ESSENTRA PLC
(the "Company")

A leading global provider of essential components and solutions

RESULTS FOR THE FULL YEAR ENDED 31 DECEMBER 2019

Group materially simplified, with all three global divisions well set for growth and robust performance in line with expectations

Summary:

- FY 2019 results build on positive underlying momentum seen since inflection point of H2 2018
  - Like-for-like revenue decline of 0.7%
    - +1.5%, on an underlying basis
  - Adjusted operating profit down 5.4% (at constant FX) to £87.5m notwithstanding portfolio simplification successfully completed during the year; adjusted operating margin +10bps to 9.0% (at constant FX)
    - Adjusted operating profit +2.0%, on an underlying basis
  - Reported operating profit of £80.0m versus £47.2m in 2018
  - Adjusted basic EPS lower by 9.7% (at constant FX) at 21.3p (2018: 23.5p)
  - Reported basic EPS of 14.7p compares to 9.3p in 2018
- Net debt of £284.4m, with net debt / EBITDA to 2.0x (after applying IFRS 16)
  - Net debt of £233.7m and net debt / EBITDA of 1.9x before applying IFRS 16
- Full year dividend maintained at 20.7p per share
- Further good progress on all key metrics of the stability programme.
- Simplification of the portfolio, allowing the Specialist Components division to be dissolved at the end of Q3 2019.
  - Funds used in part for two value-creating acquisitions, plus JV partner buy out in Filters Dubai
- Further strategic, financial and operational progress expected in FY 2020

Results at a glance:

	FY 2019 After applying IFRS 16	FY 2019 Before applying IFRS 16	FY 2018[1]	% change Actual FX[2]	% change Constant FX[2]
Revenue	£974m	£974m	£1026m	-5	-6
Adjusted[3] operating profit	£88m	£85m	£91m	-4	-5
Adjusted[3] pre-tax profit	£73m	£73m	£80m	-9	-10
Adjusted[3] net income[4]	£59m	£59m	£64m	-9	-11
Adjusted[3] basic earnings per share	21.3p	21.2p	23.1p	-8	-10
Dividend per share	20.7p	20.7p	20.7p	-	n/a
Net debt	£284.4m	£233.7m	£240.1m	+18	n/a
Net debt to EBITDA	2.0x	1.9x	1.8x	n/a	n/a
Free cash flow[5]	£40.7m	£28.6m	£50.2m	n/a	n/a
Reported operating profit	£80m	£78m	£47m	+69	+66
Reported pre-tax profit	£66m	£66m	£36m	+80	+76
Reported net income[4]	£41m	£41m	£28m	+47	+46
Reported basic earnings per share	14.7p	14.6p	9.3p	+58	+58

[1] FY 2018 results are unadjusted for IFRS 16 (see Basis of Preparation)
[2] Y-o-Y changes are calculated by comparing data for FY 2019 after applying IFRS 16 with data for FY 2018 (which is unadjusted for IFRS 16)
[3] Before amortisation of acquired intangible assets and exceptional and other adjusting items
[4] Net income is defined as profit after tax, before minority interests
[5] A reconciliation of free cash flow is set out in the Financial Review

Commenting on today's results, Paul Forman, Chief Executive, said:

"Essentra continued to make meaningful strategic, financial and operational progress, delivering underlying revenue and operating margin growth despite challenging trading conditions. In Components, as anticipated, the underlying market conditions weakened, but the division delivered revenue marginally above prior year on a like-for-like basis (excluding the Reid Supply business transfer), along with a stable operating margin, as well as a record NPS of 41 and a new website platform in 10 countries. 2019 was Packaging's best overall performance since 2015, and the division's acquisition during the year, Nekicesa, performed well. During the year, Packaging saw further development of value-added services and progress in key service metrics. The Filters division delivered well against all three game changers, especially the establishment of the China Joint Venture and a six-year outsourcing agreement. Filters also maintained outstanding service levels and accelerated its product innovation.

As noted in our HY 2019 results announcement, Essentra has been fully cooperating in the investigation of certain Group companies' (in the Filters division) export activities within the framework of US laws. A comprehensive investigation has been carried out to fully understand the root cause of the issues. We have made a very significant investment of both time and money which has strengthened and further enhanced our processes around potential future issues of this nature.

As we enter 2020 the macroeconomic environment continues to look uncertain, exacerbated by COVID-19. However, we begin the year as a more focused business, ready and well-equipped to

face the challenges and opportunities ahead. In 2020 we will continue to invest in our business and support growth in all three divisions."

Outlook Statement

Heading into 2020, the macro economic environment remains uncertain, exacerbated by COVID-19. However, while our Components division is more exposed to industrial segments with a certain degree of cyclicality, much of our Group serves end-markets which are non-cyclical in nature.

Accordingly, we will continue to drive the agenda and deliver the stated objectives for each of our divisions, and we expect to make further strategic, financial and operational progress in 2020.

Basis of Preparation

IFRS 16. The results for FY 2019 have been prepared under IFRS 16 which came into effect from 1 January 2019. The Company has adopted IFRS 16 for FY 2019 and has elected not to restate FY 2018, consistent with IFRS accounting standards. The impact of reporting under IFRS 16 is set out in note 1 to the Consolidated Financial Statements.

Constant foreign exchange rates. Movements in exchange rates relative to sterling affect actual results as reported. The constant exchange rate basis ("constant FX") adjusts the comparative to exclude such movements, to show the underlying performance of the Company. The principal exchange rates for Essentra in FY 2019 were:

	-------- Average --------		-------- Closing --------	
	FY 2019	**FY 2018**	**FY 2019**	**FY 2018**
US$:£	1.28	1.33	1.32	1.28
€:£	1.14	1.13	1.18	1.12

Re-translating at FY 2019 average exchange rates increases the prior year revenue and adjusted operating profit by £15.9m and £1.8m respectively.

Like-for-like ("LFL"). The term "like-for-like" describes the performance of the continuing business on a comparable basis, adjusting for the impact of acquisitions, disposals and foreign exchange. The FY 2019 LFL results are adjusted for the acquisition of Nolato Hertila ("Hertila") on 5 July 2018 until 8 February 2019 (further to which it was fully integrated into the existing Components activities in Sweden and no longer separately identifiable), the acquisition of the Innovative Components business on 26 June 2019, the acquisition of Nekicesa Packaging on 6 September 2019, the divestment of the trade and assets of the Swiftbrook paper merchant business on 3 September 2018, the divestment of the Pipe Protection Technologies business on 14 January 2019, the divestment of the Extrusion business on 11 June 2019, the divestment of the Speciality Tapes business on 28 June 2019 and finally the divestment of the Card Solutions business on 23 July 2019.

Underlying. The term "underlying" describes performance on a LFL basis, further adjusting for the closure of the Kilmarnock and Largo consumer packaging sites and the cessation of Speciality Tapes in Nottingham at the end of 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 2019, amortisation of acquired intangible assets was £22.9m (FY 2018: £22.7m), and there was an exceptional pre-tax credit of £15.4m (FY 2018: charge of £20.8m). This exceptional credit mainly relates to net gains on

the divestment of the aforementioned businesses less costs associated, together with the release of provisions with regard to certain site closures; along with acquisition integration costs. There was also an exceptional cost incurred in relation to an investigation involving external professional advisers, of certain Group companies' (in the Filters division) export activities within the framework of US laws, as we previously disclosed in our HY 2019 results. Further details on exceptional and other adjusting items are shown in note 3 to the Consolidated Financial Statements.

Constant FX, LFL / Underlying and adjusted measures are provided to reflect the underlying financial performance of Essentra. For further details on the performance metrics used by Essentra, please refer to pages 18 to 21 of the 2018 Annual Report.

Adjusted operating cash flow. Adjusted operating cash flow is presented to exclude the impact of tax, exceptional and other adjusting items, interest and other non-cash items in 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 relation to net debt and the cash flow statement, the application of IFRS 16 has the following impact:

- Depreciation of the lease right-of-use assets is added back to operating profit to arrive at operating cash flows. This increases the Group's EBITDA.
- Lease liabilities are treated as part of net debt.
- Payment of the principal amount of leases is treated as a financing cash flow within the cash flow statement. It is not included within the definition of free cash flow under IFRS 16. Such payment does not have an impact on net debt (under IFRS 16).
- With changes in EBITDA and net debt, the net debt to EBITDA ratio is significantly impacted by the adoption of IFRS 16. The ratio of 1.8x previously reported for the FY 2018 year end (as disclosed in note 19 to the 2018 Annual Financial Statements) will be restated to 2.1x under IFRS 16.

Operating Review

The FY 2019 result for the Group was robust, notwithstanding the significant portfolio rationalisation activities during the year. As disclosed in the HY 2019 results, in aggregate, £105m of revenue and £15m trading profit (on an annualised basis) were disposed during the year, which had significant impact on the year-on-year comparisons.

FY 2019 revenue decreased 5.0% (-6.5% at constant exchange) to £974.1m owing to disposals during the period: on a LFL basis, revenue decreased 0.7% (+1.5% underlying). The underlying result reflected a resilient performance in Components (given the macroeconomic conditions) and a strong performance in Packaging, partially offset by a decline in Filters (which was primarily driven by softer performance in China, and also in markets supplied by the Middle East).

On an adjusted basis, operating profit was down 3.5% (-5.4% at constant FX) at £87.5m; underlying adjusted operating profit up 2.0%. The 20bps uplift in the margin (10bps at constant FX) to 9.0% was driven by the strong revenue performance in Packaging, the impact of price increases in both Components and Packaging, and further operational efficiency gains in all three divisions.

Including amortisation of acquired intangible assets of £22.9m and an exceptional pre-tax credit of £15.4m (mainly relating to net gains on the divestment of the aforementioned businesses less costs associated), operating profit as reported was £80.0m (FY 2018: £47.2m).

Net finance expense was above the prior year at £14.5m (FY 2018: £10.9m), mainly due to interest on leases from having adopted IFRS 16 together with a higher average level of sterling-denominated debt

during the period (which was done as a Brexit mitigation initiative). The effective tax rate on underlying profit before tax (before exceptional and other adjusting items) was 19.9% (FY 2018: 19.5%).

On an adjusted basis, net income of £58.5m was down 8.9% (10.9% at constant FX) and adjusted basic earnings per share decreased by 7.8% (9.7% at constant FX) to 21.3p. On a total reported basis, net income of £41.2m and earnings per share of 14.7p compared to £28.1m and 9.3p respectively in FY 2018.

Adjusted operating cash flow was 7.0% lower than the previous year at £71.8m (FY 2018: £77.2m), this equated to an operating cash conversion of 82% in the year. Adjusted free cash flow of £40.7m compared to £50.2m in FY 2018. The decline in both adjusted operating cashflow and adjusted free cash flow was mainly due to an increased cash outflow from net working capital movements (impacted by Brexit related stock build in the Components division, as well as working capital investment in Packaging necessary to fuel business growth) and the impact of the aforementioned business disposals. Additionally, cash flow was also impacted by the investment of £7.1m capex to support the outsourcing deal in Filters.

With effect from 1 January 2019 (i.e. even before the dissolvement of the Specialist Components division) the Group had altered the organisational structure by transferring the Speciality Tapes Express distribution locations in the US from the Components division into the Specialist Components division. Subsequent to the dissolvement of the Specialist Components division, the Tear Tapes business has been transferred into the Filters division and the Reid Supply business has been transferred into the Components division.

A restatement of the FY 2018 revenue and adjusted operating profit on this basis is set out in note 2 to the Consolidated Financial Statements.

Business Review

Summary growth in revenue by Division

% growth	LFL	Acquisitions / Disposals	Foreign Exchange	Total Reported
Components	-0.6	+1.3	+0.6	+1.3
Packaging	+0.3	+1.4	+1.3	+3.0
Filters	-1.1	-	+2.5	+1.4
Specialist Components	-	-67.8	+0.7	-67.1
Total	**-0.7**	**-5.8**	**+1.5**	**-5.0**

The following review is given at constant exchange rates and on an adjusted basis, unless otherwise stated.

Components

	FY 2019 £m	% growth Actual FX	% growth Constant FX
Revenue	283.3	+1.3	+0.7
Operating profit*	60.3	-1.1	-1.1
Operating margin*	21.3%	-50bps	-40bps

* Adjusted basis

Revenue increased 0.7% to £283.3m. Adjusting for the acquisition of Hertila on 5 July 2018 until 8 February 2019 and acquisition of Innovative Components on 26 June 2019, like-for-like growth was -0.6%.

The modest decline in LFL revenue was delivered against a challenging macro environment, which saw weakening markets throughout the year. Global PMI was under 50 for six months of the year, with Europe being affected in particular.

The volume impact from the softer end-market backdrop and greater macroeconomic uncertainty was somewhat offset by successful pricing management. The Reid Supply business was impacted by a softer macro backdrop in the US industrial market, especially the automotive market.

Access Hardware continued to grow with all regions seeing double digit growth. The emergence of new technologies such as charging stations and 5G infrastructure continued to provide good opportunities for further growth in the market. The division has been leveraging its customer base across other product lines to gain market share by cross selling this range. PCB Hardware sales were down in the period, linked to the electronics market declines. Cable management products which serve a broader range of industries performed better. Caps and Plugs (General Protection) suffered a decline, being driven by exposure to automotive markets in particular. Fastener sales were better than prior year, bolstered by good performance from the Micro Plastics acquisition.

Consistent with the commitment to providing customers with a “hassle-free” experience, along with reliable and timely delivery, further commercial and operational initiatives were progressed during the period. Key among these was the roll out of a new digital platform, a critical tool in upgrading the division’s online presence. The new digital platform was launched in ten countries in 2019, and the roll out will continue in 2020. The platform provides greater ease of navigation for customers, a better ability to compare products, and improved visibility in search engines such as Google. This platform has given the division the stage on which to promote an expanding range of products that have both been organically introduced and added from acquisitions. Further improving service levels through the division’s supply chain, a new distribution hub was opened in Houston, Texas which enables the division to reach more South/Southwestern states in the target delivery time. The German warehouse project is on course to open in Q2 2020. Two new staff training centres have been launched in China and the USA (with a further one planned for the UK), in order to drive even better knowledge and expertise of the division’s full product portfolio.

In line with its strategic objective of complementing organic growth with value-creating transactions, on 26 June 2019 the acquisition of Innovative Components was announced. As a leading provider of knobs, pins and handles, Innovative Components both strengthened and extended the division’s product range whilst adding further valuable manufacturing capacity in the Americas. The integration of Innovative Components is on track with expectations.

Adjusted operating profit decreased 1.1% to £60.3m, equating to a margin of 21.3%. This 40bps dilution reflected the aforementioned volume impact of a softer macro environment along with the dilutive impact of acquired and re-integrated businesses, partially being offset by successful pricing management. On a LFL basis, excluding the Reid Supply business transfer, OP margin is broadly flat with prior year.

Packaging

	FY 2019 £m	% growth Actual FX	% growth Constant FX
Revenue	352.7	+3.0	+1.7
Operating profit*	15.1	+179.6	+185.6
Operating margin*	4.3%	+270bps	+280bps

* Adjusted basis

Revenue increased 1.7% to £352.7m. Excluding the divestment of the trade and assets of Swiftbrook, Ireland on 3 September 2018 and acquisition of Nekicesa Packaging on 6 September 2019, like-for-like revenue growth was 0.3% (+5.6% underlying).

As expected the first half of the year was particularly strong reflecting both weaker comparatives in 2018 and short term customer demand on the back of Brexit uncertainties in the UK. Growth in the second half was somewhat hindered by specific customer supply chain issues impacting Americas growth rates in Q4.

Europe and the Americas grew in the year as both quality improved and lead time reduced.

Complex literature continued to perform strongly across all geographies and was boosted by good growth in both folding cartons and labels. The division also successfully supported customers with artwork generation and in their supply chain management, to ensure they were well placed to meet the new regulatory requirements as prescribed by the Falsified Medicines Directive, which took effect in Europe in early 2019. In combination with the benefits from the clear key account management structure which was established in the prior year, the dialogue with customers thus continued to be further strengthened and deepened, with the division collaborating to help meet a range of needs and objectives.

During the period, there was further investment in machine upgrades and value-added service capabilities to underpin the ongoing improvement in both commercial and operational effectiveness. This incremental investment included complex literature folding equipment in response to increasing demand trends, as well as the ongoing roll out of colour management technology across the site footprint, which has contributed to a further material reduction in quality-related issues. New equipment and people were also added to the Design Hub in the USA, while the recent additional digital / hybrid carton and label printing capability is allowing the division to better respond to the increasing requirement for smaller batch manufacturing in a cost-effective manner. As industry trends (such as patient adherence and serialisation) and legislative requirements continue to evolve, the division is therefore well placed to respond to customer needs as they require even greater agility and value-added solutions from their packaging suppliers.

Adjusted operating profit increased 185.6% to £15.1m, equating to a margin of 4.3%. This was largely driven by the volume gearing effect from the revenue growth, boosted by price increases (to offset higher raw material costs), a one-time benefit of £1.7m from the release of previous provisions, the impact of improved operational efficiencies crystallising as savings and the benefit of closing the loss-making Kilmarnock and Largo facilities. On an underlying basis, the margin was ahead by 200bps per our expectation.

Filters

	FY 2019 £m	% growth Actual FX	% growth Constant FX
Revenue	303.6	+1.4	-1.1
Operating profit*	36.2	+3.1	-1.3
Operating margin*	11.9%	+20bps	0bps

* Adjusted basis

The modest year on year decline was partially caused by softer trading in China, which has been impacted due to our lack of local manufacturing presence. This further underlies the importance of the creation of the JV in China – which will give the division that local manufacturing presence, and thus provide a great platform to capture the market opportunities available in China. Secondly, the division was faced with challenging trading conditions in certain markets supplied out of the Middle East - in response to the sanction compliance failings, revenue was impacted, with some orders being delayed and certain relationships being terminated.

Specialty filters, especially those including a flavour capsule, continue to underpin the performance of the division. During the period, the division continued to build upon its proven track record of developing innovative products which meet the evolving needs of customers. In the combustible market, there was further demand for products which incorporate one or more capsules and / or are visually differentiated (such as tube filters), particularly from the independent segment. At the same time, the consumer trend in China for smaller diameter and increasingly complex formats continued to increase, with good growth in the “slim” products segment. As an innovation leader, the division is well placed to play a leading role in developing biodegradable filters. The division has projects ongoing in collaboration with customers and suppliers and this could create a number of opportunities in the medium to long-term.

Beyond traditional combustible filters, there was further progress in next generation products (NGP). Although a relatively small contributor to divisional revenue and operating profit, the division continued to work with various multinationals and independents to advance their respective potential – or next phase - Heat Not Burn offers. In addition, the Scientific Services unit performed well, further building on its extensive experience and range of accredited testing methods for both combustible and NGP products.

Consistent with the divisional strategic objective of continuous improvement in innovation capabilities and customer relationships, the division undertook certain important commercial initiatives during the period. First, the Global Innovations organisation was refocused and strengthened, to provide a clear distinction between combustibles and NGP new product development; not only will this enable even more value-added solutions and greater efficiency, it will also facilitate the identification of new customer opportunities as the industry continues to rapidly evolve. Additionally, the division embarked upon the implementation of a full, cross-functional key account management structure which – in conjunction with the restructuring of the Innovations team – will help to create a more in-depth understanding of customer needs, develop relevant value propositions to meet their respective needs and identify mutually beneficial strategic initiatives.

In relation to the game changers, agreement was reached with a number of Chinese partners to establish a joint venture, which will design, manufacture and market tobacco filters in China. We continue to build our pipeline of NGP opportunities - four patent applications were made for new products. Our first significant outsourcing contract was secured during the year; this has been supplemented by a second outsourcing award from another multinational company in February 2020.

Adjusted operating profit decreased 1.3% to £36.2m, with operating margin unchanged at 11.9% (on a constant FX basis). This was driven by efficiency improvements and productivity gains resulting from the division's world-class operational metrics, being partially offset by the dilutive impact of the recently integrated Tear Tapes business.

Specialist Components

	FY 2019 £m	% growth Actual FX	% growth Constant FX
Revenue	35.2	-67.1	-67.8
Operating profit*	4.8	-56.0	-57.5
Operating margin*	13.6%	+340bps	+330bps

* Adjusted basis

The Specialist Components division was dissolved at the end of Q3 2019. The remaining Tear Tapes and Reid Supply businesses were absorbed into the Filters and Components divisions respectively owing to the complementary nature of the end-markets that they serve.

Financial Review

Net finance expense. Net finance expense of £14.5m was £3.6m above the prior year period, and is broken down as follows:

£m	FY 2019	FY 2018
Net interest charged on net debt	11.4	9.6
Amortisation of bank fees	0.8	0.7
IAS 19 pension finance charge	0.7	0.6
Interest on leases from adopting IFRS 16	2.1	-
Net other finance income	(0.5)	-
Total net finance expense	**14.5**	**10.9**

Tax. The effective tax rate on underlying profit before tax (before exceptional and other adjusting items and amortisation of acquired intangible assets) was 19.9% (FY 2018: 19.5%).

Net working capital. Net working capital is defined as Inventories plus Trade & Other Receivables less Trade & Other Payables, adjusted to exclude Deferred Consideration Receivable / Payable, Interest Accruals and Capital Payables ("Adjustments").

£m	FY 2019	FY 2018
Inventories	113.1	119.7
Trade & other receivables	166.9	188.8
Trade & other payables	(174.5)	(199.5)
Net working capital in assets held for sale	-	5.1
Adjustments	8.3	7.7
Net working capital	**113.8**	**121.8**

The decrease in net working capital was largely due to business divestments within Specialist Components offset by increases in Components and Packaging. The average net working capital / revenue ratio was 14.3% (FY 2018: 13.7%, at constant FX). The increase in the NWC ratio was driven by the impact of adopting IFRS 16 (which accounted for 20bps of the overall 60bps movement), with the remainder being driven by Brexit related stock building in the Components division and an increase in working capital in the Packaging division being used to fuel business growth. The movement in trade and other payables is driven by the release and utilisation of certain accruals and deferred income.

Cash flow. Adjusted operating cash flow is presented to exclude the impact of tax, exceptional and other adjusting items, interest and other non-cash items in 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 2019, net capital expenditure excludes £0.3m of exceptional property, plant and equipment ("PP&E") disposal proceeds realised during site closures.

Adjusted operating cash flow was 7.0% lower than the previous year at £71.8m (FY 2018: £77.2m), this equated to an operating cash conversion of 82% in the year. Adjusted free cash flow of £40.7m compared to £50.2m in FY 2018. The decline in both adjusted operating cash flow and adjusted free cash flow was mainly due to an increased cash outflow from net working capital movements (impacted by Brexit related stock build in the Components division, as well as working capital investment in Packaging necessary to fuel business growth) and the impact of the aforementioned business disposals. Additionally, cash flow was also impacted by the investment of £7.1m capex to support the outsourcing deal in Filters.

In FY 2019, there was a £5.1m net increase in cash and cash equivalents (FY 2018: £14.5m).

£m	FY 2019	FY 2018
Operating profit – adjusted	**87.5**	**90.7**
Depreciation and amortisation of non-acquired intangible assets	36.4	35.9
Right-of-use asset depreciation	11.3	-
Share option expense / other movements	3.5	4.9
Change in working capital	(10.3)	5.9
Net capital expenditure (excluding exceptional PP&E disposal proceeds)	(56.6)	(60.2)
Operating cash flow – adjusted	**71.8**	**77.2**
Tax*	(16.5)	(16.5)
Cash outflow in respect of exceptional and other adjusting items	(34.2)	(20.8)
Pension obligations	(1.3)	(1.0)
Add back: net capital expenditure (excluding exceptional PP&E disposal proceeds)	56.6	60.2
Net cash inflow from operating activities	**76.4**	**99.1**
Operating cash flow – adjusted	**71.8**	**77.2**
Tax*	(16.5)	(16.5)
Net interest paid	(13.3)	(9.5)
Pension obligations	(1.3)	(1.0)
Free cash flow – adjusted	**40.7**	**50.2**
Net increase in cash & cash equivalents	**5.1**	**14.5**

* Tax paid excludes the exceptional tax paid on business disposals. This is included within the cash outflow in respect of exceptional and other adjusting items

Net debt. Net debt at the end of the period was £284.4m, a £15.1m reduction from 1 January 2019 (after applying IFRS 16), primarily due to proceeds from Specialist Components disposals and free cash flow generation, partially offset by cost of acquisitions, dividend payments and cash exceptional and other adjusting items.

£m	FY 2019
Net debt as at 1 January 2019	240.1
Adjustments in relation to transitioning to IFRS 16	59.4
Net debt as at 1 January 2019 (IFRS 16-adjusted)	**299.5**
Dividends	55.0
Free cash flow	(40.7)
Cash outflow in respect of exceptional and other adjusting items (net of exceptional PP&E disposal proceeds)*	33.9
Foreign exchange	(6.6)
Acquisitions	37.7
Loans acquired	13.8
Disposals	(113.7)
Lease liability movements	5.1
Employee trust shares	(0.4)
Other	0.8
Net debt as at 31 December 2019 (IFRS 16-adjusted)	**284.4**
Net debt as at 31 December 2019 (IFRS 16-unadjusted)	***233.7***

* Includes exceptional tax paid on business disposals

The Company's financial ratios remain strong. The ratio of net debt to EBITDA as at 31 December 2019 was 2.0x (31 December 2018: 2.1x) after applying IFRS 16 (1.9x before applying IFRS 16), and interest cover was 6.6x (31 December 2018: 7.9x) after applying IFRS 16.

Pensions. As at 31 December 2019, the Company's IAS 19 net pension liability was £17.4m (FY 2018: £13.9m), as a result of a change in discount rate partially offset by an increase in asset valuations. The net liability has been calculated after updating the asset values and certain liability assumptions as at 31 December 2019.

The Company concluded the triennial valuation of the two closed defined benefits sections of the Essentra UK Pension Plan with the Trustees of the Plan, with a settlement of £1m to be paid in three equal payments. The first one took place in December 2019, and the remaining two will be paid in June and December 2020.

Dividends. The Board of Directors recommends a final dividend of 14.4 pence per 25 pence ordinary share (2018: 14.4 pence). The final dividend will be paid on 1 June 2020 to equity holders on the share register on 24 April 2020: the ex-dividend date will be 23 April 2020. Essentra operates a Dividend Re-Investment Programme ("DRIP"), details of which are available from the Company's Registrars, Computershare Investor Services PLC: the final date for DRIP elections will be 7 May 2020. The Board recognises that free cash flow generated by the continuing operation in 2019 (following the successful divestments), was short of the dividend payment amount. However, the Company will aim to rebuild dividend cover as it continues to make strategic, financial and operational progress.

Board changes. As reported in the FY 2018 and HY 2019 results announcement, with effect from 1 June 2019, the Board appointed Nicki Demby as a Non-Executive Director and Remuneration Committee Chairman Designate. Lorraine Trainer has advised the Board of her intention to step down as a Non-Executive Director and Chairman of the Remuneration Committee following the Company's 2020 Annual General Meeting, and will work closely with Nicki in the meantime to ensure a smooth transition of responsibilities.

Treasury policy and controls. 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 the underlying business activities. No transactions of a speculative nature are undertaken. 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.

Foreign exchange risk. The majority of Essentra's net assets are in currencies other than sterling. The Company's normal policy is to reduce 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. As at 31 December 2019, Essentra's US dollar-denominated assets were approximately 46% hedged by its US dollar-denominated borrowings, while its euro-denominated assets were approximately 32% 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 exposure to movements in exchange rates on its highly probable forecast foreign currency sales and purchases over a period of up to 18 months.

Management of principal risks. The Board considers risk assessment, identification of mitigating actions and internal controls to be fundamental to achieving Essentra's strategic objectives. Our principal risks are detailed later in this document.

COVID-19 Update

The Company is experiencing some direct impact on demand from COVID-19, but only c3% of the Company's revenues come from China.

The health and safety of the Company's employees and visitors is a top priority. The Company is closely monitoring the situation every day. The Company issues regular updates to its employees, including travel advice. This is supplemented by local guidance on a location-by-location basis, incorporating local government advice. All facilities are being provided with basic hygiene supplies. Many offices are utilising home working.

The Company's Components site in Ningbo, China is ramping up production after the Chinese new year break and employees on site have been provided with detailed guidance on day-to-day healthcare, in agreement with local authorities. The site is expected to be fully operational in the week commencing 2 March 2020.

The Company continually assess the risks it is exposed to, and has a well-established risk mitigation process in place. One of the risks that has been assessed at length is that of supply chain disruption – hence if COVID-19 were to directly (and materially) start affecting our supply chain, we have identified mitigations in place. Regarding the newly established Filters JV in China, there is a possibility of progress delay due to travel restrictions.

The Company will continue to monitor the situation closely for direct and potential indirect impacts across all the regions that it operates in.

The UK’s Exit from the European Union (“Brexit”)

Over the course of the past year, the Company put in place various actions to mitigate the impact of Brexit, particularly under ‘no-deal’ scenarios. These included alternative supply routings, changing supply networks and implementing stock builds to minimise supply chain disruption. Now that the Withdrawal Bill has been signed and will come into force, the Company’s focus will shift to preparing for an orderly transition in December 2020, depending on the trade deal negotiated with the EU. Even in the event of a hard Brexit, we do not foresee any material impact to the Company. Our focus is now on ensuring staff are supported in gaining Settled Status, where applicable, along with ensuring appropriate customs processes and documentation are in place.

Business Process Redesign (“BPR”)

As mentioned previously, in 2019 the Company embarked on a business process redesign project, supported by implementation of a new ERP system. The aim is that this project supports the strategic growth agenda of the divisions, along with improving process efficiencies and business controls.

The first year of the programme focused on the Components division, as well as the finance and procurement functions. The first two phases of the programme (scoping and process design) are now complete for these areas. Project activity is now focused on system design and development, with the expectation that the first locations will ‘go live’ from mid-year 2020 onwards.

Over the cycle, the tangible benefits of the BPR programme are estimated to offset the cost; the Company is commencing a detailed effectiveness review of its general and administrative costs. With streamlined processes and modern technology, the Company expects to become a much more agile and nimble business, which will not only deliver better service to customers but also allow the better attraction and retention of high quality talent.

2020 Outlook

Heading into 2020, the macro economic environment remains uncertain, exacerbated by COVID-19. However, while our Components division is more exposed to industrial segments with a certain degree of cyclicality, much of our Group serves end-markets which are non-cyclical in nature.

Accordingly, we will continue to drive the agenda and deliver the stated objectives for each of our divisions, and we expect to make further strategic, financial and operational progress in 2020.

Enquiries

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Presentation

A copy of these results is available on www.essentraplc.com

There will be a presentation for analysts and investors at 08:30 (UK time, registration from 08:00), which will be held at The Auditorium, Deutsche Bank, Winchester House, 1 Great Winchester Street, London, EC2N 2DB.

There are three options for participating in the presentation:

- Attend in person
- View a live webcast of the presentation at http://www.essentraplc.com/en/investors/company-information/webcasts-and-presentations
- Dial in to the live webcast of the presentation, using the following details:

Dial-in number:	+44 (0)20 7192 8000 (UK / international participants) +1 631 510 7495 (US participants)
Toll-free number:	0800 376 7922 (UK participants) +1 866 966 1396 (US participants)
PIN code:	7674003

A recording of the presentation will be made available on the website later in the day. A replay will additionally be available as follows:

Replay number:	+44 (0)333 300 9785 (UK / international participants) +1 917 677 7532 (US participants)
Toll-free number:	0808 238 0667 (UK participants) +1 866 331 1332 (US participants)
Replay access code:	7674003
Replay available:	For 7 days

Cautionary forward-looking statement

These results contain 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 future results or developments expressed or implied from the forward-looking statements. Each forward-looking statement speaks only as of the date of this document. The Company accepts no obligation to revise or update these forward-looking statements publicly or adjust them to future events of developments, whether as a result of new information, future events or otherwise, except to the extent legally required.

Notes to Editors

About Essentra plc

Essentra plc is a FTSE 250 company and a leading global provider of essential components and solutions. Organised into three global divisions, Essentra focuses on the light manufacture and distribution of high volume, enabling components which serve customers in a wide variety of end-markets and geographies.

Headquartered in the United Kingdom, Essentra's global network extends to 34 countries and includes 7,552 employees, 50 principal manufacturing facilities, 34 sales & distribution operations and 4 research & development centres. For further information, please visit www.essentraplc.com.

Essentra Components

Essentra Components is a global market leading manufacturer and distributor of plastic injection moulded, vinyl dip moulded and metal items. Operating in 29 countries worldwide, 14 manufacturing facilities and 29 logistics centres serve 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. The division also includes the Reid Supply business, which provides a wide range of branded hardware supplies to a broad base of industrial customers, largely located in the US Mid-West.

Essentra Packaging

Essentra Packaging is one of only two multicontinental suppliers of a full secondary packaging range to the health and personal care sectors, with 24 facilities across four geographic regions. The division's innovative products include cartons, leaflets, self-adhesive labels and printed foils used in blister packs, which help customers to meet the rapidly-changing requirements of these end-markets and can also be combined with Essentra's authentication solutions to help the fight against counterfeiting.

Essentra Filters

Essentra Filters is the only global independent cigarette filter supplier. The seven worldwide locations, plus a dedicated Technology Centre supported by three regional development facilities, provide a flexible infrastructure strategically positioned to serve the tobacco sector. The business supplies a wide range of value-adding high quality innovative filters, packaging solutions to the roll your own segment and analytical laboratory services for ingredient measurement to the industry: Essentra's offering also includes Heat Not Burn and e-cigarette solutions to the rapidly evolving market for Next Generation Products. The division now also includes the Tear Tapes business, which is globally recognised as the leading manufacturer and supplier of pressure-sensitive tear tapes, that are largely used in the tobacco, food and drink and specialist packaging sectors.

Consolidated Income Statement

For the year ended 31 December 2019

	Note	**2019 £m**	2018 £m
Revenue	2	**974.1**	1,025.6
Operating profit before intangible amortisation and exceptional and other adjusting items		**87.5**	90.7
Amortisation of acquired intangible assets		**(22.9)**	(22.7)
Exceptional and other adjusting items	3	**15.4**	(20.8)
Operating profit		**80.0**	47.2
Finance income	4	**2.1**	1.7
Finance expense	4	**(16.6)**	(12.6)
Profit before tax		**65.5**	36.3
Income tax expense		**(24.3)**	(8.2)
Profit for the year		**41.2**	28.1
Attributable to:			
Equity holders of Essentra plc		**38.4**	24.3
Non-controlling interests		**2.8**	3.8
Profit for the year		**41.2**	28.1
Earnings per share attributable to equity holders of Essentra plc:			
Basic	5	**14.7p**	9.3p
Diluted	5	**14.5p**	9.2p
Earnings per share from continuing operations attributable to equity holders of Essentra plc:			
Basic	5	**14.7p**	9.3p
Diluted	5	**14.5p**	9.2p

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

	Note	**2019 £m**	2018 £m
Profit for the year		**41.2**	28.1
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit pension schemes	9	**(4.9)**	2.7
Deferred tax income/(expense) on remeasurement of defined benefit pension schemes		**1.0**	(0.4)
		(3.9)	2.3
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		**0.8**	0.6
Effective portion of changes in fair value of cash flow hedges		**(0.6)**	(0.2)
Foreign exchange translation differences:			
Attributable to equity holders of Essentra plc:			
Arising on translation of foreign operations		**(42.9)**	10.1
Arising on effective net investment hedges		**7.5**	(5.6)
Income tax income/(expense)		**1.6**	(0.2)
Attributable to non-controlling interests		**(0.6)**	0.1
		(34.2)	4.8
Other comprehensive income for the year, net of tax		**(38.1)**	7.1
Total comprehensive income for the year		**3.1**	35.2
Attributable to:			
Equity holders of Essentra plc		**0.9**	31.3
Non-controlling interests		**2.2**	3.9
Total comprehensive income for the year		**3.1**	35.2

Consolidated Balance Sheet

At 31 December 2019

	Note	**31 December 2019 £m**	31 December 2018 £m
Assets			
Property, plant and equipment	6	**276.0**	282.2
Lease right-of-use asset	8	**43.4**	-
Intangible assets	7	**486.3**	528.2
Long-term receivables		**5.6**	9.6
Deferred tax assets		**13.6**	14.8
Retirement benefit assets	9	**16.9**	18.5
Total non-current assets		**841.8**	853.3
Inventories		**113.1**	119.7
Income tax receivable		**7.0**	2.9
Trade and other receivables		**166.9**	188.8
Derivative assets		**0.8**	0.3
Other financial assets		**6.2**	-
Cash and cash equivalents	11	**70.4**	65.8
Total current assets		**364.4**	377.5
Assets in disposal group held for sale		**-**	41.8
Total assets		**1,206.2**	1,272.6
Equity			
Issued share capital	10	**66.0**	66.0
Merger relief reserve		**298.1**	298.1
Capital redemption reserve		**0.1**	0.1
Other reserve		**(132.8)**	(132.8)
Cash flow hedging reserve		**0.3**	0.1
Translation reserve		**(11.0)**	22.8
Retained earnings		**312.4**	338.3
Attributable to equity holders of Essentra plc		**533.1**	592.6
Non-controlling interests		**7.7**	11.6
Total equity		**540.8**	604.2
Liabilities			
Interest bearing loans and borrowings	11	**249.0**	311.2
Lease liabilities	11	**39.3**	-
Retirement benefit obligations	9	**34.3**	32.4
Provisions		**6.0**	20.7
Other financial liabilities		**3.4**	2.6
Deferred tax liabilities		**45.3**	50.5
Total non-current liabilities		**377.3**	417.4
Interest bearing loans and borrowings	11	**60.7**	0.1
Lease liabilities	11	**11.4**	-
Derivative liabilities		**0.3**	0.2
Income tax payable		**37.9**	41.8
Trade and other payables		**174.5**	199.5
Provisions		**3.3**	5.3
Total current liabilities		**288.1**	246.9
Liabilities in disposal group held for sale		**-**	4.1
Total liabilities		**665.4**	668.4
Total equity and liabilities		**1,206.2**	1,272.6

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

										2019
	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**
At 1 January 2019		**66.0**	**298.1**	**0.1**	**(132.8)**	**0.1**	**22.8**	**338.3**	**11.6**	**604.2**
Impact on adoption of IFRS 16	1							**(5.2)**	**-**	**(5.2)**
Restated total equity at the beginning of the financial year		**66.0**	**298.1**	**0.1**	**(132.8)**	**0.1**	**22.8**	**333.1**	**11.6**	**599.0**
Profit for the year								**38.4**	**2.8**	**41.2**
Other comprehensive income						**0.2**	**(33.8)**	**(3.9)**	**(0.6)**	**(38.1)**
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**0.2**	**(33.8)**	**34.5**	**2.2**	**3.1**
Acquisition of non-controlling interest								**(6.3)**	**(5.3)**	**(11.6)**
Share options exercised								**0.4**	**-**	**0.4**
Share option expense								**4.4**	**-**	**4.4**
Tax relating to share-based incentives								**0.5**	**-**	**0.5**
Dividends paid								**(54.2)**	**(0.8)**	**(55.0)**
At 31 December 2019		**66.0**	**298.1**	**0.1**	**(132.8)**	**0.3**	**(11.0)**	**312.4**	**7.7**	**540.8**

									2018
	Issued capital £m	Merger relief reserve £m	Capital redemption reserve £m	Other reserve £m	Cash flow hedging reserve £m	Translation reserve £m	Retained earnings £m	Non-controlling interests £m	Total equity £m
At 1 January 2018	66.0	298.1	0.1	(132.8)	(0.3)	18.5	362.7	8.1	620.4
Impact on adoption of IFRS 9							(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

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Note	**2019**	2018
		£m	£m
Operating activities			
Profit for the year		**41.2**	28.1
Adjustments for:			
Income tax expense		**24.3**	8.2
Net finance expense	4	**14.5**	10.9
Intangible amortisation	7	**23.8**	23.2
Exceptional and other adjusting items	3	**(15.4)**	20.8
Depreciation of property, plant and equipment	6	**35.5**	35.4
Lease right-of-use asset depreciation	8	**11.3**	-
Impairment of fixed assets		**0.5**	-
Share option expense		**3.9**	4.8
Hedging activities and other movements		**0.4**	1.2
Increase in inventories		**(1.1)**	(8.0)
Decrease in trade and other receivables		**7.3**	5.5
(Decrease)/increase in trade and other payables		**(16.5)**	8.4
Cash outflow in respect of exceptional and other adjusting items		**(24.6)**	(20.8)
Adjustment for pension contributions		**(1.3)**	(1.0)
Movement in provisions		**(1.3)**	(1.1)
Cash inflow from operating activities		**102.5**	115.6
Income tax paid		**(26.1)**	(16.5)
Net cash inflow from operating activities		**76.4**	99.1
Investing activities			
Interest received		**1.3**	1.2
Acquisition of property, plant and equipment		**(48.4)**	(58.2)
Proceeds from sale of property, plant and equipment		**2.6**	9.3
Payments for intangible assets		**(10.5)**	(3.0)
Acquisition of businesses net of cash acquired	12	**(26.1)**	(4.9)
Proceeds from sale of businesses net of cash disposed	12	**113.7**	0.9
Short-term investments		**(0.6)**	-
Net cash inflow/(outflow) from investing activities		**32.0**	(54.7)
Financing activities			
Interest paid		**(14.6)**	(10.7)
Dividends paid to equity holders		**(54.2)**	(54.2)
Dividends paid to non-controlling interests		**(0.8)**	(0.3)
Acquisition of non-controlling interests		**(11.6)**	-
Repayments of short-term loans		**(0.1)**	(0.4)
Repayments of long-term loans		**(207.3)**	(101.4)
Proceeds from long-term loans		**197.3**	137.0
Lease liability principal repayments		**(12.4)**	-
Proceeds from sale of employee trust shares		**0.4**	0.1
Net cash outflow from financing activities		**(103.3)**	(29.9)
Net increase in cash and cash equivalents	11	**5.1**	14.5
Net cash and cash equivalents at the beginning of the year		**66.2**	52.0
Net increase in cash and cash equivalents		**5.1**	14.5
Net effect of currency translation on cash and cash equivalents		**(0.9)**	(0.3)
Net cash and cash equivalents at the end of the year	11	**70.4**	66.2

1. Basis of preparation

The financial information set out in this document does not constitute statutory accounts for Essentra plc for the year ended 31 December 2019 but is extracted from the 2019 Annual Report.

The Annual Report for 2019 will be delivered to the Registrar of Companies in due course. The auditors' report on those accounts was unqualified and neither drew attention to any matters by way of emphasis nor contained a statement under either section 498(2) of Companies Act 2006 (accounting records or returns inadequate or accounts not agreeing with records and returns), or sec on 498(3) of Companies Act 2006 (failure to obtain necessary information and explanations).

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 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 had been presented as held for sale on the balance sheet as at 31 December 2018.

Changes in accounting policies

The Group has adopted IFRS 16 *Leases* from 1 January 2019. The adoption of this standard has a material effect on the Group's financial statements, as disclosed in the Group's 2018 consolidated financial statements. The quantitative impact of IFRS 16 on the Group's retained earnings at 1 January 2019 was a reduction of £5.2m.

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 lease 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 is 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 85% of the Group's future lease obligations under IAS 17 relate to property leases and as a consequence makes up the majority of the impact of adopting IFRS 16.

The Group has elected not to reassess whether a contract contains a lease at the end of the date of initial application, but to instead apply the requirements of IFRS 16 to contracts that were previously identified as leases under IAS 17 and IFRIC 4. Additionally, the Group has elected not to apply IFRS 16 to contracts that were not identified as containing a lease under IAS 17 and IFRIC 4.

The Group has also elected 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

The impact on the balance sheet (increase/(decrease)) as at 1 January 2019 is as follows:

	2019 **£m**
Assets	
Right-of-use assets	**41.3**
Prepayments and deferred income	**(0.4)**
Liabilities	
Lease liabilities	**(59.4)**
Onerous lease provision	**9.3**
Accruals and deferred income	**2.8**
Net deferred tax liabilities	**1.2**
Net impact on Equity	**(5.2)**

The impact on the income statement for 2019 and the estimated impact on the income statement (increase/(decrease) in profit) for 2018 had IFRS 16 always been in place is as follows:

	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
Depreciation expense	**(11.2)**	(9.7)
Operating lease expense	**13.5**	11.8
Operating profit	**2.3**	2.1
Finance costs	**(2.1)**	(2.2)
Income tax expense	**-**	0.1
Impact on profit after tax for the year	**0.2**	-

The estimated impact on the income statement for 2018 has been presented as pro forma comparative information. Under the transition approach selected, comparative information in the income statement has not been restated.

In the financial year ended 31 December 2019, Essentra adopted the following pronouncements:

Other standards and interpretations

The Group also adopted the following new pronouncements during 2019, which did not have any impact on the Group's financial statement:

- IFRIC 23 *Uncertainty over Income Tax Treatments* addresses how to reflect uncertainty in accounting for income taxes, providing guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances.

- Amendments to IAS 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.

Other than these, the accounting policies and presentation in this set of financial statements are consistent with those applied in prior years.

2. Segment Analysis

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

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 comprised the following smaller businesses of Essentra:

- The **Extrusion** business is a leading custom profile extruder located in the Netherlands which offers a complete design and production service.
- The **Pipe Protection Technologies** business specialises in the manufacture of high performance innovative products from commodity resins to engineering-grade thermoplastics and polymer alloys for use in the oil & gas industry.
- The **Speciality Tapes** business has expertise in coating multiple adhesive systems in numerous technologies, and its products range from foam, magnetic, finger lift and acrylic high bond tapes to hook and loop and non-skid foam.
- The **Card Solutions** business is a leading European provider of ID card printers, systems and accessories to direct and trade customers.

With effect from 1 January 2019 the Group has altered the organisational structure by transferring the Speciality Tapes Express distribution locations in the US from the Components division into the Specialist Components division. In addition in the second half of 2019, the Tear Tapes business has been transferred into the Filters division and the Industrial Supply business has been transferred into the Components division at which point there were no more businesses within the Specialist Components division. As a consequence, segmental information for the year ended 31 December 2018 has been restated to reflect these changes.

During the year ended 31 December 2019, the Group disposed of the Extrusion, Pipe Protection Technologies, Card Solutions and Speciality Tapes businesses. Further details of this can be found in note 12.

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.

As explained within note 1, the comparative information is not restated for IFRS 16.

							2019
	Components £m	Packaging £m	Filters £m	Specialist Components £m	Eliminations £m	Central Services[1] £m	Total £m
External revenue	283.1	352.7	303.3	35.0	-	-	974.1
Intersegment revenue	0.2	-	0.3	0.2	(0.7)	-	-
Total revenue	283.3	352.7	303.6	35.2	(0.7)	-	974.1
Operating profit/(loss) before intangible amortisation and exceptional and other adjusting items	60.3	15.1	36.2	4.8	-	(28.9)	87.5
Amortisation of acquired intangible assets	(9.3)	(12.7)	(0.1)	(0.8)	-	-	(22.9)
Exceptional and other adjusting items	(1.6)	7.4	(9.2)	19.7	-	(0.9)	15.4
Operating profit/(loss)	**49.4**	**9.8**	**26.9**	**23.7**	**-**	**(29.8)**	**80.0**
Segment assets	164.1	218.9	193.9	-	-	28.1	605.0
Intangible assets	171.1	283.6	22.3	-	-	9.3	486.3
Unallocated items [2]	-	-	-	-	-	114.9	114.9
Total assets	**335.2**	**502.5**	**216.2**	**-**	**-**	**152.3**	**1,206.2**
Segment liabilities	54.1	89.2	59.0	-	-	35.6	237.9
Unallocated items [2]	-	-	-	-	-	427.5	427.5
Total liabilities	**54.1**	**89.2**	**59.0**	**-**	**-**	**463.1**	**665.4**
Other segment items							
Capital expenditure (cash spend)	14.1	13.5	16.8	0.6	-	13.9	58.9
Depreciation	7.4	12.0	10.7	0.1	-	5.3	35.5
Average number of employees	2,409	3,251	1,730	387	-	221	7,998

							2018 (restated)
	Components £m	Packaging £m	Filters £m	Specialist Components £m	Eliminations £m	Central Services[1] £m	Total £m
External revenue	279.3	342.2	298.8	105.3	-	-	1,025.6
Intersegment revenue	0.5	0.1	0.6	1.7	(2.9)	-	-
Total revenue	279.8	342.3	299.4	107.0	(2.9)	-	1,025.6
Operating profit/(loss) before intangible amortisation and exceptional and other adjusting items	61.0	5.4	35.1	10.9	-	(21.7)	90.7
Amortisation of acquired intangible assets	(8.6)	(12.6)	-	(1.5)	-	-	(22.7)
Exceptional and other adjusting items	(1.7)	(7.4)	(1.3)	(4.1)	-	(6.3)	(20.8)
Operating profit/(loss)	**50.7**	**(14.6)**	**33.8**	**5.3**	**-**	**(28.0)**	**47.2**
Segment assets [3]	146.4	182.6	194.8	70.4	-	32.5	626.7
Intangible assets [3]	167.8	296.7	22.0	51.7	-	-	538.2
Unallocated items [2]	-	-	-	-	-	107.7	107.7
Total assets	**314.2**	**479.3**	**216.8**	**122.1**	**-**	**140.2**	**1,272.6**
Segment liabilities [3]	43.7	86.0	62.1	14.0	-	26.4	232.2
Unallocated items [2]	-	-	-	-	-	436.2	436.2
Total liabilities	**43.7**	**86.0**	**62.1**	**14.0**	**-**	**462.6**	**668.4**
Other segment items							
Capital expenditure (cash spend)	8.4	21.0	11.9	4.2	-	15.7	61.2
Depreciation	7.8	10.0	8.7	6.0	-	2.9	35.4
Average number of employees	2,390	3,169	1,514	938	-	228	8,239

[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, short-term investments, loan receivables 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.

Continuing operations' net finance expense of £14.5m (2018: £10.9m) and income tax expense of £24.3m (2018: £8.2m) cannot be meaningfully allocated by segment.

No customer accounted for more than 10% of revenue in either 2019 or 2018. Analysed by destination, revenue to Europe & Africa is £481.0m (2018: £477.4m), revenue to Americas is £296.4m (2018: £340.2m) and Revenue to Asia and Middle East is £196.7m (2018: £208.0m). Revenue to the UK is £97.2m (2018: £105.8m), with other significant countries being the USA with revenue of £221.0m (2018: £264.6m), Ireland £50.9m (2018: £52.5m) and Germany £52.5m (2018: £51.4m). Non-current assets in the UK total £166.8m (2018: £153.5m), with the other significant location being the USA with £293.6m (2018 £334.6m).

3. Exceptional and other adjusting items

	2019 £m	2018 £m
(Gains)/losses and transaction costs relating to acquisitions and disposals of businesses[1]	**(15.9)**	4.9
Acquisition integration and restructuring costs[2]	**0.7**	0.2
Other[3]	**(0.2)**	15.7
Exceptional and other adjusting items	**(15.4)**	20.8

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 £8.9m gain on the disposal of Pipe Protection Technology, £14.9m gain on disposal of Speciality Tapes, offset by a £3.0m loss on disposal of the Extrusion business, £1.3m loss on disposal of the Card Solutions business, £1.5m costs incurred in establishing the Filters China joint venture, £0.1m costs incurred in acquiring non-controlling interest of Dubai, £0.9m costs incurred acquiring Innovative Components, and £0.8m costs incurred acquiring Nekicesa. The remaining £0.3m relates to costs incurred to date in pursuit of acquisition targets.
In 2018 there was a net loss of £2.5m relating to the disposal of the Swiftbrook paper merchant business in July 2018, £0.1m of costs in relation to the acquisition of Nolato Hertila which completed on 5 July 2018, £1.1m relating to the effect of unwinding the fair value adjustment on inventory in relation to the acquisitions of Micro Plastics and Nolato 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.

[2] Acquisition integration and restructuring costs relate to the integration of; Hertila, acquired in 2018, Innovative Components, acquired in 2019, and Nekicesa, acquired in 2019, into the existing business. Included within the total is £0.1m credit relating to a release of Micro Plastics integration costs accrued.

[3] Other exceptional items in 2019 of £0.2m gain relate to:

- £6.2m credit relating to the release of onerous lease provisions, originally provided for as part of the closure of the Newport Cartons business in 2017, as a result of lease surrender being agreed with the lessor.
- £2.9m credit relating to the release of excess restructuring and closure provisions relating to the closure of the Largo and Kilmarnock sites within the Packaging division and Speciality Tapes business at Nottingham within the now dissolved Specialist Components division.
- £0.6m cost in relation to the restructure of the Group Finance function. The programme represents an initiative to streamline and restructure the Finance function, in line with management's vision of the future of the Finance function.
- £7.5m of cost in relation to a review of the compliance of certain group companies' export activities (in the Filters division) with U.S. laws, for which the Group is co-operating fully with the U.S. Government. As a result of the investigations conducted by the Group in response to US Government enquiries, the Group has made a voluntary disclosure to the US Office of Foreign Assets Control. During the year, the Group provided for its current estimate of the expected financial penalties for sanction compliance failures, amounting to £2.3m. In arriving at this estimate, management received professional advice from external consultants which took into account past experiences from previous cases.
  In addition, £3.2m of external advisory and consultancy costs involved in investigations conducted by the Group and £0.4m of costs of external resources for direct remediation actions were incurred. As a result of impact on trading transactions with certain customers, impairment losses of certain related assets (inventories, trade receivable and property, plant and equipment) amounting to £1.6m were also recognised during the year.
- £0.7m restructuring cost relating to personnel within the now dissolved Specialist Components division not retained within the business.
- £0.1m in relation to Filters restructuring.

The tax effect of the exceptional items is a charge of £14.9m (2018: £2.3m credit).

4. Net finance expense

	2019 £m	2018 £m
Finance income		
Bank deposits	**0.8**	0.5
Other finance income	**0.8**	0.7
Net interest on net pension scheme assets (note 9)	**0.5**	0.5
	2.1	1.7
Finance expense		
Interest on loans and overdrafts	**(12.2)**	(10.8)
Amortisation of bank facility fees	**(0.8)**	(0.7)
Other finance expense	**(0.3)**	-
Net interest on net pension scheme liabilities (note 9)	**(1.2)**	(1.1)
Interest on leases	**(2.1)**	-
	(16.6)	(12.6)
Net finance expense	**(14.5)**	(10.9)

5. Earnings per share

	2019 £m	2018 £m
Earnings		
Earnings attributable to equity holders of Essentra plc	**38.4**	24.3
Adjustments		
Amortisation of acquired intangible assets	**22.9**	22.7
Exceptional and other adjusting items	**(15.4)**	20.8
	7.5	43.5
Tax charge/(relief) on adjustments	**9.8**	(7.4)
Adjusted earnings	**55.7**	60.4
Weighted average number of shares		
Basic weighted average ordinary shares outstanding (million)	**262.0**	261.9
Dilutive effect of employee share option plans (million)	**3.6**	2.7
Diluted weighted average ordinary shares (million)	**265.6**	264.6
Earnings per share (pence)		
Basic earnings per share	**14.7p**	9.3p
Adjustment	**6.6p**	13.8p
Basic adjusted earnings per share	**21.3p**	23.1p
Diluted earnings per share	**14.5p**	9.2p
Diluted adjusted earnings per share	**21.0p**	22.8p

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.

6. Property, plant and equipment

	Land and buildings	Plant and machinery	Fixtures, fittings and equipment	2019 Total
	£m	£m	£m	£m
Cost				
Beginning of year	**89.9**	**409.3**	**77.7**	**576.9**
Acquisitions (note 12)	10.6	3.1	0.3	**14.0**
Business disposals (note 12)	(18.0)	(33.8)	(2.3)	**(54.1)**
Additions	4.5	33.2	11.8	**49.5**
Disposals	(1.7)	(13.3)	(5.6)	**(20.6)**
Transfers	0.2	(1.5)	(1.7)	**(3.0)**
Currency translation	(3.6)	(12.2)	(1.3)	**(17.1)**
End of year	**81.9**	**384.8**	**78.9**	**545.6**
Accumulated depreciation and impairment				
Beginning of year	**20.9**	**232.6**	**41.2**	**294.7**
Business disposals (note 12)	(7.6)	(22.2)	(2.0)	**(31.8)**
Charge in period	2.7	24.5	8.3	**35.5**
Disposals	(1.2)	(11.4)	(5.6)	**(18.2)**
Transfers	-	-	(0.5)	**(0.5)**
Impairment	-	0.2	0.5	**0.7**
Currency translation	(1.4)	(8.3)	(1.1)	**(10.8)**
End of year	**13.4**	**215.4**	**40.8**	**269.6**
Net book value at end of year	**68.5**	**169.4**	**38.1**	**276.0**

	Land and buildings	Plant and machinery	Fixtures, fittings and equipment	2018 Total
	£m	£m	£m	£m
Cost				
Beginning of year	98.2	418.8	61.0	578.0
Acquisitions (note 12)	-	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 to assets held for sale	(10.4)	(31.1)	(1.2)	(42.7)
Transfers	(0.1)	-	0.1	-
Currency translation	2.2	9.3	0.8	12.3
End of year	89.9	409.3	77.7	576.9
Accumulated 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 to assets held for sale	(1.5)	(17.9)	(1.1)	(20.5)
Transfers	0.1	(0.1)	-	-
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

Included within land and buildings, plant and machinery and fixtures, fittings and equipment are assets in the course of construction of £24.0m (2018: £12.2m) which were not depreciated during the year.

Contractual commitments to purchase property, plant and equipment amounted to £2.0m at 31 December 2019 (2018: £3.1m). Contractual commitments to lease property, plant and equipment amounted to £5.1m at 31 December 2019 (2018: £nil). The net book value of assets under finance lease amounted to £nil as at 31 December 2019 (2018: £0.9m).

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.

7. Intangible assets

	Goodwill	Customer relationships	Other intangible assets	Total
				2019
	£m	**£m**	**£m**	**£m**
Cost				
Beginning of year	**370.8**	**430.3**	**17.1**	**818.2**
Acquisitions (note 12)	12.6	13.3	0.7	**26.6**
Business disposals (note 12)	(34.5)	(27.0)	-	**(61.5)**
Additions	-	-	10.5	**10.5**
Disposals	-	-	(7.3)	**(7.3)**
Transfer	-	-	3.0	**3.0**
Currency translation	(9.9)	(14.5)	(0.2)	**(24.6)**
End of year	**339.0**	**402.1**	**23.8**	**764.9**
Amortisation and impairment				
Beginning of year	**31.9**	**246.7**	**11.4**	**290.0**
Business disposals (note 12)	(3.0)	(17.6)	-	**(20.6)**
Charge for the year	-	21.9	1.9	**23.8**
Transfer	-	-	0.5	**0.5**
Disposal	-	-	(7.3)	**(7.3)**
Currency translation	(0.6)	(7.2)	-	**(7.8)**
End of year	**28.3**	**243.8**	**6.5**	**278.6**
Net book value at end of year	**310.7**	**158.3**	**17.3**	**486.3**

	Goodwill	Customer relationships	Other intangible assets	Total
				2018
	£m	£m	£m	£m
Cost				
Beginning of year	373.5	421.6	13.6	808.7
Acquisitions (note 12)	2.0	3.4	-	5.4
Additions	-	-	3.2	3.2
Disposals	(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
Disposals	-	(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

Other intangible assets principally comprise trade names acquired with Reid Supply, developed technology acquired with Richco, order backlog, software development and e-Commerce development costs. Amortisation of intangible assets arising from business combinations ("acquired intangible assets") is presented separately on the face of the consolidated income statement. During the year ended 31 December 2019 software and development costs previously classified within Plant, Property and Equipment has been transferred into intangibles.

The e-Commerce development and software development costs were not acquired through a business combination, and their amortisation is included within operating profit 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 7.9 years and 6.3 years (2018: 8.8 years and 9.4 years) respectively.

Essentra tests intangible assets annually for impairment, or more frequently if there are indications of impairment. A discounted cash flow analysis is computed to compare the discounted estimated future operating cash flows to the net carrying value of the goodwill and other intangible 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. During the year the Specialist Components division was dissolved. The remaining businesses within the Specialist Components division, Essentra Industrial Supply (Reid) and Tear Tapes, were transferred to the Components and Filters Division respectively along with any associated goodwill. Goodwill is allocated to groups of cash generating units, being the operating segments, with the allocation as at 31 December 2018 now restated, as follows:

		Goodwill
	2019	2018 (restated)
	£m	£m
Components	**98.5**	94.4
Packaging	**190.5**	191.3
Filters	**21.7**	21.7
Specialist Components	**-**	31.5
	310.7	338.9

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

		Customer relationships and other intangible assets	
		2019	2018
Business	**Operating segment**	**£m**	£m
Components – Businesses of former Moss and Skiffy	Components	**10.7**	12.3
Components – Businesses of former Richco	Components	**22.6**	26.9
Components – Business of former Mesan	Components	**4.6**	6.1
Components – Business of former Abric	Components	**8.6**	9.9
Components – Business of former MicroPlastics	Components	**4.5**	5.0
Components - Industrial Supply	Components	**3.5**	4.6
Components - Innovative Components	Components	**8.1**	-
Components - e-Commerce development costs	Components	**5.2**	2.9
Components - other businesses	Components	**4.8**	5.7
Security (Card Solutions)	Specialist Components	**-**	1.1
Speciality Tapes	Specialist Components	**-**	9.1
Packaging – Americas	Packaging	**31.9**	37.0
Packaging – Asia	Packaging	**1.5**	1.7
Packaging – Europe	Packaging	**55.5**	66.7
Packaging - Nekicesa	Packaging	**4.2**	-
Filters	Filters	**0.6**	0.3
Not allocated to divisions - software and development costs	Central	**9.3**	-
		175.6	189.3

At 31 December 2019, management has performed an impairment review of the assets in each division. Following the impairment assessment, no impairment loss was recognised in 2019.

The impairment assessment for intangible assets (excluding goodwill) and property, plant and equipment is performed on the cash generating units within the divisions. The cash generating units are primarily the manufacturing sites. Goodwill is tested at the divisional level, which is the level that management monitor goodwill at. The recoverable amount is estimated on the basis of value in use, 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 (the "Plan"). Cash flow projections are over five years using Plan for the first year and subsequent years based on the Group's Strategic Plan. The Groups impairment test incorporates the following assumptions and changes in the current year:

- Impairment reviews now take into account the impact of IFRS 16 in both the calculation of discounted cash flows and the asset base.
- Filters was tested for impairment for the first time as it now holds goodwill due to the transfer of Tear Tapes from the Specialist Components division.
- Specialist Components has now been dissolved and is therefore no longer part of the impairment assessment.
- 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 2019, which are disclosed in note 2, adjusted by targets set for revenue expansion and cost control and reduction for each individual division within the Plan period. 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 three divisions for the next five years ranges from 3.3% to 6.4%. The average operating profit margin assumption for the next five years included within the Packaging division impairment assessment ranges from 8.0% to 11.7%. In respect of Components and Filters, the combined average operating profit margin over the five year forecast period is assumed to improve by 100 bps from 2019.
- In relation to the test for the Components and Filters divisions, cash flows beyond the Plan period are based on Plan cash flows with growth rates specific to each business during the Plan period of up to 6.5%.
- 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 7.5% (2018: 7.7%). The specific pre-tax discount rates applied for each group of cash generating units to which significant goodwill is allocated are as follows: 9.0% for Packaging, 9.7% for Components and 9.5% for Filters (2018: 8.8% for Packaging and 9.6% for Components).
- In relation to the test for the Packaging division, management carried out a 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 1.5% (2018: 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 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 380 basis points
- A reduction of 610 basis points in the operating profit margin in the terminal year
- A reduction of 540 basis points in the terminal growth rate

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 £164.0m
- A 1.5% reduction in the terminal growth rate (i.e. to assume no growth) would reduce headroom to £166.0m
- A 1.5% reduction in each year's growth rate would reduce headroom to £252.9m
- A 2.7% reduction in operating profit margin in the terminal year would reduce headroom to £159.4m

8. Lease right-of-use assets

	Land and buildings	Plant and machinery	Fixtures, fittings and equipment	Total
				2019
	£m	**£m**	**£m**	**£m**
Cost				
Beginning of year	**83.2**	**11.1**	**0.2**	**94.5**
Additions	10.6	2.6	0.1	**13.3**
Terminations	(4.4)	(2.0)	(0.1)	**(6.5)**
Acquisitions (note 12)	0.3	3.5	-	**3.8**
Business disposals (note 12)	(2.6)	(0.2)	-	**(2.8)**
Currency translation	(2.7)	(0.4)	-	**(3.1)**
End of year	**84.4**	**14.6**	**0.2**	**99.2**
Accumulated depreciation				
Beginning of year	**48.2**	**4.8**	**0.2**	**53.2**
Charge for the year	8.2	3.1	-	**11.3**
Terminations	(2.9)	(2.0)	(0.1)	**(5.0)**
Business disposals (note 12)	(1.6)	(0.2)	-	**(1.8)**
Currency translation	(1.7)	(0.2)	-	**(1.9)**
End of year	**50.2**	**5.5**	**0.1**	**55.8**
Net book value at end of year	**34.2**	**9.1**	**0.1**	**43.4**

The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 3.9%.

9. Employee benefits

Post-employment benefits

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.

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

	2019 £m	2018 £m
Amounts expensed against operating profit		
Defined contribution schemes	**7.5**	7.1
Defined benefit schemes – current service cost	**1.7**	1.5
Defined benefit schemes – past service cost	**-**	2.2
Defined benefit schemes – curtailment gain	**-**	(0.2)
Other post-employment obligations	**0.5**	0.4
Total operating expense	**9.7**	11.0
Amounts included as finance (income)/expense		
Net interest on defined benefit scheme assets (note 4)	**(0.5)**	(0.5)
Net interest on defined benefit scheme liabilities (note 4)	**1.2**	1.1
Net finance expense	**0.7**	0.6
Amounts recognised in the consolidated statement of comprehensive income		
Return on defined benefit scheme assets excluding amounts in net finance income	**(29.6)**	14.1
Impact of changes in assumptions and experience to the present value of defined benefit scheme liabilities	**34.5**	(16.8)
Remeasurement of defined benefit schemes	**4.9**	(2.7)

The defined benefit schemes past service cost of £nil (2018: £2.2m) relating to GMP equalisation has been included within exceptional and other adjusting items (see note 3).

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:

		2019		2018
	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%	**2.90%**	**n/a**	3.10%	n/a
at CPI capped at 5%	**2.10%**	**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	**2.10%**	**3.15%**	2.90%	4.25%
Inflation rate – RPI	**3.00%**	**n/a**	3.20%	n/a
Inflation rate – CPI	**2.10%**	**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.

The life expectancy assumptions (in number of years) used to estimate defined benefit obligations at the year end are as follows:

		2019		2018
	Europe	**US**	Europe	US
Male retiring today at age 65	**22.3**	**20.6**	22.4	20.6
Female retiring today at age 65	**24.2**	**22.6**	24.2	22.7
Male retiring in 20 years at age 65	**23.7**	**22.2**	23.8	22.3
Female retiring in 20 years at age 65	**25.6**	**24.1**	25.8	24.2

Movement in fair value of post-employment obligations during the year

				2019				2018
	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	**261.3**	**(272.2)**	**(3.0)**	**(13.9)**	280.6	(291.3)	(2.7)	(13.4)
Current service cost and administrative expense	**(1.7)**	**-**	**(0.5)**	**(2.2)**	(1.5)	-	(0.4)	(1.9)
Past service cost	**-**	**-**	**-**	**-**	-	(2.2)	-	(2.2)
Employer contributions	**3.4**	**0.1**	**-**	**3.5**	2.6	0.1	-	2.7
Return on plan assets excluding amounts in net finance income	**29.6**	**-**	**-**	**29.6**	(14.1)	-	-	(14.1)
Actuarial losses arising from change in financial assumptions	**-**	**(38.1)**	**(0.2)**	**(38.3)**	-	20.3	0.2	20.5
Actuarial gains arising from change in demographic assumptions	**-**	**3.0**	**-**	**3.0**	-	0.8	-	0.8
Actuarial gains arising from experience adjustment	**-**	**0.8**	**-**	**0.8**	-	(4.5)	-	(4.5)
Finance income/(expense)	**8.1**	**(8.6)**	**(0.2)**	**(0.7)**	7.5	(8.0)	(0.1)	(0.6)
Benefits paid	**(11.2)**	**11.2**	**-**	**-**	(16.7)	16.7	-	-
Curtailments	**-**	**-**	**-**	**-**	-	0.1	0.1	0.2
Currency translation	**(1.7)**	**2.6**	**(0.1)**	**0.8**	2.9	(4.2)	(0.1)	(1.4)
Business disposals	**-**	**-**	**-**	**-**	-	-	-	-
End of year	**287.8**	**(301.2)**	**(4.0)**	**(17.4)**	261.3	(272.2)	(3.0)	(13.9)

Sensitivity

For the significant assumptions used in determining defined benefit costs and liabilities, the following sensitivity analysis gives the estimate of the impact on the measurement of the scheme liabilities as at 31 December 2019.

	(Increase) / decrease in schemes net liabilities		
	Europe £m	US £m	**Total £m**
0.5% decrease in the discount rate	(21.3)	(5.3)	**(26.6)**
1.0% increase in the rate of inflation	19.3	n/a	**19.3**
1.0% increase in rate of salary/pension increases	n/a	n/a	**n/a**
1 year increase in life expectancy	(8.9)	(2.6)	**(11.5)**
1 year decrease in life expectancy	8.9	n/a	**8.9**
0.5% increase in the discount rate	18.7	4.7	**23.4**
1.0% decrease in rate of salary/pension increases	n/a	n/a	**n/a**
1.0% decrease in the rate of inflation	(15.8)	n/a	**(15.8)**

10. Issued share capital

	2019 £m	2018 £m
Issued, authorised and fully paid ordinary shares of 25p (2018: 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 2019, the Company held 951,137 (2018: 1,127,065) of its own shares with a nominal value of £0.2m (2018: £0.3m) in treasury. This represents 0.4% (2018: 0.4%) of the number of ordinary shares in issue.

11. Analysis of net debt

	1 Jan 2019	Impact on adoption of IFRS 16	Cash flow	Business combinations	Lease additions	Exchange movements	Non-cash movements	31 Dec 2019
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Cash at bank and in hand	62.3	-	0.8	-	-	(0.5)	-	**62.6**
Short-term deposits and investments	3.9	-	4.3	-	-	(0.4)	-	**7.8**
Cash and cash equivalents in the statement of cash flows	66.2	-	5.1	-	-	(0.9)	-	**70.4**
Debt due within one year	(0.1)	-	0.1	-	-	-	(60.7)	**(60.7)**
Debt due after one year	(311.2)	-	10.0	(13.8)	-	6.1	59.9	**(249.0)**
Other financial assets	5.0	-	0.6	-	-	-	-	**5.6**
Lease liabilities due within one year	-	(11.7)	14.5	(0.5)	(1.6)	0.3	(12.4)	**(11.4)**
Lease liabilities due after one year	-	(47.7)	-	(1.7)	(11.7)	1.1	20.7	**(39.3)**
Net debt	(240.1)	(59.4)	30.3	(16.0)	(13.3)	6.6	7.5	**(284.4)**

The non-cash movements in debt due after one year represent the amortisation of prepaid facility fees £0.8m offset by £60.7m of debt moving to debt due within one year. The net non-cash movement in lease liabilities represents early lease terminations £10.4m offset by interest on leases £2.1m. During the year £20.7m of lease liabilities moved from due after one year to due within one year.

Included within other financial assets is £5.0m of loan receivables arising from the disposal of Porous Technologies and £0.6m of short-term liquid investments. In the year ended 31 December 2019, the loan receivable arising from the disposal of Porous Technologies moved from non-current to current assets.

	1 Jan 2018	Impact on adoption of IFRS 16	Cash flow	Business combinations	Lease additions	Exchange movements	Non-cash movements	31 Dec 2018
	£m	£m	£m	£m	£m	£m	£m	£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
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 in prepaid facility fees.

12. Acquisitions and disposals

Acquisition of minority stake in Essentra (MEA) Pte. Ltd

On 19 March 2019, Essentra acquired the 49% minority interest in its Filters operation based in Dubai, Essentra (MEA) Pte. Ltd, from Aberdeen International FZE (part of the BBM Bommidala group) for a cash consideration of £11.6m. Essentra (MEA) Pte. Ltd is the holding company of Essentra FZE, which undertakes the Company's Filters activities in Dubai.

Establishment of joint venture China Tobacco Essentra (Xiamen) Filters Co., Ltd.

On 27 November 2019, Essentra signed an agreement for the establishment of a new joint venture company in China, China Tobacco Essentra (Xiamen) Filters Co., Ltd. Essentra holds a 49% interest in this company. As at 31 December 2019 the new joint venture held nil net assets.

Acquisition of Micro Plastics

On 12 December 2017 Essentra acquired 100% of the share capital of Micro Plastics Inc. The transaction was settled with cash consideration of £19.7m and deferred consideration of £3.7m. During 2019 £1.2m of deferred consideration was paid out to the vendor, with the remainder to be paid in the future.

Acquisition of Innovative Components

On 26 June 2019, Essentra acquired 100% of the share capital of Innovative Components Inc. and Componentes Innovadores Limitada (together "Innovative Components"). Innovative Components is a leading manufacturer and distributor of knobs, pins and handles in North America for a broad range of end-markets, and is reported under the Company's Components division.

On acquisition the assets and liabilities of the business acquired were adjusted to reflect their fair value 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.

A deferred consideration of £2.0m was recognised and will be settled in two equal instalments on the first and second anniversary from the acquisition date.

Had the acquisition been completed on 1 January 2019, the contribution to the Group's revenue and operating profit would have been £4.6m and £1.0m higher respectively.

An estimate of related transaction costs of £0.9m were recognised in the consolidated income statement in exceptional and other adjusting items.

Acquisition of Nekicesa

On 6 September 2019, Essentra acquired 100% of the share capital of Nekicesa Packaging S.L. ("Nekicesa"). Nekicesa is one of the leading converters of folding cartons supplying the pharmaceutical end-market in Spain and is reported under the Packaging division.

On acquisition the assets and liabilities of the business acquired were adjusted to reflect their fair value 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 2019, the contribution to the Group's revenue and operating profit would have been £15.0m and £1.8m higher respectively.

An estimate of related transaction costs of £0.8m were recognised in the consolidated income statement in exceptional and other adjusting items.

The fair value of assets and liabilities acquired as part of the acquisition of Innovative Components and Nekicesa are detailed below:

	Nekicesa £m	Innovative Components £m	Total £m
Intangible assets	4.5	9.5	**14.0**
Property, plant and equipment	13.6	0.4	**14.0**
Lease right-of-use asset	3.5	0.3	**3.8**
Inventories	2.3	2.0	**4.3**
Trade and other receivables	3.3	1.0	**4.3**
Cash and cash equivalents	0.8	0.2	**1.0**
Deferred tax	(2.4)	(2.6)	**(5.0)**
Debt	(13.8)	-	**(13.8)**
Trade and other payables	(3.2)	(0.7)	**(3.9)**
Lease liabilities	(3.1)	(0.3)	**(3.4)**
	5.5	**9.8**	**15.3**
Goodwill	4.8	7.8	**12.6**
Consideration	10.3	17.6	**27.9**
Satisfied by:			
Cash consideration	10.3	15.6	**25.9**
Deferred consideration	-	2.0	**2.0**
Cash consideration	10.3	15.6	**25.9**
Cash and cash equivalents acquired	(0.8)	(0.2)	**(1.0)**
Net cash outflow in respect of the acquisition	**9.5**	**15.4**	**24.9**

Goodwill represents the expected operating and financial synergies, and the value of an assembled workforce.

Goodwill is not deductible for tax purposes.

Fair values of assets and liabilities, including property, plant and equipment, acquired for Nekicesa are provisional and subject to change as the Group is still permitted to make fair value adjustments up until 12 months after the date of acquisition.

Disposals

On 14 January 2019, Essentra divested of its Pipe Protection Technologies business ("PPT") to certain wholly-owned subsidiaries of National Oilwell Varco, Inc. This disposal resulted in a gain before tax of £11.2m, which has been recognised within exceptional and other adjusting items. Related transaction costs of £2.3m were also recognised in the consolidated income statement in exceptional and other adjusting items. As at the 2018 year end the assets and liabilities for this business were in a disposal group held for sale.

On 11 June 2019, Essentra divested of its Extrusion business to Inter Primo A/S. This disposal resulted in a loss before tax of £1.8m, which has been recognised within exceptional and other adjusting items. Related transaction costs of £1.2m were also recognised in the consolidated income statement in exceptional and other adjusting items.

On 28 June 2019, Essentra divested of its Speciality Tapes business ("ST") to OpenGate Capital. This disposal resulted in a gain before tax of £20.0m, which has been recognised within exceptional and other adjusting items. Related transaction costs of £5.1m were also recognised in the consolidated income statement in exceptional and other adjusting items.

On 23 July 2019, Essentra divested of its Cards Solution business to Barcodes, Inc. This disposal resulted in a loss before tax of £1.1m, which has been recognised within exceptional and other adjusting items. Related transaction costs of £0.2m were also recognised in the consolidated income statement in exceptional and other adjusting items.

The disposal proceeds, nets assets disposed and gains arising from the movement in foreign currency exchange from the divestment of the PPT, Extrusion and ST businesses were as follows:

	Pipe Protection Technologies £m	Extrusion £m	Speciality Tapes £m	Card Solutions £m	Total £m
Goodwill	10.1	3.7	27.4	0.4	**41.6**
Other intangible assets	-	-	8.6	0.8	**9.4**
Property, plant and equipment	22.2	11.9	10.4	-	**44.5**
Lease right-of-use asset	0.9	0.1	-	-	**1.0**
Inventories	3.4	2.6	3.9	1.1	**11.0**
Trade and other receivables	5.6	4.4	4.3	1.5	**15.8**
Cash and cash equivalents	0.3	0.8	0.4	-	**1.5**
Deferred tax	(1.8)	-	(5.8)	(0.2)	**(7.8)**
Trade and other payables	(2.5)	(4.4)	(2.5)	(0.9)	**(10.3)**
Lease liabilities	(1.1)	(0.1)	-	-	**(1.2)**
	37.1	19.0	46.7	2.7	**105.5**
Reclassification of gains from movement in foreign currency exchange	(9.8)	(2.9)	(5.9)	-	**(18.6)**
Gain/(loss) on disposal before transaction costs	11.2	(1.8)	20.0	(1.1)	**28.3**
Disposal proceeds	**38.5**	**14.3**	**60.8**	**1.6**	**115.2**
Satisfied by:					
Cash consideration	37.5	14.3	60.8	1.6	**114.2**
Deferred consideration	1.0	-	-	-	**1.0**
Cash consideration	37.5	14.3	60.8	1.6	**114.2**
Deferred consideration received	1.0	-	-	-	**1.0**
Cash and cash equivalents disposed	(0.3)	(0.8)	(0.4)	-	**(1.5)**
Net cash inflow from disposals of businesses	**38.2**	**13.5**	**60.4**	**1.6**	**113.7**

At 31 December 2018, the total assets and total liabilities for PPT were included within assets held for sale. Details can be found in the Essentra Annual Report 2018. The total gains of £28.3m before transaction costs represent the pre-tax gain on disposal. The total gains of £18.6m arising from the movement in foreign currency exchange have been reclassified and reported within the consolidated income statement as part of the exceptional and other adjusting items arising on the disposal of businesses.

13. Dividends

	Per share		Total	
	2019	**2018**	**2019**	**2018**
	p	**p**	**£m**	**£m**
2018 interim: paid 31 October 2018		6.3		16.5
2018 proposed final: paid 3 June 2019		14.4		37.7
2019 interim: paid 30 October 2019	**6.3**		**16.5**	
2019 proposed final: payable 1 June 2020	**14.4**		**37.7**	
	20.7	20.7	**54.2**	54.2

14. Related parties

Other than the compensation of key management, the acquisition of minority stake in Essentra (MEA) Pte. Ltd (note 12) and the establishment of joint venture China Tobacco Essentra (Xiamen) Filters Co., Ltd. (note 12), Essentra has not entered into any material transactions with related parties since the last Annual Report.

ITC Essentra Limited is 50% owned by the Group. The results were fully consolidated within the Group's financial statements as it is deemed Essentra has control by virtue of having control of the board. As at 31 December 2019 the entity had gross assets of £25.9m (2018: £21.6m), gross liabilities of £10.4m (2018: £8.1m), operating profit of £6.3m (2018: £4.8m) and movement in cash of £3.8m (2018: £0.1m).

15. Post balance sheet events

In February 2020, the Company entered into an agreement with certain banks for a bridging loan facility for £50m, with an initial term of 12 months, plus a further six months at Essentra's option, and thereafter another six months at the lenders' discretion.

16. 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:

	2019	2018
	£m	£m
Operating profit	**80.0**	47.2
Amortisation of acquired intangible assets	**22.9**	22.7
Exceptional and other adjusting items	**(15.4)**	20.8
Adjusted operating profit	**87.5**	90.7
Depreciation	**35.5**	35.4
Lease right-of-use asset depreciation	**11.3**	-
Amortisation of non-acquired intangible assets	**0.9**	0.5
Share option expense	**3.9**	4.8
Other non-cash items	**(0.4)**	0.1
Working capital movements	**(10.3)**	5.9
Net capital expenditure[1]	**(56.6)**	(60.2)
Operating cash inflow - adjusted	**71.8**	77.2

[1] Net capital expenditure within adjusted operating cash flow excludes £0.3m (2018: £8.3m) of exceptional property, plant and equipment disposal proceeds realised during site closures.

The calculation of the earnings before interest, tax, depreciation and amortisation ("EBITDA") is as follows:

	2019 £m	2018 £m
Operating profit before intangible amortisation and exceptional and other adjusting items	**87.5**	90.7
Plus depreciation and other amounts written off property, plant and equipment, and amortisation of non-acquired intangible assets	**48.2**	35.9
Plus share option expense	**3.9**	4.8
EBITDA	**139.6**	131.4

17. Financial instruments

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).

			2019			2018
	Fair value £m	**Amortised cost £m**	**Total carrying value £m**	Fair value £m	Amortised cost £m	Total carrying value £m
Level 1 of fair value hierarchy						
Trade and other receivables	-	162.0	**162.0**	-	191.2	191.2
Cash and cash equivalents	-	70.4	**70.4**	-	66.2	66.2
Other financial assets	-	6.2	**6.2**	-	-	-
Interest bearing loans and borrowings	-	(309.7)	**(309.7)**	-	(311.3)	(311.3)
Lease liabilities	-	(50.7)	**(50.7)**	-	-	-
Trade and other payables	-	(121.7)	**(121.7)**	-	(144.4)	(144.4)
Level 2 of fair value hierarchy						
Derivative assets	0.8	-	**0.8**	0.3	-	0.3
Derivative liabilities	(0.3)	-	**(0.3)**	(0.2)	-	(0.2)
Level 3 of fair value hierarchy						
Trade and other payables	(3.4)	-	**(3.4)**	(1.3)	-	(1.3)
Other non-current financial liabilities	(0.9)	-	**(0.9)**	(2.6)	-	(2.6)
	(3.8)	**(243.5)**	**(247.3)**	(3.8)	(198.3)	(202.1)

Total trade and other receivables (including amounts relating to disposal group held for sale) carried at £172.5m (2018: £204.2m) include prepayments of £10.5m (2018: £13.0m) 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.

Included within trade and other payables and other non-current financial liabilities, which is classified as level 3 in the fair value hierarchy, is the deferred consideration of £4.3m relating to the acquisitions of Micro Plastics and Innovative Components (2018: £3.9m). There are no non-recurring fair value measurements. During the year, a fair value gain of £nil (2018: fair value gain of £nil) in respect of financial instruments at level 3 fair value hierarchy was recognised within exceptional and other adjusting items (see note 3), and £nil (2018: £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 (2018: $155m) US Private Placement Loan Notes. The Loan Notes are held at amortised cost with a carrying value of £117.1m (2018: £120.6m). The Group estimates that the total fair value of the Loan Notes at 31 December 2019 is £121.1m (2018: £120.5m).

18. Cautionary forward-looking statements

This Report contains forward-looking statements based on current expectations and assumptions. Various known and unknown risks, uncertainties and other factors may cause actual results to differ from any future results or developments expressed or implied from the forward-looking statements. Each forward-looking statement speaks only as of the date of this document. The Company accepts no obligation to publicly revise or update 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.

19. Directors' responsibility statement

We confirm that to the best of our knowledge

- 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 announcement includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces

On behalf of the Board

Paul Forman
Chief Executive

Lily Liu
Chief Financial Officer

28 February 2020

Risk Management Report

Risk management is integral to protecting and creating shareholder value.

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.

We have continued to make good progress in improving our risk management processes in 2019 as we move towards our objective of implementing processes in line with FTSE 250 upper quartile practice. This includes a number of initiatives to drive enhanced risk reporting and further embed risk activities to improve risk culture across the Company.

In 2019, the Board also considered Emerging Risks, with specific attention being given to those Emerging Risks considered to be of ongoing importance to the Company and its stakeholders. Particular focus was placed on assigning responsibility and accountability for Principal and Emerging Risks, particularly those risks that cut across divisions and Enabling Functions. The approach was adopted from ISO 31000 Risk Management guidelines and includes a RACI (responsible, accountable, consult and inform) matrix to drive clear responsibility and accountability.

We are committed to managing risks in a proactive and effective manner to provide assurance to the Board and our stakeholders.

RISK MANAGEMENT FRAMEWORK

Our risk management framework continues to evolve in line with best practice to ensure that it supports the Company's ongoing growth and strategic objectives. A robust, but flexible, approach to the management of risk is fundamental to the continued success of the Company.

There is a risk management framework for identifying and managing risk within defined appetite levels, in relation to both 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 health and safety, the environment, our community, our reputation, regulatory compliance, market and financial performance and therefore the achievement of our corporate purpose. By understanding and managing risk, we provide greater certainty and confidence to our shareholders, employees, customers, suppliers, and the communities in which we operate.

The Board reviews its risk appetite annually by mapping 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. In 2019, we updated our risk management framework to include procedures for the identification, assessment and monitoring of Emerging Risks, as required by the 2018 UK Corporate Governance Code.

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 growth plans are properly supported by an effective risk infrastructure
- help management teams to improve the control and co-ordination of risk-taking across the Company

STRENGTHENING OUR FRAMEWORK

To achieve the objective of implementing FTSE 250 upper quartile risk management practice, we have made good progress in implementing our three-year risk management improvement plan in line with best practice and ISO 31000 guidelines.

In 2019, we enhanced our risk reporting and GRC management processes including implementing a standard risk reporting template. An annual calendar of GRC agenda items has also been implemented and each Principal Risk is subject to an annual deep dive during each Board and GRC meeting using a standard reporting template. This has enabled consistency of risk reporting across the Company.

The Group Assurance function has engaged directly with Divisional and Enabling Functions Leadership teams on the development of their risk registers and risk reporting practices. This included conducting risk knowledge workshops, in line with ISO 31000, to drive a consistent understanding and application of risk. Each workshop included a discussion of the Board-approved rating criteria for financial and reputational impact and likelihood, to ensure that a consistent rating based on risk to the Company is applied. Further improvements in risk management will be continued in 2020.

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, all divisions have appointed Risk Champions to drive risk management practices into their businesses.

The GRC met seven times in 2019, each meeting with a full attendance. The GRC is chaired by the Chief Executive and its membership comprises the GMC members, Head of Legal, Group Head of Assurance and Group Head of Communications. Non-member standing attendees are the Group Health, Safety and Environment Director, the Director of Group Assurance and the Group Financial Controller. Other members of senior management are also invited to present reports on risk activities. The Chairman of the Audit and Risk Committee has a standing invite to attend all GRC meetings and receives 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.

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 ("ARC") 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 ARC, 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 and Enabling Functions Leadership teams dedicate time each year in a facilitated discussion with the Group Assurance function 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.

PRINCIPAL RISKS

The GRC has responsibility for overseeing Essentra's Principal Risks. A top-down and a bottom-up assessment is undertaken to identify our Principal Risks. The assessment is performed against the four risk categories.

As part of the bottom-up process, the Divisional and Enabling Functions Leadership teams have also undertaken a detailed risk assessment, facilitated by Group Assurance using a consistent workshop methodology, the outputs of which were reflected in updated risk registers. These risk registers were then analysed to ensure completeness and appropriateness of the Principal Risks.

As part of our top-down process, an updated assessment was completed for each Principal Risk by the GRC. This top-down assessment required each GRC risk owner 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. 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.

The Board believes the Principal Risks are specific to Essentra and reflect the risk profile of the Company at the current time. All Principal Risks are managed within their individual risk appetite. As a result, the Principal Risks are a combination of new and previously disclosed risks.

In addition to the Principal Risks, Key Risks and Emerging Risks have been identified and are being monitored by the Company. Mitigation actions in response to such risks are an important part of the Divisional and Enabling Functions 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.

KEY CHANGES IN THE YEAR

Following the 2019 review process, our risk profile remains stable, with the following key changes.

Two new Principal Risks have been identified:

- Talent to Deliver Our Future captures the risk that Essentra may fail to attract and retain the required management and leadership skills necessary to evolve our business, develop the culture and meet future customer needs. This risk has been introduced given our strategic growth objective
- Environmental and Social Governance risk reflects expectations of increasing environmental and social governance obligations, leading to reputational risk for the Group. This includes risk arising from changing investor attitudes impacting ability to secure funding from investors and social attitudes towards the health and environmental impact of our products

Two 2018 Principal Risks have been downgraded to Key Risks for 2019:

- Product Liability – following improvements achieved in performance in quality faults and critical complaints. These metrics are regularly reviewed at Divisional and Group level
- IT Systems – Stability and Reliability risk due to a reduction in major incidents following significant investments in our IT infrastructure

EMERGING RISKS

We define Emerging Risk as a changing risk or a novel combination of risks for which there is no track record or previous experience by which the impact, likelihood or costs can be understood. Its potential impact is viewed as being two years or more in the future.

We strongly believe that identification and appropriate challenge to the management and mitigation of Emerging Risks is critical to our long-term success.

Emerging Risks have the potential to increase in significance and affect the performance of the Company and as such are continually monitored through our existing risk management processes. Our risk management process ensures Emerging Risks are identified and aids the GRC and the Board's assessment of whether the Company is adequately prepared for the potential opportunities and threats they present. The process enables new and changing risks to be identified at an early stage so we can analyse them thoroughly and assess any potential exposure.

We undertake a top-down and a bottom-up assessment to identify Emerging Risks. Risk management workshops for Divisional and Enabling Functions Leadership teams were facilitated by the Group Assurance function this year, to provide a bottom-up view of Emerging Risks. These workshops include discussion of potential Emerging Risks based on externally sourced Emerging Risk data. The Company's potential exposure is assessed against the Board's approved risk measurement criteria. The process enables new and changing risks to be identified at an early stage so we can analyse them thoroughly and assess potential exposure.

The preliminary view on Emerging Risks were consolidated and discussed by the GRC to reach a consensus regarding Emerging Risks that can seriously affect the performance, future prospects or reputation of Essentra. The outputs from the GRC assessments were presented to the Board for approval along with the recommendation to develop appropriate response strategies.

We have created a list of Emerging Risks to be reviewed on a regular basis at the GRC and Board level:

- Climate change: The risk that Essentra fails to anticipate the impact of climate change including the consequential increase in frequency and severity of natural disasters. This includes consideration to the impact of climate change on global operations through forward looking consideration of business continuity risks in vulnerable locations. These considerations need to be built into our Mergers and Acquisitions strategy.
- Geopolitical change: As a global company, Essentra will be exposed to geopolitical changes that impact on patterns of trade and the movement of labour and capital. A trend towards protectionism, regionalism and a rebalancing from West to East creates risks and opportunities that Essentra will need to manage and exploit.
- Regulatory change: Essentra is a global company that must comply with regulatory requirements in many countries. Regulation is increasing worldwide and may potentially impact our products, operations, workforce and relationships with suppliers, customers and stakeholders. The Company continues to be alert to longer-term regulatory developments including those related to single-use plastics and tobacco-related and tobacco-alternative products.
- Technology disruptors: The risk that Essentra does not manage its response to evolving technologies effectively. This may include losing competitive advantage as rivals deploy advanced manufacturing technologies, artificial intelligence and robotics to strengthen product development, marketing, production, distribution and support functions.

The GRC and the Board have undertaken a rigorous assessment of Emerging Risks during 2019 and have established procedures to closely monitor Emerging Risks on an ongoing basis including:

- The GRC's terms of reference require it to review the Group's ability to identify Emerging Risks
- Emerging Risk is a standing agenda item at each GRC meeting and each Emerging Risk will be subject to a deep dive
- External specialist input will be sought where required
- Identified Emerging Risks have been assigned an owner who is both a GRC and GMC member. The Emerging Risk owner is responsible for providing an update on the development of Emerging Risks at each meeting

The Board can confirm that it has completed a robust assessment of the Company's Principal, Key and Emerging Risks. We continue our focus on ensuring the adequate mitigation of risks faced by the Company.

Strategic Risks

Failure to Achieve Acceptable Returns from the Packaging division

Change in risk level: Unchanged

Ownership: Packaging Division Managing Director

Relevance: Company specific

Description

The potential for a decline in returns from the Packaging division, and a failure of the division to deliver new business wins and expected cost savings within the timelines of the turnaround plan, have been reported as a Principal Risk since 2017.

It was reported in 2018 that the division's performance had stabilised and the focus for 2019 was on ensuring that actions taken were effective and sustained.

The Packaging division reported revenue growth and margin improvement for 2019 in line with the strategy and plan.

In addition, the acquisition of Nekicesa Packaging, a leading converter of folding cartons that supplies the pharmaceutical end-market in Spain, provides a revenue enhancing addition to the business. The level of risk to the Company has remained the same.

This risk includes the potential of the Packaging business failing to deliver new business wins, expected cost savings or acceptable returns.

Mitigation

This Principal Risk is addressed annually with the development of the business strategy and plan. Both strategy and plan reflect this risk, and key initiatives are developed to further improve business performance, with a target of achieving industry average margins by 2021.

Key initiatives for 2019 included:

- Driving cost savings through operational continuous improvement projects at each manufacturing site, efficiency improvements through investment in new equipment, procurement initiatives and overhead cost savings
- Achieving profitable revenue growth with a focus on key and Global customer account management
- Delivering on key customer performance metrics of quality, On-Time-In-Full, manufacturing lead times, safety and supply chain efficiency

The implementation of these initiatives, and ongoing performance of the division, are subject to close monitoring and reporting at divisional and GMC level each month and quarter. Leading and lagging KPIs are used to monitor performance including order lead times, on time and in full order fulfilment, complaints, achievement of sales plan, recovery of inflation cost increases through pricing, cost savings and overhead as a percentage of sales.

Tobacco Industry Dynamics

Change in risk level: Unchanged

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 and also related to more sustainable products and practices (eg EU Single-use Plastics Directive).

The change in global consumption and end markets for our products increasingly requires increased oversight of where our products are used and a robust regulatory framework.

2019 saw significant negative publicity with regard to the use and health effects of e-cigarettes. Growth in this sector slowed and further cost pressures were placed on customers as a result.

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 2020 which are anticipated to minimise the risk over time. The level of risk to the Company has remained the same.

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.

Key 2019 mitigating actions include:

- Completion of China JV agreement for both a production facility and a development centre
- A significant outsourcing contract has been secured with a multinational company partner
- Four product patent applications have been filed for NGP products
- Operational KPIs continue to improve to ensure our customers get the best possible service
- Implementation of Key Account Management has provided a deeper insight into customer needs
- Rationalisation of Filters innovations teams and processes has allowed increased focus on delivery of strategic initiatives
- Succesful integration of Tear Tapes business allowing tobacco category approach and diversifying revenue stream

Delivery of Strategic Projects

Change in risk level: Unchanged

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, for example our ongoing Business Process Redesign/ERP implementation. 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. The level of risk to the Company has remained the same.

Mitigation

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

- day-to-day project management using a standard project management methodology
- ongoing tracking of key projects by a Group Project Management ("PMO") function to monitor and control major strategic programmes, investments and capital expenditure projects
- interventions, as required, by Group PMO, to initiate, course correct and undertake remedial actions on programmes and projects
- review and approval of key, strategic projects by Board and GMC, as appropriate
- robust governance, detailed reporting and regular reviews by GMC and Board of project KPIs and key milestones
- use of external advisers to provide expertise, assistance and rigorous due diligence, as appropriate
- 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
- 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 mobilizing teams which possess the right skills to deliver our strategic programmes

External Risks

Regulatory – Governance

Change in risk level: Unchanged

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
- 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 (including employee training), we aim to conform with all applicable laws and 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
- the establishment of a Group Compliance Committee that will direct and oversee the Group’s implementation of compliance programs, policies and procedures required to meet legal, compliance and regulatory requirements

Cyber Attack

Change in risk level: Decreased

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 ever-present due to the external threat landscape. The Company had one significant incident in February 2019 when one of our sites experienced an outbreak of malware. We were able to restore operations over a 72-hour period and avoid any loss of data.

Cyber-attacks are treated as normal course of business and the Company continues to invest in cyber security monitoring and protection capabilities.

The financial impacts of a cyber-attack have been analysed and included in the Company’s viability modelling. The potential impact of this risk has reduced as a result of investments in our cyber defences.

Mitigation

The Company has an ongoing cyber security improvement programme. This aims to mitigate the risks and operational disruption caused by cyber-attacks. This programme includes:

- 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
- internal cyber security teams, complemented by external cyber security services

In 2019 the Company achieved accreditation with Cyber Essentials Plus and ISO 27001. It also established a Crisis Communication Network which will conduct a cyber-attack simulation in 2020

Macroeconomic and Trade Deal Uncertainty (including Brexit)

Change in risk level: Unchanged

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 us.

The UK left the European Union ("EU")on 31 January 2020 and entered a transition period until 31 December 2020. During the transition period the UK will continue to be bound by EU laws and regulations. Beyond that date there is no certainty on what the future relationship between the UK and the EU will be.

The ongoing Brexit situation could impact the Company due to raw materials and finished goods flows across the EU-UK border. The key risks here are the imposition of potential duties or customs costs linked to these flows and the associated potential supply chain disruptions. The potential impact of Brexit appears to be reducing, but has been analysed and estimated as part of the Company's viability modelling.

More broadly, as a global business, our international trade flows expose the Group to tariffs, duties or quotas imposed through trade sanctions and also to macroeconomic effects due to regional or global industrial output changes.

The level of risk to the Company has remained the same.

Mitigation

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.

The Board also considers potential impacts of specific macroeconomic 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.

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

Brexit uncertainty

Throughout 2018 and 2019, the Company conducted a thorough review of Brexit risks and implemented a series of changes to minimise raw material and finished product flows across the EU-UK border, and to mitigate the associated risks including supply chain disruption. We continue to monitor the situation post the recent UK election, and are continuing activity in this space, including asset/footprint changes, optimisation of material flows, identification of alternative raw material supply sources and putting Authorised Economic Operator status in place.

Operational Risks

Business Continuity Planning and Management

Change in risk level: Unchanged

Ownership: Group Operations Director

Relevance: Industry general

Description

The continuity of our supply chain is a critical factor in serving our customers, who expect us to have a resilient supply chain to minimise the impact of any disruption.

Our supply chains can be complex and global in nature. Our global footprint exposes us to a broader set of potential disruption risks including natural catastrophe, than more focused companies. However, this global footprint also provides risk diversification, via alternative manufacturing routes.

The Group experienced limited employee impact and operational disruption through operational-related business continuity issues, during 2019. Should future events occur, this could impact production capability, 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.

Mitigation

The Group continues to review and refresh its business continuity management and planning frameworks and processes, including a current and ongoing deep-dive review.

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

Talent to Deliver Our Future

Change in risk level: New

Ownership: Group HR Director

Relevance: Industry general

Description

Failure to attract and retain the required management and leadership skills necessary to evolve our business, develop the culture and meet future customer needs. The talent market is changing and is less favourable towards the manufacturing sector. Our ability to attract candidates is becoming more challenging, as is the ability to retain key talent given the wider range of market opportunities available. This is a new Principal Risk for 2020.

Mitigation

A more refined People strategy has been launched and will underpin the approach to enhance the employee experience and drive the changes needed.

A newly appointed Talent Acquisition Director will focus on articulating the employee value proposition and approach to the external market.

Talent mapping and succession planning will be implemented with a full organisational wide half yearly review.

Communication with employees, and potential employees, is seen as critical and the communication team will be strengthened to enhance the Company profile and communication channels.

People risk mitigation plans are in place throughout the Group, supported by the GMC.

Internal Processes and Control

Change in risk level: Unchanged

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 2019, we continued the initiatives to reduce this risk with further work planned in 2020.

Mitigation

During 2019, Minimum Control Standards ("MCS") continued to be rolled out across various sites in the Company, establishing a consistent minimum standard of financial controls across the Group. A total of 50 sites now have had the MCS roll-out, which account for approximately 80% of Group revenue.

MCS implementation action plans were continually assessed and tracked through the course of the year. The primary responsibility for site roll-outs and embedding of MCS moved from Group Assurance to divisional management, and the central co-ordination role is now held by Group Finance.

Furthermore, Group Assurance audit procedures were carried out to assess performance of internal controls and the effectiveness of the MCS roll-out. Group Finance performed a separate layer of independent testing to further evaluate the effectiveness of implementation thus far.

While the Group recognises that further work is needed in order to fully embed standard controls and processes across all sites, benefits of MCS can already be seen taking effect within the Group. The project has been conducted in close collaboration with other wider business initiatives, such as Business Process Redesign.

Plans for 2020 focus on concluding MCS roll-out workshops across all remaining sites, as well as the implementation of self-assessment testing and certification, which establishes and enforces accountability for effectiveness of the controls at the relevant management level (site and divisional). The Group will continue to focus on embedment of the MCS framework to maintain a robust internal control framework.

Safety (including Regulatory)

Change in risk level: Unchanged

Ownership: Group Operations 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 risk to the Company, consequently the level of the risk remains the same with continued active management and controls to mitigate these risks.

Mitigation

Throughout 2019, the "tone from the top" on safety has continued to reinforce 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 include:

- 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. This empowers the entire workforce to recognise and address opportunities with Corrective actions assigned clear owners for completion within 48 hours
- Focused HSE events throughout the year to highlight particular risks and help keep Safety at the forefront of our minds.

In 2020, we will continue with the above work, supplemented by Group-wide campaigns on high-priority safety areas (eg Slips, Trips & Falls, Lock Out Tag Out)

Environment and Social Governance

Change in risk level: New

Ownership: Group Operations Director

Relevance: Industry general

Description

Environmental, Social and Governance (ESG) issues are becoming increasingly important for all companies, including the Group.

Failure to meet stakeholder expectations on increasing environmental and/or social governance obligations could lead to reputational risk for the Group. This includes risks arising from changing investor attitudes, impacting our ability to secure funding from investors, and also social attitudes towards the health and environmental impact of our products which may impact on our ability to market them.

ESG is a new Principal Risk for 2020, having been monitored throughout 2019.

Mitigation

ESG issues are becoming increasingly relevant for the Group, including exposure to tobacco-related products, potential changes in regulation related to single-use plastics, climate change and other issues.

Recognising this, the Group has recently instigated a Board Sustainability Committee, chaired by a Non-Executive Director, and including membership from Board, GMC and across the Company. The role of this Committee is to:

- review and assess the Group's exposure to ESG-related issues
- assess the Group's responses to these issues
- understand whether these responses are consistent with the risk appetite of the Group
- identify potential gaps in approach and high-level approaches to closing those gaps

The Board Sustainability Committee's recommendations will link into and inform the work of GMC, the Divisions and the Enabling Functions, to reduce risk exposure, appropriately.