closures.

Essentra plc Company Balance Sheet

At 31 December 2018

	note	2018 £m	2017 £m
Fixed assets			
Investment in subsidiary undertaking	2,10	**460.2**	455.0
Current assets			
Debtors	3	**329.5**	376.6
Current liabilities			
Creditors: amounts falling due within one year	4	**(1.0)**	(1.0)
Net current assets		**328.5**	375.6
Non-current liabilities			
Creditors: amounts falling due after more than one year	5,6	**(120.6)**	(114.6)
Net assets		**668.1**	716.0
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	**303.9**	351.8
Shareholders' funds: equity interests		**668.1**	716.0

The profit attributable to the equity holders included in the accounts of the Company is £1.0m (2017: profit of £50.5m).

The Company Financial Statements on pages 156 to 166 were approved by the Board of Directors on 1 March 2019 and were signed on its behalf by:

Paul Forman
Chief Executive

Lily Liu
Chief Financial Officer

Essentra plc Company Statement of Changes in Equity

For the year ended 31 December 2018

				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 2018	66.0	298.1	0.1	364.0	(12.2)	**716.0**
Profit for year				1.0		**1.0**
Total comprehensive income for the year	–	–	–	1.0	–	**1.0**
Shares issued to satisfy employee share option exercises				(1.1)	1.1	**–**
Share options exercised				0.1		**0.1**
Share-based payments				5.2		**5.2**
Dividends paid				(54.2)		**(54.2)**
31 December 2018	**66.0**	**298.1**	**0.1**	**315.0**	**(11.1)**	**668.1**

				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 year				50.5		50.5
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

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 2018 were authorised for issue by the Board of Directors on 1 March 2019 and the balance sheet was signed on the Board's behalf by Paul Forman and Lily Liu. 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; and
- 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
Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market 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 financial assets at amortised cost 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 (2017: £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 95 to 103.

2. Investments held as fixed assets

	Investment in subsidiary undertaking	
	2018 £m	2017 £m
Beginning of year	**455.0**	453.7
Additions	**5.2**	1.3
End of year	**460.2**	455.0

3. Debtors

	2018 £m	2017 £m
Amounts receivable from subsidiary undertakings	**329.5**	376.6
	329.5	376.6

4. Creditors: amounts falling due within one year

	2018 £m	2017 £m
Accruals and deferred income	**0.9**	0.8
Corporate taxes	**0.1**	0.2
	1.0	1.0

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

	2018 £m	2017 £m
US Private Placement Loan Notes	**120.6**	114.6
	120.6	114.6

6. Maturity of financial liabilities

	Non bank loans	
	2018 £m	2017 £m
Debt can be analysed as falling due:		
Between one and five years	**62.0**	59.0
More than five years	**58.6**	55.6
	120.6	114.6

7. Issued share capital

	2018 £m	2017 £m
Issued and fully paid ordinary shares of 25p (2017: 25p) each	**66.0**	66.0
	66.0	66.0

Number of ordinary shares in issue	**2018**	2017
At beginning and end of year	**264,129,170**	264,129,170

At 31 December 2018, the Company held 1,127,065 (2017: 1,170,925) 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 £1.0m (2017: profit of £50.5m).

Included in retained earnings are accumulated share-based payments of £43.5m (2017: £38.3m) which are credited directly to reserves. Full details of these share-based payments are set out in the Annual Report on Remuneration on pages 95 to 103.

9. Dividends

	Per Share		Total	
	2018 p	2017 P	**2018 £m**	2017 £m
2017 interim: paid 30 October 2017	**–**	6.3	**–**	16.5
2017 final: paid 1 May 2018	**–**	14.4	**–**	37.7
2018 interim: paid 31 October 2018	**6.3**	–	**16.5**	–
2018 proposed final: payable 3 June 2019	**14.4**		**37.7**	
	20.7	20.7	**54.2**	54.1

FINANCIAL STATEMENTS

10. Subsidiary undertakings

The companies named below (including dormant entities) 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) Ltd.	UK	Manufacturing	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
Essentra (Great Harwood) Ltd.	UK	Non-trading	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
Essentra (Hull) Ltd.	UK	Non-trading	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
Essentra (Kilmarnock) Ltd.	UK	Manufacturing	Hurlford Road, Riccarton, Kilmarnock, Scotland, KA1 4LA, United Kingdom
Essentra (Kimbolton) Ltd.	UK	Non-trading	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
Essentra (Northampton) Ltd.	UK	Non-trading	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
Boxes Prestige Poland Sp. z o.o.	Poland	Manufacturing	Tokarska 25, 20-210, Lublin, Poland
ESNT US Holdings Corp	US	Holding Company	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
Essentra Pty Ltd	Australia	Distribution/ Manufacturing	32 Clyde Street, Rydalmere NSW 2116, Australia
Essentra Eastern Limited	Thailand	Manufacturing	111/5 Moo 2 Tambon Makamku, Amphur Nikom Pattana, Rayong Province, Thailand
Essentra Components Limited	UK	Manufacturing	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
Essentra Packaging Limited	UK	Manufacturing	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
Abric Encode Sdn Bhd	Malaysia	Manufacturing	Unit 1110 Block A, Pusat Dagangan Phileo Damansara II, 15 Jalan 16/11 Off Jalan Damansara, 46350 Petaling Jaya, Selangor Darul Ehsan, Malaysia
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

10. Subsidiary undertakings continued

	Country of incorporation	Principal activity	Address of registered office
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
Filtrona (China) Limited	Hong Kong	Non-trading	36/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong
Micro Plastics, Inc.	US	Manufacturing	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
ESNT (Cherry Orchard) Limited	Ireland	Non-trading	8 Airways Industrial Estate, Dublin 17, Ireland
Blue NewCo 3 B.V.	Netherlands	Distribution	Gustav Mahlerplein 68, Ito Tower, 9th Floor, 1082 MA, Amsterdam, Netherlands
PT Essentra	Indonesia	Manufacturing	Jalan Berbek Industri 1, 18-20 Surabaya Industrial Estate Rungkut (SIER), Sidoario, 61256, Indonesia
Essentra Pipe Protection Technologies SA de CV	Mexico	Distribution	Avenida Framboyanes Lote 1, Manzana 4, Ciudad Industrial Bruno Pagliali, Veracruz, Mexico
Essentra Holdings (No.2) Cooperative WA	Netherlands	Holding Company	Den Belleman 9, 5571 NR, Bergeijk, Netherlands
Cigarette Components (HK) Limited	Hong Kong	Non-trading	36/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong
Essentra Precision Machinery Components (Ningbo) Co. Ltd.	China	Manufacturing	99 Huanghai Road, Beilun District, Ningbo, Zhejiang Province, China
Essentra Trading (Ningbo) Co. Ltd	China	Distribution	No.99 Huanghai Road, Beilum District, Ningbo, Zhejiang Province, China
ESNT Holdings (No.2) Limited	UK	Holding Company	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
San Yai Holding Company Limited	Thailand	Distribution	No.776 Charoennakorn Road, Khwaeng Daokhanong, Khet Dhonburi, Bangkok, Thailand
Essentra Filter Products Limited	UK	Manufacturing	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
Blue NewCo 4 B.V.	Netherlands	Distribution	Gustav Mahlerplein 68, Ito Tower, 9th Floor, 1082 MA, Amsterdam, Netherlands
Essentra Packaging GmbH	Germany	Manufacturing	Filmstrasse. 5, D-06766, Edisonstrasse, Wolfen , Germany

10. Subsidiary undertakings continued

	Country of incorporation	Principal activity	Address of registered office
Essentra Holdings Cooperative WA	Netherlands	Treasury activities	Den Belleman 9, 5571 NR, Bergeijk, Netherlands
Essentra Overseas Limited	UK	Holding Company	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
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
Essentra Pension Trustees Limited	UK	Pension Trustee	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
Essentra FZE	United Arab Emirates	Manufacturing	Plot No. S20403, Jebel Ali Free Zone (JAFZA), PO Box No 261392, Dubai, United Arab Emirates
OOO Essentra Filter Products	Russia	Distribution	Moskovskyi pr. 60/129, Business center Senator, 190005, St Petersburg, Russian Federation
Essentra Finance (Euro) Ireland Limited	Ireland	Treasury activities	7 Airways Industrial Estate, Cloghran, Dublin 17, D17 RR88, Ireland
ESNT Filter Products Limited	UK	Holding Company	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
Essentra Packaging Srl	Italy	Distribution	Via Copernico n.54, Loc. 1 Casoni Fraz., Gariga, 29027, Podenzano, Italy
Essentra Co., Ltd.	Republic of Korea	Distribution	5th Floor, One IFC, 10, Gukjegeumyung-ro, Youngdeungpo-gu, Seoul, 07326, Korea, Republic of
Blue NewCo 1 B.V.	Netherlands	Non-trading	Gustav Mahlerplein 68, 1082 MA, Amsterdam, Netherlands
Essentra Filter Products S.A.	Paraguay	Distribution	Calle 12, Acacary, Cuidad del Este, Paraguay
Micro Plastics International Limited	UK	Non-trading	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
Essentra Plastics LLC	US	Manufacturing	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
Micro Plastics International S.A. de C.V. de R.L.	Mexico	Manufacturing	Carretera a Huinala #510, Apodaca, NL 66640, Mexico
Fijnmechanica Surhuisterveen B.V.	Netherlands	Non-trading	Beatrixstraat 7, 9285 TV, Buitenpost, Netherlands
Essentra Components BV	Netherlands	Distribution	Den Belleman 9, 5571 NR Bergeyk, Netherlands
Essentra Extrusion BV	Netherlands	Manufacturing	Beatrixstraat 7, 9285 TV, Buitenpost, Netherlands
Mesan Kilit A.S.	Turkey	Manufacturing	Ilitelli Organzie Sanayi , , Bolgesi Metal Is San,Sit.7.Blok No24 Basaksehir, Istanbul, Turkey
Essentra Corporation	US	Holding Company	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
Essentra Packaging Spółka z o.o.	Poland	Manufacturing	Tokarska 25, 20-210, Lublin, Poland
ESNT (Clonshaugh) Limited	Ireland	Non-trading	8 Airways Industrial Estate, Dublin 17, Ireland
Essentra Packaging Puerto Rico, Inc.	US	Manufacturing	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
ESNT Holdings (No.1) Limited	UK	Holding Company	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU

10. Subsidiary undertakings continued

	Country of incorporation	Principal activity	Address of registered office
Essentra Saint-Petersburg Limited Liability Company	Russia	Distribution	4a Finlyandskiy Prospect, 194044, St. Petersburg, Russian Federation
Linde Vouwkartonnage B.V.	Netherlands	Distribution	Hanzeweg 14, 7591 BK, Denekamp, Netherlands
Essentra Filter Products Leasing Pte. Ltd	Singapore	Leasing Company	238A Thomson Road, #25-04/05 Novena Square, Singapore, 307684, Singapore
Essentra Pte.Ltd	Singapore	Distribution	36 Robinson Road #17-01, City House, Singapore, 068877, Singapore
ESNT International Limited	UK	Holding Company	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
Essentra Components (Pty) Ltd	South Africa	Distribution	Unit 2. Sage Corporate Park, Corner Suni and Tsessebe Streets, South Midrand, Gauteng, 1683, South Africa
Clondalkin Holdings SA	Spain	Holding Company	Carrer dels Fusters 18-20, Poligono Industrial Can Cuyas, Montcada I Reixac, 08110, Barcelona, Spain
Essentra Packaging S.A.	Spain	Manufacturing	Carrer dels Fusters 18-20, Poligono Industrial Can Cuyas, Montcada I Reixac, 08110, Barcelona, Spain
Blue NewCo 2 B.V.	Netherlands	Holding Company	Gustav Mahlerplein 68, ITO Tower 9th floor, MA Amsterdam, 1082, Netherlands
Pranakorn Holding Company Limited	Thailand	Holding Company	776 Charoennakorn Road, Bukkalo, Thonburi, Bangkok 10600, Thailand
Essentra Filter Products International Limited	UK	Holding Company	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
Micro Plastics Servicios S de C.V. de R.L.	Mexico	Manufacturing	Carretera a Huinala #510, Apodaca, NL 66640, Mexico
Wilkes-Cerdac Limited	Ireland	Non-trading	8 Airways Industrial Estate, Dublin 17, Ireland
Essentra Industria E Commercio LTDA	Brazil	Manufacturing	Room 7, No 1000 Avenida Emilio Marconato, Centro Comercial, Chacara Primavera, Jaguariuna, Sao Paulo, 13.916-074, Brazil
Essentra International Gmbh	Germany	Holding Company	Filmstr. 5, 06766, Bitterfeld-Wolfen, Germany
Essentra Components Kft	Hungary	Holding Company	2040 Budaors Gyar u. 2., Hungary
Essentra Components Sarl	Switzerland	Holding Company	Rue du Grand-Chene 2, c/o Pierre- Alain Killias, Lexartis Avocats, 1003 Lausanne, Switzerland
Essentra Components GmbH	Austria	Holding Company	Schubertring 6, 1010 Wien, Austria
Essentra Limited	Canada	Holding Company	2538 Spears Road, Oakville ON L6L 5K9, Canada
Essentra Components International Trading (Shanghai) Co Ltd	China	Holding Company	Room 347, Xinmaolou Building, 2 Taizhong South Road, China (Shanghai) Pilot Free Trade Zone, Pudong New Area, Shanghai, 200120, China
Essentra Plastic Trading (Ningbo) Co. Ltd	China	Holding Company	99 Huanghai Road, Beilun District, Ningbo, Zhejiang , China
ESNT Holding BV	Netherlands	Holding Company	Den Belleman 9, 5571 NR, Bergeijk, Netherlands
ESNT Holdings (Netherlands) BV	Netherlands	Holding Company	Den Belleman 9, 5571 NR, Bergeijk, Netherlands
Essentra BV	Netherlands	Holding Company	Beatrixstraat 7, 9285 TV, Buitenpost, Netherlands
Essentra Packaging S.a.r.l.	France	Manufacturing	F-27200, Sarreguemines, Rue Guillaume, Schoettke, France
Essentra Filter Products Kft	Hungary	Manufacturing	2310 Szigetszentmiklos, Leshegy ut 30, Hungary

10. Subsidiary undertakings continued

	Country of incorporation	Principal activity	Address of registered office
Essentra International BV/LLC	Netherlands	Holding Company	Den Belleman 9, 5571 NR, Bergeijk, Netherlands
Essentra Components sro	Czech Republic	Distribution	Vídeňská 101/119, Dolní Heršpice, Brno, 619 00, Czech Republic
Essentra (MEA) Pte. Ltd	Singapore	Holding Company	36 Robinson Road, #17-01 City House, Singapore, 068877, Singapore
Essentra Components GmbH	Germany	Manufacturing	Herrenpfad Süd 36, 41334, Nettetal, Germany
US NewCo LLC	US	Holding Company	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
P. P. Payne Limited	UK	Property Company	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
Essentra Components SRL	Romania	Distribution	Burcuresti Sectorul 1, Strada POLANA, Nr. 68-72, Etaj 2 , Biroul NR.5 , Romania
Essentra Components sro	Slovakia	Distribution	Gogol'ova 18, 852 02 Bratislava, Slovakia
Essentra Components AB	Sweden	Distribution	Askims Verkstadsvag 13Sweden, 436 34 Askim, Vastra Gotalands lan, Goteborg kommun, Sweden
Essentra Limited	Thailand	Manufacturing	116/3 Soi Thiantalay 24, Bangkhunthian-Chaitalay Road, Thakam, Bangkhunthian, Bangkok , 10150, Thailand
ESNT (Cherry Orchard) Holdings Limited	Ireland	Holding Company	Unit 629 Ida Industrial Park Northern Extension, Old Kilmeaden Road, Watherford, Ireland
Essentra International Limited	UK	Holding Company	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
Essentra Packaging Ireland Limited	Ireland	Manufacturing	8 Airways , Industrial Estate, Dublin 17, Ireland
Essentra Components S.L.U	Spain	Manufacturing	Calle Roure Gros 1-11, Poligono Industrial Mas d'En Cisa, 08181, Spain
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 Holdings SpA	Italy	Holding Company	Podenzano (PC), Loc.I Casoni Fraz. Gargia, Via Copernico no. 54, 29027, Italy
ESNT Packaging & Securing Solutions Limited	UK	Holding Company	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
Essentra Holdings Corp. (DE)	US	Holding Company	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
Essentra Components SAS	France	Distribution	280 rue de la Belle Étoile, 95700 , Roissy, France
Essentra (Hong Kong) Limited	Hong Kong	Non-trading	36/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong
ESNT (Glasnevin) Limited	Ireland	Non-trading	8 Airways Industrial Estate, Dublin 17, Ireland
C.B. Packaging Limited	Ireland	Non-trading	8 Airways Industrial Estate, Dublin 17, Ireland
Essentra Components srl	Italy	Non-trading	Via Massarenti, 1 Loc, 1 Maggio, 40013, Castel Maggiore, Italy

10. Subsidiary undertakings continued

	Country of incorporation	Principal activity	Address of registered office
Essentra Malaysia 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 Packaging B.V.	Netherlands	Manufacturing	Celsiusweg 37, 8912 AM, Leeuwarden, Netherlands
Essentra Sp. z o.o.	Poland	Non-trading	11 Lakowa Street, 90-562 , Lodz, Poland
Essentra Packaging & Security Limited	UK	Manufacturing	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
ESNT Finance Ireland Limited	Ireland	Non-trading	7 Airways Industrial Estate, Cloghran, Dublin 17, D17 RR88, Ireland
Essentra Finance Limited	UK	Treasury activities	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
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	8-10, Avenue de la Gare, L-1610, Luxembourg
Essentra Asia Sdn Bhd	Malaysia	Non-trading	Unit D – 3A – 10, 4th Floor, Greentown Square, Jalan Dato' Seri Ahmed Said, 30450 Ipoh, Perak, Malaysia
Essentra Components SEA (M) SDN BHD	Malaysia	Non-trading	D5-5-6, Solaris Dutamas 1 , Jalan Dutamas 1, 50480, Kuala Lumpur, Malaysia
ESNT (Cork) Limited	Ireland	Non-trading	8 Airways Industrial Estate, Dublin 17, Ireland
Venture Laminate Limited	Ireland	Non-trading	8 Airways Industrial Estate, Dublin 17, Ireland
Richco Benelux BV	Netherlands	Non-trading	Beeldschermweg 5-3, 3821 AH Amersfoot, Netherlands
Skiffy BV	Netherlands	Non-trading	Den Belleman 9, 5571 NR, Bergeijk, Netherlands
ESNT Holdings Cooperatie 1 W.A.	Netherlands	Non-trading	Beatrixstraat 7, 9285 TV, Buitenpost, Netherlands
ESNT Holdings Cooperatie 2 W.A.	Netherlands	Non-trading	Beatrixstraat 7, 9285 TV, Buitenpost, Netherlands
Essentra Filter Products Development Co. Pte. Ltd	Singapore	Non-trading	238A Thomson Road, #25-04/05 Novena Square, Singapore, 307684, 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
Alliance Plastics Limited	UK	Non-trading	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
Cigarette Components Limited	UK	Non-trading	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
ESNT Components Limited	UK	Non-trading	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
ESNT Limited	UK	Non-trading	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
Essentra Services Limited	UK	Holding Company	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
Filtrona Limited	UK	Non-trading	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
North West Plastics Limited	UK	Non-trading	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU

10. Subsidiary undertakings continued

	Country of incorporation	Principal activity	Address of registered office
Skiffy Limited	UK	Non-trading	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
Stera Tape Limited	UK	Non-trading	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
ESNT Components Co.	US	Non-trading	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
US LLC 2, LLC	US	Non-trading	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
Essentra Pipe Protection Technologies Services S de r.l de CV	Mexico	Non-trading	Avenida Framboyanes Lote 1, Manzana 4, Ciudad Industrial Bruno Pagliai, Veracruz, Mexico
Essentra Packaging Waterford Limited	Ireland	Non-trading	8 Airways Industrial Estate, Dublin 17, Ireland
MSI Pipe Protection Technologies Canada Limited	Canada	Manufacturing	Suite 2600, Three Bentall Centre, P.O. BOX 49314, 595 Burrard Street, Westchester, Vancouver BC V7X 1L3, Canada
ESNT (Tallaght) Limited	Ireland	Manufacturing	8 Airways Industrial Estate, Dublin 17, Ireland
ESNT Limited	New Zealand	Services	Quigg Partners, Floor 7, 36 Brandon Street, Wellington Central, Wellington, 6011, New Zealand
Nolato Hertila AB	Sweden	Manufacturing	Persbogatan 1, SE-265 38 , Åstorp, Sweden
Essentra plc	UK	Holding Company	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
Filtrona Custom Moulding Limited	UK	Manufacturing	Avebury House, 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
MSI Pipe Protection Technologies UK Limited	UK	Manufacturing	Avebury House 201-249 Avebury Boulevard, Milton Keynes, Buckinghamshire, MK9 1AU
Duraco Specialty Tapes LLC	US	Manufacturing	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States

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 2018 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 International Financial Reporting Standards (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 2018; the Consolidated Income Statement and Consolidated Statement of Comprehensive Income, the Consolidated Statement of Cash Flows, and the Consolidated and Company Statements of Changes in Equity for the year then ended; the Accounting Policies, the Critical Accounting Judgements and Estimates, the Company Accounting Policies, and the notes to the financial statements.

Our opinion is consistent with our reporting to the Audit & Risk 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.

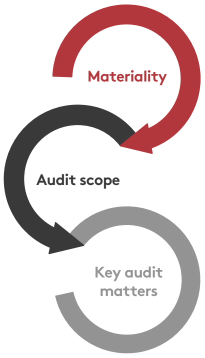
To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

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 2018 to 31 December 2018.

Independent Auditors' Report to the Members of Essentra plc continued

Our audit approach

Overview



- Overall group materiality: £4.0m (2017: £3.7m), based on 5% of profit before tax, intangibles amortisation and exceptional and other adjusting items.
- Overall parent company materiality: £6.6m (2017: £7.1m), based on 1% of net assets.

- There were no significant components within the group.
- We performed full scope audit work on 30 reporting units, and specified procedures over certain balances on an additional 39 reporting units.
- This provided coverage of 72% revenue, 52% profit before tax, and 71% net assets.

- Goodwill impairment (group).
- Presentation of exceptional and other adjusting items (group).
- Tax liabilities (group).

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.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Listing Rules, Tax legislation, Employment regulation, Health and Safety legislation, and other legislation specific to the industries in which the group operates, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting of journal entries to improve revenue performance or to manipulate metrics relating to bank covenants, and inappropriate management bias in key accounting estimates. The group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team and/or component auditors included:

- Review of correspondence with the regulators and review of correspondence with legal advisors;
- Review of matters reported through the group's whistleblowing mechanism;
- Enquiries of management;
- Enquiries with component auditors;
- Review of internal audit reports in so far as they related to the financial statements;
- Identifying and testing journal entries with unusual account combinations which result in an impact to revenue or to metrics relevant to bank covenants;
- Assessing key judgements and estimates made by management for evidence of inappropriate bias. Key judgements and estimates include the valuation of goodwill, exceptional and other adjusting items, and uncertain tax positions. Details of our procedures in these areas are included in our key audit matters below.

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. Also, 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.

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 results of our procedures thereon, 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
Goodwill impairment (group) The group has goodwill of £338.9m, of which £191.3m is allocated to the Packaging division, £80.4m to Components, and £67.2m to Specialist Components. In the prior year there was a low level of headroom on the Packaging division impairment model. However, at 31 December headroom against the asset carrying value was £165.0m. The discount rate calculated by management has decreased compared to prior year, contributing to the increase in the headroom in the Packaging model. 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 124 for management's disclosure of this significant judgement.	We have assessed the methodology applied by management in performing their impairment reviews and tested the integrity of management's cash flow models. We evaluated the future cash flow forecasts for each CGU, including short term cash flows, and the process by which they were determined. In doing so we compared the cash flow forecasts to the latest Board approved plans and compared prior year budget to 2018 actual performance in order to assess the quality of management's forecasting process. Our procedures confirmed the reasonableness of the cash flows included in the models. 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 analyst reports. We found the assumptions to be reasonable. We validated the discount rate by recalculating the group's weighted average cost of capital for each CGU. We performed sensitivity analyses around the key assumptions to ascertain the extent of change in those assumptions that, either individually or collectively, would be required for goodwill to be impaired. We noted that the required level of change was beyond that which we would consider likely given the current market conditions and recent performance of the business. Disclosures included within note 8 have also been assessed against the requirements of IFRS and deemed reasonable.
Presentation of exceptional and other adjusting items (group) The financial statements include certain items which are disclosed as exceptional and adjusting items. The nature of these items is explained within the group accounting policy and includes transaction costs relating to acquisition and disposals of businesses, acquisition integration and restructuring costs, and other items such as site closure costs. In the year the most significant exceptional and other adjusting items relate to the cost of disposal and closure of sites (£9.9m), transaction costs relating to acquisitions and disposals (£3.1m), a Guaranteed Minimum Pension ("GMP") charge (£2.2m) and costs associated with the finalisation of the restructuring of the group following the major strategic review commenced in 2017 (£6.1m). We focused on this area as there is limited guidance relating to this presentational matter within IFRS and judgement is required by the directors in determining whether items classified as exceptional or adjusting are consistent with the group's accounting policy. Consistency in identifying and disclosing items as exceptional and adjusting is important to maintain comparability of the results year on year. See page 124 for management's disclosure of this significant judgement.	We assessed the appropriateness of the group's accounting policy for the recognition of exceptional and other adjusting items with reference to the applicable accounting standards. We considered whether the items disclosed as exceptional and adjusting were consistent with the accounting policy and the approach taken in prior years, to confirm that items were appropriately classified. We did not identify any material items which we would expect to be reported in earnings before exceptional and other adjusting items. Site disposal and closure costs include the disposal and write down of assets (£5.1m), employee severance payments (£2.0m) and other closure costs such as external project management, consultants and legal costs (£2.8m). We have performed sample testing across all balances and verified those samples to supporting invoices, agreements or other evidence. For assets write offs, we have agreed the book value to the accounting records and confirmed with management the rationale for the write downs. Acquisition and disposal costs (£3.1m) have been tested through sampling and items have been traced to supporting invoices and other documentation. The impact of GMP equalisation following the outcome of a legal case in relation to UK defined benefit pension schemes, has been based on advice from the company's actuaries. We have reviewed the calculation and consider the methodology used to be reasonable. The GMP charge is a one-off item and does not relate to underlying trading, and therefore the classification as exceptional is considered appropriate. A sample of restructuring costs have been agreed to supporting evidence such as invoices and redundancy agreements. We have considered other one-off or notable credits/charges recognised in earnings before exceptional and other adjusting items to ensure consistent treatment with adjusting items. The disclosures included in note 2 were reviewed and deemed reasonable.

Independent Auditors' Report to the Members of Essentra plc continued

Key audit matter	How our audit addressed the key audit matter
Tax liabilities (group) 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 2018, the group has current and non-current tax payables of £41.8m. Where the amount of tax payable is uncertain, the directors are required to exercise significant judgement 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 124 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.

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 four divisions being Components, Packaging, Filters and Specialist Components. Each division consists of a large number of controller sites spread globally across 33 territories. There are 245 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 5% 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 25 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 7 reporting units in the Americas. In the largest sites in the Americas, specified procedures over fixed assets, inventory and trade receivables were also performed. The Group audit team also performed audit procedures over specific balances within a further 32 reporting units. 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 members of the group engagement team have visited controller sites in the US, Singapore, Indonesia, Hungary 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 72% of total revenue, 52% of profit before tax, and 71% 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	£4.0m (2017: £3.7m).	£6.6m (2017: £7.1m).
How we determined it	5% of profit before tax, intangibles amortisation and exceptional and other adjusting 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 and other adjusting items. Based on this, we consider an adjusted metric of profit before tax, intangibles amortisation and exceptional and other adjusting 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 £0.1m and £2.4m. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit & Risk Committee that we would report to them misstatements identified during our audit above £0.2m (Group audit) (2017: £0.2m) and £0.2m (Parent company audit) (2017: £0.2m) 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. For example, the terms on which the United Kingdom may withdraw from the European Union, which is currently due to occur on 29 March 2019, are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.
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.

Independent Auditors' Report to the Members of Essentra plc continued

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 2018 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 77 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 106 to 108 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 76, 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 page 82 describing the work of the Audit & Risk Committee does not appropriately address matters communicated by us to the Audit & Risk 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 page 109, 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: 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. The period of total uninterrupted engagement is 2 years, covering the years ended 31 December 2017 to 31 December 2018.

Nicholas Stevenson
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Milton Keynes, United Kingdom
1 March 2019

Advisers and Investor Information

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

Financial adviser and joint corporate broker
Deutsche Bank
Winchester House,
1 Great Winchester Street,
London EC2 2DB

Joint corporate broker
Peel Hunt LLP
Moor House,
120 London Wall,
London EC2Y 5ET

Financial public relations adviser
Tulchan Communications LLP
85 Fleet Street,
London EC4Y 1AE

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

Auditor
PricewaterhouseCoopers LLP
Exchange House,
Central Business Exchange,
Milton Keynes,
Buckinghamshire MK9 2DF

Principal bankers
BNP Paribas,
London Branch
10 Harewood Avenue,
London NW1 6AA

Citibank N.A.,
London Branch
Citigroup Centre,
Canada Square,
Canary Wharf,
London E14 5LB

DBS Bank Ltd.,
London Branch
4th Floor, Paternoster House,
65 St Paul's Churchyard,
London EC4M 8AB

HSBC Bank plc
8 Canada Square,
London E14 5HQ

ING Bank NV, London Branch
8 – 10 Moorgate,
London EC2R 6DA

Lloyds Bank plc
10 Gresham Street,
London EC2V 7AE

National Westminster Bank plc
250 Bishopsgate,
London EC2M 4AA

Santander UK plc
Santander House,
201 Grafton Gate East,
Milton Keynes,
Buckinghamshire MK9 1AN

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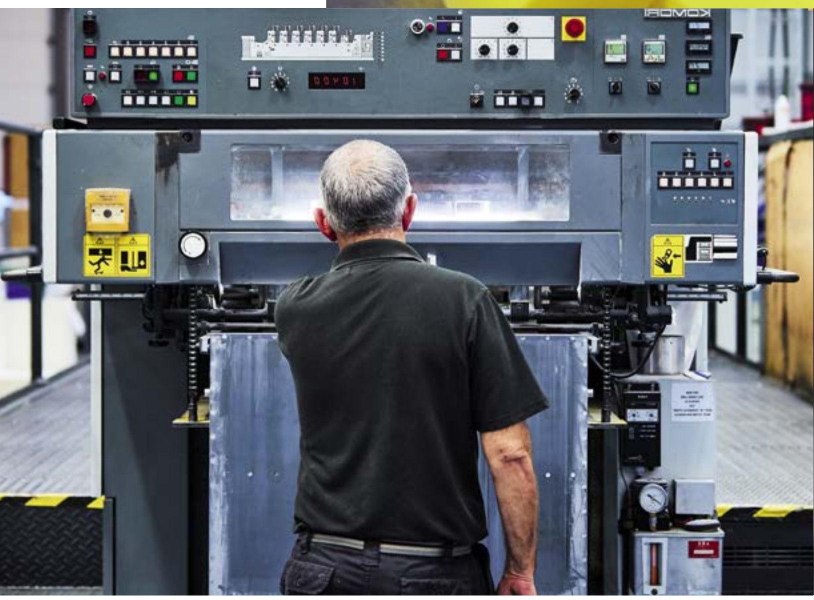

Avebury House
201-249 Avebury Boulevard
Milton Keynes
MK9 1AU
United Kingdom

Telephone: +44 (0)1908 359100
Email: enquiries@essentra.com