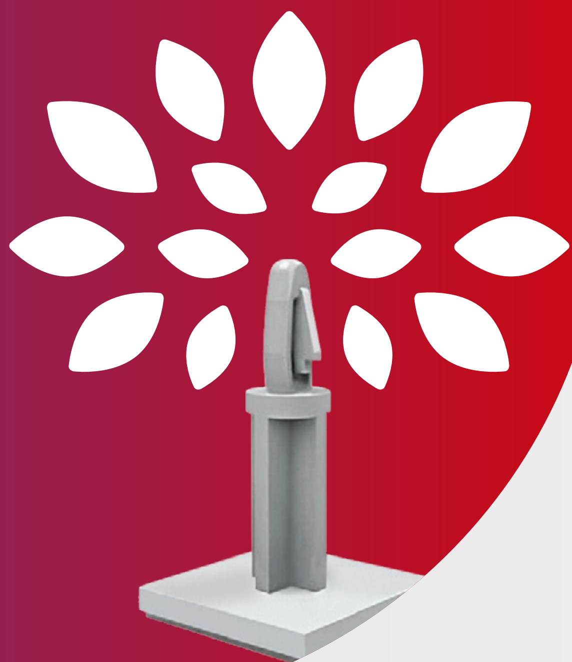
Building for the future

Laying the foundations of a pure play Components business

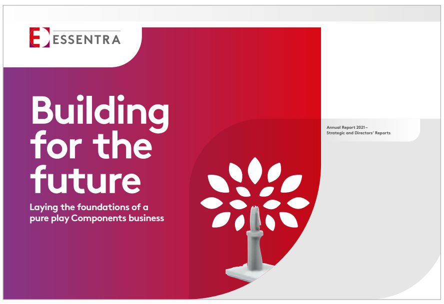


Annual Report 2021 – Financial Statements

Financial Statements

Strategic & Directors' Reports

This is part two of our Annual Report for the year ended 31 December. Part one consists of our Strategic and Directors' Reports and can be found on our corporate website. When reviewing the performance and activities of Essentra plc in 2021, both parts should be read together.



"2021 saw the start of a new and transformational chapter in Essentra's journey."

Paul Forman
Chief Executive

Consolidated Income Statement

For the year ended 31 December 2021

	Note	2021 £m	(restated)* 2020 £m
Revenue	1	**959.7**	896.5
Operating profit		**49.7**	11.6
Finance income	3	**2.8**	1.9
Finance expense	3	**(19.3)**	(17.6)
Profit/(loss) before tax		**33.2**	(4.1)
Income tax (charge)/credit	4	**(4.9)**	2.6
Profit/(loss) for the year		**28.3**	(1.5)
Attributable to:			
Equity holders of Essentra plc		**26.9**	(3.3)
Non-controlling interests		**1.4**	1.8
Profit/(loss) for the year		**28.3**	(1.5)

* See the note on accounting policies for further details of the prior year restatement.

	Note	2021	2020
Earnings per share attributable to equity holders of Essentra plc:			
Basic	6	**8.9p**	(1.2)p
Diluted	6	**8.9p**	(1.2)p
Earnings per share from continuing operations attributable to equity holders of Essentra plc:			
Basic	6	**8.9p**	(1.2)p
Diluted	6	**8.9p**	(1.2)p

Adjusted profit measure:

		£m	£m
Operating profit		**49.7**	11.6
Amortisation of acquired intangible assets		**22.4**	22.6
Adjusting items	2	**11.8**	28.1
Adjusted operating profit		**83.9**	62.3

See note 27 for further details of the adjusted profit measure.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2021

	Note	2021 £m	(restated)* 2020 £m
Profit/(loss) for the year		**28.3**	(1.5)
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit pension schemes	18	**28.5**	(6.7)
Deferred tax (expense)/income on remeasurement of defined benefit pension schemes	4,16	**(7.9)**	2.1
		20.6	(4.6)
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	15	**(1.8)**	(0.5)
Ineffective portion of changes in fair value of cash flow hedges transferred to the income statement	15	**(0.5)**	–
Effective portion of changes in fair value of cash flow hedges		**0.9**	0.1
Foreign exchange translation differences:			
Attributable to equity holders of Essentra plc:			
Arising on translation of foreign operations		**(23.4)**	(9.3)
Arising on effective net investment hedges		**(0.4)**	(3.3)
Income tax income/(expense)	4	**0.4**	(0.5)
Attributable to non-controlling interests		**(0.1)**	(0.5)
		(24.9)	(14.0)
Other comprehensive expense for the year, net of tax		**(4.3)**	(18.6)
Total comprehensive income for the year		**24.0**	(20.1)
Attributable to:			
Equity holders of Essentra plc		**22.7**	(21.4)
Non-controlling interests		**1.3**	1.3
Total comprehensive income for the year		**24.0**	(20.1)

* See the note on accounting policies for further details of the prior year restatement.

Consolidated Balance Sheet

At 31 December 2021

	Note	**31 December 2021 £m**	(restated)* 31 December 2020 £m	(restated)* 1 January 2020 £m
Assets				
Property, plant and equipment	7	**254.3**	262.5	273.5
Lease right-of-use asset	9	**50.4**	52.7	43.4
Intangible assets	8	**483.5**	502.4	481.9
Long-term receivables		**5.2**	4.7	5.6
Derivative assets	15, 19	**0.7**	–	–
Deferred tax assets	16	**11.6**	20.6	15.2
Retirement benefit assets	18	**34.1**	12.6	16.9
Total non-current assets		**839.8**	855.5	836.5
Inventories	10	**128.7**	102.6	113.1
Income tax receivable		**1.5**	3.7	7.0
Trade and other receivables	11, 19	**175.2**	154.2	166.9
Derivative assets	15, 19	**0.5**	0.3	0.8
Other financial assets		**–**	–	6.2
Cash and cash equivalents	12, 22, 19	**136.3**	135.8	70.4
Total current assets		**442.2**	396.6	364.4
Total assets		**1,282.0**	1,252.1	1,200.9
Equity				
Issued share capital	20	**75.6**	75.6	66.0
Merger relief reserve	21	**385.2**	385.2	298.1
Capital redemption reserve		**0.1**	0.1	0.1
Other reserve	21	**(132.8)**	(132.8)	(132.8)
Cash flow hedging reserve		**(1.5)**	(0.1)	0.3
Translation reserve		**(47.5)**	(24.1)	(11.0)
Retained earnings	21	**333.6**	300.8	307.1
Attributable to equity holders of Essentra plc		**612.7**	604.7	527.8
Non-controlling interests		**16.2**	13.3	7.7
Total equity		**628.9**	618.0	535.5
Liabilities				
Interest bearing loans and borrowings	14, 19, 22	**313.3**	285.2	249.0
Lease liabilities	22	**46.1**	49.1	39.3
Retirement benefit obligations	18	**25.1**	36.5	34.3
Provisions	17	**2.5**	8.0	6.0
Other financial liabilities	19	**5.6**	1.2	3.4
Other payables	13, 19	**–**	2.2	–
Deferred tax liabilities	16	**45.3**	45.5	45.3
Total non-current liabilities		**437.9**	427.7	377.3
Interest bearing loans and borrowings	14, 19, 22	**–**	–	60.7
Lease liabilities	22	**11.6**	11.9	11.4
Derivative liabilities	15, 19	**0.1**	0.5	0.3
Income tax payable		**21.5**	33.1	37.9
Trade and other payables	13, 19	**180.9**	155.4	174.5
Provisions	17	**1.1**	5.5	3.3
Total current liabilities		**215.2**	206.4	288.1
Total liabilities		**653.1**	634.1	665.4
Total equity and liabilities		**1,282.0**	1,252.1	1,200.9

* See the note on accounting policies for further details of the prior year restatement.

The consolidated financial statements on pages 143 to 192 were approved by the Board of Directors on 18 March 2022 and were signed on its behalf by:

Paul Forman
Chief Executive

Lily Liu
Chief Financial Officer

Company registration no: 05444653

Consolidated Statement of Changes in Equity

For the year ended 31 December 2021

2021

	Note	Issued capital £m	Merger relief reserve £m	Capital redemption reserve £m	Other reserve £m	Cash flow hedging and cost of hedging reserves[2] £m	Translation reserve £m	Retained earnings £m	Non-controlling interests £m	Total equity £m
At 1 January 2021 (restated)[1]		**75.6**	**385.2**	**0.1**	**(132.8)**	**(0.1)**	**(24.1)**	**300.8**	**13.3**	**618.0**
Profit for the year								**26.9**	**1.4**	**28.3**
Other comprehensive expense						**(1.4)**	**(23.4)**	**20.6**	**(0.1)**	**(4.3)**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**(1.4)**	**(23.4)**	**47.5**	**1.3**	**24.0**
Equity issue to non-controlling interest									**3.1**	**3.1**
Share option expense								**0.8**	**–**	**0.8**
Tax relating to share-based incentives								**0.5**	**–**	**0.5**
Dividends paid	24							**(16.0)**	**(1.5)**	**(17.5)**
At 31 December 2021		**75.6**	**385.2**	**0.1**	**(132.8)**	**(1.5)**	**(47.5)**	**333.6**	**16.2**	**628.9**

2020 (restated)[1]

	Note	Issued capital £m	Merger relief reserve £m	Capital redemption reserve £m	Other reserve £m	Cash flow hedging and cost of hedging reserves £m	Translation reserve £m	Retained earnings £m	Non-controlling interests £m	Total equity £m
At 1 January 2020 (as previously reported)		66.0	298.1	0.1	(132.8)	0.3	(11.0)	312.4	7.7	540.8
Prior period restatement								(5.3)	–	(5.3)
Restated total equity at the beginning of the financial year		66.0	298.1	0.1	(132.8)	0.3	(11.0)	307.1	7.7	535.5
Loss for the year (restated)[1]								(3.3)	1.8	(1.5)
Other comprehensive expense						(0.4)	(13.1)	(4.6)	(0.5)	(18.6)
Total comprehensive loss for the year		–	–	–	–	(0.4)	(13.1)	(7.9)	1.3	(20.1)
Issue of share capital		9.6	87.1					–	–	96.7
Equity issue to non-controlling interest								–	5.0	5.0
Share options exercised								0.1	–	0.1
Share option expense								1.2	–	1.2
Tax relating to share-based incentives								0.3	–	0.3
Dividends paid	24							–	(0.7)	(0.7)
At 31 December 2020 (restated)[1]		75.6	385.2	0.1	(132.8)	(0.1)	(24.1)	300.8	13.3	618.0

1 See the note on accounting policies for further details of the prior year restatement.

2 See note 15 for details of hedging reserve movements in relation to derivatives.

Consolidated Statement of Cash Flows

For the year ended 31 December 2021

	Note	2021 £m	(restated)* 2020 £m
Operating activities			
Profit/(loss) for the year		**28.3**	(1.5)
Adjustments for:			
Income tax expense/(credit)	4	**4.9**	(2.6)
Net finance expense	3	**16.5**	15.7
Intangible amortisation	2,8	**25.0**	25.1
Adjusting items	2	**11.8**	28.1
Depreciation of property, plant and equipment	7	**36.6**	37.3
Lease right-of-use asset depreciation	9	**12.0**	12.0
Profit on lease termination		**–**	(2.0)
Impairment of fixed assets		**0.5**	0.1
Share option expense	5,18	**0.8**	1.2
Hedging activities and other movements		**(0.5)**	1.3
(Increase)/decrease in inventories		**(28.3)**	9.6
(Increase)/decrease in trade and other receivables		**(27.9)**	14.9
Increase/(decrease) in trade and other payables		**26.3**	(18.3)
Cash outflow in respect of adjusting items		**(25.6)**	(21.3)
Adjustment for pension contributions		**(4.8)**	0.9
Movement in provisions		**(0.2)**	–
Cash inflow from operating activities		**75.4**	100.5
Income tax paid		**(12.2)**	(7.7)
Net cash inflow from operating activities		**63.2**	92.8
Investing activities			
Interest received		**0.4**	1.9
Acquisition of property, plant and equipment		**(38.5)**	(30.9)
Proceeds from sale of property, plant and equipment		**8.9**	0.4
Payments for intangible assets		**(3.2)**	(3.7)
Acquisition of businesses net of cash acquired	23	**(14.6)**	(41.2)
Proceeds from sale of businesses net of cash disposed	22	**–**	5.0
Short-term investments		**–**	0.6
Net cash outflow from investing activities		**(47.0)**	(67.9)
Financing activities			
Interest paid		**(11.0)**	(14.7)
Dividends paid to equity holders		**(16.0)**	–
Dividends paid to non-controlling interests		**(1.5)**	(0.7)
Arrangement fee paid for financing facilities		**(4.4)**	–
Repayments of long-term loans		**(182.5)**	(352.9)
Proceeds from long-term loans		**211.4**	318.8
Lease liability principal repayments		**(12.8)**	(11.9)
Proceeds from equity issue		**–**	100.0
Costs incurred in equity issue		**–**	(3.3)
Proceeds from equity issue to non-controlling interests		**3.1**	5.0
Proceeds from sale of employee trust shares		**–**	0.1
Net cash (outflow)/inflow from financing activities		**(13.7)**	40.4
Net increase in cash and cash equivalents	22	**2.5**	65.3
Net cash and cash equivalents at the beginning of the year		**135.8**	70.4
Net increase in cash and cash equivalents		**2.5**	65.3
Net effect of currency translation on cash and cash equivalents		**(2.0)**	0.1
Net cash and cash equivalents at the end of the year	12,22	**136.3**	135.8

* See the note on accounting policies for further details of the prior year restatement.

Accounting Policies

a. Basis of preparation

The consolidated financial statements of the Essentra plc Group has been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. Essentra transitioned to UK-adopted International Accounting Standards in its consolidated financial statements on 1 January 2021. This change constitutes a change in accounting framework. However, there is no impact on recognition, measurement or disclosure in the period reported as a result of the change in framework.

The Company has elected to prepare its individual company financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"); these are presented on pages 193 to 204.

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.

The accounting policies used in the preparation of these financial statements are detailed below. These policies have been consistently applied to all periods presented.

Going Concern

Information regarding the financial position of the Group, its cash flows, liquidity position, and borrowing facilities are described in the Financial Review on pages 40 to 42. In addition, note 19 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and exposures to credit, market and liquidity risk. Cash balances and borrowings are detailed in note 22.

At 31 December 2021, the Group's external financing arrangements amounted to £534.3m, comprising United States Private Placement Loan Notes ("USPP") of $350.0m (with a range of expiry dates from November 2024 to July 2033) and a multi-currency revolving credit facility ("RCF") of £275.0m (expiring in October 2026). Of the total facility of £534.3m, only £14.8m is expiring before 2026.

The amount drawn under the RCF as at 31 December 2021 was £59.2m, with the available undrawn amount at £215.8m. The facility is subject to two covenants, which are tested semi-annually: net debt to EBITDA (leverage) and EBITA to net finance charges. The financial covenants require the net debt to EBITDA ratio to be less than 3.0x and interest cover to be greater than 3.5x. Despite the significant economic and operational challenges in the recent years, the Group has not sought to change either of the two covenants. The Directors believe that the Group is well placed to manage its business risks and, after making enquiries including a review of forecasts and predictions, taking account of reasonably possible changes in trading performances and considering the existing borrowing facilities, including the available liquidity, have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least the next 18 months following the date of approval of the financial statements, and no breaches of covenants are expected.

The uncertainty as to the future impact on the Group of the COVID-19 pandemic has been considered as part of the Group's adoption of the going concern basis, taking into account the experience during the recent years and the most recent circumstances. The Group demonstrated resilient operational capability and ability to continue supporting the customers, as well as ability to raise additional financing and renew borrowing facilities. As at 31 December 2021 and as at the date of approval of these financial statements, all of the Group's manufacturing and distribution facilities are operational and have resumed to pre-pandemic levels of operating capacity. Across the Group, supply chain is being proactively managed, as are operating costs and the timing of capital expenditure and significant cash spends.

As part of the going concern assessment, the Board has also considered a downside scenario that reflects a continuing level of operational and commercial challenges experienced in recent years, which we consider to be severe but plausible. Included within the severe yet plausible downside scenario are the potential significant costs of strategic reviews which are ongoing and possible impact of foreign exchange fluctuations. The Directors have also considered scenarios which incorporate the potential outcomes of the strategic reviews and the potential impact of the Group's previously announced intentions to move to be a pure play components business over time. The results of these scenarios show that there is sufficient liquidity in the business for a period of at least 18 months from the date of approval of these financial statements, and do not indicate any covenant breach during the test period. The severe downside scenario includes assumptions for the similar extent of operational disruptions as seen in 2021. Set against this were mitigating actions including tight management of capital expenditure, sales and general overhead, and working capital. Overall level of liquidity (defined as available undrawn borrowing facility plus cash and cash equivalent) at the end of December 2021 was £352.1m, which was significantly higher than the £287.0m as at 31 December 2020. Further information on the Group's borrowing facilities, cash resources and other financial instruments can be found in notes 14 and 19 to the financial statements.

Accounting Policies continued

a. Basis of preparation continued

These downside scenarios indicate that the Group is more sensitive to a decline in profit than a contraction in cash flows given the importance of this metric to the Group's covenant compliance. However, management has carried out reverse stress tests which indicated that an overall reduction in adjusted operating profit of approximately 60% from the 2021 result would be required to result in a breach in covenants over the testing period. This level of reduction is outside the range of outcomes that the Directors would consider plausible.

The severe but plausible scenario does not indicate a material uncertainty which may cast significant doubt over the Company's and Group's ability to continue as a going concern. Based on these, and taking into consideration the risks detailed in note 19, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, and accordingly have adopted the going concern basis in preparing the consolidated financial statements. This disclosure has been prepared in accordance with the Financial Reporting Council's UK Corporate Governance Code.

Changes in accounting policies

Software as a service ("SaaS") arrangements
During 2021, the Company has changed its accounting policy relating to the capitalisation of certain software costs; this change follows the IFRS Interpretation Committee's agenda decision published in April 2021 and relates to the capitalisation of costs of configuring or customising application software under "Software as a Service" ("SaaS") arrangements.

The Group's accounting policy has historically been to capitalise costs attributable to the configuration and customisation of SaaS arrangements as intangible assets on the balance sheet, irrespective of whether the services were performed by the SaaS supplier or third party. Following the adoption of the above IFRIC agenda guidance, current SaaS arrangements were identified and assessed to determine if the Group has control of the software. For those arrangements where we do not have control of the developed software, to the extent that the services were performed by third parties and those services are distinct from the SaaS arrangement, the Group derecognised the intangible asset previously capitalised. Amounts paid to the supplier in advance of the commencement of the service period, for configuration or customisation, services which are not distinct from the SaaS arrangement, are treated as a prepayment. Any costs incurred which resulted in a software asset from which the Company has control, i.e. the power to obtain the future economic benefits and to restrict others' access to those benefits, continue to be capitalised as an intangible asset.

The costs written off are presented within operating profit in the consolidated income statement. Given the significant impact of this policy change, in presenting the Group's adjusted operating profit, configuration and customisation costs of significant SaaS arrangements are presented as part of adjusting items (see note 2) in order to present an alternative performance measure that excludes the impact of such costs which, in the view of management, represent investments in upgrading the Group's technological capability including costs associated with current implementation of a cloud-based enterprise resource planning ("ERP") system within the Group. Configuration and customisation costs of non-significant SaaS arrangements are included within adjusted operating profit.

In addition, cash flows relating to the customisation and configuration costs of SaaS arrangements are presented as part of operating activities in the consolidated cash flow statement. In relation to the Group's adjusted performance measures for cash flows, the cash outlay relating to customisation and configuration cost of major SaaS arrangements is presented as a cash outflow for adjusting items, corresponding to the treatment of such costs with regards to adjusted operating profit. This change impacts the Group's adjusted operating cash flow and free cash flow.

This change in accounting policy led to adjustments amounting to £16.4m and £4.4m reduction in the intangible assets recognised in the 31 December 2020 and 1 January 2020 balance sheets respectively, as well as £0.5m and £2.5m reduction in property, plant and equipment. Customisation and configuration costs for SaaS arrangements of £11.8m and £10.4m were charged to operating expenses for 2021 and 2020 respectively that relate to major SaaS arrangements and therefore are presented within adjusting items with regards to the Group's adjusted operating profit. Customisation and configuration costs for non-significant SaaS arrangements were included within adjusted operating profit and amounted to £nil and £0.1m for 2021 and 2020 respectively.

Accordingly, the prior period balance sheet and consolidated income statement have been restated in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. The tables below show the impact of the change in accounting policy on previously reported financial results and position.

Accounting Policies continued

a. Basis of preparation continued

(i) Impact on the consolidated balance sheet

	As previously reported 31 December 2020 £m	Impact of restatement £m	Restated 31 December 2020 £m
Property, plant and equipment	263.0	(0.5)	262.5
Intangible assets	518.8	(16.4)	502.4
Deferred tax assets	16.8	3.8	20.6
Other assets and liabilities	(167.5)	–	(167.5)
Net assets	631.1	(13.1)	618.0
Retained earnings	313.9	(13.1)	300.8
Other equity balances	317.2	–	317.2
Total equity	631.1	(13.1)	618.0

	As previously reported 1 January 2020 £m	Impact of restatement £m	Restated 1 January 2020 £m
Property, plant and equipment	276.0	(2.5)	273.5
Intangible assets	486.3	(4.4)	481.9
Deferred tax	13.6	1.6	15.2
Other assets and liabilities	(235.1)	–	(235.1)
Net assets	540.8	(5.3)	535.5
Retained earnings	312.4	(5.3)	307.1
Other equity balances	228.4	–	228.4
Total equity	540.8	(5.3)	535.5

(ii) Impact on consolidated income statement and statement of comprehensive income

	As previously reported 2020 £m	Impact of restatement £m	Restated 2020 £m
Operating profit	21.7	(10.1)	11.6
Profit before tax	6.0	(10.1)	(4.1)
Tax credit	0.3	2.3	2.6
Profit/(loss) for the year	6.3	(7.8)	(1.5)
Attributable to owners of the Company	4.5	(7.8)	(3.3)
Non-controlling interest	1.8	–	1.8
Total comprehensive income/(expense) for the year	6.3	(7.8)	(1.5)
Alternative performance measures – Profit			
Operating profit	21.7	(10.1)	11.6
Adjusting items	17.7	10.4	28.1
Amortisation of acquired intangible assets	22.6	–	22.6
Adjusted operating profit	62.0	0.3	62.3

(iii) Impact on earnings per share

	As previously reported 2020	Impact of restatement	Restated 2020
Basic earnings per share	1.7p	(2.9)p	(1.2)p
Diluted earnings per share	1.6p	(2.8)p	(1.2)p
Adjusted basic earnings per share	13.1p	0.1p	13.2p
Adjusted diluted earnings per share	13.0p	0.1p	13.1p

Accounting Policies continued

a. Basis of preparation continued

(iv) Impact on consolidated statement of cash flows

	As previously reported 2020 £m	Impact of restatement £m	Restated 2020 £m
Net cash inflow from operating activities	103.3	(10.5)	92.8
Net cash outflow from investing activities	(78.4)	10.5	(67.9)
Net cash inflow from financing activities	40.4	–	40.4
Net increase in cash and cash equivalents	65.3	–	65.3
Alternative performance measures – Cash flows			
Cash outflow in respect of adjusting items	(10.9)	(10.4)	(21.3)
Adjusted operating cash flow	76.3	10.4	86.7
Free cash flow	56.9	10.4	67.3

There was no impact on the overall level of cash and cash equivalent.

Other pronouncements
The Group adopted the following new pronouncements during 2021, which did not have a material impact on the Group's financial statement:

- *Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 7, IFRS 4 and IFRS 16)*, which address the effects of the reform on a company's financial statements that arise when an interest rate benchmark used to calculate interest on a financial asset is replaced with an alternative benchmark
- *Amendments to UK and Republic of Ireland accounting standards as a result of the UK's exit from the European Union*
- *Amendment to IFRS 16*, which clarifies the extension of the practical expedient where the lessee is not required to assess whether eligible COVID-19 related rent concessions are lease modifications
- *Amendments to IAS 1*, which address the presentation of financial statements on classification of liabilities
- *Revised Conceptual Framework for Financial Reporting (Amendments to IFRS 9, IAS 39 and IFRS 7)*

The following standards and amendments issued before 31 December 2021 with an effective date on or after 1 January 2022 have not been early adopted by the Group, they do not have a material impact on the Group's financial statement:

- *Amendment to IAS 12 – deferred tax related to assets and liabilities arising from a single transaction*
- *A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16*

b. Basis of consolidation

(i) Subsidiaries
Subsidiaries are entities controlled by Essentra. Control exists when Essentra is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the financial statements from the date that control commences until the date that control ceases. All entities are wholly owned subsidiaries of the Group except for ITC Essentra Limited (India) (50% owned) and China Tobacco Essentra (Xiamen) Filters Co., Ltd (49% owned). The ownership held by the Group in these companies are through holding of ordinary shares in these companies and they are accounted for as subsidiaries of the Group in the consolidated financial statements due to a control achieved via board membership.

(ii) Transactions eliminated on consolidation
Intragroup balances and any unrealised gains and losses or income and expense arising from intragroup transactions are eliminated in preparing the consolidated financial statements.

Accounting Policies continued

c. Foreign currency

Items included in the financial statements of the Group's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates ("functional currency"). The consolidated financial statements are prepared in sterling (functional currency of the parent company).

(i) Foreign currency transactions
Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into sterling at the exchange rate ruling at that date and recognised in the income statement unless hedge accounting criteria apply (see policy for financial instruments).

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

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

d. Financial instruments

Interest bearing loans and borrowings and other financial liabilities (excluding derivatives) are held at amortised cost, unless they are included in a hedge accounting relationship. See note 15 for separate disclosure of hedge types.

Derivatives are measured initially at fair value. Subsequent measurement in the financial statements depends on the classification of the derivative as follows:

(i) Fair value hedges
Where a derivative is used to hedge the foreign exchange exposure of a monetary asset or liability, any gain or loss on the derivative is recognised in the income statement.

(ii) Cash flow hedges
Where a derivative is designated as a hedging instrument in a cash flow hedge, the change in fair value is recognised in other comprehensive income to the extent that it is effective and any ineffective portion is recognised in the income statement. Where the underlying transaction results in a financial asset, accumulated gains and losses are recognised in the income statement in the same period as the hedged item affects profit or loss. Where the hedged item results in a non-financial asset the accumulated gains and losses previously recognised in other comprehensive income are included in the initial carrying value of the asset.

(iii) Hedges of net investment in foreign operations
The gain or loss on an instrument used to hedge a net investment in a foreign operation that is deemed effective is recognised in other comprehensive income. Any ineffective portion is recognised in the income statement.

(iv) Unhedged derivatives
The movements in the fair value of derivatives which are not designated as an effective hedge relationship are charged/credited to the profit or loss.

e. Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Previously revalued properties were treated as being held at deemed cost upon transition to adopted IFRS.

Where parts of an item of property, plant and equipment or other assets have different useful lives, they are accounted for as separate items. The carrying values of property, plant and equipment and other assets are periodically reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

Property, plant and equipment are depreciated over their estimated remaining useful lives on a straight-line basis at the following annual rates:

Land and buildings – Freehold land	Not depreciated
Land and buildings – Buildings	2% or life of lease if shorter
Plant and machinery	7–20%
Fixtures, fittings and equipment	10–33%

The assets' useful lives and residual values are reviewed, and adjusted if appropriate, at each balance sheet date.

Accounting Policies continued

f. Lease liabilities and lease right-of-use assets

Leases greater than 12 months in length, and those not of low-value, are recognised as a lease right-of-use asset with the associated future lease payment terms recognised as a lease liability. The right-of-use assets and the associated lease liabilities are recognised by discounting the future lease payments at the rate implicit to the lease or, if the rate implicit to the lease cannot be readily determined, at the relevant incremental borrowing rate.

Determining the incremental borrowing rate 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).

The Group has leases of certain equipment (e.g. printing and photocopying machines) that are considered of low value. Rentals associated with leases that are of low-value or less than 12 months in length are expensed to the income statement on a straight-line basis. The associated lease incentives are amortised in the income statement over the life of the lease.

(i) The Group's leasing activities
The Group leases various properties, equipment and cars. Rental contracts are typically made for fixed periods of 1 to 20 years, but might have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets cannot be used as security for borrowing purposes. Approximately 85% of the Group's future lease obligations under IFRS 16 relate to property leases.

The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the right-of-use asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payments that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs and
- restoration costs.

(ii) Variable lease payments
The Group has certain assets which may include variable lease payments based on usage, although this is a small proportion of the Group's assets. These include vehicles, with variable lease payments based on mileage or equipment such as printers, of which the lease payments vary based on their usage. The variable lease payments are not material for the Group.

Any future variable payment increase that requires either speculation or an estimate is not included. Future lease payments should then be applied only when they are known, with no change to the discount rate.

(iii) Extension and termination options
Extension and termination options are included in a number of property and equipment leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

g. Intangible assets

(i) Goodwill
Goodwill is stated at cost less any impairment losses.

Acquisitions are accounted for using the purchase method. For acquisitions that have occurred since 1 January 2004, goodwill represents the difference between the fair value of the assets given in consideration and the fair value of identifiable assets, liabilities and contingent liabilities of the acquiree. For acquisitions made before 1 January 2004, goodwill is included on the basis of its deemed cost, which represents the amount previously recorded under UK GAAP.

Since 1 January 2010, the Group has expensed costs attributable to acquisitions in the income statement. Given their one-off nature, these costs are generally presented within adjusting items.

Accounting Policies continued

g. Intangible assets continued

(ii) Research and development
Research costs are expensed to the income statement in the year in which they are incurred.

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

(iii) Acquired intangible assets
An intangible asset acquired in a business combination is recognised at fair value to the extent it is probable that the expected future economic benefits attributable to the asset will flow to the Group and that its cost can be measured reliably. Intangible assets principally relate to customer relationships, which are valued using discounted cash flows based on historical customer attrition rates, and developed technology, which is valued using an income approach. The cost of intangible assets is amortised through the income statement on a straight-line basis over their estimated useful economic life.

(iv) Other intangible assets
Other intangible assets which are not acquired through a business combination ("non-acquired intangible assets") are recognised at cost to the extent it is probable that the expected future economic benefits attributable to the asset will flow to the Group and that its cost can be measured reliably, and amortised on a straight-line basis over their estimated useful economic life.

SaaS arrangements are service contracts providing the Company with the right to access the cloud provider's application software over the contract period. Costs incurred to configure or customise, and the ongoing fees to obtain access to the cloud provider's application software, are recognised as operating expenses when the services are received. Where costs incurred for the development of software code enhances, modifies, or creates additional capability to, existing on-premise systems and meets the definition of and recognition criteria for an intangible asset.

These costs are recognised as intangible software assets and amortised over the useful life of the software on a straight-line basis.

Intangibles are amortised over their estimated remaining useful lives on a straight-line basis at the following annual rates:

Goodwill	Not amortised
Customer relationships	6–12%
Other intangibles – research and development	7–20%
Other intangibles – development of e-commerce	10–20%
Other intangibles – software and software development	10–20%

h. Impairment

All assets are reviewed regularly to determine whether there is any indication of impairment. Goodwill is tested for impairment annually.

An impairment loss is recognised whenever the carrying amount of a non-financial asset or the cash generating unit to which it belongs exceeds its recoverable amount, being the greater of value in use and fair value less costs to sell, and is recognised in the income statement. Value in use is estimated based on future cash flows discounted using a pre-tax discount rate based upon the Group's weighted average cost of capital.

Financial assets were assessed for impairment using the expected credit loss model which requires expected credit losses and changes to expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. Changes to the expected credit loss are recognised in the income statement.

i. Inventories

Inventories are valued at the lower of standard cost and net realisable value. For work-in-progress and finished goods, cost includes an appropriate proportion of labour cost and overheads.

j. Cash and cash equivalents

Cash and cash equivalents comprise cash balances and fixed term investments whose maturities are three months or less from the date of acquisition. Bank overdrafts repayable on demand form an integral part of Essentra's cash management and are included as part of cash and cash equivalents in the statement of cash flows.

k. Loans and borrowings

Loans and borrowings are initially measured at cost (which is equal to fair value at inception plus issuance cost) and are subsequently measured at amortised cost using the effective interest method.

Accounting Policies continued

l. Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost, which is generally equivalent to recognition at nominal value less impairment loss calculated using the expected loss model. Trade receivables subject to factoring are financial assets at fair value through other comprehensive income.

The Group applies the simplified model to recognise lifetime expected credit losses for its trade receivables and other receivables, including those due in greater than 12 months, by making an accounting policy election. The expected loss rate estimated for each ageing period is as follows: Current: 0.2%, Overdue 1-30 days: 0.5%, Overdue 31-60 days: 1%, Overdue 61-90 days: 5%, Overdue 91-180 days: 10%, Overdue 181-360 days: 50% and Overdue over 360 days: 100%.

m. Trade and other payables

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

n. Deferred consideration

Deferred consideration is recognised and held at fair value. Changes in its fair value are recognised in profit or loss, within adjusting items.

o. Income tax

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

Current tax is the expected tax payable on the taxable income for the year using the applicable tax rates enacted or substantively enacted at the balance sheet date and any adjustment to tax payable in prior years. Deferred tax is provided, using the balance sheet liability method, on temporary differences arising between the tax bases and the carrying amounts of assets and liabilities in the financial statements. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they will not reverse in the foreseeable future.

Deferred tax is determined using tax rates that are expected to apply when the related deferred tax asset or liability is settled, using the applicable tax rates enacted or substantively enacted at the balance sheet dates.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against liabilities and when they relate to income taxes levied by the same tax authority and the Group intends to settle its current tax assets and liabilities on a net basis.

p. Revenue

Revenue from the sale of goods is recognised in the income statement net of expected discounts, rebates, refunds, credits, price concessions or other similar items, when the associated performance obligation has been satisfied, and control of the goods has been transferred to the customer.

A significant part of the Group's businesses sell goods on an ex-works basis, where the Group as seller makes its goods ready for collection at its premises on an agreed upon sales date and the buyer incurs all transportation and handling costs and bears the risks for bringing the goods to their chosen destination.

Where the Group operates non ex-works terms with customers, revenue is recognised when the control of the goods has been transferred to the customer. These terms include consignment stock agreements, where revenue is recognised upon the customer removing goods from consignment stock provided the relevant conditions for revenue recognition are met.

Each customer arrangement/contract is assessed to identify the performance obligations being provided to the customer. Where distinct performance obligations are deemed to exist, an element of revenue is apportioned to that obligation.

q. Finance income and expense

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

r. Segment reporting

A segment is identified on the basis of internal reports that are regularly reviewed by the Group Management Committee in order to allocate resources to the segment and assess its performance.

Accounting Policies continued

s. Pensions

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

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

Actuarial gains and losses that have arisen are recognised in full in the consolidated statement of comprehensive income.

The amounts charged to operating profit are the current service cost, past service cost (including curtailments) and gains and losses on settlement.

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

t. Share-based payments

Essentra operates equity-settled, share-based incentive plans. A charge is made in the income statement based on the fair value of option awards using the Monte Carlo or binomial valuation models and relevant quoted share price information with a corresponding increase in equity. The fair value is measured at grant date and spread over the period between grant date and vesting date of the options. The amount recognised as an expense will be adjusted to reflect the actual number of share options that vest with the exception of options that fail to vest because market conditions are not met.

u. Adjusting items

Adjusting items are separately presented from other items by virtue of their nature, size and/or incidence (considered for each operating segment). They are identified separately 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 items which are non-recurring or one-off in nature (such as the costs of fundamental strategic review and reorganisation). Operating profit before adjusting items and acquired intangible amortisation is called adjusted operating profit, which forms the primary basis of management's review and assessment of operational performance of the Group's businesses.

(i) Gains/losses and transaction costs relating to acquisitions and disposals of businesses
In 2021, Essentra acquired Jiangxi Hengzhu Electrical Cabinet Lock Co., Ltd ("Hengzhu"), incurring one-off acquisition related costs (refer to note 23).

In 2020, Essentra acquired 3C! Packaging, Inc. ("3C!"), incurring one-off acquisition related costs (refer to note 23). Further one-off costs were incurred as a result of acquisition of Nekicesa, Innovative Components, alongside professional fees associated with certain corporate development activities. A one-off credit was received in respect of a VAT refund on the costs of a previous business disposal.

(ii) Acquisition integration and restructuring costs
These relate to costs incurred on the integration of acquired businesses and restructuring associated with acquisitions.

(iii) Customisation and configuration costs of significant Software as a Service ("SaaS") arrangements
These relate to costs incurred on implementation (customisation and configuration) of significant "software as a service" ("SaaS") arrangements. In the view of management, these are investments to upgrade the Group's technical capabilities and therefore their costs are excluded from the adjusted operating profit.

(iv) Other adjusting items
In 2021 this represented advisory and professional fees in relation to strategic reviews of the Group's Packaging and Filters businesses as well as the costs of previously announced restructuring activities within the Group's three divisions. Included within these previously announced restructuring activities, Packaging generated a profit on disposal of tangible assets within the Moorestown site and credits relating to Components and Packaging restructuring consisted of reversal of provisions as well as writebacks on the carrying value of lease right-of-use assets and other tangible fixed assets. Within the Filters division, additional restructuring was incurred relating to the rationalisation of the division's innovation and development centres in the US and the UK and restructuring activities to rationalise the Tear Tapes operations.

In 2020, this represented restructuring activities within the Packaging division, comprising the closure of Portsmouth, UK and Moorestown, USA; Components Europe, comprising the closure of the manufacturing facility in Åstorp, Sweden, and transfer to Barcelona, Spain, and closure of warehousing capabilities in Northern Europe and transfer to Nettetal, Germany; and Components Americas, comprising the closure of manufacturing sites in Schaumburg, Illinois, and Melbourne, Arkansas, with transfer of those activities to Flippin, Arkansas, and the closure of warehousing facilities in Edison, in New Jersey, in Elgin, in Illinois, and in Los Angeles, California. In addition professional fees have been incurred as part of a strategic review of the Group's operational structure and cost profile. This is offset by a credit arising on the release of excess provision held for potential penalties in relation to the review of the compliance of certain Group companies' export activities with US laws as the Company does not anticipate any significant enforcement action.

Accounting Policies continued

v. Investment in own shares

The shares held in the Essentra Employee Benefit Trust for the purpose of fulfilling obligations in respect of share option plans are treated as belonging to the Company and are deducted from its retained earnings. The cost of shares held directly (treasury shares) are also deducted from retained earnings.

w. Provisions

A provision is recognised when there is a probable legal or constructive obligation as a result of a past event and a reliable estimate can be made of the outflow of resources that will be required to settle the obligation. The outflow is the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date.

x. Government grants

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

y. Net debt

Net debt is defined as cash and cash equivalents and short-term liquid investments, net of lease liabilities and interest bearing loans and borrowings.

z. Dividends

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

aa. Assets and disposal groups held for sale and discontinued operations

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use. Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held-for-sale and subsequent gains and losses on remeasurement are recognised in profit or loss.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations or
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or
- is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the income statement.

Critical Accounting Judgements and Estimates

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

Accounting Estimates

(i) Business combinations and intangible assets

IFRS 3 requires the identification of acquired intangible assets as part of a business combination. The methods used to value such intangible assets require the use of estimates and judgements such as customer attrition, cash flow generation from the existing relationships with customers and returns on other assets. Future results are impacted by the amortisation periods adopted and changes to the estimated useful lives would result in different effects on the income statement and balance sheet.

Goodwill is not amortised but is tested annually for impairment, along with the finite-lived intangible assets and other assets of the Group's cash generating units. Tests for impairment are based on discounted cash flows and assumptions (including discount rates, timing and growth prospects) which are inherently subjective. An estimate is also required in identifying the events which indicate potential impairment, and in assessing fair value of individual assets when allocating an impairment loss in a cash-generating unit or groups of cash-generating units. The Group performs various sensitivity analyses in respect of the tests for impairment, as detailed in note 8.

The useful lives of the Group's finite-lived intangible assets are reviewed following the tests for impairment annually.

Judgement may also be required in determining the fair value of other assets acquired and liabilities (including contingent liabilities) assumed.

In preparing the consolidated financial statements the Group has considered the impact that climate change may have on key accounting judgements and estimates including asset useful economic lives and asset valuations and impairments. As set out on page 31 of the Strategic Report, the Group continues to introduce initiatives designed to reduce the carbon emissions from its operations. As a result, the Group considers the environmental assumptions embedded within the Group's strategic business plan to support the key forward looking accounting judgements and estimates.

(ii) Taxation

Liabilities for tax contingencies require management judgements and estimates in respect of tax audit issues and exposures in each of the jurisdictions in which it operates. Management is also required to make an estimate of the current tax liability together with an assessment of the temporary differences which arise as a consequence of different accounting and tax treatments. Where management concludes a tax position is uncertain, a current tax liability is held for anticipated taxes that are considered probable based on the information available.

Key judgement areas for the Group include the pricing of intercompany goods and services as well as the tax consequences arising from restructuring operations. Included in the tax payable is a liability of £7.4m (2020: £12.0m) for transfer pricing matters and £12.3m (2020: £20.2m) for other uncertain tax positions. The reduction in each provision is primarily due to the expiry of statute of limitations following the passage of time and favourable agreements reached with tax authorities on previous matters. Adjustments for current year transactions and foreign exchange movements complete the movement in the year.

Management may engage with professional advisers in making their assessment and, if appropriate, will liaise with the relevant taxation authorities to resolve the matter. The tax liability is reassessed in each period to reflect management's best estimate in light of information available. If the final outcome of these matters differs to the liability held in the financial statements, the difference may impact the income tax charge/(credit) in the year the matter is concluded.

(iii) Pensions

Essentra accounts for its defined benefit pension schemes in accordance with IAS 19. The application of IAS 19 requires the exercise of judgement in relation to the assumptions used, particularly in determining the discount rate, inflation rate assumption and mortality assumptions. For each assumption there is a range of possible outcomes (see note 18). In consultation with Essentra's actuaries, management decides the point within those ranges that most appropriately reflects Essentra's circumstances. Small changes to these assumptions can have a significant impact on valuations. The Group performs a sensitivity analysis for the significant assumptions used in determining post-employment costs and liabilities, as detailed in note 18.

Accounting Judgements

(i) Adjusting items

Judgement is required to determine whether items should be included within adjusting items by virtue of their size or incidence. Details of the items categorised as adjusting items are disclosed in note 2.

As restructuring and reorganisation costs are recognised (for instance with respect to site rationalisation initiatives), estimates are often involved in relation to property-related costs (such as restoration and dilapidation costs, recoverable amount of lease right-of-use assets and potential sublet income) and asset impairment charges (in assessing recoverable amount such as fair value from potential sale of assets). Where appropriate, management may engage with professional advisers in making these assessments.

Critical Accounting Judgements and Estimates continued

(ii) Consolidation of a subsidiary
Judgement is required to establish whether control exists over an entity in which Essentra holds part of the share capital. Essentra has a 49% shareholding in China Tobacco Essentra (Xiamen) Filters Co., Ltd which has been consolidated as a subsidiary within the consolidated financial statements because management has assessed that Essentra has control over the entity to direct the relevant activities (including approval of budgets and capital investments, and appointment of key management personnel) that significantly affect the entity's returns and the ability to use its power to affect those returns, through a majority of membership in the entity's governing body (primarily the board of directors). Subsidiaries are fully consolidated during the period which the Group holds control.

(iii) Leases and lease right-of-use assets
A key judgement in determining the right-of-use asset and lease liability is establishing whether it is reasonably certain that an option to extend the lease will be exercised. Distinguishing whether a lease will be extended or otherwise could have a material impact on the value of the right-of-use assets and lease liabilities recognised on the balance sheet, but may not have a material impact on the income statement.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

(iv) "Software as a service" ("SaaS") arrangements
The accounting treatment of customisation and configuration costs relating to SaaS arrangements involved a number of judgements:

- whether a software arrangement is a SaaS arrangement: management considers the fact pattern of the software arrangement carefully to identify SaaS arrangements, distinguishing from other arrangements such as "platform as a service" or "infrastructure as a service"
- whether any cost incurred in customisation and configuration result in an additional code from which the customer has the power to obtain the future economic benefits and restrict others' access to those benefits: management considered whether the code can be used in or transferred to another computing arrangement
- whether the customisation and configuration service provided by the SaaS provider is distinct from the regular SaaS arrangement: management considers factors such as whether the Company can benefit from the service separately from the other elements of deliverables from the SaaS provider
- whether a third party providing customisation and configuration service is in effect a subcontractor of the SaaS provider: management considers factors such as the nature of contractual and working relationship between the SaaS provider and the third party, the obligations of the third party, who has the primary responsibility for the services that the third party provides etc.

See changes in accounting policies section for impact of SaaS arrangements on these financial statements.

(v) Assets held for sale
Non-current assets, or disposal groups comprising assets and liabilities, are classified as held for sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use. Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held-for-sale and subsequent gains and losses on remeasurement are recognised in profit or loss.

We assessed the status of the currently ongoing strategic reviews for the Packaging and Filters divisions, and considered the applicability of the requirements in relation to assets held for sale. As previously announced, the strategic reviews are likely to conclude in the second quarter of 2022 at the earliest, and at present no decision or commitment has been entered into by the management. Management therefore concluded that the businesses under strategic review do not meet the requirements under IFRS 5 to be classified as 'held for sale' as at 31 December 2021.

Notes

1. Segment analysis

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

The operating segments are as follows:

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

Packaging – One of very few multicontinental suppliers of a full range of secondary packaging to the pharmaceutical, personal care and beauty sectors.

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

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.

						2021
	Components £m	Packaging £m	Filters £m	Eliminations £m	Central Services[2] £m	Total £m
External revenue	301.7	362.4	295.6	–	–	959.7
Total revenue	**301.7**	**362.4**	**295.6**	**–**	**–**	**959.7**
Operating profit/(loss) before intangible amortisation and adjusting items	56.9	15.4	28.2	–	(16.6)	83.9
Amortisation of acquired intangible assets	(8.6)	(13.8)	–	–	–	(22.4)
Adjusting items	(0.4)	1.6	(3.3)	–	(9.7)	(11.8)
Operating profit/(loss)	**47.9**	**3.2**	**24.9**	**–**	**(26.3)**	**49.7**
Segment assets	172.4	219.9	199.7	–	21.8	613.8
Intangible assets	158.9	297.1	23.0	–	4.5	483.5
Unallocated items[3]	–	–	–	–	184.7	184.7
Total assets	**331.3**	**517.0**	**222.7**	**–**	**211.0**	**1,282.0**
Segment liabilities	74.2	77.7	66.7	–	29.2	247.8
Unallocated items[3]	–	–	–	–	405.3	405.3
Total liabilities	**74.2**	**77.7**	**66.7**	**–**	**434.5**	**653.1**
Other segment items						
Capital expenditure (cash spend)	9.1	14.8	13.9	–	3.9	41.7
Depreciation of property, plant and equipment	7.2	13.8	10.5	–	5.1	36.6
Average number of employees	2,708	3,476	1,715	–	287	8,186

Notes continued

1. Segment analysis continued

	Components £m	Packaging £m	Filters £m	Eliminations £m	Central Services[2] £m	Total £m
						(restated)[1] 2020
External revenue	255.0	363.2	278.3	–	–	896.5
Total revenue	**255.0**	**363.2**	**278.3**	**–**	**–**	**896.5**
Operating profit/(loss) before intangible amortisation and adjusting items	45.5	13.8	25.2	–	(22.2)	62.3
Amortisation of acquired intangible assets	(8.9)	(13.6)	(0.1)	–	–	(22.6)
Adjusting items	(9.3)	(9.1)	0.9	–	(10.6)	(28.1)
Operating profit/(loss)	**27.3**	**(8.9)**	**26.0**	**–**	**(32.8)**	**11.6**
Segment assets	149.1	218.5	186.6	–	22.5	576.7
Intangible assets	158.2	316.0	22.6	–	5.6	502.4
Unallocated items[3]	–	–	–	–	173.0	173.0
Total assets	**307.3**	**534.5**	**209.2**	**–**	**201.1**	**1,252.1**
Segment liabilities	60.4	85.8	56.7	–	30.4	233.3
Unallocated items[3]	–	–	–	–	400.8	400.8
Total liabilities	**60.4**	**85.8**	**56.7**	**–**	**431.2**	**634.1**
Other segment items						
Capital expenditure (cash spend)	10.6	11.0	8.5	–	4.4	34.5
Depreciation of property, plant and equipment	7.3	13.4	10.7	–	5.9	37.3
Average number of employees	2,355	3,498	1,674	–	276	7,803

1 See the note on accounting policies for further details of the prior year restatement.

2 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.

3 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.

Net finance expense of £16.5m (2020: £15.7m) and income tax charge of £4.9m (2020: credit of £2.6m) cannot be meaningfully allocated by segment.

No customer accounted for more than 10% of revenue in either 2021 or 2020. Analysed by destination, revenue to Europe & Africa is £453.1m (2020: £443.2m), revenue to Americas is £296.3m (2020: £277.2m) and revenue to Asia and Middle East is £210.3m (2020: £176.1m). Revenue to the UK is £70.8m (2020: £81.5m), with other significant countries being the USA with revenue of £231.0m (2020: £210.4m), Ireland £51.2m (2020: £49.5m) and Germany £47.8m (2020: £48.9m). Non-current assets in the UK total £145.6m (2020: £167.9m), with the other significant location being the USA with £309.8m (2020: £321.6m).

Notes continued

2. Net operating expense

	2021 £m	(restated)* 2020 £m
Changes in inventories of finished goods and work-in-progress	**(10.6)**	9.1
Raw materials and consumables	**412.7**	368.5
Personnel expense[1] (note 5)	**286.5**	271.8
Depreciation of property, plant and equipment	**36.6**	37.3
Profit/(loss) on sale of property, plant and equipment	**(0.2)**	0.2
Depreciation of lease right-of-use assets	**12.0**	12.0
Amortisation of intangible assets	**25.0**	25.1
Impairment of property, plant and equipment and intangibles	**1.0**	1.7
Impairment/(impairment writeback) of right-of-use assets	**(1.1)**	2.0
Adjusting items[1]	**11.8**	28.1
Exchange differences recognised in profit or loss	**(0.5)**	–
Other operating expenses	**136.8**	129.1
Net operating expenses	**910.0**	884.9

* See the note on accounting policies for further details of the prior year restatement.

1 In addition to the above, the following items were included within adjusting items: personnel expenses totalling £9.6m (2020: £4.9m); and a pension curtailment credit of £nil (2020: £0.4m).

No income or expense (2020: £nil) was recognised in operating expense during the year in respect of ineffective cash flow hedges. Essentra's hedges of net investments were also entirely effective in 2021 and 2020, and therefore no hedge ineffectiveness has been recognised in net operating expense in 2021 (2020: £nil). Research and development expenses (including relevant staff costs) charged to profit or loss during the year amounted to £2.1m (2020: £3.2m). Other operating expenses include manufacturing, selling, general and administrative overheads.

Adjusting items

	2021 £m	(restated)* 2020 £m
(Gains)/losses and transaction costs relating to acquisitions and disposals of businesses[1]	**(3.4)**	5.7
Acquisition integration and restructuring costs[2]	**0.6**	0.5
Customisation and configuration costs of significant software as a service ("SaaS") arrangements[3]	**11.8**	10.4
Other[4]	**2.8**	11.5
Adjusting items	**11.8**	28.1

* See the note on accounting policies for further details of the prior year restatement.

Adjusting items are separately presented from other items by virtue of their nature, size and/or incidence (considered for each operating segment). They are identified separately 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 reviews and reorganisation). Operating profit before 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 a credit of £4.4m in relation to the reversal of certain claim provisions in relation to prior disposals, following the conclusion of negotiation with the purchasers; a gain of £0.4m in relation to a prior acquisition for claims made against the vendor. These are offset by acquisition-related costs of £1.0m in relation to the acquisition of Jiangxi Hengzhu Electrical Cabinet Lock Co., Ltd ("Hengzhu"); £0.2m of costs in setting up the Filters China joint venture, and £0.2m related to costs incurred in pursuit of acquisition targets.

In 2020, there was a £0.3m gain relating to a VAT refund on the costs of a previous business disposal, £0.1m consisting of acquisition costs in relation to Innovative Components, £0.1m costs incurred in establishing the China JV and £1.2m costs incurred in acquiring 3C! Packaging, Inc. ("3C!"). The remaining £4.6m cost related to external professional costs associated with certain development activities during the year.

Notes continued

2. Net operating expense continued

2 Acquisition integration and restructuring costs are made up of £0.3m for the integration of the 3C! business, acquired in 2020, and £0.3m for the integration of Hengzhu into the existing business.

In 2020, £0.3m of costs were incurred in the integration of Nekicesa, acquired in 2019, and 3C!, acquired in 2020, into the existing business. The remaining £0.2m was incurred as a result of restructuring activities within the Filters division as a result of the integration of the newly established Filters China joint venture in the existing business.

3 In accordance with the revised accounting policy in relation to the customisation and configuration costs of software as a service ("SaaS") arrangements (see the note on accounting policies), costs of significant SaaS arrangements which, in the view of management, represents investment in upgrading the Group's technological capability, were expensed as adjusting items. In the current year, costs of £11.8m (2020: £10.4m) were attributable to major SaaS projects and relate primarily to the costs of implementing a new cloud-based enterprise resource planning ("ERP") system within the Group.

4 Other adjusting items in 2021 of £2.8m relate to:

- £3.2m of professional and advisory fees in relation to strategic reviews of the Group's Filters and Packaging businesses as announced in October and November 2021, in which the Group sets out the strategic goal of becoming a pure play global Components business in the future. The Board of Directors has decided to review the full range of strategic options for the Filters and Packaging businesses. It is anticipated that the strategic reviews are likely to conclude in the second quarter of 2022 at the earliest
- £0.9m of advisory costs in relation to a strategic review of the Group's operational structure and cost profile, and certain redundancies in enabling functions as part of the review
- £4.3m profit on disposal of Moorestown property following the restructuring activities in the Packaging division initiated in 2020
- £1.8m restructuring costs in the Packaging Division, involving management restructuring and redundancies at various European sites, offset by a credit from the release of a property provision in relation to prior year restructuring following a favourable outcome of negotiation
- £2.5m cost in relation to Filters restructuring, including rationalisation of the division's innovation and development centres in the US and the UK and restructuring activities to rationalise the Tear Tapes operations
- £1.3m net credit relating to Components restructuring, comprising £0.6m costs in relation to restructuring activities within the Components Europe and Americas businesses, offset by a £0.6m credit relating to the reversal of certain prior provisions, and a £1.3m credit relating to adjustments on the carrying value of lease right-of-use assets.

Other adjusting items in 2020 of £11.5m relate to:

- £7.6m costs relating to restructuring activities within the Packaging division. These relate to costs incurred in the re-evaluation of the divisional footprint, which resulted in the announced closure of manufacturing facilities in Portsmouth, UK, and Moorestown, USA, as well as additional workforce rationalisation costs
- £2.1m of cost in relation to restructuring activities within the Components Europe business following a review of the operational footprint of the region. This comprises £0.6m costs incurred in the transfer of manufacturing activities out of Åstorp, Sweden into Barcelona and £1.5m incurred on moving the warehousing capabilities of certain central northern European (Bergeijk in the Netherlands, Geretsried in Germany and Bratislava in Slovakia) into the newly established North European Distribution Hub in Nettetal, Germany
- £2.5m of cost in relation to restructuring activities within the Components Americas business following a review of the operational footprint of the region. The review has resulted in the announcement of closures of manufacturing sites in Schaumburg, Illinois, and Melbourne, Arkansas and the transfer of production to the Components site to Flippin, Arkansas, as well as the exit of three smaller warehousing and distribution express sites in Edison in New Jersey, Elgin in Illinois and Los Angeles in California
- £1.2m credit in relation to the review of the compliance of certain Group companies' export activities with US laws, as previously disclosed in the 2019 Annual Report. This comprises £0.2m of external advisory and consultancy costs, offset by a £1.4m release of excess provision held for potential penalties in relation to this activity as the Company does not anticipate any significant enforcement action
- £0.5m of external advisory costs in relation to a strategic review of the Group's operational structure and cost profile, following the significant structural changes in recent years.

The tax effect of the adjusting items is a credit of £1.2m (restated 2020: credit of £6.4m).

Notes continued

2. Net operating expense continued

Auditor's remuneration

	2021 £m	2020 £m
Audit of these financial statements	**0.2**	0.2
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries of the Company	**2.4**	2.0
Audit-related assurance services[1]	**0.1**	0.2
	2.7	2.4

1 These mainly relate to review of the half year financial statements. In addition, non-audit services primarily relating to statutory audit of local tax return required by law outside EU for which fees in the year total less than £0.05m (2020: less than £0.05m).

3. Net finance expense

	2021 £m	2020 £m
Finance income		
Bank deposits	**0.4**	0.8
Other finance income*	**2.2**	0.8
Net interest on pension scheme assets (note 18)	**0.2**	0.3
	2.8	1.9
Finance expense		
Interest on loans and overdrafts	**(11.3)**	(11.1)
Amortisation of bank facility fees	**(1.1)**	(0.7)
Other finance expense*	**(3.3)**	(2.4)
Net interest on pension scheme liabilities (note 18)	**(0.8)**	(1.0)
Interest on leases	**(2.8)**	(2.4)
	(19.3)	(17.6)
Net finance expense	**(16.5)**	(15.7)

* Included within Other finance income is £2.2m (2020: £0.4m) relating to exchange gains on cash, borrowings and leases. Included within Other finance expense is £3.1m (2020: £1.9m) relating to exchange losses on cash, borrowings and leases.

4. Income tax expense/credit

	2021 £m	(restated)* 2020 £m
Amounts recognised in the consolidated income statement		
Current tax	**2.7**	5.9
Prior years' tax	**0.7**	0.5
Deferred tax (note 16)	**2.5**	(9.2)
Prior years' deferred tax (note 16)	**(1.0)**	0.2
Income tax expense/(credit)	**4.9**	(2.6)
Amounts recognised in the consolidated statement of comprehensive income		
Tax (credit)/expense in respect of taxable foreign exchange taxable income/losses	**(0.4)**	0.5
Tax expense/(credit) on remeasurement of defined benefit pension schemes	**7.9**	(2.1)
Income tax expense/(credit)	**7.5**	(1.6)

Notes continued

4. Income tax expense/credit continued

Factors affecting income tax for the year

The tax charge for the year ended 31 December 2021 is lower than (2020: lower than) the standard rate of corporation tax in the UK of 19.0% (2020: 19.0%). The differences are explained below:

	2021 £m	(restated)* 2020 £m
Profit/(loss) before income tax	**33.2**	(4.1)
Tax at UK statutory rate of 19.0% (2020: 19.0%)	**6.3**	(0.8)
Effects of:		
Permanent disallowable items (including adjusting items)	**(8.3)**	(1.0)
Disposal of entities[1]	**1.6**	–
Overseas state and local tax	**(0.5)**	0.6
Unrecognised tax attributes utilised[2]	**1.0**	(0.8)
Adjustments in respect of prior years	**(0.3)**	0.7
Withholding tax (including on unremitted earnings)	**2.4**	2.9
Change in tax rates[3]	**(2.2)**	(1.6)
Difference between UK and overseas tax rates[4]	**(0.2)**	(2.2)
Reassessment of deferred tax recognition[5]	**6.1**	–
Other[6]	**(1.0)**	(0.4)
Income tax expense/(credit)	**4.9**	(2.6)

* See the note on accounting policies for further details of the prior year restatement.

Income tax expense in the UK is £2.5m (2020: £1.9m credit). The tax effect on adjusting items is disclosed in note 2.

1 This includes a £6.0m tax charge arising on an intra-group transfer of a subsidiary net of the release of an uncertain tax provision of £4.4m relating to a prior year disposal where the statute of limitations has now expired.

2 See further information regarding deferred tax asset recognition at note 16.

3 This reflects the impact of differences in substantively enacted, or enacted corporate tax rates, for future periods to those of the current period.

4 This reflects the impact of different tax rates in the jurisdictions in which Essentra operates by reference to the UK statutory rate. This impact may vary in future years due to changes in overseas tax rates or Essentra's geographical profit split.

5 This reflects the de-recognition of deferred tax assets (primarily on tax losses) due to changes in the year and latest forecasts which mean it is no longer probable that the related tax benefits will be realised.

6 Other includes £0.8m (2020: £0.4m) reflecting the difference between the UK statutory rate of 19% and the 25% enacted rate at which the deferred tax asset arising on the change in SaaS accounting policy is recognised (see note 16).

5. Personnel expense

	2021 £m	2020 £m
Wages and salaries	**251.6**	236.8
Social security expense	**25.5**	24.5
Pension expense (note 18)	**8.6**	9.3
Share option expense (note 18)	**0.8**	1.2
Total personnel expense	**286.5**	271.8

In addition to the above, the following items were included within adjusting items: personnel expenses totalling £9.6m (2020 restated: £4.9m); and a pension curtailment credit of £nil (2020: £0.4m). The average number of employees is disclosed in note 1. The Report of the Remuneration Committee on pages 118 to 133 sets out information on Directors' remuneration.

Key management remuneration

	2021 £m	2020 £m
Short-term employee benefits	**5.2**	3.4
Post-employment benefits	**0.6**	0.5
Share-based payments	**0.5**	1.1
Termination benefits	**0.3**	–
	6.6	5.0

Essentra considers key management personnel to be the Directors and the members of the Group Management Committee. The amounts disclosed are on the same basis as those used to determine the relevant amounts disclosed in the Annual Report on Remuneration.

Notes continued

6. Earnings per share

	2021 £m	(restated)* 2020 £m
Earnings		
Earnings attributable to equity holders of Essentra plc	**26.9**	(3.3)
Adjustments		
Amortisation of acquired intangible assets	**22.4**	22.6
Adjusting items	**11.8**	28.1
	34.2	50.7
Tax relief on adjustments	**(6.3)**	(11.5)
Adjusted earnings	**54.8**	35.9
Weighted average number of shares		
Basic weighted average ordinary shares outstanding (million)	**301.0**	272.7
Dilutive effect of employee share option plans (million)	**1.3**	2.0
Diluted weighted average ordinary shares (million)	**302.3**	274.7
Earnings per share (pence)		
Basic earnings per share	**8.9p**	(1.2)p
Adjustment	**9.3p**	14.4p
Adjusted basic earnings per share	**18.2p**	13.2p
Diluted earnings per share	**8.9p**	(1.2)p
Adjusted diluted earnings per share	**18.1p**	13.1p

* See the note on accounting policies for further details of the prior year restatement.

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.

Notes continued

7. Property, plant and equipment

	Land and buildings £m	Plant and machinery £m	Fixtures, fittings and equipment £m	Total £m
				2021
Cost				
Beginning of year	**84.8**	**387.2**	**78.4**	**550.4**
Acquisitions (note 23)	(0.5)	2.4	0.1	**2.0**
Additions	2.1	31.8	4.9	**38.8**
Disposals	(4.2)	(20.6)	(3.2)	**(28.0)**
Currency translation	(2.8)	(14.3)	(1.3)	**(18.4)**
End of year	**79.4**	**386.5**	**78.9**	**544.8**
Accumulated depreciation and impairment				
Beginning of year	**17.2**	**226.0**	**44.7**	**287.9**
Charge in period	3.2	25.3	8.1	**36.6**
Disposals	(0.8)	(19.2)	(3.2)	**(23.2)**
Impairment	0.2	0.5	–	**0.7**
Currency translation	(1.8)	(8.9)	(0.8)	**(11.5)**
End of year	**18.0**	**223.7**	**48.8**	**290.5**
Net book value at end of year	**61.4**	**162.8**	**30.1**	**254.3**

	Land and buildings £m	Plant and machinery £m	(restated)* Fixtures, fittings and equipment £m	(restated)* Total £m
				2020
Cost				
Beginning of year	81.9	384.8	76.3	543.0
Acquisitions	1.5	4.9	0.3	6.7
Additions	2.2	18.9	6.8	27.9
Disposals	(0.7)	(14.5)	(4.2)	(19.4)
Currency translation	(0.1)	(6.9)	(0.8)	(7.8)
End of year	84.8	387.2	78.4	550.4
Accumulated depreciation and impairment				
Beginning of year	13.4	215.4	40.7	269.5
Charge in period	3.7	25.5	8.1	37.3
Disposals	(0.5)	(14.2)	(4.1)	(18.8)
Impairment	0.2	1.7	0.1	2.0
Currency translation	0.4	(2.4)	(0.1)	(2.1)
End of year	17.2	226.0	44.7	287.9
Net book value at end of year	67.6	161.2	33.7	262.5

* See the note on accounting policies for further details of the prior year restatement.

Included within land and buildings, plant and machinery and fixtures, fittings and equipment are assets in the course of construction of £1.7m (2020 restated: £1.8m) which were not depreciated during the year.

Contractual commitments to purchase property, plant and equipment amounted to £0.4m at 31 December 2021 (2020: £1.4m).

Property, plant and equipment with a net book value of £1.1m (2020: £2.5m) was impaired by £1.1m (2020: £2.0m) to a recoverable amount of £nil (2020: £0.5m), which represented fair value less cost to sell. £0.8m (2020: £1.9m) of this impairment relates to restructuring projects and has been charged to adjusting items. Furthermore, £0.4m (2020: £nil) has been written back to a recoverable amount of £0.4m (2020: £nil) and this has been charged to adjusting items.

Notes continued

8. Intangible assets

	Goodwill £m	Customer relationships £m	Other intangible assets £m	Total £m
				2021
Cost				
Beginning of year	**356.0**	**424.4**	**23.1**	**803.5**
Acquisitions (note 23)	4.5	8.6	–	**13.1**
Additions	–	–	3.2	**3.2**
Currency translation	(5.6)	(9.8)	0.1	**(15.3)**
End of year	**354.9**	**423.2**	**26.4**	**804.5**
Amortisation and impairment				
Beginning of year	**27.8**	**264.3**	**9.0**	**301.1**
Charge for the year	–	22.2	2.8	**25.0**
Impairment	–	–	0.3	**0.3**
Currency translation	0.1	(5.6)	0.1	**(5.4)**
End of year	**27.9**	**280.9**	**12.2**	**321.0**
Net book value at end of year	**327.0**	**142.3**	**14.2**	**483.5**

	Goodwill £m	Customer relationships £m	(restated)* Other intangible assets £m	(restated)* Total £m
				2020
Cost				
Beginning of year	339.0	402.1	19.3	760.4
Acquisitions	20.9	25.4	–	46.3
Additions	–	–	3.7	3.7
Currency translation	(3.9)	(3.1)	0.1	(6.9)
End of year	356.0	424.4	23.1	803.5
Amortisation and impairment				
Beginning of year (restated)*	28.3	243.8	6.4	278.5
Charge for the year (restated)*	–	22.3	2.8	25.1
Currency translation	(0.5)	(1.8)	(0.2)	(2.5)
End of year	27.8	264.3	9.0	301.1
Net book value at end of year	328.2	160.1	14.1	502.4

* See accounting policies for further details of the prior year restatement.

Included within other intangible assets are assets in the course of construction of £0.9m (2020 restated: £1.1m) which were not amortised during the year.

Salary costs of £0.7m (2020: £1.1m) were capitalised as part of other intangible assets during the year.

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.

Notes continued

8. Intangible assets continued

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 adjusting items. Amortisation charged on other intangible assets is included within operating profit before amortisation of acquired intangibles and adjusting items.

The weighted average remaining useful lives of customer relationships and other intangible assets at the end of the year were 9.0 years and 5.2 years (2020: 8.1 years and 5.8 years) respectively.

Essentra tests intangible assets annually for impairment, or more frequently if there are indications of impairment. A discounted cash flow analysis is computed to compare the discounted estimated future operating cash flows to the net carrying value of the goodwill and other intangible and tangible assets for each cash generating unit or group of cash generating units as appropriate.

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

	Goodwill	
	2021 £m	2020 £m
Components	**96.8**	95.3
Packaging	**208.5**	211.2
Filters	**21.7**	21.7
	327.0	328.2

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

		Customer relationships and other intangible assets	
Business	Operating segment	**2021 £m**	2020 £m
Components – Businesses of former Moss and Skiffy	Components	**8.8**	10.3
Components – Businesses of former Richco	Components	**15.3**	18.4
Components – Business of former Mesan	Components	**1.4**	3.0
Components – Business of former Abric	Components	**6.7**	8.1
Components – Business of former Micro Plastics	Components	**3.7**	4.0
Components – Industrial Supply	Components	**1.6**	2.5
Components – Innovative Components	Components	**6.6**	7.2
Components – Hengzhu	Components	**8.8**	–
Components – e-Commerce development costs	Components	**6.3**	5.6
Components – other businesses	Components	**3.0**	3.9
Packaging – Americas	Packaging	**45.5**	50.3
Packaging – Asia	Packaging	**1.1**	1.3
Packaging – Europe	Packaging	**38.2**	49.0
Packaging – Nekicesa	Packaging	**3.7**	4.2
Filters	Filters	**1.3**	0.9
Not allocated to divisions – software and development costs	Central	**4.5**	5.5
		156.5	174.2

At 31 December 2021, management has performed an impairment review of the assets in each division. Following the impairment assessment, no impairment loss was recognised in 2021.

The impairment assessment for intangible assets (excluding goodwill) and property, plant and equipment is performed on the cash generating units within the divisions. The cash generating units are primarily the manufacturing sites. Goodwill is tested at the divisional level, which is the level that management monitors goodwill at. The recoverable amount is estimated on the basis of value in use, i.e. discounted cash flow projection expected to be generated by the group of cash generating units. For assets in the cash generating units assessed to be impaired, their fair value less costs to sell is also considered in determining the impairment loss to be recognised, if any. In these cases, the fair value less costs to sell is based on estimated market prices reflecting the age and condition of the asset.

Notes continued

8. Intangible assets continued

The impairment tests for goodwill and intangible assets are based on the Board approved business plan (the "Plan"). Cash flow projections are over five years using the approved annual budget for the first year and subsequent years based on the Group and Divisional Strategic Plan. The Group's impairment test incorporates the following assumptions:

- The key assumptions in the cash flow projections for the Plan are the revenue growth and operating margin for each division. Operating margin is primarily based on historical levels achieved, 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 5.3% to 8.5%. The average operating profit margin assumption for the next five years included within the Packaging division impairment assessment ranges from 6.9% to 10.9%. In respect of Components and Filters, the combined average operating profit margin over the five year forecast period is assumed to improve by 300 bps from 2021
- In relation to the test for the Components and Filters divisions, cash flows beyond the first year of the model are based on the approved annual budget with growth rates specific to each business applied to revenue of up to 5.8%
- 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 6.5% (2020: 7.3%). The specific pre-tax discount rates applied for each group of cash generating units to which significant goodwill is allocated are as follows: 7.8% for Packaging, 8.4% for Components and 7.7% for Filters (2020: 8.8% for Packaging, 9.4% for Components and 9.7% for Filters)
- 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 1.8% p.a. (2020: 1.5%) subsequently. The growth and profit margin assumptions are based on management's assessment of market condition and scope for cost and profitability improvement, taking into account realisable synergies following the recent integration and reorganisation activities. The operating profit assumptions include an estimate for the impact of the key risks but not the opportunities from climate change and includes costs and risks related to meeting environmental, social and governance targets.

The Packaging division impairment test has historically been the most sensitive to changes in assumptions, therefore management has performed additional sensitivity analysis to assess the robustness of the current headroom the recoverable amount has above the carrying amount. 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 600 basis points in the operating profit margin in the terminal year
- A reduction of 510 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 1.0% increase in discount rate would reduce headroom to £229.3m
- A 1.0% reduction in the terminal growth rate would reduce headroom to £251.2m
- A 1.5% reduction in each year's growth rate would reduce headroom to £337.5m
- A 2.0% reduction in operating profit margin in the terminal year would reduce headroom to £253.7m.

Notes continued

9. Lease right-of-use assets

				2021
	Land and buildings £m	**Plant and machinery £m**	**Fixtures, fittings and equipment £m**	**Total £m**
Cost				
Beginning of year	**102.0**	**13.9**	**0.4**	**116.3**
Additions, extensions and surrenders	8.2	1.8	–	**10.0**
Terminations	(6.3)	(1.7)	–	**(8.0)**
Acquisitions (note 23)	2.0	–	–	**2.0**
Currency translation	(5.4)	(0.6)	–	**(6.0)**
End of year	**100.5**	**13.4**	**0.4**	**114.3**
Accumulated depreciation				
Beginning of year	**57.7**	**5.7**	**0.2**	**63.6**
Charge for the year	9.0	2.9	0.1	**12.0**
Terminations	(6.0)	(1.3)	–	**(7.3)**
Impairment writeback	(1.1)	–	–	**(1.1)**
Currency translation	(3.0)	(0.3)	–	**(3.3)**
End of year	**56.6**	**7.0**	**0.3**	**63.9**
Net book value at end of year	**43.9**	**6.4**	**0.1**	**50.4**

				2020
	Land and buildings £m	Plant and machinery £m	Fixtures, fittings and equipment £m	Total £m
Cost				
Beginning of year	84.4	14.6	0.2	99.2
Additions, extensions and surrenders	19.5	2.2	0.2	21.9
Terminations	(2.5)	(2.9)	–	(5.4)
Acquisitions	2.5	–	–	2.5
Currency translation	(1.9)	–	–	(1.9)
End of year	102.0	13.9	0.4	116.3
Accumulated depreciation				
Beginning of year	50.2	5.5	0.1	55.8
Charge for the year	8.8	3.1	0.1	12.0
Terminations	(2.3)	(2.9)	–	(5.2)
Impairment	1.7	–	–	1.7
Currency translation	(0.7)	–	–	(0.7)
End of year	57.7	5.7	0.2	63.6
Net book value at end of year	44.3	8.2	0.2	52.7

During the year there was an impairment write back of £1.1m (2020: impairment of £1.7m). This £1.1m impairment write back is disclosed in adjusting items section of note 2. The assets were uplifted to their recoverable amount, which represented their fair value. Contractual commitments to lease property, plant and equipment amounted to £nil at 31 December 2021 (2020: £4.0m).

Notes continued

9. Lease right-of-use assets continued

The income statement shows the following amounts relating to leases:

	2021 £m	2020 £m
Lease right-of-use asset depreciation	**12.0**	12.0
Interest expense (included in finance cost)	**2.8**	2.4
Exchange losses (included in finance cost)	**2.5**	1.1
Expense relating to short-term leases (included in cost of goods sold and administrative expenses)	**0.2**	0.2
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in operating expenses)	**0.1**	0.1
	17.6	15.8

The lease expenses for short-term leases for the year ending 31 December 2022 is not expected to be materially different to the expense as disclosed above.

The maturity analysis on the lease liabilities have been included within note 19. The total cash outflow for leases and analysis of movements in lease liabilities are included within note 22.

For the year ended 31 December 2021 the weighted average lessee's incremental borrowing rate applied to the lease liabilities was 5.2% (2020: 5.1%).

10. Inventories

	2021 £m	2020 £m
Raw materials and consumables	**60.0**	44.5
Work-in-progress	**12.5**	10.7
Finished goods and goods held for resale	**56.2**	47.4
	128.7	102.6

Inventories with a total value of £0.1m (2020: £nil) were written down in the year. This relates to restructuring projects and has been charged to adjusting items.

11. Trade and other receivables

	2021 £m	2020 £m
Trade receivables	**144.8**	131.8
Trade receivables subject to factoring	**4.0**	–
Other receivables	**19.9**	15.3
Prepayments and accrued income	**6.5**	7.1
	175.2	154.2

Trade receivables subject to factoring are financial assets at fair value through other comprehensive income.

12. Cash and cash equivalents

	2021 £m	2020 £m
Bank balances	**123.9**	121.5
Short-term bank deposits and investments	**12.4**	14.3
Cash and cash equivalents	**136.3**	135.8

Included in cash and cash equivalents at 31 December 2021 were amounts totalling £12.6m (2020: £nil) subject to currency controls or other legal restrictions.

Notes continued

13. Trade and other payables

	2021 £m	2020 £m
Trade payables	**103.3**	88.3
Other tax and social security contributions	**13.2**	11.3
Other payables	**15.2**	13.7
Accruals and deferred income	**49.2**	44.3
	180.9	157.6

Included within other tax and social security contributions are non-current liabilities of £nil (2020: £2.2m).

14. Interest bearing loans and borrowings

	2021 £m	2020 £m
Non-current liabilities		
Unsecured bank loans	**55.6**	212.6
US Private Placement Loan Notes	**257.7**	72.6
	313.3	285.2

At 31 December 2021, the Group had £59.2m (2020: £154.0m), and €nil (2020: €67.0m) of unsecured bank loans drawn in sterling and euros at floating rates of interest set by reference to SONIA (2020: LIBOR). The Group adopted SONIA from 1 January 2021 following the adoption of the Interest Rate Benchmark Reform as detailed in the Accounting Policies. Essentra's $350.0m US Private Placement Loan Notes are at a weighted average interest rate of 4.02% per annum (2020: 4.44%).

In April 2020, a $80m USPP loan note matured, and a new USPP facility of $25m was drawn (for which the note purchase agreement was signed in December 2019), of which $15m matures in April 2027 and $10m in April 2030. In addition, $75m of USPP loan notes raised in prior years remain in place, which mature between November 2024 and November 2029. A further issue of $250m was agreed and drawn in July 2021 (of which $80m matures in July 2028, $85m in July 2031 and $85m in July 2033). The RCF was made up of two tranches, £285m and €100.8m. The maturity of £225m of the overall borrowing under the RCF was extended on 11 January 2021 for a further year to November 2023, with the balance remaining on the original terms with a maturity date of November 2022. In October 2021 the facility was renegotiated and at 31 December 2021 the available bank facilities totalled £275.0m, of which £59.2m was drawn with a maturity date of October 2026.

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

	2021		2020	
	Carrying value £m	**Nominal value £m**	Carrying value £m	Nominal value £m
Sterling	**55.6**	**59.2**	153.1	154.0
US dollar	**257.7**	**259.3**	72.6	73.0
Euro	**–**	**–**	59.5	59.8
	313.3	**318.5**	285.2	286.8

The difference between the total nominal and carrying value of loans and borrowings relates to the amortised value of prepaid facility fees of £5.2m (2020: £1.6m).

Notes continued

15. Derivatives

Essentra uses derivatives to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. In accordance with its Treasury policy, Essentra does not hold or issue derivatives for trading purposes.

	At 31 December 2021			At 31 December 2020		
	Fair values £m	Contractual or notional amounts £m	Change in fair value £m	Fair values £m	Contractual or notional amounts £m	Change in fair value £m
Current assets – Derivative assets						
Forward foreign exchange contracts designated in a cash flow hedge	**0.5**	**23.0**	**0.2**	0.3	17.4	(0.5)
	0.5	**23.0**	**0.2**	0.3	17.4	(0.5)
Non-current assets – Derivative assets						
Cross currency interest rate swaps designated in a cash flow hedge	**0.7**	**77.8**	**0.7**	–	–	–
	0.7	**77.8**	**0.7**	–	–	–
Current liabilities – Derivative liabilities						
Forward foreign exchange contracts designated in a cash flow hedge	**0.1**	**11.9**	**(0.4)**	0.5	12.3	0.2
	0.1	**11.9**	**(0.4)**	0.5	12.3	0.2
Non-current liabilities – Derivative liabilities						
Cross currency interest rate swaps designated in a cash flow hedge	**–**	**29.6**	**–**	–	–	–
	–	**29.6**	**–**	–	–	–

Cash flow hedges are hedges of the currency risk exposure to variability in cash flows. They relate to trading transactions and interest and principal payments denominated in foreign currencies.

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

The net fair value gains or losses on open forward foreign exchange contracts that hedge foreign currency risk of anticipated future sales, purchases and interest payments are accounted for as cash flow hedges. The fair value will be transferred to profit or loss when the forecast transactions occur. All of these hedged transactions are expected to occur over the next 12 months and all derivative instruments mature in the next 12 months.

In July 2021, Essentra entered into a number of cross currency interest rate swap contracts to hedge the foreign currency risk of $145m of its US Private Placement Loan Notes. The maturity profile of these match those of the underlying loan notes with $20m notional value maturing within three years and the remainder between five and seven years. These contracts are accounted for as cash flow hedges, with the impact of cross currency basis treated as a cost of hedging.

Movements in the Group's hedging reserves are analysed below.

	2021			2020		
	Cost of hedging reserve £m	Cash flow hedging reserve £m	Total hedging £m	Cost of hedging reserve £m	Cash flow hedging reserve £m	Total hedging £m
Balance at the beginning of the year	**–**	**(0.1)**	**(0.1)**	–	0.3	0.3
Change in fair value of forward foreign exchange contracts recognised in other comprehensive income		**0.2**	**0.2**		(0.4)	(0.4)
Change in fair value of cross currency swaps recognised in other comprehensive income	**0.9**	**(0.2)**	**0.7**			–
Ineffectiveness recognised in profit or loss (finance income)		**(0.5)**	**(0.5)**			–
Amounts recycled to finance expense to offset retranslation of hedged loans		**(1.8)**	**(1.8)**			–
Balance at the end of the year	**0.9**	**(2.4)**	**(1.5)**	–	(0.1)	(0.1)

Notes continued

15. Derivatives continued

The following movements were recognised for the purpose of calculating hedge ineffectiveness in the year:

	Movement in hedging instrument £m	Movement in hedged item £m	Ineffectiveness recognised in the consolidated income statement £m
Movement in period	0.7	(0.2)	0.5
Cumulative movement at 31 Dec 2021	0.7	(0.2)	0.5

Essentra had other US dollar and euro denominated borrowings which it designated as hedges of its net investments in subsidiary undertakings. The exchange losses of £2.8m (2020: losses of £1.2m) on these US dollar borrowings and the gains of £2.6m (2020: losses of £3.2m) on the euro borrowings were recognised in other comprehensive income.

16. Deferred tax

Deferred tax assets and liabilities are attributable to the following:

	2021				2020 (restated)			
	Assets £m	Liabilities £m	Net £m	Income statement: Charge/ (credit) £m	Assets £m	Liabilities £m	Net £m	Income statement: Charge/ (credit) £m
Property, plant and equipment[1]	(11.0)	13.2	2.2	1.9	(13.9)	13.2	(0.7)	(4.1)
Intangible assets[2]	–	39.9	39.9	(2.8)	–	43.5	43.5	(3.5)
Employee benefits[3]	(8.5)	8.5	–	1.5	(11.2)	2.4	(8.8)	0.4
Other[4]	(20.2)	11.8	(8.4)	0.9	(18.7)	9.6	(9.1)	(1.8)
Tax (assets)/liabilities	(39.7)	73.4	33.7	–	(43.8)	68.7	24.9	–
Set off of tax	28.1	(28.1)	–	–	23.2	(23.2)	–	–
Net tax (assets)/liabilities	(11.6)	45.3	33.7	–	(20.6)	45.5	24.9	–
Total income statement charge/(credit)	–	–	–	1.5	–	–	–	(9.0)

1 A deferred tax liability arises on property, plant and equipment as the tax value of assets is lower than the corresponding accounting value. This arises as tax deductions are determined by the applicable tax laws in each country the Group operates in whereas accounting depreciation is calculated in line with the Group's accounting policy.

2 A deferred tax liability is provided on temporary differences arising on the Group's intangible assets as in the majority of cases the local tax authorities do not allow deduction for amortisation of these intangible assets. The movement during the period is due to the acquisition of the Hengzhu business offset by reducing intangible asset value from the amortisation charge for the year.

3 This represents deferred tax on the Group's defined benefit pension schemes and share-based incentives.

4 This includes expenditure that will be deductible in future periods for tax purposes when the amounts are settled in cash, tax losses expected to be utilised in future periods and withholding tax on overseas earnings from Group companies expected to be remitted in the foreseeable future of £8.2m (2020: £8.5m).

Movements in the year:

	2021 Total Net £m	2020 (restated) Total Net £m
Beginning of the year	24.9	30.2
Charge/(credit) to the income statement in respect of current year	2.5	(9.2)
Charge to the income statement in respect of prior years	(1.0)	0.2
Credit to other comprehensive income	7.9	(2.1)
Credit to reserves on share-based incentives	(0.5)	(0.3)
Acquisitions and disposals	0.6	6.9
Currency translation	(0.7)	(0.8)
End of year	33.7	24.9

As at 31 December 2021 it was expected that earnings from certain overseas Group companies will be remitted and a deferred tax liability of £8.2m (2020: £8.5m) has been recognised accordingly. This represents withholding taxes payable on the remittance of these earnings under local tax laws. The amount of unrecognised deferred tax in respect of unremitted earnings is £13.3m (2020: £10.6m).

Notes continued

16. Deferred tax continued

Based on available information, management determined whether it is probable for some or all of the deferred tax assets to be recognised. In determining this management considered the cumulative losses in prior years, the history of tax losses, the manner in which assets can be used (including time limitations under local laws), future earnings potential and expectation of future reversal of taxable temporary differences. Following management assessment, gross deferred tax assets of £0.2m (2020: £0.2m) in respect of capital losses and unutilised tax losses of £46.5m (2020: £26.8m) have not been recognised as their realisation is not probable. The capital losses have an unlimited expiry date.

The income tax losses expire as follows: £6.5m within five years, £26.4m in five or more years and £13.6m with no expiry.

If future conditions change the amount of unrecognised deferred tax assets will be reassessed. This may impact the income tax expense in the year of remeasurement.

17. Provisions

			2021
	Reorganisation £m	**Other £m**	**Total £m**
Beginning of year	**5.2**	**8.3**	**13.5**
Provisions made during year	0.2	0.1	**0.3**
Provisions released during year	(0.2)	(5.2)	**(5.4)**
Utilised during year	(4.3)	(0.3)	**(4.6)**
Currency translation	–	(0.2)	**(0.2)**
End of year	**0.9**	**2.7**	**3.6**
Non-current	0.4	2.1	**2.5**
Current	0.5	0.6	**1.1**
End of year	**0.9**	**2.7**	**3.6**

			2020
	Reorganisation £m	Other £m	Total £m
Beginning of year	–	9.3	9.3
Business combinations	–	0.3	0.3
Provisions made during year	5.2	1.4	6.6
Provisions released during year	–	(1.7)	(1.7)
Utilised during year	–	(0.9)	(0.9)
Currency translation	–	(0.1)	(0.1)
End of year	5.2	8.3	13.5
Non-current	0.6	7.4	8.0
Current	4.6	0.9	5.5
End of year	5.2	8.3	13.5

Reorganisation provisions are generally held against restructuring and redundancy costs, primarily related to the integration of acquired businesses and restructuring associated with acquisitions and other businesses.

Other provisions relate primarily to non-lease contracts on vacant properties, lease dilapidations, employees' compensation claims, regulatory claims and other claims.

Non-current provisions are generally provisions for non-lease service contracts on vacant properties and lease dilapidations which are expected to be utilised within the next ten years. The timing of the utilisation of the lease dilapidations assumes the business continues to operate based on the most up to date business plan. The release of other provisions during the year relates mostly to claims and non-lease property-related provisions.

Notes continued

18. Employee benefits

Post-employment benefits

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

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

Pension costs of the defined benefit schemes are assessed in accordance with the advice of independent professionally qualified actuaries. Full triennial actuarial valuations were carried out on the principal European defined benefit schemes as at 5 April 2021 and annual actuarial valuations are performed on the principal US defined benefit schemes. The assets and liabilities of the defined benefit schemes have been updated to the balance sheet date from the most recently completed actuarial valuations taking account of the investment returns achieved by the schemes and the level of contributions.

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

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

	2021 £m	2020 £m
Amounts expensed against operating profit		
Defined contribution schemes	**6.9**	7.2
Defined benefit schemes – current service cost	**1.5**	1.6
Defined benefit schemes – curtailment gain	**(0.2)**	(0.4)
Other post-employment obligations	**0.4**	0.5
Total operating expense	**8.6**	8.9
Amounts included as finance (income)/expense		
Net interest on defined benefit scheme assets (note 3)	**(0.2)**	(0.3)
Net interest on defined benefit scheme liabilities (note 3)	**0.8**	1.0
Net finance expense	**0.6**	0.7
Amounts recognised in the consolidated statement of comprehensive income		
Return on defined benefit scheme assets excluding amounts in net finance income	**0.6**	(32.4)
Impact of changes in assumptions and experience to the present value of defined benefit scheme liabilities	**(29.1)**	39.1
Remeasurement of defined benefit schemes	**(28.5)**	6.7

Curtailment gain of £nil (2020: £0.4m) in relation to defined benefit schemes has been included within adjusting items (see note 2).

During 2015, the principal defined benefit pension schemes in the UK and the US were closed to future accrual. Following the closure of the Group's principal defined benefit pension schemes to future accruals, the schemes are funded by the Group's subsidiaries and employees are not required to make any further contribution. The funding of these schemes is based on separate actuarial valuations for funding purposes for which the assumptions may differ from those used in the valuation for IAS 19 purposes.

Notes continued

18. Employee benefits continued

The principal assumptions used by the independent qualified actuaries for the purposes of IAS 19 are as follows:

	2021		2020	
	Europe	**US**	Europe	US
Increase in salaries (pre-2010)[1]	**n/a**	**n/a**	n/a	n/a
Increase in salaries (post-2010)[1]	**n/a**	**n/a**	n/a	n/a
Increase in pensions[1]				
at RPI capped at 5%	**3.1%**	**n/a**	2.70%	n/a
at CPI capped at 5%	**2.7%**	**n/a**	2.20%	n/a
at CPI minimum 3%, capped at 5%	**3.3%**	**n/a**	3.10%	n/a
at CPI capped at 2.5%	**2.2%**	**n/a**	1.90%	n/a
Discount rate	**1.9%**	**2.8%**	1.30%	2.45%
Inflation rate – RPI	**3.2%**	**n/a**	2.70%	n/a
Inflation rate – CPI	**2.7%**	**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:

	2021		2020	
	Europe	**US**	Europe	US
Male retiring today at age 65	**22.0**	**20.5**	22.5	20.4
Female retiring today at age 65	**24.4**	**22.5**	24.3	22.4
Male retiring in 20 years at age 65	**23.2**	**22.0**	23.8	21.9
Female retiring in 20 years at age 65	**25.8**	**23.9**	25.7	23.8

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

The fair value of scheme assets, which are not intended to be realised in the short-term and may be subject to significant change before they are realised, and the present value of the pension scheme liabilities, which are derived from cash flow projections over long periods and are therefore inherently uncertain, are:

					2021
		Europe £m		**US £m**	**Total £m**
Equities	28%	68.6	62%	36.8	**105.4**
Bonds/LDI	71%	174.7	36%	21.3	**196.0**
Other	1%	2.8	2%	1.7	**4.5**
Fair value of scheme assets		246.1		59.8	**305.9**
Present value of scheme liabilities		(215.6)		(77.5)	**(293.1)**
Net retirement benefit assets/(obligations)		30.5		(17.7)	**12.8**

Notes continued

18. Employee benefits continued

					2020
		Europe £m		US £m	Total £m
Equities	26%	67.1	61%	33.4	100.5
Bonds/LDI	74%	189.8	38%	20.4	210.2
Other	–	0.6	1%	0.7	1.3
Fair value of scheme assets		257.5		54.5	312.0
Present value of scheme liabilities		(248.7)		(83.3)	(332.0)
Net retirement benefit assets/(obligations)		8.8		(28.8)	(20.0)

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

The pension surplus in Europe is not restricted as the asset is considered realisable on the basis of the Group's unconditional right to a refund.

The average expected duration of the Group's European defined benefit pension liability at 31 December 2021 is 18.0 years (2020: 19.0 years). The average expected duration of the Group's US defined benefit pension liability at 31 December 2021 is 12.1 years (2020: 12.7 years).

The Group's contributions to its defined benefit pension schemes are determined in consultation with trustees, taking into consideration actuarial advice, investment conditions and other local conditions and practices. The outcome of these consultations can impact the timing of future cash flows. In 2022, the Group expects to make defined benefit contributions of $2.3m to its US schemes and £nil in respect of the Group's European schemes.

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

				2021				2020
	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	**312.0**	**(332.0)**	**(3.9)**	**(23.9)**	287.8	(301.2)	(4.0)	(17.4)
Current service cost and administrative expense	**(1.5)**	**–**	**(0.3)**	**(1.8)**	(1.6)	–	(0.5)	(2.1)
Past service cost	**–**	**–**	**–**	**–**	–	–	–	–
Employer contributions	**6.3**	**0.1**	**–**	**6.4**	1.1	0.1	–	1.2
Return on plan assets excluding amounts in net finance income	**(0.6)**	**–**	**–**	**(0.6)**	32.4	–	–	32.4
Actuarial gain/(losses) arising from change in financial assumptions	**–**	**18.5**	**0.3**	**18.8**	–	(39.0)	0.2	(38.8)
Actuarial gains arising from change in demographic assumptions	**–**	**4.5**	**–**	**4.5**	–	1.9	–	1.9
Actuarial gains/(losses) arising from experience adjustment	**–**	**5.8**	**–**	**5.8**	–	(2.2)	–	(2.2)
Finance income/(expense)	**4.7**	**(5.1)**	**(0.2)**	**(0.6)**	6.4	(6.9)	(0.2)	(0.7)
Benefits paid	**(16.1)**	**16.1**	**–**	**–**	(12.0)	12.0	–	–
Curtailments	**–**	**–**	**0.2**	**0.2**	–	–	0.4	0.4
Currency translation	**1.1**	**(1.0)**	**0.1**	**0.2**	(2.1)	3.3	0.2	1.4
End of year	**305.9**	**(293.1)**	**(3.8)**	**9.0**	312.0	(332.0)	(3.9)	(23.9)

Included within the other category above are other post-employment obligations outside of Europe and the US which are required under local law.

Notes continued

18. Employee benefits continued

Sensitivity

For the significant assumptions used in determining defined benefit costs and liabilities, the following sensitivity analysis gives the estimate of the impact on the measurement of the scheme liabilities as at 31 December 2021.

	(Increase)/decrease in schemes' net liabilities		
	Europe £m	US £m	**Total £m**
0.5% decrease in the discount rate	(20.2)	(4.8)	**(25.0)**
1.0% increase in the rate of inflation	(15.7)	n/a	**(15.7)**
1.0% increase in rate of salary/pension increases	n/a	n/a	**n/a**
1 year increase in life expectancy	(9.4)	(0.3)	**(9.7)**
1 year decrease in life expectancy	9.4	0.3	**9.7**
0.5% increase in the discount rate	17.7	4.4	**22.1**
1.0% decrease in rate of salary/pension increases	n/a	n/a	**n/a**
1.0% decrease in the rate of inflation	15.3	n/a	**15.3**

Share-based incentives

Essentra operates equity-settled share-based incentive plans for its Executive Directors and employees. The total expense in respect of these plans during the year was £0.8m (2020: £1.2m). Details of these plans are set out below:

Share options outstanding

	2021											
	At 1 Jan 2021	**Weighted average exercise price**	**Granted during the year**	**Weighted average exercise price**	**Lapsed during the year**	**Weighted average exercise price**	**Exercised during the year**	**Weighted average exercise price**	**At 31 Dec 2021**	**Weighted average exercise price**	**Exercisable at 31 Dec 2021**	**Weighted average exercise price**
LTIP Part A	**113,980**	**607.8p**	–	–	(15,245)	339.8p	–	–	**98,735**	**649.1p**	**98,735**	**649.1p**
LTIP Part B	**4,176,820**	**–**	3,279,124	–	(2,068,570)	–	(16,522)	–	**5,370,852**	**–**	**38,199**	**–**
DASB	**629,662**	**–**	–	–	(16,543)	–	(196,127)	–	**416,992**	**–**	**–**	**–**
SAYE 3 year plan	**515,255**	**339.5p**	694,862	248.0p	(396,142)	331.9p	–	–	**813,975**	**265.7p**	**–**	**–**
SAYE 5 year plan	**141,726**	**349.0p**	193,408	248.0p	(107,563)	339.1p	–	–	**227,571**	**267.8p**	**–**	**–**
US SAYE 2 year plan	**32,994**	**338.2p**	37,561	266.5p	(20,244)	331.0p	(3,493)	324.5p	**46,818**	**284.8p**	**–**	**–**
	5,610,437		**4,204,955**		**(2,624,307)**		**(216,142)**		**6,974,943**		**136,934**	

	2020											
	At 1 Jan 2020	Weighted average exercise price	Granted during the year	Weighted average exercise price	Lapsed during the year	Weighted average exercise price	Exercised during the year	Weighted average exercise price	At 31 Dec 2020	Weighted average exercise price	Exercisable at 31 Dec 2020	Weighted average exercise price
LTIP Part A	379,197	453.9p	–	–	(228,071)	412.4p	(37,146)	236.9p	113,980	607.8p	113,980	607.8p
LTIP Part B	6,105,729	–	–	–	(1,791,808)	–	(137,101)	–	4,176,820	–	–	–
DASB	423,385	–	246,117	–	(8,542)	–	(31,298)	–	629,662	–	–	–
SAYE 3 year plan	851,995	357.7p	–	–	(336,740)	385.5p	–	–	515,255	339.5p	–	–
SAYE 5 year plan	186,821	357.7p	–	–	(45,095)	385.1p	–	–	141,726	349.0p	–	–
US SAYE 2 year plan	81,363	365.6p	–	–	(43,028)	377.9p	(5,341)	163.3p	32,994	338.2p	–	–
	8,028,490		246,117		(2,453,284)		(210,886)		5,610,437		113,980	

The exercise prices of options outstanding at the end of the year range from nil to 692p.

Notes continued

18. Employee benefits continued

The weighted average share price at the date of exercise for options exercised during the year was 293.5p (2020: 300.0p). The following table shows the weighted average fair value at the date of grant for options granted during the year:

	LTIP Part A	LTIP Part B	DASB	SAYE 3 year plan	SAYE 5 year Plan
Year ended 31 December 2021	**n/a**	**257.0p**	**n/a**	**68.7p**	**74.7p**
Year ended 31 December 2020	n/a	n/a	212.3p	n/a	n/a

Fair value model inputs for cumulative share options awarded

	2021				
	LTIP Part A	**LTIP Part B**	**DASB**	**SAYE 3 year plan**	**SAYE 5 year plan**
Weighted average fair value at grant	133.1p	273.6p	274.4p	75.7p	77.8p
Weighted average share price at grant	649.1p	337.1p	317.5p	319.0p	318.6p
Weighted average exercise price	649.1p	–	–	265.7p	278.7p
Weighted average volatility	27.2%	32.4%	34.6%	36.9%	40.1%
Weighted average dividend yield	1.88%	3.72%	3.97%	3.21%	3.02%
Weighted risk free rate	0.46%	0.24%	0.33%	0.31%	0.46%
Expected employee retention rates	86.0%	83.3%	100.0%	81.1%	82.0%
Expected term	3.00 years	3.00 years	3.00 years	3.20 years	5.19 years
Valuation model	Binomial	Monte Carlo	Binomial	Binomial	Binomial

	2020				
	LTIP Part A	LTIP Part B	DASB	SAYE 3 year plan	SAYE 5 year plan
Weighted average fair value at grant	127.5p	293.5p	301.4p	97.8p	83.8p
Weighted average share price at grant	607.8p	413.0p	348.7p	417.5p	428.6p
Weighted average exercise price	607.8p	–	–	339.5p	420.0p
Weighted average volatility	28.6%	32.9%	36.4%	40.2%	35.7%
Weighted average dividend yield	2.00%	5.06%	4.20%	4.98%	4.90%
Weighted risk free rate	0.54%	0.54%	0.49%	0.75%	0.83%
Expected employee retention rates	86.5%	90.9%	100.0%	85.8%	90.7%
Expected term	3.07 years	3.00 years	3.00 years	3.17 years	5.16 years
Valuation model	Binomial	Monte Carlo	Binomial	Binomial	Binomial

Where relevant, market conditions are taken into account in determining the fair value of the awards at grant date. The three year average historic volatility at grant date has been used as the volatility input for the LTIP Part A, LTIP Part B, DASB and SAYE 3 year awards, and the five year average historic volatility at grant date has been used as the volatility input for the SAYE 5 year award.

	2021 and 2020				
	LTIP Part A	**LTIP Part B**	**DASB**	**SAYE 3 year plan**	**SAYE 5 year plan**
Contractual life	3 – 10 years	3 – 6 years	3 years	3 years	5 years

Details of the vesting conditions of the LTIP Part A, LTIP Part B and DASB share option schemes are set out in the Report of the Remuneration Committee on pages 118 to 133.

Notes continued

19. Financial risk management

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

The Board has overall responsibility for Essentra's system of internal control and financial risk management and for reviewing the effectiveness of this system. Such a system can only be designed to mitigate, rather than eliminate, the risk of failure to achieve business objectives and can therefore only provide reasonable, and not absolute, assurance against material misstatement or loss.

Essentra has a centralised treasury function to manage funding, liquidity and exposure to interest rate and foreign exchange risk. Treasury policies are approved by the Board and cover the nature of the exposure to be hedged, the types of derivatives that may be employed and the criteria for investing and borrowing cash. Essentra uses derivatives only to manage currency and interest rate risk arising from underlying business activities. No transactions of a speculative nature are undertaken. The Treasury function is subject to periodic independent reviews by the Group Assurance function. Underlying policy assumptions and activities are reviewed by the Treasury Committee.

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

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

(i) Credit risk

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

Trade and other receivables

Essentra's exposure to credit risk is driven by the profile of its customers. This is influenced by the demographics of the customer base, including the industry and country in which customers operate.

Essentra monitors significant customers' credit limits and recognises an impairment of trade receivables in specific instances where a customer's credit standing has deteriorated to the extent that a credit default is considered probable. Following implementation of IFRS 9, Essentra also recognises an expected credit loss impairment of trade receivables through an accounting policy election, whereby default losses are expected for each receivables ageing category as follows: Current: 0.2%, Overdue 1-30 days: 0.5%, Overdue 31-60 days: 1%, Overdue 61-90 days: 5%, Overdue 91-180 days: 10%, Overdue 181-360 days: 50% and Overdue over 360 days: 100%.

Trade receivables were assessed for impairment using the expected credit loss model which requires expected credit losses and changes to expected credit losses at each reporting date to reflect changes in credit risk since initial recognition.

As at 31 December 2021, gross trade receivables were £151.4m (2020: £134.5m) of which £27.1m (2020: £25.3m) were past due. The ageing analysis of past due trade receivables is as follows:

	2021 £m	2020 £m
1–60 days	**21.6**	20.3
61–180 days	**3.2**	3.6
181–360 days	**0.6**	0.8
360+ days	**1.7**	0.6
	27.1	25.3

As at 31 December 2021, the combined specific and expected credit loss impairment of trade receivables was of £2.6m (2020: £2.7m). The analysis of the combined impairment based on the underlying receivables is as follows:

	2021 £m	2020 £m
Current	**0.4**	0.5
1–60 days	**–**	0.4
61–180 days	**0.1**	0.6
181–360 days	**0.4**	0.6
360+ days	**1.7**	0.6
	2.6	2.7

Notes continued

19. Financial risk management continued

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

	2021 £m	2020 £m
Beginning of year	**2.7**	5.3
Impaired receivables acquired/(disposed)	**(0.1)**	(0.3)
Impairment loss recognised	**0.3**	0.4
Utilisation	**(0.3)**	(2.7)
End of year	**2.6**	2.7

On a periodic basis the Group undertakes the sale of certain trade receivables to banks using facilities set up by its customers. These trade receivables are factored on a non-recourse basis and therefore are derecognised from the Group's balance sheet at the point of sale to the bank. The Group does not operate its own invoice discounting or factoring facilities. As at 31 December 2021, £19.9m was drawn under invoice discounting facilities (2020: £6.1m), representing cash collected before it was contractually due from the customer.

Derivative assets
Credit risk with respect to derivatives is controlled by limiting transactions to major banking counterparties where internationally agreed standard form documentation exists. The credit ratings of these counterparties are monitored regularly.

Cash and cash equivalents
Credit risk relating to cash and cash equivalents is monitored daily, on a counterparty by counterparty basis. The credit limits imposed specify the maximum amount of cash which can be invested in, or with, any single counterparty. These limits are determined by geographic presence, expertise and credit rating. Essentra monitors the credit ratings of counterparties.

The following credit risk table provides information regarding the credit risk exposure of Essentra by classifying derivative assets, short-term investments and cash and cash equivalents according to credit ratings of the counterparties. AAA is the highest possible rating and all of the assets are neither impaired nor past due.

							2021
	AAA £m	AA £m	A £m	BBB £m	BB £m	Not rated £m	Total £m
Current derivative assets	–	–	**0.5**	–	–	–	**0.5**
Non-current derivative assets	–	–	**0.7**	–	–	–	**0.7**
Cash and cash equivalents	**1.5**	**11.3**	**107.5**	**15.2**	–	**0.8**	**136.3**
	1.5	**11.3**	**108.7**	**15.2**	–	**0.8**	**137.5**

							2020
	AAA £m	AA £m	A £m	BBB £m	BB £m	Not rated £m	Total £m
Current derivative assets	–	–	0.3	–	–	–	0.3
Non-current derivative assets	–	–	–	–	–	–	–
Cash and cash equivalents	3.4	1.7	115.6	8.2	5.1	1.8	135.8
	3.4	1.7	115.9	8.2	5.1	1.8	136.1

Essentra's maximum credit risk exposure is £311.4m (2020: £287.9m) and no collateral is held against this amount (2020: £nil).

(ii) Market price risk
Market price risk is the risk that changes in foreign exchange rates and interest rates will affect income or the value of financial assets and liabilities. Essentra has produced a sensitivity analysis that shows the estimated change to the income statement and equity of a 1%, 5% or 10% weakening or strengthening in sterling against all other currencies or an increase or decrease of 50 basis points ("bps"), 100bps and 200bps in market interest rates. The amounts generated from the sensitivity analysis are estimates and actual results in the future may materially differ.

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

Notes continued

19. Financial risk management continued

a) Currency risk
Essentra publishes its consolidated financial statements in sterling but conducts business in several foreign currencies. Therefore it is subject to currency risk due to exchange rate movements which affect the translation of results and underlying net assets of its operations and their transaction costs.

Hedge of net investment in foreign operations
The majority of Essentra's net assets are in currencies other than sterling. The Company's normal policy is to limit the translation exposure and the resulting impact on shareholders' funds through measures such as borrowing in those currencies in which the Group has significant net assets. Essentra's US dollar denominated assets were approximately 53% (2020: 27%) hedged by $205m of US dollar denominated borrowings. Essentra's euro loan was repaid in the year and so the euro denominated assets were no longer hedged by any euro denominated borrowings (2020: 32%).

Transaction exposure hedging
Essentra does not formally define the proportion of highly probable forecast sales and purchases to hedge, but agrees an appropriate percentage on an individual basis with each business by reference to the Group's risk management policies and prevailing market conditions. The Group documents currency derivatives used to hedge its forecast transactions as cash flow hedges. To the extent that cash flow hedges are effective, gains and losses are recognised in other comprehensive income until the forecast transaction occurs, at which point the gains and losses are transferred either to the income statement or to the non-financial asset acquired.

The 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.

Hedging of foreign currency loan principal and interest payments
In July 2021, Essentra entered into a number of cross currency interest rate swap contracts to hedge the foreign currency risk (principal and interest) of $145m of its US dollar loan notes. The maturity profile of these match those of the underlying instruments with $20m notional value maturing within three years and the remainder between five and seven years.

The following table shows Essentra's sensitivity to a 1%, 5% and 10% weakening or strengthening in sterling against all currencies. To calculate the impact on the income statement for the year all currencies' average rates have been increased or decreased by 1%, 5% or 10%. The translational effect on equity is limited as a proportion of US dollar and euro exposure is hedged. Accordingly the effect on equity is calculated by increasing or decreasing the closing rate of all currencies with an adjustment for the movement in currency hedges. It is assumed that all net investment and cash flow hedges will continue to be 100% effective. The sensitivity on profit before tax is calculated by increasing or decreasing the average rate of all currencies.

						2021
	Weakening in sterling			**Strengthening in sterling**		
	10% £m	**5% £m**	**1% £m**	**10% £m**	**5% £m**	**1% £m**
Impact on the profit before tax – gain/(loss)	**1.8**	**0.8**	**0.2**	**(1.4)**	**(0.8)**	**(0.2)**
Impact on equity – gain/(loss)	**65.5**	**31.0**	**6.0**	**(53.6)**	**(28.1)**	**(5.8)**

						2020
	Weakening in sterling			Strengthening in sterling		
	10% £m	5% £m	1% £m	10% £m	5% £m	1% £m
Impact on the profit before tax – gain/(loss)	0.3	0.1	–	(0.2)	(0.1)	–
Impact on equity – gain/(loss)	66.3	31.4	6.0	(54.2)	(28.4)	(5.9)

A 1 cent change to the US dollar rate against sterling will impact the adjusted operating profit by £0.2m (2020: £0.2m). A 1 cent change to the euro rate against sterling will impact the adjusted operating profit by £0.3m (2020: £0.3m).

Notes continued

19. Financial risk management continued

b) Interest rate risk

Essentra's strategy is to ensure that at least 30% of the total debt with maturities of more than one year is protected with fixed interest rates or approved interest rate derivatives.

The following table shows Essentra's sensitivity to a 50bps, 100bps and 200bps decrease or increase in sterling, US dollar and euro interest rates. To calculate the impact on the income statement for the year, the interest rates on all external floating rate interest bearing loans and borrowings have been increased or decreased by 50bps, 100bps or 200bps and the resulting increase or decrease in the net interest charge has been adjusted for the effect of Essentra's interest rate derivatives.

						2021
	Decrease in interest rates			Increase in interest rates		
	200bps £m	100bps £m	50bps £m	200bps £m	100bps £m	50bps £m
Impact on the income statement – gain/(loss)	**2.9**	**1.5**	**0.7**	**(2.9)**	**(1.5)**	**(0.7)**

						2020
	Decrease in interest rates			Increase in interest rates		
	200bps £m	100bps £m	50bps £m	200bps £m	100bps £m	50bps £m
Impact on the income statement – gain/(loss)	5.1	2.6	1.3	(5.1)	(2.6)	(1.3)

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

(iii) Liquidity risk

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

Essentra's objective is to maintain a balance between continuity of funding and flexibility. Essentra is primarily funded by a series of US Private Placement Loan Notes from various financial institutions totalling $250m and syndicated multi-currency five-year revolving credit facilities of £275.0m from its banks. The series of Loan Notes have original maturities ranging from seven to 12 years. In April 2020, a $80m USPP loan note matured, and a new USPP facility of $25m was drawn (for which the note purchase agreement was signed in December 2019), of which $15m matures in April 2027 and $10m in April 2030. In addition, $75m of USPP loan notes raised in prior years remain in place, which mature between November 2024 and November 2029. A further issue of $250m was agreed and drawn in July 2021 (of which $80m matures in July 2028, $85m in July 2031 and $85m in July 2033). The RCF was made up of two tranches, £285m and €100.8m. The maturity of £225m of the overall borrowing under the RCF was extended on 11 January 2021 for a further year to November 2023, with the balance remaining on the original terms with a maturity date of November 2022. In October 2021 the facility was renegotiated and at 31 December 2021 the available bank facilities totalled £275.0m, of which £59.2m was drawn with a maturity date of October 2026.

Amounts drawn by Essentra on its committed facilities are subject to standard banking covenants. The financial covenants require the net debt to EBITDA ratio to be less than 3.0x and interest cover to be greater than 3.5x. There has been no covenant breach during the period.

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

	2021 £m	2020 £m
Expiring before two years	**–**	161.2
Expiring after two years	**215.8**	–

Any loans drawn on these facilities would bear interest at floating rates with reference to SONIA for the currency and period of the loan.

Notes continued

19. Financial risk management continued

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

2021	Fair value £m	Carrying amount £m	Contractual cash flows £m	<1 yr £m	1-2 yrs £m	2-5 yrs £m	>5 yrs £m
Unsecured bank loans	**59.2**	**55.6**	**64.6**	**1.1**	**1.1**	**62.4**	**–**
US Private Placement Loan Notes	**270.5**	**257.7**	**349.1**	**10.4**	**10.4**	**44.7**	**283.6**
Derivative liabilities	**0.1**	**0.1**	**0.1**	**0.1**	**–**	**–**	**–**
Trade and other payables	**167.7**	**167.7**	**167.7**	**167.7**	**–**	**–**	**–**
Lease liabilities	**57.7**	**57.7**	**68.1**	**14.3**	**12.2**	**24.4**	**17.2**
Other unsecured loans	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Deferred consideration	**5.6**	**5.6**	**5.6**	**–**	**5.6**	**–**	**–**
	560.8	**544.4**	**655.2**	**193.6**	**29.3**	**131.5**	**300.8**

2020	Fair value £m	Carrying amount £m	Contractual cash flows £m	<1 yr £m	1-2 yrs £m	2-5 yrs £m	>5 yrs £m
Unsecured bank loans	213.8	212.6	219.9	3.2	216.7	–	–
US Private Placement Loan Notes	78.5	72.6	95.9	3.2	3.2	23.7	65.8
Derivative liabilities	0.5	0.5	0.5	0.5	–	–	–
Trade and other payables	143.1	143.1	143.1	143.1	–	–	–
Lease liabilities	61.0	61.0	73.1	14.5	11.7	24.2	22.7
Other unsecured loans	–	–	–	–	–	–	–
Deferred consideration	4.4	4.4	4.4	3.2	–	1.2	–
	501.3	494.2	536.9	167.7	231.6	49.1	88.5

Total trade and other payables carried at £180.9m (2020: £157.6m) including other taxes and social security contributions of £13.2m (2020: £11.3m) which are not financial liabilities and are therefore excluded from the above analysis. All trade and other payables are due to be settled in less than six months.

The value of deferred consideration is primarily based on the post-acquisition financial performance of the acquired business, and reflects management's expectation of the performance during the earn-out period.

The fair value of the unsecured bank loans is the same as the carrying amount as the loans are at floating rate, except for unamortised facility fees. The fair value of the US Private Placement Loan Notes is estimated by discounting the future cash flows (interests and principal) at the prevailing market rates. The fair value of the trade and other payables approximate the carrying amount as they are due to be settled within six months.

Notes continued

19. Financial risk management continued

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

	2021			2020		
	Fair value £m	**Amortised cost £m**	**Total carrying value £m**	Fair value £m	Amortised cost £m	Total carrying value £m
Trade and other receivables (except those subject to factoring)	–	169.9	**169.9**	–	151.8	151.8
Cash and cash equivalents	–	136.3	**136.3**	–	135.8	135.8
Other financial assets	–	–	**–**	–	–	–
Interest bearing loans and borrowings	–	(313.3)	**(313.3)**	–	(285.2)	(285.2)
Lease liabilities	–	(57.7)	**(57.7)**	–	(61.0)	(61.0)
Trade and other payables	–	(167.7)	**(167.7)**	–	(143.1)	(143.1)
Level 2 of fair value hierarchy						
Derivative assets	1.2	–	**1.2**	0.3	–	0.3
Derivative liabilities	(0.1)	–	**(0.1)**	(0.5)	–	(0.5)
Level 3 of fair value hierarchy						
Trade receivables subject to factoring	4.0	–	**4.0**	–	–	–
Trade and other payables	–	–	**–**	(3.2)	–	(3.2)
Other non-current financial liabilities	(5.6)	–	**(5.6)**	(1.2)	–	(1.2)
	(0.5)	**(232.5)**	**(233.0)**	(4.6)	(201.7)	(206.3)

Total trade and other receivables carried at £175.2m (2020: £154.2m) include prepayments of £6.5m (2020: £7.1m) 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. Trade receivables subject to factoring are measured at fair value through other comprehensive income. Their fair value is determined based on management's expectation of recoverable amount, taking into account expected credit losses and, if material, time value of money.

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 £5.6m relating to the acquisitions of Micro Plastics and Hengzhu (2020: £4.4m). The value of deferred consideration is primarily based on the post-acquisition financial performance of the acquired business, and reflects management's expectation of the performance during the earn out period.

During the year, no fair value gain or loss (2020: £nil) was recognised in respect of financial instruments at level 3 fair value hierarchy, and £nil (2020: £nil) was settled in cash. No other fair value gains or losses were recorded in profit or loss and other comprehensive income. There are no non-recurring fair value measurements.

Included within interest bearing loans and borrowings are $350m (2020: $100m) US Private Placement Loan Notes. The Loan Notes are held at amortised cost with a carrying value of £257.7m (2020: £72.6m). The Group estimates that the total fair value of the Loan Notes at 31 December 2021 is £270.5m (2020: £78.5m).

All other financial assets are held at amortised cost and mostly have short terms to maturity. For this reason, their carrying amounts at the reporting date approximate the fair values. Unsecured bank loans, included within interest bearing loans and borrowings, incur interest at floating rates and as a result their carrying amounts also approximate their fair values at the reporting date.

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

	Gross amount of recognised financial assets £m	**Gross amount of recognised financial liabilities set off in the balance sheet £m**	**Net amount of financial assets presented in the balance sheet £m**
Cash and cash equivalents:			
At 31 December 2021	**137.7**	**(1.4)**	**136.3**
At 31 December 2020	139.5	(3.7)	135.8

Notes continued

19. Financial risk management continued

(iv) Capital structure

Essentra defines its capital structure as its equity and non-current interest bearing loans and borrowings, and aims to manage this to safeguard its ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits for other stakeholders.

Essentra sets the amount of capital in proportion to risk. Essentra manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, Essentra may return capital to shareholders through dividends and share buybacks, issue new shares or sell assets to reduce debt.

Essentra monitors its capital structure on the basis of the medium-term net debt-to-EBITDA ratio. EBITDA is defined as operating profit before depreciation and other amounts written off property, plant and equipment, share option expense, intangible amortisation and adjusting items.

The net debt-to-EBITDA ratios at 31 December were as follows.

	Note	**2021 £m**	(restated) 2020 £m
Net debt	22	**234.7**	210.4
Operating profit before intangible amortisation and adjusting items	27	**83.9**	62.3
Plus depreciation and other amounts written off property, plant and equipment, and amortisation of non-acquired intangible assets		**51.2**	51.8
Plus share option expense	18	**0.8**	1.2
EBITDA		**135.9**	115.3
Net debt-to-EBITDA ratio		**1.7**	1.8
Net debt-to-EBITDA ratio excluding the impact of IFRS 16		**1.5**	1.5

20. Issued share capital

	2021 £m	2020 £m
Issued, authorised and fully paid ordinary shares of 25p (2020: 25p) each	**75.6**	75.6
Number of ordinary shares in issue		
Beginning of year	**302,590,708**	264,129,170
Issue of shares during the year	**–**	38,461,538
End of year	**302,590,708**	302,590,708

The issue of share capital during 2020 was in relation to a placement offering of 38,461,538 new shares with par value of 25p issued at 260p per share.

At 31 December 2021, the Company held 905,157 (2020: 908,650) of its own shares with a nominal value of £0.2m (2020: £0.2m) in treasury. This represents 0.3% (2020: 0.3%) of the number of ordinary shares in issue.

Notes continued

21. Reserves

Within retained earnings the Company has deducted the value of own shares purchased for an employee trust and treasury shares held by the Company with a total cost of £7.3m (2020: £9.0m).

Employee trust shares are ordinary shares of the Company held in an employee benefit trust. The purpose of this trust is to hold shares in the Company for subsequent transfer to Executive Directors and employees relating to deferred share awards and options granted under the Company's share-based incentive plans. Full details are set out in the Annual Report on Remuneration on pages 118 to 133. The assets, liabilities and expenditure of the trust have been incorporated in these financial statements. At 31 December 2021, the trust held 645,507 (2020: 864,912) shares, upon which dividends have been waived, with an aggregate nominal value of £0.2m (2020: £0.2m) and market value of £2.2m (2020: £2.6m).

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

In 2020, the Company raised £96.7m through an issue of share capital. An amount of £87.1m was recognised with the merger relief reserve, being the excess of net proceeds over the nominal value of shares issued under s612 of the Companies Act 2006.

22. Analysis of net debt

	1 Jan 2021 £m	Cash flow £m	Business combinations £m	Lease additions £m	Exchange movements £m	Non-cash movements £m	31 Dec 2021 £m
Cash at bank and in hand	121.5	4.2	–	–	(1.8)	–	**123.9**
Short-term deposits and investments	14.3	(1.7)	–	–	(0.2)	–	**12.4**
Cash and cash equivalents in the statement of cash flows	135.8	2.5	–	–	(2.0)	–	**136.3**
Debt due after one year	(285.2)	(24.5)	–	–	(2.5)	(1.1)	**(313.3)**
Lease liabilities due within one year	(11.9)	15.6	(0.3)	(2.0)	0.3	(13.3)	**(11.6)**
Lease liabilities due after one year	(49.1)	–	(1.7)	(8.0)	1.2	11.5	**(46.1)**
Debt from financing activities	(346.2)	(8.9)	(2.0)	(10.0)	(1.0)	(2.9)	**(371.0)**
Net debt	(210.4)	(6.4)	(2.0)	(10.0)	(3.0)	(2.9)	**(234.7)**

The non-cash movements in debt due after one year represent the amortisation of prepaid facility fees £1.1m. The net non-cash movement in lease liabilities represents lease liability surrender of £1.0m due to renegotiated lease terms, offset by interest on leases £2.8m. The net cash outflow relating to lease liabilities for low value, short-term and variable lease payments was £0.3m (see note 9). During the year £10.5m of lease liabilities moved from due after one year to due within one year.

	1 Jan 2020 £m	Cash flow £m	Business combinations £m	Lease additions £m	Exchange movements £m	Non-cash movements £m	31 Dec 2020 £m
Cash at bank and in hand	62.6	57.7	0.7	–	0.5	–	121.5
Short-term deposits and investments	7.8	6.9	–	–	(0.4)	–	14.3
Cash and cash equivalents in the statement of cash flows	70.4	64.6	0.7	–	0.1	–	135.8
Debt due within one year	(60.7)	68.1	(4.1)	–	(3.3)	–	–
Debt due after one year	(249.0)	(34.0)	–	–	(1.2)	(1.0)	(285.2)
Lease liabilities due within one year	(11.4)	14.3	(0.2)	(2.6)	–	(12.0)	(11.9)
Lease liabilities due after one year	(39.3)	–	(2.3)	(19.3)	–	11.8	(49.1)
Debt from financing activities	(360.4)	48.4	(6.6)	(21.9)	(4.5)	(1.2)	(346.2)
Other financial assets	5.6	(5.6)	–	–	–	–	–
Net debt	(284.4)	107.4	(5.9)	(21.9)	(4.4)	(1.2)	(210.4)

The non-cash movements in debt due after one year represent the amortisation of prepaid facility fees £0.7m. The net non-cash movement in lease liabilities represents lease liability reduction of £2.2m due to renegotiated lease terms, offset by interest on leases £2.4m. The net cash outflow relating to lease liabilities for low value, short-term and variable lease payments was £0.3m (see note 9). During the year £9.6m of lease liabilities moved from due after one year to due within one year.

Included within other financial assets at 1 January 2020 was £5.0m of loan receivables arising from the disposal of Porous Technologies and £0.6m of short-term liquid investments.

Notes continued

23. Acquisitions and disposals

Acquisition of 3C!
On 17 September 2020, Essentra acquired 100% of the share capital of 3C! Packaging, Inc. ("3C!"). 3C!, headquartered in North Carolina, USA, is a leading designer and manufacturer of folding cartons, printed literature, foil and flexible packaging and labels focused on the pharmaceuticals and healthcare sectors. 3C! is reported under the Packaging division.

During 2021, Essentra reassessed the fair value adjustments and made changes to the carrying amount of certain property, plant and equipment and deferred tax balances. The net impact on goodwill is an increase of £0.6m.

In addition, during 2021 Essentra paid out the remaining deferred consideration on the acquisition amounting to £0.1m.

Establishment of joint venture China Tobacco Essentra (Xiamen) Filters Co., Ltd.
On 2 April 2020 Essentra plc confirmed that it has completed the establishment of the new joint venture company, China Tobacco Essentra (Xiamen) Filters Co., Ltd. Essentra's capital contribution into this business is $10.3m, to be paid in three equal instalments over 18 months following its establishment. As at 31 December 2021, Essentra has paid all three of these instalments. During 2021, proceeds from capital contributions from non-controlling interests into this joint venture company were £3.1m.

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"). During 2021, Essentra paid out the remaining deferred consideration relating to the acquisition of Innovative Components, amounting to £1.8m.

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 2021, £1.2m of deferred consideration was paid out to the vendor, with the remainder to be paid in the future.

Acquisition of Hengzhu
On 2 August 2021, Essentra acquired the majority of the share capital of Jiangxi Hengzhu Electrical Cabinet Lock Co., Ltd ("Hengzhu"), an access hardware manufacturer and distributor in China. Essentra initially acquired 73% of the business for ¥103m (approximately £11.8m), with the remaining 27% stake subject to put and call options whereby Essentra may acquire the minority shareholding for consideration determined by the future operating performance of the business to 31 December 2022 and capped at a maximum of ¥37.5m (approximately £4.2m) and are exercisable 18 months after the acquisition. The capped consideration has not changed since acquisition. The remaining 27% stake does not confer any shareholder right (including voting right, entitlement to dividends and right to transfer to other parties) to the vendor shareholder. Therefore it is concluded that the amount payable under the put option in substance represents deferred consideration and is accounted for as a financial liability. No non-controlling interest is recognised in respect of this acquisition.

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 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 2021, the contribution to the Group's revenue and operating profit would have been £17.4m and £0.7m higher respectively. Included within the consolidated accounts are £7.2m of revenue and £nil of operating profit from Hengzhu since acquisition.

Included within adjusting items in the consolidated income statement are £1.3m of costs incurred in acquiring the business.

Notes continued

23. Acquisitions and disposals continued

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

	Hengzhu £m
Intangible assets	**8.6**
Property, plant and equipment	**2.2**
Lease right-of-use asset	**2.0**
Inventories	**2.2**
Trade and other receivables	**0.2**
Trade and other payables	**(1.4)**
Lease liabilities	**(2.0)**
	11.8
Goodwill	**3.9**
Consideration	**15.7**
Satisfied by:	
Cash consideration	**11.5**
Deferred consideration	**4.2**
Cash consideration	**11.5**
Cash outflow in respect of the acquisition	**11.5**

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

24. Dividends

	Per share		Total	
	2021 p	2020 p	**2021 £m**	2020 £m
2020 final: paid 1 June 2021		3.3		10.0
2021 interim: paid 29 October 2021	**2.0**		**6.0**	
2021 proposed final: payable 1 June 2022	**4.0**		**12.1**	

25. Related parties

Other than the compensation of key management (note 5) and the capital injection into the Filters joint venture entity China Tobacco Essentra (Xiamen) Filters Co., Ltd. (note 23), 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 2021 the entity had gross assets of £27.6m (2020: £24.3m) and gross liabilities of £9.9m (2020: £7.4m). Operating profit for the year amounted to £5.0m (2020: £4.8m) and movement in cash for the year amounted to £0.8m (2020: £1.7m).

China Tobacco Essentra (Xiamen) Filters Co., Ltd is 49% 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 2021 the entity had gross assets of £20.3m (2020: £9.9m) and gross liabilities of £5.4m (2020: £nil). Operating loss for the year amounted to £0.8m (2020: £0.1m) and movement in cash for the year amounted to £0.2m (2020: £9.9m).

For the Group's policy on the basis of consolidation, see note b within Accounting Policies.

26. Parent company

Essentra plc is a limited company incorporated and domiciled in the United Kingdom. It operates as the ultimate parent company of the Essentra Group. Its registered office is Langford Locks, Kidlington, Oxford, OX5 1HX, United Kingdom. The principal subsidiary undertakings of Essentra plc are listed in note 10 to the Essentra plc Company Financial Statements.

Notes continued

27. Adjusted measures

Management reviews the adjusted operating profit and operating cash flow as measures of the performance of the business. Adjusted operating profit is stated before amortisation of acquired intangible assets and adjusting items which are considered not relevant to measuring the underlying performance of the business.

	Note	2021 £m	(restated)* 2020 £m
Operating profit		**49.7**	11.6
Amortisation of acquired intangible assets		**22.4**	22.6
Adjusting items	2	**11.8**	28.1
Adjusted operating profit		**83.9**	62.3
Finance income	3	**2.8**	1.9
Finance expenses	3	**(19.3)**	(17.6)
Adjusted profit before income tax		**67.4**	46.6
Tax on adjusted profit		**(11.2)**	(8.9)
Adjusted profit		**56.2**	37.7
Attributable to:			
Equity holders of Essentra plc		**54.8**	35.9
Non-controlling interests		**1.4**	1.8
Adjusted profit		**56.2**	37.7
Basic adjusted earnings per share	6	**18.2p**	13.2p
Diluted adjusted earnings per share	6	**18.1p**	13.1p

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

	2021 £m	(restated)* 2020 £m
Adjusted operating profit	**83.9**	62.3
Depreciation of property, plant and equipment	**36.6**	37.3
Lease right-of-use asset depreciation	**12.0**	12.0
Amortisation of non-acquired intangible assets	**2.6**	2.5
Share option expense	**0.8**	1.2
Other non-cash items[1]	**(0.2)**	(0.6)
Working capital movements	**(29.9)**	6.2
Net capital expenditure[2]	**(41.3)**	(34.2)
Adjusted operating cash flow	**64.5**	86.7
Reconciliation of cash flows from adjusting items:		
Adjusting items as shown on income statement	**11.8**	28.1
Non-cash credit/(charge) in adjusting items	**6.6**	(9.8)
Cash outflow on adjusting items recognised in the year	**18.4**	18.3
Utilisation of prior period and acquired accruals and provisions	**7.2**	3.0
Cash outflow from adjusting items	**25.6**	21.3

1 Other non-cash items comprise impairment of fixed assets £0.5m (2020: £0.1m), outflow from hedging activities and other movements £0.5m (2020: inflow of £1.3m), less movement in provisions £0.2m (2020: £nil) and profit on lease termination £nil (2020: £2.0m).

2 Net capital expenditure within adjusted operating cash flow excludes £8.5m (2020: £nil) of property, plant and equipment disposal proceeds realised during site closures which relate to adjusting items.

For further information on alternative performance measures applied by the Group refer to pages 43 and 44.

28. Post balance sheet events

The Group has assessed the impact of the current conflict between Russia and Ukraine. Essentra has no significant operations or infrastructure in Russia or Ukraine and no employees in either country. Sales to these markets are around 2% of total revenue. All sales to Russia have been suspended and will continue to be suspended until further notice. Essentra has made a donation of £100,000 to the Disasters Emergency Committee ("DEC") Ukraine Appeal.

Essentra plc Company Balance Sheet

At 31 December 2021

	Note	2021 £m	2020 £m
Fixed assets			
Investment in subsidiary undertaking	2,10	**466.6**	465.8
Current assets			
Debtors	3	**498.3**	325.7
Current liabilities			
Creditors: amounts falling due within one year	4	**(3.5)**	(0.2)
Net current assets		**494.8**	325.5
Non-current liabilities			
Creditors: amounts falling due after more than one year	5,6	**(257.7)**	(72.6)
Net assets		**703.7**	718.7
Capital and reserves			
Issued share capital	7	**75.6**	75.6
Merger relief reserve		**385.2**	385.2
Capital redemption reserve		**0.1**	0.1
Profit and loss account	8	**242.8**	257.8
Shareholders' funds: equity interests		**703.7**	718.7

The profit attributable to the equity holders included in the accounts of the Company is £0.2m (2020: £0.7m).

The Company Financial Statements on pages 193 to 204 were approved by the Board of Directors on 18 March 2022 and were signed on its behalf by:

Paul Forman
Chief Executive

Lily Liu
Chief Financial Officer

Essentra plc Company Statement of Changes in Equity

For the year ended 31 December 2021

	Issued share capital £m	Merger relief reserve £m	Capital redemption reserve £m	Profit and loss account: Retained earnings £m	Profit and loss account: Own shares £m	Total equity £m
1 January 2021	75.6	385.2	0.1	266.8	(9.0)	**718.7**
Profit for the year				0.2		**0.2**
Total comprehensive income for the year	–	–	–	0.2	–	**0.2**
Shares issued to satisfy employee share option exercises				(1.7)	1.7	**–**
Share-based payments				0.8		**0.8**
Dividends paid				(16.0)		**(16.0)**
31 December 2021	**75.6**	**385.2**	**0.1**	**250.1**	**(7.3)**	**703.7**

	Issued share capital £m	Merger relief reserve £m	Capital redemption reserve £m	Profit and loss account: Retained earnings £m	Profit and loss account: Own shares £m	Total equity £m
1 January 2020	66.0	298.1	0.1	266.2	(10.4)	620.0
Profit for the year				0.7		0.7
Total comprehensive income for the year	–	–	–	0.7	–	0.7
Issue of share capital	9.6	87.1				96.7
Shares issued to satisfy employee share option exercises				(1.4)	1.4	–
Share options exercised				0.1		0.1
Share-based payments				1.2		1.2
31 December 2020	75.6	385.2	0.1	266.8	(9.0)	718.7

Essentra plc Company Accounting Policies

a. Authorisation of financial statements and statement of compliance with FRS 101

The parent company financial statements of Essentra plc ("the Company") for the year ended 31 December 2021 were authorised for issue by the Board of Directors on 18 March 2022 and the balance sheet was signed on the Board's behalf by Paul Forman and Lily Liu. Essentra plc is a public limited company that is incorporated, domiciled and has its registered office in England and Wales. The Company's ordinary shares are publicly traded on the London Stock Exchange and it is not under the control of any single shareholder. These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101).

The profit and loss account of the Company is not presented as permitted by Section 408 of the Companies Act 2006.

b. Basis of preparation

The Company transitioned to FRS 101 from the UK Generally Accepted Accounting Practice during the year ended 31 December 2015. No adjustments were required as part of this transition.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- the requirements of paragraph 45(b) and 46-52 of IFRS 2 *Share-Based Payment*
- the requirements of paragraphs 62, B64(b), B64(e), B64(g), B64(h), B64(j) to B64(m), b64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 *Business Combinations*
- the requirement of IFRS 7 *Financial Instruments: Disclosures*
- the requirement of paragraphs 91-99 of IFRS 13 *Fair Value Measurement*
- the requirement in paragraph 38 of IAS 1 *Presentation of Financial Statements* to present comparative information in respect of paragraph 79(a)(iv) of IAS 1, paragraph 73(e) of IAS 16 *Property, Plant and Equipment* and paragraph 118(e) of IAS 38 *Intangible Assets*
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 *Presentation of Financial Statements*
- the requirements of IAS 7 *Statement of Cash Flows*
- the requirements of paragraphs 30 and 31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- the requirements of paragraph 17 of IAS 24 *Related Party Disclosures*
- the requirements in IAS 24 *Related Party Disclosures* to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member and
- the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 *Impairment of Assets*.

Where required, equivalent disclosures are given in the consolidated financial statements.

These accounts have been prepared in accordance with The Companies Act 2006 as applicable to companies using FRS 101 and are prepared on a going concern basis.

The going concern assessment for the Company is carried out as part of the Group assessment. From the assessment performed, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, and accordingly have adopted the going concern basis in preparing the Company Financial Statements. Further details are included on page 148 of the consolidated financial statements.

These accounts are prepared under the historical cost convention.

Other pronouncements
The Company adopted the following new pronouncements during 2021, which did not have a material impact on the Company's financial statement:

- *Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 7, IFRS 4 and IFRS 16)*, which address the effects of the reform on a company's financial statements that arise when an interest rate benchmark used to calculate interest on a financial asset is replaced with an alternative benchmark
- *Amendments to UK and Republic of Ireland accounting standards as a result of the UK's exit from the European Union*
- *Amendment to IFRS 16*, which clarifies the extension of the practical expedient where the lessee is not required to assess whether eligible COVID-19 related rent concessions are lease modifications
- *Amendments to IAS 1*, which address the presentation of financial statements on classification of liabilities
- *Revised Conceptual Framework for Financial Reporting (Amendments to IFRS 9, IAS 39 and IFRS 7)*

Essentra plc Company Accounting Policies continued

b. Basis of preparation continued

The following standards and amendments issued before 31 December 2021 with an effective date on or after 1 January 2022 have not been early adopted by the Group, they do not have a material impact on the Group's financial statement:

- *Amendment to IAS 12* – deferred tax related to assets and liabilities arising from a single transaction
- *A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16*

The following principal accounting policies have been consistently applied.

c. Investment in subsidiary undertaking

Investment in subsidiary undertaking is held at cost less any provision for impairment. The Company assesses at each balance sheet date whether the investment in its subsidiary has been impaired.

d. Share-based payments

The fair value of share options is measured at grant date. It is recognised as an addition to the cost of investment in the subsidiary in which the relevant employees work over the expected period between grant and vesting date of the options, with a corresponding adjustment to reserves. Detailed disclosures for the share-based payment arrangements of the Company are provided in note 18 to the consolidated financial statements.

e. Own shares

The shares held in the Essentra Employee Benefit Trust for the purpose of fulfilling obligations in respect of share incentive plans are treated as belonging to the Company and are deducted from its retained earnings. The cost of shares held directly (treasury shares) is also deducted from retained earnings.

f. Dividends

Dividend distributions to the Company's shareholders are recognised as a liability in the period in which they are approved by the shareholders of the Company (final dividend) or paid (interim dividend).

Dividend income is recognised when the right to receive payment is established.

g. Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account. Exchange differences arising from movements in spot rates are included in the profit and loss account as exchange gains or losses, while those arising from the interest differential elements of forward currency contracts are included in external interest income or expense.

h. Financial assets

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period which are classified as non-current assets. The Company's financial assets at amortised cost comprise receivables in the balance sheet.

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Interest income is recognised accordingly using the effective interest method.

Essentra plc Company Accounting Policies continued

i. Financial liabilities

Interest bearing loans and borrowings and other financial liabilities (excluding derivatives) are initially recognised at fair value net of transaction costs incurred. They are subsequently held at amortised cost using the effective interest method. Any difference between the proceeds, net of transaction costs, and the settlement or redemption of borrowings is recognised in profit or loss over the term of the borrowings.

The Company holds financial instruments which hedge the net investments in the foreign operations of its subsidiary undertakings. Gains and losses on these instruments are recognised in the profit and loss account of the Company.

j. Taxation

Income tax in the profit and loss account comprises current and deferred tax. Income tax is recognised in the profit and loss account except to the extent that it relates to items recognised in equity or other comprehensive income.

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

Deferred tax is provided, using the balance sheet liability method, on temporary differences arising between the tax bases and the carrying amounts of assets and liabilities in the financial statements. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they will not reverse in the foreseeable future. Deferred tax is determined using tax rates that are expected to apply when the related deferred tax asset or liability is settled, using the applicable tax rates enacted or substantively enacted at the balance sheet date.

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

Essentra plc Company Notes

1. Net operating charges

The auditor was paid £5,125 (2020: £5,125) for the statutory audit of the Company. Fees paid to the Company's auditor for services other than the statutory audit of the Company are disclosed in note 2 to the consolidated financial statements.

The Directors' remuneration, which was paid by Essentra International Limited, is disclosed in the Annual Report on Remuneration on pages 118 to 133. The only employees of the Company are the seven Directors and Company Secretary.

2. Investment in subsidiary undertaking

	Investment in subsidiary undertaking	
	2021 £m	2020 £m
Beginning of year	**465.8**	464.6
Additions	**0.8**	1.2
End of year	**466.6**	465.8

3. Debtors

	2021 £m	2020 £m
Amounts receivable from subsidiary undertakings	**498.3**	325.7
	498.3	325.7

Receivables due from Group companies to the Company are interest free and repayable on demand. Receivables from Group companies have been assessed based on lifetime expected credit losses. As all balances are repayable on demand, and the Company expects to be able to recover the outstanding intercompany balances if demanded, no provision has been recognised in the year ended 31 December 2021 (2020: nil).

4. Creditors: amounts falling due within one year

	2021 £m	2020 £m
Accruals and deferred income	**3.5**	0.2
	3.5	0.2

5. Creditors: amounts falling due after more than one year

	2021 £m	2020 £m
US Private Placement Loan Notes	**257.7**	72.6
	257.7	72.6

Essentra plc Company Notes continued

6. Maturity of financial liabilities

	Non bank loans 2021 £m	Non bank loans 2020 £m
Debt can be analysed as falling due:		
Between one and five years	**14.8**	14.6
More than five years	**244.4**	58.4
Less prepaid facility fees	**(1.5)**	(0.4)
	257.7	72.6

7. Issued share capital

	2021 £m	2020 £m
Issued, authorised and fully paid ordinary shares of 25p (2020: 25p) each	**75.6**	75.6

Number of ordinary shares in issue		
Beginning of year	**302,590,708**	264,129,170
Issue of shares during the year	**–**	38,461,538
End of year	**302,590,708**	302,590,708

The issue of share capital during 2020 was in relation to a placement offering of 38,461,538 new shares with par value of 25p issued at 260p per share.

At 31 December 2021, the Company held 905,157 (2020: 908,650) of its own shares in treasury.

8. Reserves

As permitted by Section 408 of the Companies Act 2006, the profit and loss account of the Company has not been separately presented in these Financial Statements. The profit attributable to equity holders included in the accounts of the Company is £0.2m (2020: £0.7m).

Included in the profit and loss account are accumulated share-based payments of £49.9m (2020: £49.1m) which are credited directly to reserves. Full details of these share-based payments are set out in the Annual Report on Remuneration on pages 118 to 133.

9. Dividends

	Per share		Total	
	2021 p	2020 p	2021 £m	2020 £m
2020 final: paid 1 June 2021		3.3		10.0
2021 interim: paid 29 October 2021	**2.0**		**6.0**	
2021 proposed final: payable 1 June 2022	**4.0**		**12.1**	

Essentra plc Company Notes continued

10. Subsidiary undertakings

The companies named below (including dormant entities) are subsidiary undertakings of Essentra plc and are included in the consolidated financial statements of the Group. The investments in the companies below relate to ordinary shares or common stock. The principal country in which each company operates is the country of incorporation.

All entities below are wholly owned subsidiaries of the Group except for ITC Essentra Limited (India) (50% owned) and China Tobacco Essentra (Xiamen) Filters Co., Ltd (49% owned). The ownership held by the Group in these companies are through holding of ordinary shares in these companies and they are accounted for as subsidiaries of the Group in the consolidated financial statements due to a control achieved via board membership.

On 2 August 2021, Essentra acquired the majority of the share capital of Jiangxi Hengzhu Electrical Cabinet Lock Co., Ltd ("Hengzhu"), an access hardware manufacturer and distributor in China. Essentra initially acquired 73% of the business for ¥103m (approximately £11.8m), with the remaining 27% stake subject to put and call options whereby Essentra may acquire the minority shareholding for consideration determined by the future operating performance of the business to 31 December 2022 and capped at a maximum of ¥37.5m (approximately £4.3m) and are exercisable 18 months after the acquisition. The remaining 27% stake does not confer any shareholder right (including voting right, entitlement to dividends and right to transfer to other parties) to the vendor shareholder. Therefore it is concluded that the amount payable under the put option in substance represents deferred consideration and is accounted for as a financial liability in the consolidated financial statements. No non-controlling interest is recognised in the consolidated financial statements in respect of this acquisition.

Due to statutory requirements, ITC Essentra Limited (India) has a financial year end of 31 March. All other subsidiaries have the same year end as the parent company of 31 December.

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

	Country of incorporation	Principal activity	Address of registered office
Essentra (Bangor) Ltd.	UK	Manufacturing	Langford Locks, Kidlington, Oxfordshire, OX5 1HX
Essentra Components Limited	UK	Manufacturing	Langford Locks, Kidlington, Oxfordshire, OX5 1HX
Essentra Filter Products Limited	UK	Manufacturing	Langford Locks, Kidlington, Oxfordshire, OX5 1HX
Essentra Packaging Limited	UK	Manufacturing	Langford Locks, Kidlington, Oxfordshire, OX5 1HX
Essentra Packaging & Security Limited	UK	Manufacturing	Langford Locks, Kidlington, Oxfordshire, OX5 1HX
ESNT Filter Products Limited	UK	Holding Company	Langford Locks, Kidlington, Oxfordshire, OX5 1HX
ESNT Holdings (No.1) Limited	UK	Holding Company	Langford Locks, Kidlington, Oxfordshire, OX5 1HX
ESNT Holdings (No.2) Limited	UK	Holding Company	Langford Locks, Kidlington, Oxfordshire, OX5 1HX
ESNT International Limited	UK	Holding Company	Langford Locks, Kidlington, Oxfordshire, OX5 1HX
ESNT Packaging & Securing Solutions Limited	UK	Holding Company	Langford Locks, Kidlington, Oxfordshire, OX5 1HX
Essentra Filter Products International Limited	UK	Holding Company	Langford Locks, Kidlington, Oxfordshire, OX5 1HX
Essentra International Limited	UK	Holding Company	Langford Locks, Kidlington, Oxfordshire, OX5 1HX
Essentra Overseas Limited	UK	Holding Company	Langford Locks, Kidlington, Oxfordshire, OX5 1HX
Essentra Filter Holdings Limited	UK	Holding Company	Langford Locks, Kidlington, Oxfordshire, OX5 1HX
Essentra Pension Trustees Limited	UK	Pension Trustee	Langford Locks, Kidlington, Oxfordshire, OX5 1HX
Essentra Finance Limited	UK	Treasury activities	Langford Locks, Kidlington, Oxfordshire, OX5 1HX
Essentra (Northampton) Ltd.	UK	Non-trading	Langford Locks, Kidlington, Oxfordshire, OX5 1HX
Essentra Services Limited	UK	Non-trading	Langford Locks, Kidlington, Oxfordshire, OX5 1HX
Filtrona Limited	UK	Non-trading	Langford Locks, Kidlington, Oxfordshire, OX5 1HX
Alliance Plastics Limited	UK	Dormant	Langford Locks, Kidlington, Oxfordshire, OX5 1HX
Cigarette Components Limited	UK	Dormant	Langford Locks, Kidlington, Oxfordshire, OX5 1HX
ESNT Components Limited	UK	Dormant	Langford Locks, Kidlington, Oxfordshire, OX5 1HX
ESNT Limited	UK	Dormant	Langford Locks, Kidlington, Oxfordshire, OX5 1HX
Filtrona Custom Moulding Limited	UK	Dormant	Langford Locks, Kidlington, Oxfordshire, OX5 1HX
North West Plastics Limited	UK	Dormant	Langford Locks, Kidlington, Oxfordshire, OX5 1HX
Skiffy Limited	UK	Dormant	Langford Locks, Kidlington, Oxfordshire, OX5 1HX
Stera Tape Limited	UK	Dormant	Langford Locks, Kidlington, Oxfordshire, OX5 1HX

Essentra plc Company Notes continued

10. Subsidiary undertakings continued

	Country of incorporation	Principal activity	Address of registered office
Essentra Filter Products Inc	US	Manufacturing	1675 South State Street, Ste B Dover, DE 19901, United States
Essentra Packaging Inc	US	Manufacturing	10 S Jefferson Street, Ste 1400 Roanoke, VA 24011, United States
Essentra Plastics LLC	US	Manufacturing	1675 South State Street, Ste B Dover, DE 19901, United States
Essentra Packaging Puerto Rico, Inc.	US	Manufacturing	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
Essentra Packaging US Inc	US	Manufacturing	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
Innovative Components, Inc.	US	Manufacturing	1315 W Lawrence Avenue, Springfield, IL 62704, United States
Micro Plastics, Inc.	US	Manufacturing	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
3C! Packaging, Inc	US	Manufacturing	1000 CCC Drive, Clayton, NC 27520, United States
Essentra Components Inc	US	Distribution	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
Essentra Components Japan Inc	US	Distribution	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
ESNT Holdings Inc	US	Holding Company	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
ESNT (Porous) Holdings Inc.	US	Holding Company	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
ESNT US Holdings Corp	US	Holding Company	1675 South State Street, Ste B Dover, DE 19901, United States
Essentra Corporation	US	Holding Company	1675 South State Street, Ste B Dover, DE 19901, United States
Essentra Holdings Corp. (DE)	US	Holding Company	1675 South State Street, Ste B Dover, DE 19901, United States
US NewCo LLC	US	Holding Company	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
ESNT Components Co.	US	Non-trading	Two Westbrook Corporate Center, Suite 200, Westchester IL 60154, United States
Essentra Components B.V.	Netherlands	Distribution	Dragonder 3, 5554 GM Valkenswaard, Netherlands
Essentra Packaging B.V.	Netherlands	Distribution	Celsiusweg 37, 8912 AM, Leeuwarden, Netherlands
Blue NewCo 1 B.V.	Netherlands	Holding Company	Beatrixstraat 7, BUITENPOST, 9285 TV, Netherlands
Blue NewCo 2 B.V.	Netherlands	Holding Company	Beatrixstraat 7, BUITENPOST, 9285 TV, Netherlands
Blue NewCo 3 B.V.	Netherlands	Holding Company	Beatrixstraat 7, BUITENPOST, 9285 TV, Netherlands
Blue NewCo 4 B.V.	Netherlands	Holding Company	Beatrixstraat 7, BUITENPOST, 9285 TV, Netherlands
ESNT Holdings Cooperatie 1 W.A.	Netherlands	Holding Company	Celsiusweg 37, 8912 AM, Leeuwarden, Netherlands
ESNT Holdings (Netherlands) B.V.	Netherlands	Holding Company – Dissolved 6 January 2022	Dragonder 3, 5554 GM Valkenswaard, Netherlands
Essentra B.V.	Netherlands	Holding Company	Beatrixstraat 7, BUITENPOST, 9285 TV, Netherlands
Essentra Holdings Cooperative W.A.	Netherlands	Holding Company – Dissolved 6 January 2022	Dragonder 3, 5554 GM Valkenswaard, Netherlands
Essentra Holdings (No.2) Cooperative W.A.	Netherlands	Holding Company – Dissolved 6 January 2022	Dragonder 3, 5554 GM Valkenswaard, Netherlands
Essentra International B.V. / LLC	Netherlands	Holding Company	Dragonder 3, 5554 GM Valkenswaard, Netherlands
ESNT Holding B.V.	Netherlands	Non-trading	Dragonder 3, 5554 GM Valkenswaard, Netherlands
ESNT Holdings Cooperatie 2 W.A.	Netherlands	Non-trading	Beatrixstraat 7, Buitenpost, 9285 TV, Netherlands
Fijnmechanica Surhuisterveen B.V.	Netherlands	Non-trading	Beatrixstraat 7, Buitenpost, 9285 TV, Netherlands
Linde Vouwkartonnage B.V.	Netherlands	Non-trading	Beatrixstraat 7, Buitenpost, 9285 TV, Netherlands
Richco Benelux B.V.	Netherlands	Non-trading	Dragonder 3, 5554 GM Valkenswaard, Netherlands

Essentra plc Company Notes continued

10. Subsidiary undertakings continued

	Country of incorporation	Principal activity	Address of registered office
Skiffy B.V.	Netherlands	Non-trading	Dragonder 3, 5554 GM Valkenswaard, Netherlands
Essentra Packaging Ireland Limited	Ireland	Manufacturing	8 Airways, Industrial Estate, Dublin 17, Ireland
ESNT (Cherry Orchard) Holdings Limited	Ireland	Holding Company – strike off listed	Unit 629 Ida Industrial Park Northern Extension, Old Kilmeaden Road, Watherford, Ireland
C.B. Packaging Limited	Ireland	Holding Company – strike off listed	8 Airways Industrial Estate, Dublin 17, Ireland
ESNT (Cherry Orchard) Limited	Ireland	Holding Company – strike off listed	8 Airways Industrial Estate, Dublin 17, Ireland
ESNT Finance Ireland Limited	Ireland	Holding Company – strike off listed	7 Airways Industrial Estate, Cloghran, Dublin 17, D17 RR88, Ireland
Essentra Finance (Euro) Ireland Limited	Ireland	Holding Company – strike off listed	7 Airways Industrial Estate, Cloghran, Dublin 17, D17 RR88, Ireland
Essentra Pte.Ltd	Singapore	Distribution	36 Robinson Road #17-01, City House, Singapore, 068877, Singapore
Essentra Filter Products Leasing Pte. Ltd	Singapore	Leasing Company	36 Robinson Road #17-01, City House, Singapore, 068877, Singapore
Essentra (MEA) Pte. Ltd	Singapore	Holding Company	36 Robinson Road #17-01, City House, Singapore, 068877, Singapore
Essentra Filter Products Development Co. Pte. Ltd	Singapore	Non-trading	36 Robinson Road #17-01, City House, Singapore, 068877, Singapore
Essentra Components GmbH	Austria	Holding Company	Schubertring 6, 1010 Wien, Austria
Essentra Pty Ltd	Australia	Treasury activities	503-505 Victoria Street, Wetherill Park, NSW, 2145, Australia
Essentra Industria E Commercio LTDA	Brazil	Manufacturing	Room 7, No 1000 Avenida Emilio Marconato, Centro Comercial, Chacara Primavera, Jaguariuna, Sao Paulo, 13.916-074, Brazil
Essentra Limited	Canada	Manufacturing	2538 Spears Road, Oakville ON L6L 5K9, Canada
Essentra Hengzhu Precision Components Co., Ltd	China	Manufacturing	No. 12 Jingfa Avenue, Yichun, Economic and Technological, Development Zone, Yichun City, Jiangxi Province, China
China Tobacco Essentra (Xiamen) Filters Co., Ltd	China	Manufacturing	Floor 2 No.289 Binshui Road, Qiaoying Street, Jimei Ditrict, Xiamen City, China
Essentra Precision Machinery Components (Ningbo) Co. Ltd.	China	Manufacturing	99 Huanghai Road, Beilun District, Ningbo, Zhejiang Province, China
Essentra Trading (Ningbo) Co. Ltd	China	Distribution	No.99 Huanghai Road, Beilum District, Ningbo, Zhejiang Province, China
Essentra Components International Trading (Shanghai) Co Ltd	China	Holding Company	Room 347, Xinmaolou Building, 2 Taizhong South Road, China (Shanghai) Pilot Free Trade Zone, Pudong New Area, Shanghai, 200120, China
Essentra Plastic Trading (Ningbo) Co. Ltd	China	Holding Company	99 Huanghai Road, Beilun District, Ningbo, Zhejiang, China
Componentes Innovadores Limitada	Costa Rica	Manufacturing	Cartago-Cartago Parque Industrial Y Zona Franca Zeta, Cartago, Edificios, 48C3 48C4, Costa Rica
Essentra Components sro	Czech Republic	Holding Company	Vídenská 101/119, Dolní Heršpice, Brno, 619 00, Czech Republic
Essentra Packaging S.a.r.l.	France	Holding Company	F-27200, Sarreguemines, Rue Guillaume, Schoettke, France
Essentra Components SAS	France	Non-trading	280 rue de la Belle Étoile, 95700, Roissy, France
Essentra International GmbH	Germany	Holding Company	Filmstr. 5, 06766, Bitterfeld-Wolfen, Germany
Essentra Components GmbH	Germany	Manufacturing	3, Montel-Allee, Nettetal, 41334, Germany
Essentra Packaging GmbH	Germany	Manufacturing	Filmstrasse. 5, D-06766, Edisonstrasse, Wolfen, Germany
Essentra Components Limited – Branch Germany	Germany	Distribution	Montel-Allee 3, 41334 Nettetal, Germany

Essentra plc Company Notes continued

10. Subsidiary undertakings continued

	Country of incorporation	Principal activity	Address of registered office
Essentra (Hong Kong) Limited	Hong Kong	Non-trading	36/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong
Essentra Components Kft	Hungary	Holding Company	1113, Nagyszolos ut 11-15, Budapest, Hungary
Essentra Filter Products Kft	Hungary	Manufacturing	2310 Szigetszentmiklos, Leshegy ut 30, Hungary
PT Essentra	Indonesia	Manufacturing	Jalan Berbek Industri 1, 18-20 Surabaya Industrial Estate Rungkut (SIER), Sidoario, 61256, Indonesia
PT Essentra Trading Surabaya	Indonesia	Manufacturing	Jalan Berbek Industri I/23, Kel. Berbek, Kec, Waru, Kab. Sidoarjo Prov,Surabaya, Jawa Timur, Indonesia
Essentra (India) Private Limited	India	Manufacturing	No.3, (old plot nos. 18 & 23), 3rd Main Road, Peenya Industrial Area, Phase 1, Bangalore, Yeshwantpur Hobli, 560 058, India
ITC Essentra Limited	India	Manufacturing	Doddajala Post, Yarthiganahally, (Via) Bettahalasur, Bangalore North, 562 157, India
ESNT Holdings SpA	Italy	Holding Company	Podenzano (PC), Loc.I Casoni Fraz. Gargia, Via Copernico no. 54, 29027, Italy
Essentra Packaging Srl	Italy	Distribution	Via Copernico n.54, Loc. 1 Casoni Fraz., Gariga, 29027, Podenzano, Italy
Essentra Components srl	Italy	Non-trading	Via Massarenti, 1 Loc, 1 Maggio, 40013, Castel Maggiore, Italy
Essentra Filter Products Spa	Italy	Non-trading	Casoni di Gariga, Via Copernico n. 54, Casoni PC, 29027, Italy
Essentra Packaging Luxembourg Sarl	Luxembourg	Non-trading	8-10, Avenue de la Gare, L-1610, Luxembourg
Abric Encode Sdn Bhd	Malaysia	Manufacturing	Unit 1110 Block A, Pusat Dagangan Phileo Damansara II, 15 Jalan 16/11 Off Jalan Damansara, 46350 Petaling Jaya, Selangor Darul Ehsan, Malaysia
Essentra Malaysia Sdn Bhd	Malaysia	Non-trading	Unit 1110 Block A, Pusat Dagangan Phileo Damansara II, 15 Jalan 16/11 Off Jalan Damansara, 46350 Petaling Jaya, Selangor Darul Ehsan, Malaysia
Essentra Asia Sdn Bhd	Malaysia	Non-trading	Unit D – 3A – 10, 4th Floor, Greentown Square, Jalan Dato' Seri Ahmed Said, 30450 Ipoh, Perak, Malaysia
Essentra Components SEA (M) Sdn Bhd	Malaysia	Non-trading	D5-5-6, Solaris Dutamas 1 , Jalan Dutamas 1, 50480, Kuala Lumpur, Malaysia
Essentra Components S.A. de C.V. de R.L.	Mexico	Manufacturing	Carretera a Huinala #510, Apodaca, NL 66640, Mexico
ESNT Limited	New Zealand	Services	Quigg Partners, Floor 7, 36 Brandon Street, Wellington Central, Wellington, 6011, New Zealand
Essentra Filter Products S.A.	Paraguay	Distribution	Calle 12, Acacary, Cuidad del Este, Paraguay
Essentra Sp. z o.o.	Poland	Non-trading	11 Lakowa Street, 90-562, Lodz, Poland
Boxes Prestige Poland Sp. z o.o.	Poland	Dormant	Tokarska 25, 20-210, Lublin, Poland
Essentra Packaging Spólka z o.o.	Poland	Manufacturing	Tokarska 25, 20-210, Lublin, Poland

Essentra plc Company Notes continued

10. Subsidiary undertakings continued

	Country of incorporation	Principal activity	Address of registered office
Essentra Co., Ltd.	Republic of Korea	Distribution	5th Floor, One IFC, 10, Gukjegeumyung-ro, Youngdeungpo-gu, Seoul, 07326, Korea, Republic of
Essentra Components SRL	Romania	Distribution	Burcuresti Sectorul 1, Strada Polana, Nr. 68-72, Etaj 2, Biroul NR.5, Romania
Essentra Components sro	Slovakia	Distribution	Gogol'ova 18, 852 02 Bratislava, Slovakia
Essentra Components (Pty) Ltd	South Africa	Distribution	Unit 2. Sage Corporate Park, Corner Suni and Tsessebe Streets, South Midrand, Gauteng, 1683, South Africa
ESNT Holdings S.A.U.	Spain	Holding Company	Carrer dels Fusters 18-20, Poligono Industrial Can Cuyas, Montcada I Reixac, 08110, Barcelona, Spain
Essentra Packaging S.A.	Spain	Manufacturing	Carrer dels Fusters 18-20, Poligono Industrial Can Cuyas, Montcada I Reixac, 08110, Barcelona, Spain
Nekicesa Global Packaging SL	Spain	Non-trading	Ctra. de Navalcarnero a Chinchon km., 21,2 Grinon, 28971, Madrid, Spain
Nekicesa Packaging S.L.U	Spain	Manufacturing	Ctra. de Navalcarnero a Chinchon km., 21,2 Grinon, 28971, Madrid, Spain
Essentra Components S.L.U	Spain	Distribution	Calle Roure Gros 1-11, Poligono Industrial Mas d'En Cisa, 08181, Spain
Essentra Components AB	Sweden	Manufacturing	Askims Verkstadsvag 13Sweden, 436 34 Askim, Vastra Gotalands lan, Goteborg kommun, Sweden
Essentra Components Sarl	Switzerland	Non-trading	MCE Avocats, rue du Grand-Chêne 1-3, 1003 Lausanne, Switzerland
Essentra Eastern Limited	Thailand	Non-trading	111/5 Moo 2 Tambon Makamku, Amphur Nikom Pattana, Rayong Province, Thailand
San Yai Holding Company Limited	Thailand	Holding Company	116/3 Soi Thiantalay 24, Bangkhunthian-Chaitalay Road, Sub-District Thakam, District Bangkhunthian, Bangkok, 10150, Thailand
Pranakorn Holding Company Limited	Thailand	Holding Company	116/3 Soi Thiantalay 24, Bangkhunthian-Chaitalay Road, Sub-District Thakam, District Bangkhunthian, Bangkok, 10150, Thailand
Essentra Limited	Thailand	Manufacturing	116/3 Soi Thiantalay 24, Bangkhunthian-Chaitalay Road, Thakam, Bangkhunthian, Bangkok, 10150, Thailand
Apex Filters Company Limited	Thailand	Non-trading	31/2 Rama 3 Road, Chongnonsee, Yannawa, Bangkok 10120, Thailand
Mesan Kilit A.S.	Turkey	Distribution	Ilitelli Organzie Sanayi, Bolgesi Metal Is San, Sit.7.Blok No24 Basaksehir, Istanbul, Turkey
Essentra FZE	United Arab Emirates	Manufacturing	Plot No. S20403, Jebel Ali Free Zone (JAFZA), PO Box No 261392, Dubai, United Arab Emirates

Independent auditors' report to the members of Essentra plc

Report on the audit of the financial statements

Opinion
In our opinion:

- Essentra plc's Group financial statements and Parent company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Parent company's affairs as at 31 December 2021 and of the Group's profit and the Group's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the Parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report 2021 (the "Annual Report"), which comprise: the Consolidated Balance Sheet and Essentra plc Company Balance Sheet as at 31 December 2021; the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Cash Flows, Consolidated Statement of Changes in Equity and Essentra plc Company Statement of Changes in Equity for the year then ended; the Accounting Policies, Critical Accounting Judgements and Estimates, Essentra plc Company Accounting Policies; and the Notes to the financial statements.

Our opinion is consistent with our reporting to the Audit and Risk Committee.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 2, we have provided no non-audit services to the Parent company or its controlled undertakings in the period under audit.

Our audit approach
Context
Strategic review:
On 26 October 2021, the Group announced the strategic goal to become a pure play Components business with the first step in this process being to review the full range of strategic options for the Filters business. On 26 November 2021, it was announced the Group had decided to commence a strategic review of the Packaging division. As part of our audit planning, we have considered the impact of the strategic reviews on our audit risk assessment including evaluating management's analysis of its impact on the Group financial statements. As part of this risk assessment, we have considered the potential impact on the goodwill impairment and going concern assessments, along with management's assessment of the criteria to recognise assets held for sale, and concluded there to be no material impact based on the information available up to the date of signing our report.

Independent auditors' report to the members of Essentra plc continued

Climate change:
In planning our audit, we considered the potential impact of climate change on the Group and Parent company financial statements. Given the principal activities of the Group, it is highly likely that climate risk will have a significant impact on the Group's business. As part of our audit, we evaluated management's climate change risk assessment including the identified physical and transitional risks and the assessment of the impact of those risks on the Group financial statements. We note management's conclusion that material physical risks are likely to arise in the longer term and therefore have no current financial statement impacts. Transitional risks are considered to have a more significant impact on the business. However, these are only expected to arise in the medium to long term as set out in the Task Force on Climate-Related Financial Disclosures ("TCFD") on page 29. We performed procedures to evaluate the appropriateness of management's risk assessment including the use of our climate change experts. We considered the Group's externally published environmental targets and understood the progress made towards these targets to date in addition to plans in place to bridge to meeting these targets in the future. We challenged management on the potential additional future costs associated with meeting these targets. We assessed that the key financial statement line items and estimates which are more likely to be impacted by climate risks are those associated with future cash flows, given the more notable impacts of climate change on the business are expected to arise in the medium to long term. These included the assessment of goodwill impairment in the Packaging division, as discussed in our key audit matter below, and the long term viability assessment. However, our procedures did not identify any material impact on either the Group or Parent company financial statements or our key audit matters for the year ended 31 December 2021. We reviewed management's financial statement disclosures relating to climate change, in the Critical Accounting Judgements and Estimates and note 8, to confirm they are consistent with the results of management's risk assessment and our audit procedures.

Overview

Audit scope
- Local PwC component teams engaged to perform full scope audit procedures over 33 reporting units.
- PwC Group audit team performed full scope audit procedures over a further 7 reporting units.
- Specified audit procedures were performed by component auditors over certain balances, including revenue, at a further 6 reporting units.
- PwC Group audit team also performed audit procedures over specific balances within a further 41 reporting units.
- The audit of the Parent company financial statements was undertaken by the PwC Group audit team and included substantive procedures over all material balances and transactions.

Key audit matters
- Presentation of adjusting items (Group).
- Goodwill impairment in the Packaging division (Group).
- Recoverability of the Parent company's investment in subsidiary undertakings (Parent company).

Materiality
- Overall group materiality: £3,300,000 (2020: £3,300,000) based on 5% of profit before tax.
- Overall Parent company materiality: £7,000,000 (2020: £7,100,000) based on 1% of net assets.
- Performance materiality: £2,500,000 (2020: £2,500,000) (Group) and £5,250,000 (2020: £5,300,000) (Parent company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Independent auditors' report to the members of Essentra plc continued

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Recoverability of the Parent company's investments in subsidiary undertakings (Parent company) is a new key audit matter this year. Impact of COVID-19 (Group and Parent company) and Compliance with US sanctions legislation (Group), which were key audit matters last year, are no longer included because the impact of COVID-19 is considered to be reduced to a sufficiently low level and compliance with US sanctions legislation is now embedded within the business with no compliance issues noted in the year. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Presentation of adjusting items (Group) The financial statements include certain items which are disclosed as adjusting items. The nature of the adjusting items is explained within the Group accounting policies and includes transaction costs relating to acquisition and disposals of businesses, acquisition integration and restructuring costs, customisation and configuration costs of significant Software as a Service ("SaaS") arrangements and other items such as site closure costs and one-off projects. In the year the most significant adjusting items relate to write off of customisation and configuration costs of SaaS arrangements (£11.8 million), restructuring costs (£5.8 million), external professional costs associated with the strategic reviews and certain corporate development activities (£4.1 million), acquisition and integration related costs associated with acquisition of Jiangxi Hengzhu Electrical Cabinet Lock Co. Limited and the commencement of production in the Filters China joint venture (£1.5 million). These costs have been offset by a £4.5 million gain on sale of the former Packaging Moorestown property and £4.8 million release of provision relating to historical claims which have been settled in the year. We focused on this area as there is limited guidance relating to this presentational matter within IFRS and judgement is required by the directors in determining whether items classified as adjusting are consistent with the Group's accounting policy. Consistency in identifying and disclosing items as adjusting is important to maintain comparability of the results year on year. See note 2 to the Group financial statements for details of adjusting items and the Critical Accounting Judgements and Estimates section for management's disclosure of this significant judgement. Also see the Significant financial judgements section in the Audit and Risk Committee report.	We assessed the appropriateness of the Group's accounting policy for the recognition of adjusting items with reference to the applicable accounting guidance. We challenged management and considered whether the items disclosed as adjusting items were consistent with the accounting policy and the approach taken in prior years, to determine that items were appropriately classified. We did not identify any material items which we would expect to be reported in earnings before adjusting items. Customisation and configuration costs relate to costs incurred in system development and implementation written off which have historically been capitalised in the balance sheet. In April 2021 the International Accounting Standards Board ("IASB") ratified an earlier IFRS Interpretations Committee ("IC") agenda decision on Configuration and Customisation ("CC") costs in a Cloud Computing Arrangement. This clarified the status of SaaS arrangements including consideration of whether spend on such arrangements creates an asset that the Group controls. We have tested a sample of projects previously capitalised and inspected contracts, held discussions with external service providers together with our internal specialist to test management's assessment. Due to the highly material value of the adjustment in the current and prior year, we agree with management's conclusions and presentation of this item as adjusting in the year for projects of significant value. Restructuring costs include employee redundancy (£3 million), write down of assets (£1.2 million) and other closure costs such as external project management consultants, site closure and legal costs (£1.6 million). We have performed sample testing across all balances and verified those samples to payroll records, supporting invoices, agreements or other evidence. For asset write-offs, we have agreed the book value to the accounting records and evaluated management estimates around potential resale values of fixed assets. The remaining cost of £4.1m relating to external professional costs and acquisition and integration related costs of £1.5 million have been tested through sampling and items have been traced to supporting invoices and other documentation. We have traced the sales proceeds on sale of the Packaging Moorestown property to bank statements and recomputed the gain on disposal. We have tested other one off releases of provisions recognised in adjusting items to underlying settlement agreements. The classification of these items is considered appropriate as the release mirrors the treatment of the charge when the provisions were created in prior years. The disclosures included in note 2 were reviewed and deemed reasonable.

Independent auditors' report to the members of Essentra plc continued

Key audit matter	How our audit addressed the key audit matter
Goodwill impairment in the Packaging division (Group) The Group has goodwill of £327.0 million, of which £208.5 million is allocated to the Packaging division, £96.8 million to Components, and £21.7 million to Filters. Under IAS 36 Impairment of Assets, all cash generating units ("CGUs") containing goodwill and indefinite lived intangible assets must be tested for impairment at least annually. Management has prepared a value in use ("VIU") calculation for each of the three divisions in order to assess their recoverability. Consistent with prior years, the headroom on the annual impairment assessment for the Packaging division is more sensitive to changes in key assumptions and as such is the focus area for our key audit matter. The headroom against the asset carrying value as at 31 December 2021 is £380.8 million as compared to £252.5 million in 2020. The increase in headroom is mainly due to the decrease in the discount rate used and increase in long term revenue growth rate used by management in the VIU model. The changes in these assumptions has been partially offset by the impact of COVID-19 on short term trading performance, which has affected both the beauty and pharmaceuticals markets in 2020 and 2021 and has disrupted management's plans to return to industry average margins. The impairment reviews performed by management contain a number of significant judgements and estimates including revenue growth rates, operating profit margins and discount rates. A change in these assumptions can result in an impairment of the assets. Management considered the impact of climate change on their impairment reviews, including an assessment of the impact of the Group's externally published environmental targets, along with the output of the climate risks and opportunities assessment performed by their external advisors. See note 8 to the Group financial statements for details of management's impairment exercise and the Critical Accounting Judgements and Estimates section for management's disclosure of this significant accounting estimate. Also see the Significant financial judgements section in the Audit and Risk Committee report.	We assessed the methodology applied by management in performing their impairment review and tested the integrity of management's cash flow model for the VIU calculation. We agreed key assumptions made in the impairment review, related to operating profit margins to industry and competitor data. We evaluated the future cash flow forecasts, including short term cash flows, and the process by which they were determined. In doing so we compared the cash flow forecasts to the latest Board approved plans and compared prior year budgets to 2021 actual performance in order to assess the quality of management's forecasting process. Whilst the actual performance in 2021 was below plan due to the impact of COVID-19, based on the forecasting history to date, we did not identify any indicators of bias in management's medium to long term forecasts for the Packaging division. With the support of our valuation experts, we tested key assumptions, including the long term revenue growth rate and discount rate. We compared growth rates to third party published economic and industry forecasts and analyst reports and found the long term revenue growth assumption to be reasonable. We validated the discount rate by recalculating the Group's weighted average cost of capital and found the assumption used by management to be outside our reasonable range. Utilising a discount rate that we would consider to be within an appropriate range would reduce the headroom in the VIU calculation but would not indicate any impairment. We performed sensitivity analyses around the key assumptions to ascertain the extent of change in those assumptions that, either individually or collectively, would be required for goodwill to be impaired. We noted that the required level of change was beyond that which we would consider likely given the current market conditions and recent performance of the business. We challenged management on how they had incorporated the impact of climate change into their VIU calculation. We obtained a copy of the climate risks and opportunities assessment performed by management's external advisors, and understood the scenario analysis performed. We obtained management's bridge between the report produced by their external advisors and future financial impact included in the VIU model. We performed sensitivity analyses around the assumptions included within management's bridge and noted that the assessment was not materially sensitive to changes in these assumptions. We also considered the Group's externally published environmental targets and the progress made towards these targets to date including the potential costs of meeting these targets in the future. Furthermore, given the announcement of the strategic review of the Packaging business we considered any indicators of potential fair value less cost to sell ("FVLCTS") up to the date of signing the report. Based on our inquiries of management, we are not aware of any indications that the FVLCTS for the division would be lower than the asset carrying values and did not identify any evidence which contradicts the conclusions reached by management's VIU impairment test. We also assessed disclosures included within note 8 against the requirements of IFRS and found them to be reasonable.

Independent auditors' report to the members of Essentra plc continued

Key audit matter	How our audit addressed the key audit matter
Recoverability of the Parent company's investment in subsidiary undertakings (Parent company) The value of the investment held by the Parent company at year end is £466.6 million. Essentra plc holds a direct investment in Essentra International Limited, and through this entity an indirect investment in the Group as a whole. The valuation of this investment is significant to the Parent company balance sheet. Investments are tested for impairment if impairment indicators exist. If such indicators exist, the recoverable amounts of the investments in subsidiaries are estimated in order to determine the extent of the impairment charge, if any. Any such impairment charge is recognised in the income statement. Judgement is required in this area, particularly in assessing: (1) whether an event has occurred that may indicate that the related asset values may not be recoverable; and (2) whether the carrying value of an asset can be supported by the recoverable value, being the higher of FVLCTS or VIU which is estimated based on the continued use of the asset in the business. No impairment triggers were identified as a result of management's assessment. Given the magnitude of the investment and the judgement involved we have identified this area as a key audit matter for the audit of the Parent company. See notes 2 and 10 in the Parent company financial statements for details of the Parent company's investment in subsidiary entities.	We challenged management's assertion that no impairment triggers were identified that would necessitate a full impairment review to be performed. We performed a review of the market capitalisation of the Group and the net assets of the subsidiary entity against the investment carrying value, considered the external market and economic factors and also our review of the discounted cash flow models prepared for the purpose of testing impairment of the carrying value of goodwill across all three divisions. (Please see our Key Audit Matter in respect of Goodwill impairment in the Packaging division above). Based on these procedures, we concluded that we concur with management's assessment that there were no triggers that would indicate the directors were required to perform a full impairment test.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Parent company, the accounting processes and controls, and the industry in which they operate.

The Group is split into three divisions being Components, Packaging and Filters. Each division consists of a large number of reporting sites spread globally across 34 territories. There are 468 reporting units within the consolidation, which include the reporting sites and other consolidation units. We did not identify any individually significant components within the Group, with the largest contribution to revenue being 6.9% from one reporting site, and the average being 1%. We determined the most effective approach was to engage PwC local component teams to perform full scope procedures over 33 reporting units, with the Group audit team performing full scope audit work over a further 7 reporting units. In addition, specified audit procedures were performed over certain balances, including revenue, at a further 6 reporting units. In the larger sites in North America, specified procedures over fixed assets, inventory and trade receivables were also performed. The Group audit team also performed audit procedures over specific balances within a further 41 reporting units. This approach ensures that appropriate audit coverage has been obtained over all financial statement line items. Where work was performed by component auditors, we determined the appropriate level of involvement we needed to have in that audit work to ensure we could conclude that sufficient appropriate audit evidence had been obtained for the Group financial statements as a whole. We issued written instructions to all component auditors and had regular communications with them throughout the audit cycle. This included a virtual clearance meeting with each component team and review of all significant matters reported. In addition members of the Group engagement team have reviewed working papers of a number of component audit teams and attended clearance meetings virtually with local management for sites in the UK and the US. Based on the detailed audit work performed across the Group, we have gained coverage of 68% of revenue, 62% of profit before tax and 74% of net assets.

Independent auditors' report to the members of Essentra plc continued

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements – Group	Financial statements – Parent company
Overall materiality	£3,300,000 (2020: £3,300,000).	£7,000,000 (2020: £7,100,000).
How we determined it	5% of profit before tax, amortisation of acquired intangible assets and adjusting items. (2020: Three year average of 5% of profit before tax, amortisation of acquired intangible assets and adjusting items).	1% of net assets.
Rationale for benchmark applied	The Group is profit-oriented, therefore it is considered most appropriate to apply a rule of thumb based upon a profit-based benchmark. The directors, management and the users of the Group financial statements focus on adjusted numbers, being adjusted operating profit, adjusted net income or adjusted pre-tax profit. The Group defines 'adjusted' as excluding the impact of amortisation of acquired intangible assets and adjusting items. Based on this, we consider a benchmark based on profit before tax, amortisation of acquired intangible assets and adjusting items to be most appropriate.	The entity is a holding company of the rest of the Group and is not a trading entity. Therefore an asset based measure is considered appropriate.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £60,000 and £2,000,000. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2020: 75%) of overall materiality, amounting to £2,500,000 (2020: £2,500,000) for the Group financial statements and £5,250,000 (2020: £5,300,000) for the Parent company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above £160,000 (Group audit) (2020: £160,000) and £160,000 (Parent company audit) (2020: £160,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the Group's and the Parent company's ability to continue to adopt the going concern basis of accounting included:

- obtaining and agreeing management's going concern assessment to the board approved business plan and ensuring that the base case scenario for the period to 31 October 2023 indicates that sufficient cash flows are generated to meet the obligations of the business as they fall due while complying with covenant arrangements;
- identifying revenue growth and operating margin as the key assumptions inherent in the plan and validating these to historical precedent and market or industry forecasts;
- analysing the cash flows in the forecast models to identify unexpected trends and relationships and ensuring the mathematical accuracy of management's models;
- evaluating management's severe but plausible downside scenario including the impact on the Group's liquidity headroom and its ability to meet debt covenants;
- evaluating management's analysis of the likely impacts of the ongoing strategic reviews on the going concern assessment; and
- validating that climate change is expected to have a limited impact during the period of the going concern assessment.

Independent auditors' report to the members of Essentra plc continued

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Group's and the Parent company's ability to continue as a going concern.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information, which includes reporting based on the Task Force on Climate-related Financial Disclosures ("TCFD") recommendations. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Parent company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Directors' Remuneration

In our opinion, the part of the Annual Report on Remuneration to be audited has been properly prepared in accordance with the Companies Act 2006.

Corporate governance statement

The Listing Rules require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the Parent company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement, included within the Risk Management Report and Other Statutory Information is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Group's and Parent company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the Group's and Parent company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the Parent company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Independent auditors' report to the members of Essentra plc continued

Our review of the directors' statement regarding the longer-term viability of the Group was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the Group and Parent company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Parent company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit and Risk Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the Parent company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities in Respect of the Financial Statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Listing Rules, UK and overseas tax legislation, employment laws and regulations , health and safety legislation and import and export restrictions including US sanctions legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting of journal entries to improve revenue performance or to manipulate metrics relating to bank covenants, and management bias in key accounting estimates. The Group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the Group engagement team and/or component auditors included:

- Review of correspondence with regulators and government authorities.
- Review of correspondence with legal advisors.
- Review of matters reported through the Group's whistleblowing helpline and the results of management's investigation of such matters.
- Enquiries of management at the Group, divisional and local levels.
- Enquiries of the Group's legal team.
- Enquiries with component auditors.
- Evaluation of management's controls designed to prevent and detect irregularities, in particular their compliance procedures in respect of sanction market trading.
- Review of internal audit reports in so far as they related to the financial statements.
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations which result in an impact to revenue or to metrics relevant to banking covenants.
- Challenging estimates and judgements made by management in determining significant accounting estimates, in particular in relation to impairment of goodwill in the Packaging division, adjusting items and going concern.

Independent auditors' report to the members of Essentra plc continued

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

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

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the Parent company financial statements and the part of the Annual Report on Remuneration to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit and Risk Committee, we were appointed by the directors on 20 April 2017 to audit the financial statements for the year ended 31 December 2017 and subsequent financial periods. The period of total uninterrupted engagement is 5 years, covering the years ended 31 December 2017 to 31 December 2021.

Other matter

In due course, as required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements will form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard ("ESEF RTS"). This auditors' report provides no assurance over whether the annual financial report will be prepared using the single electronic format specified in the ESEF RTS.

Nicholas Stevenson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Milton Keynes
18 March 2022

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